DT Dewhurst Torevell

Asset Class & Investment Outlook - Q4 2015

Asset/Investment Area	Income (Current Yield)	Rising Income	Long Term Real Capital Growth	Volatility	Inflation Protection	Currency Risk	Commentary
Cash	1.00%	Potentially	Negative	Very low	No	No	*The UK Base Rate has remained unchanged at 0.5% since March 2009. Interest rates are expected to rise by mid-2016, despite the very low (and in some months negative) level of inflation prevailing at the moment. The consensus among managers that we have spoken to is that interest rate increases will be gradual and that rates will remain fairly low compared to historical levels. Therefore, the returns available to investors holding cash are likely to remain subdued for some time yet and we retain our neutral position.*
Conventional Gilt	1.85%	No	Negative	Some	No	No	*UPDATE: Core government bond markets have been more volatile in the year to date, with 10-year benchmark gilt yields peaking at 2.2% over the summer. They have since dropped back to around 1.9%. "Forward guidance" on rates from the Bank of England will attempt to anchor rising bond yields but conventional gilts remain seriously overpriced following an era of sustained quantitative easing and are likely to correct leaving investors with irrecoverable capital losses. We retain a very negative view.*
Index-Linked Gilt	2.02%	Yes	Negative (at present)	Some	Yes	No	*UPDATE: Inflation remains very subdued and CPI inflation was negative in September and has been at or close to zero throughout 2015. FTSE Actuaries data indicates that these bonds remain very fully valued across all maturities with correspondingly low yields. The market is also distorted by "price insensitive buyers" such as pension funds and insurance companies where liabilities need to be matched. We remain negative on these bonds based on valuation.*
Sterling Corporate Bond (Investment Grade)	3.17%	No	Negative	Some	No	No	*UPDATE: Fitch Ratings agency and the Bank of International Settlements have both recently expressed concern about shrinking liquidity in bond markets and the potential for difficulties in adverse market conditions. Fitch also expressed concerns about capacity issues due to the large size of many bond funds in the UK, which could face heavy outflows when bond market mispricing begins to correct. We remain negative on this sector.*
Sterling Corporate Bond (High Yield)	4.61%	No	Negative	High	No	No	*UPDATE: Overcrowding in the leveraged US market creates the threat of large scale redemptions when the Federal Reserve raises interest rates. European low grade debt is supported by yield seekers but vulnerable to systemic risks. Sterling denominated high yield debt carries the risk of contagion from these other markets and is also subject to our general concerns about liquidity in debt markets.*
International Corporate Bond	2.35%	No	Negative	High	No	Yes	*UPDATE: Recent equity market volatility has once again spurred demand for highly rated debt and a US treasury issue sold at a 0% yield for the first time in October, bringing the US in line with some developed European markets where certain high grade sovereign and corporate debt issues have sold at zero and even negative yields since February. Overall yields remain low and correspondingly prices remain elevated, whilst liquidity remains untested. We retain our negative view on this sector.*
Emerging Corporate Bond	4.54%	No	Negative	Very high	No	Yes	*Slower economic growth, a strong US Dollar, weaker commodity prices and an imminent US interest rate rise increases the likelihood of default in the emerging market debt sector. There may be idiosyncratic opportunities but we remain negative on this sector due to its volatility, poor liquidity and ongoing currency risks.*

Asset/Investment Area	Income (Current Yield)	Rising Income	Long Term Real Capital Growth	Volatility	Inflation Protection	Currency Risk	Commentary
UK Equity (Equity Income)	4.08%	Yes	Yes	High	Yes, med term	No	*UPDATE: Capital growth has been constrained in the last quarter due to volatility in equity markets. On the income side, UK companies had strong headline and underlying dividend growth in the second quarter of 2015, according to analysis by Capita. Additionally, payouts in certain sectors, such as financials, have shown great improvement, although we remain cautious on the outlook for payouts and dividend cover in general due to the absence of earnings growth. Our equity income fund choices have proved defensive in trying market conditions but we are keeping a close eye on their positioning and income. We remain positive on this sector for the long term due to the focus on high-quality, income generative companies.*
UK Equity (Other)	3.26%	Yes	Yes	High	Yes, med term	No	*UPDATE: Strong economic data is providing some support to markets, although there is a disconnect between the UK economy and UK stock markets because the FTSE 100 and FTSE 250 constituents source less than half of their revenues from the UK. Therefore, resources companies and those with Asia/emerging markets business lines have been impacted by the large scale stock market correction in China, highlighting the need to choose well-diversified funds within the sector, which include some companies that are smaller and more domestic in focus. We retain a neutral view based on valuations.*
Global (Equity Income)	2.96%	Yes	Yes	High	Yes, med term	Yes	*Many global income stocks are very fully valued because investors have switched from bonds to income generative equities in the hunt for yield. Income growth could be stymied in 2015 by the currency effects of a strong Dollar and a weak Euro. Taking a long term view we remain selectively positive on this sector and we continue to invest in a range of funds which are complementary and diversified with a focus on achieving total returns from a portfolio of high quality equities. We are keeping a close eye on the more cyclically focussed funds in our roster.*
European Equity	2.47%	Yes	Yes	High	Yes, med term	Yes - €	*UPDATE: Despite the liquidity provided by quantitative easing, the FTSE Developed Europe ex-UK index has negative total returns in the year to date in Sterling terms following the market correction over the summer. Looking ahead - corporate competitiveness is improving, and earnings may improve due to further euro depreciation, an improvement in domestic demand and lower energy costs. This leads us to revise our view on the region to neutral, although we will be retaining a very selective approach to investment.*
North American Equity	1.28%	Yes	Yes	High	Yes, med term	Yes - $	*UPDATE: Despite the market correction, valuations are still looking very stretched when a long term view is taken. Additionally, S&P 500 earnings expectations for 2015 have been downgraded by around 10%. In particular, the strong dollar is affecting overseas earnings. Lower commodity prices are also weighing on key sectors. Although an increase in interest rates is anticipated in the near term, it is unclear how this will affect "bond proxies" i.e. high quality stocks which investors have moved into in search of income as bond yields have declined. Taking all of these factors into account we retain a slightly negative view on this market.*
Asia ex Japan Equity	1.63%	Mixed	Yes	Very high	Yes, med term	Yes	*UPDATE: Markets across the region have been affected by the large-scale correction in Chinese equity markets in the last quarter and the futile attempts by the Chinese government to intervene. Despite several interest rate cuts, worries about a "hard landing" in China remain. South Korea's export share is being eroded by Japanese competition and a strong Australian dollar is affecting terms of trade. We have some confidence in the longer term outlook for these markets and note that valuations are looking more realistic. We therefore remain neutral at this time.*
Japan Equity	1.34%	Mixed	Yes	High	Yes, med term	Yes - ¥	*UPDATE: Despite the large scale quantitative easing operations of the Bank of Japan, consumer price inflation remains stubbornly low, whilst debt levels rise ever higher. Structural reform has yet to take place and negative demographics are a serious issue. We remain negative on this market.*

Emerging Market Equity	2.55%	Mixed	Yes	Very high	Yes, med term	Yes	*Emerging markets continue to lag developed markets in terms of performance in 2015. Economies that are dependent on commodity exports have deteriorated while those with strong domestic fundamentals are improving. Current account positions and monetary policy are other areas of differentiation and this is creating "winners" and "losers" among the diverse group of countries which this sector encompasses. Rather than attempting to pick "winners" we continue to prefer to gain exposure to emerging markets indirectly through high quality developed market companies that derive a proportion of their revenues from these countries.*

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UK Commercial Property	2.87%	Yes	Yes	Cyclical	Yes	No	*UPDATE: Robust economic growth continues to bolster prices in the near term and yields remain attractive compared to fixed interest, but unimpressive compared to what could be achieved through investment in a good quality UK or global equity income fund, especially once charges are taken into account. We therefore remain neutral.*
Listed Infrastructure	2.00%	Yes	Yes	High	Yes, med term	Yes	*The US continues to lead the way as economic growth has benefitted volume-sensitive areas such as rail freight and toll roads. The mobile towers sector is experiencing structural growth due to mobile data and video demand. Gas transmission and distribution and storage technology for renewables are also growth areas. Nascent recovery in Europe should translate into an uptick for transport and energy infrastructure.*
Commodities	0.00%	No	Yes	Extreme	Yes, med term	Yes	*Various factors influence individual commodity prices including US dollar appreciation, Chinese demand, Middle East tensions and climatic conditions. Oil appears to have found a price floor at around $50 per barrel but prices remain low compared to previous levels. Gold prices are now below $1,200, significantly below the peak of over $1,800 in 2011. We retain our negative view on commodities based on their volatility and the difficulties of obtaining exposure to them with limited physical ETFs available and with a negative house view on synthetic ETF strategies.*

Notes:

Terms positive and negative represent our current tactical allocation adjustments to an established and well diversified portfolio. No base asset allocation stipulated.

The yield to maturity figure for various fixed income ETFs has been used as a proxy for yields within most sectors.
This metric is calculated by aggregating the yield statistics for each of the securities that make up a bond ETF and is, therefore,
reflective of yields within the market.
Yield figures have been compiled as follows:
Conventional Gilt - Yield on Vanguard UK Government Bond Index fund
Index-Linked Gilt - Yield on iShares £ Index-Linked Gilts ETF
UK Corporate Bond (Investment Grade) - Yield on Vanguard Investment Grade Bond Index fund
UK Corporate Bond (High Yield) - Average yield of funds in IA Sterling High Yield sector.
International Corporate Bond - Yield on PowerShares International Corporate Bond ETF
Emerging Corporate Bond - Yield on iShares JPM $ Emerging Markets Bond ETF
UK Commercial Property - Average of the Yield on Aviva Property Trust, SWIP Property Trust, M&G Property Portfolio and L&G UK Property Trust
Infrastructure - Average of yield on First State Global Listed Infrastructure, CF Canlife Global Infrastructure, CF Macqaurie Global Infrastructure and Lazard Global Listed Infrastructure
UK Equity Income - 110% of the FTSE All-Share
UK Equity (Other) - Yield on Vanguard UK Equity Index Fund (Benchmark: FTSE All Share Index)
Global (Equity Income)- 110% of the FTSE All-World
European Equity - Yield on Vanguard FTSE Developed Europe ex-UK (Benchmark: FTSE Developed Europe ex-UK Index)
North American Equity - Yield on Vanguard US Equity Index Fund (Benchmark: S&P Total Market Index)
Asia Ex Japan Equity - Average yield of funds within the Asia Pacific Excluding Japan IMA sector
Japan Equity - Yield on Vanguard Japan Stock Index (Benchmark: MSCI Japan Index)
Emerging Market Equity - Yield on Vanguard Emerging Markets Stock Index (Benchmark: MSCI Emerging Markets Index)
Commodities - TR/Jefferies CRB Index

This is an extract from analysis we conduct internally which also considers other factors such as valuations and liquidity.
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The value of investments can go down in value as well as up, so you could get back less than you invest. It should be remembered that past performance is
not necessarily a guide to future performance.

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