INTERNATIONAL FUND SOLUTIONS

STRATEGY UPDATE

March 2019

THE DEVIL IS IN THE DETAIL

After the despondency to exuberance rollercoaster that was December and January pleasingly February delivered more settled and modest gains for world stock markets whilst bond indices also generally advanced as credit spreads narrowed because of an easing of risk aversion. Within developed equity markets the S&P 500 gained 3.2%, the FTSE 100 2.3%, Europe 4.15% and emerging markets lagging with only a slim rise of 0.2%.

With the reassuring, dovish message from the US Federal Reserve now firmly established in the mind of markets it is not hugely surprising to see credit spreads, the premium corporate bonds pay over sovereign bonds, continue to tighten. As we mentioned last month credit spreads are now approaching a level where we feel that the rewards are not sufficient for the level of risk being taken. As a result, we are in the process of locking into some of the long-term gains and reducing our exposure to corporate bonds, in favour of shorter dated sovereign bonds, and moving our exposure within corporate bonds to managers with structurally lower risk strategies.

Within the US equity market, where we have seen broad based gains over the month, small cap companies outperformed large cap companies by a meaningful margin and although value has continued to underperform growth there have been individual days where large cap growth stocks have fallen but small cap value stocks have produced a positive return. In themselves these rotational changes within the market may appear small but they afford our active managers opportunity to add value, which they have over the month, as the value within the underlying companies becomes more widely recognised.

The UK equity market rallied in-line with other developed markets, producing a positive return of 2.3%. This return came despite the looming 29th March BREXIT deadline. The politics of BREXIT remain extremely challenging and uncertain and are one of the contributing factors in the divisions currently taking place in the established political parties which have resulted in defections from both Labour and the Conservative parties to the newly formed, centrist Independent Group. With UK equities remaining both unloved and under owned, and the political pressure now very much on for Theresa May to rule out a market negative no deal BREXIT, it appears that UK equities may be due a positive re-rating in the months ahead.

Europe produced a strong return despite weakening growth rates across the Euro bloc and news that Italy had slipped into recession for the third time in a decade and German growth had slowed further. Despite the negative macroeconomic picture Europe remains the home of many world leading companies, who continue to grow and are available at a discount to their global peers.

Towards the end of the month China confirmed that its growth rate for 2018 had fallen to 6.6%, the slowest since 1990, and forecast lower growth for 2019. Although the potential Sino-US trade war will have served as something of a drag our underlying managers are pointing to robust domestic consumption figures as a sign that China is continuing its shift from an export led economy to a more sustainable, domestic consumption model.

In summary, February has proved to be another solid month almost across the board and as market returns continue to broaden out beyond the mega cap companies the value within our portfolios appears to be being recognised. **This has led to outperformance over the month from many of our managers, leading to all our multi asset strategies outperforming their relevant benchmarks for February thereby further reversing some of the short-term underperformance suffered at the back end of last year.**

Against this backdrop we are comfortable maintaining our maximum overweight exposure to equities on a tactical basis. Leading indicators are continuing to soften at the margins, but remain positive overall which leads us to believe that maintaining the overweight equity allocation should be positive for our clients over the next month.

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TACTICAL ASSET ALLOCATION UPDATE

Asset Allocation Committee Commentary: **US Dollar**

- The exposure to global equities has been maintained at maximum Overweight.
- Domestic US equity is still providing the strongest overall indicators.
- Developed ex US equities continue to show improving leading indicators and, as a result, exposure to Developed ex US equity markets has been retained.
- Emerging Market indicators continued to improve leading to the tactical exposure being maintained.

Categories	US Dollar - Leading Indicators			
	Equity			Fixed Income
	Domestic	Developed ex US	Emerging	
Monetary & Rates:	▲	▲	▲	▼
Economic:	▲	▼	▼	▲
Trends:	▶	▶	▲	▲
Total:	▲	▲	▲	▲

Maximum Overweight Equity

Asset Allocation Committee Commentary: **Sterling**

- The exposure to global equities has been maintained at maximum Overweight.
- Developed ex UK equity is still providing the strongest overall indicators.
- Domestic UK equity leading indicators have remained positive, as a result, the exposure to the UK equity market has been retained.
- Emerging Market indicators continued to improve leading to the tactical exposure being maintained.

Categories	Sterling - Leading Indicators			
	Equity			Fixed Income
	Domestic	Developed ex UK	Emerging	
Monetary & Rates:	▲	▲	▲	▲
Economic:	▲	▲	▼	▼
Trends:	▼	▲	▲	▲
Total:	▲	▲	▲	▲

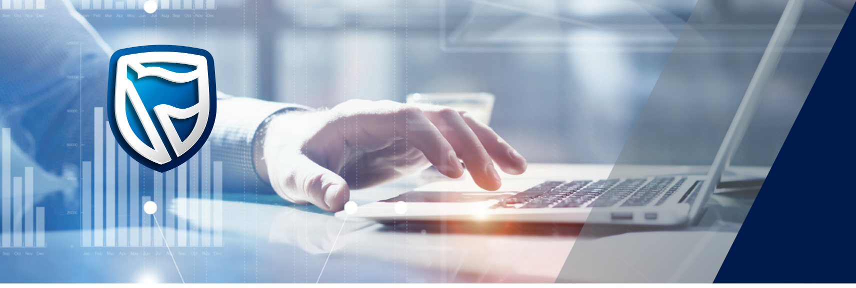
Maximum Overweight Equity

Asset Allocation Committee Commentary: **Euro**

- The exposure to global equities has been maintained at maximum Overweight.
- Developed ex Europe equity is still providing the strongest overall indicators.
- Domestic European equity leading indicators have remained positive, as a result, the exposure to the European equity market has been retained.
- Emerging Market indicators continued to improve leading to the tactical exposure being maintained.

Categories	Euro - Leading Indicators			
	Equity			Fixed Income
	Domestic	Developed ex Europe	Emerging	
Monetary & Rates:	▲	▲	▲	▲
Economic:	▼	▶	▼	▲
Trends:	▲	▲	▲	▲
Total:	▲	▲	▲	▲

Maximum Overweight Equity



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