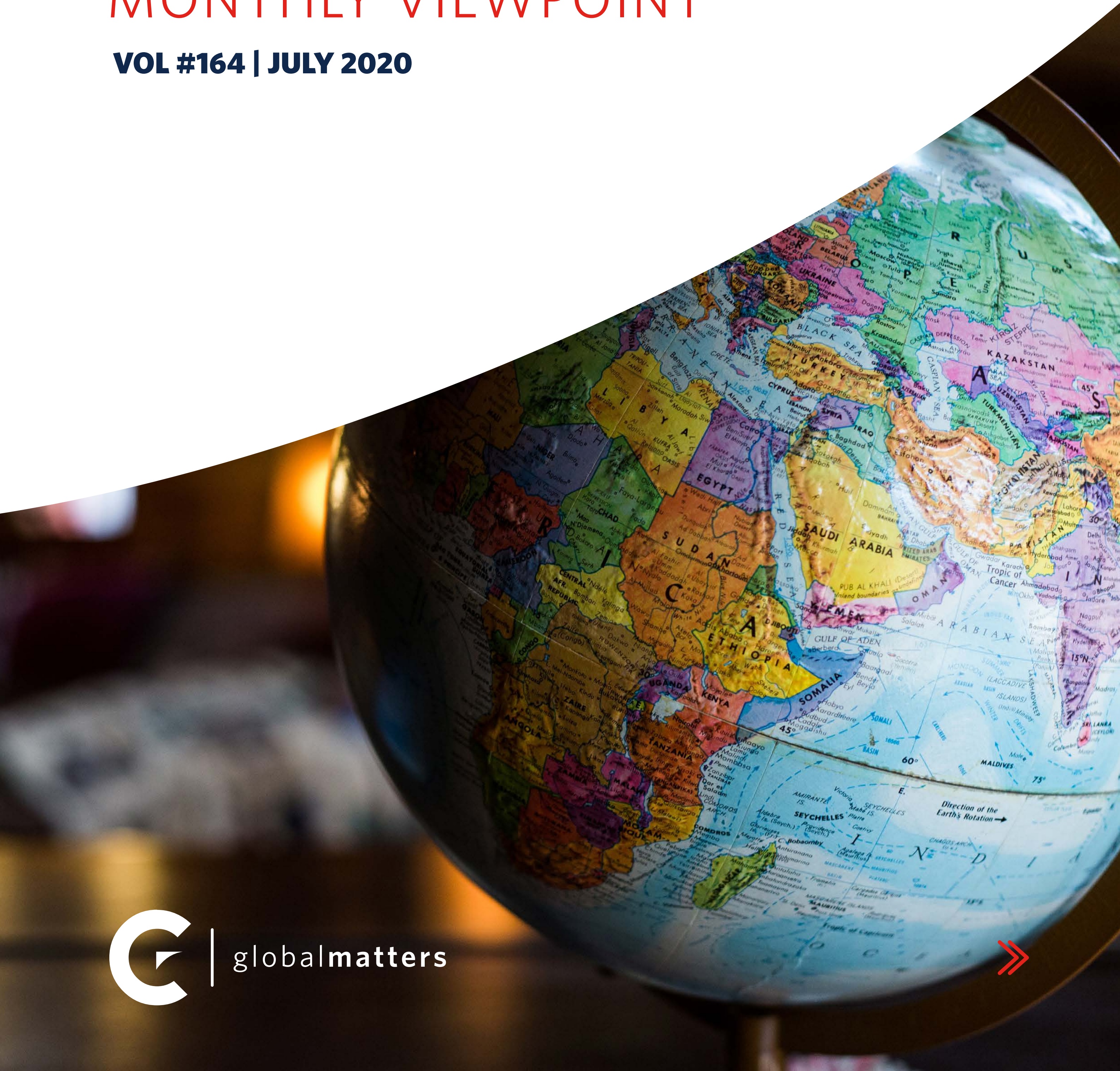
BLUESTAR AMG

momentum
global investment management

GLOBAL MATTERS
MONTHLY VIEWPOINT

VOL #164 | JULY 2020



globalmatters

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MARKET REVIEW

Despite the most significant wobble in bond and equity markets since the trough on 23rd March, risk assets still made further progress in June, extending the recovery to one of the sharpest on record. The MSCI World index returned 2.6%, led this time not by the US but by Europe and Asia, with gains of 3.8% and 8.2% respectively. China was particularly strong, up 9%, driving a return of 7.4% from emerging markets.

Signs of a much better than expected rebound in growth as lockdowns around the world were eased saw bond markets sell off in the early part of June. The immediate trigger was a wholly unexpected rise in US payrolls in May of 2.5m, bringing unemployment down by 1.4%age points. The yield on 10 year Treasuries spiked up by 25bps to 0.9% and equities rose sharply, but the euphoria was punctured as evidence began to emerge of a worrying pick up in coronavirus cases across parts of the US, including its most populous States, triggering a roll-back of lockdown easing measures and fears of a damaging second wave. Cautious comments by the Fed about the state of the economy added to the concerns. Wall Street dropped by 7% in 2 days, but the wall of liquidity generated by the Fed and other major central banks in the past 3 months and broadening evidence of a robust rebound in growth underpinned risk assets, with equity and credit markets recovering to end the month with widespread gains.

The major central banks extended their already massive policy support during June. The Fed committed to continuing asset purchases at the current rate of $120bn per month, guided interest rates to stay near zero through 2022 and left open the possibility of further easing should it be required to support the economy; the ECB extended its emergency asset purchase programme by EUR600bn and its horizon to at least mid 2021; the Bank of Japan increased the size of its measures to $1tn, an increase of close to 50%; and the Bank of England added £100bn to its asset purchases while signalling that it will keep rates lower for longer. The wall of liquidity and ultra loose policy is here for the foreseeable future and provides strong support to risk assets.

In combination with huge fiscal packages, these policy measures are supporting recovery; after the sharpest, deepest and shortest recession in history, with an annualised drop between March and May of over 30% in major economies, growth is rebounding at an equally extraordinary pace, possibly also reaching 30% annualised in Q3. Activity began to pick up in May and leading indicators in June point to an acceleration ahead, albeit at levels below those prevailing pre-coronavirus. The test will come once pent up demand has been satisfied and when furlough and other support programmes wind down, with a near certain surge in unemployment levels as the year goes on.

MARKET REVIEW CONT...

With a rise of close to 40% since the 23rd March lows, global equity markets have recovered much of the ground lost in the big sell off and are discounting recovery, at least in part. Given the uncertainties surrounding the durability of that recovery, the structural damage to certain industries triggered by the pandemic, worries about the recent pick-up in Covid cases in the US in particular, and the longer term implications of the huge levels of debt built up during the crisis and ongoing monetary stimulus, a period of consolidation is likely. The flare up of the US-China relationship, inflamed by China's imposition of new security laws in Hong Kong, and the risks of failure of the UK and EU to reach a new trading relationship following the UK's exit from the EU at the end of 2020, add to the short term concerns.

However, 2021 promises to be a year of strong recovery in economies and corporate earnings, following the collapse in 2020 to date, and we expect stock markets to be higher. Risk assets are supported by the lowest interest rates in history and by continuing policy support from central banks and governments. This sets a favourable backdrop for equities and credit markets as we navigate through the challenging months and uncertainties ahead, and setbacks will provide good buying opportunities for investors on that longer term view.

MARKET PERFORMANCE - GLOBAL

(LOCAL RETURNS)

Asset Class/Region	Index	To 30 June 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Developed markets equities						
United States	S&P 500 NR	USD	1.9%	20.4%	-3.4%	6.9%
United Kingdom	MSCI UK NR	GBP	1.5%	8.2%	-17.7%	-15.3%
Continental Europe	MSCI Europe ex UK NR	EUR	3.8%	14.9%	-9.2%	-1.6%
Japan	Topix TR	JPY	-0.2%	11.2%	-8.2% [e]	3.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	8.2%	18.4%	-6.1%	-0.3%
Global	MSCI World NR	USD	2.6%	19.4%	-5.8%	2.8%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-0.3%	18.6%	-24.6%	-17.0%
Emerging Asia	MSCI EM Asia NR	USD	8.2%	17.8%	-3.5%	4.9%
Emerging Latin America	MSCI EM Latin America NR	USD	5.3%	19.1%	-35.2%	-32.5%
China	MSCI EM China NR	USD	7.8%	16.9%	-7.6%	-0.2%
BRICs	MSCI BRIC NR	USD	9.0%	15.3%	3.5%	13.1%
Global emerging markets	MSCI Emerging Markets NR	USD	7.4%	18.1%	-9.8%	-3.4%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	0.1%	0.2%	9.2%	11.0%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	1.1%	4.4%	6.4%	8.7%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	2.0%	9.0%	5.0%	9.5%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.0%	10.1%	-3.8%	0.0%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-0.6%	2.6%	9.8%	12.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	1.2%	6.8%	3.4%	6.5%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	1.0%	1.7%	1.9%	2.7%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	1.3%	5.3%	-1.2%	-0.4%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	2.0%	11.3%	-5.2%	-2.2%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.5%	-0.7%	-1.1%	-1.9%
Australian Government	JP Morgan Australia GBI TR	AUD	0.1%	-0.2%	4.1%	4.4%
Global Government Bonds	JP Morgan Global GBI	USD	0.5%	1.5%	4.6%	5.2%
Global Bonds	ICE BofAML Global Broad Market	USD	0.9%	3.2%	3.5%	4.6%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	4.9%	20.0%	5.1%	10.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.7%	9.1%	-0.4%	1.2%

MARKET PERFORMANCE (LOCAL RETURNS) CONT...

Asset Class/Region	Index	To 30 June 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Property						
US Property Securities	MSCI US REIT NR	USD	2.8%	11.4%	-19.0%	-13.9%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-2.7%	18.3%	-22.9%	-24.6%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	2.5%	4.1%	-18.6%	-17.2%
Global Property Securities	S&P Global Property USD TR	USD	2.6%	10.4%	-19.8%	-14.2%
Currencies						
Euro		USD	1.2%	1.8%	0.2%	-1.2%
UK Pound Sterling		USD	0.5%	-0.2%	-6.5%	-2.3%
Japanese Yen		USD	-0.1%	-0.4%	0.7%	0.0%
Australian Dollar		USD	3.5%	12.6%	-1.7%	-1.7%
South African Rand		USD	1.1%	2.8%	-19.3%	-18.8%
Commodities & Alternatives						
Commodities	RICI TR	USD	3.9%	9.6%	-25.6%	-22.9%
Agricultural Commodities	RICI Agriculture TR	USD	0.9%	2.0%	-11.0%	-10.1%
Oil	Brent Crude Oil	USD	16.5%	81.0%	-37.7%	-38.2%
Gold	Gold Spot	USD	2.9%	12.9%	17.4%	26.3%
Hedge funds	HFRX Global Hedge Fund	USD	1.8%	6.2%	-1.1%	3.1%
Interest rates						
United States				0.25%		
United Kingdom				0.10%		
Eurozone				0.00%		
Japan				-0.10%		
Australia				0.25%		
South Africa				3.75%		

MARKET PERFORMANCE - UK
(GBP RETURNS)

Asset Class/Region	Index	To 30 June 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Developed markets equities						
UK - All Cap	MSCI UK NR	GBP	1.5%	8.2%	-17.7%	-15.3%
UK - Large Cap	MSCI UK Large Cap NR	GBP	1.6%	5.9%	-17.5%	-16.4%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	0.9%	16.9%	-19.5%	-13.2%
UK - Small Cap	MSCI Small Cap NR	GBP	-0.1%	15.2%	-21.9%	-11.3%
United States	S&P 500 NR	USD	1.4%	20.6%	3.5%	9.6%
Continental Europe	MSCI Europe ex UK NR	EUR	4.7%	18.0%	-2.6%	-0.1%
Japan	Topix TR	JPY	-0.7%	11.4%	-1.7% [e]	5.8%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	7.6%	18.6%	0.6%	2.2%
Global developed markets	MSCI World NR	USD	2.1%	19.5%	1.0%	5.5%
Global emerging markets	MSCI Emerging Markets NR	USD	6.8%	18.3%	-3.3%	-0.9%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-0.6%	2.6%	9.6%	12.0%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.1%	0.5%	1.5%	1.8%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	0.1%	1.6%	5.5%	6.3%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-1.2%	3.8%	15.4%	19.6%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	0.5%	10.5%	12.4%	10.8%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-0.2%	3.2%	4.9%	3.9%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	0.8%	14.9%	16.9%	15.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	1.2%	6.8%	3.4%	6.5%
US Treasuries	JP Morgan US Government Bond TR	USD	0.2%	0.6%	17.1%	14.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	2.0%	9.0%	5.0%	9.5%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.0%	10.1%	-3.8%	0.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	1.0%	1.7%	1.9%	2.7%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	1.3%	5.3%	-1.2%	-0.4%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	2.0%	11.3%	-5.2%	-2.2%
Global Government Bonds	JP Morgan Global GBI	GBP	0.0%	1.6%	12.1%	7.9%
Global Bonds	ICE BofAML Global Broad Market	GBP	0.9%	3.2%	3.5%	4.6%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	4.9%	20.0%	5.1%	10.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	1.2%	9.2%	6.7%	3.8%

MARKET PERFORMANCE (GBP RETURNS) CONT...

Asset Class/Region	Index	To 30 June 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Property						
Global Property Securities	S&P Global Property TR	GBP	2.1%	10.5%	-14.1%	-12.0%
Currencies						
Euro		GBP	0.7%	2.0%	7.1%	1.1%
US Dollar		GBP	-0.4%	0.1%	6.9%	2.4%
Japanese Yen		GBP	-0.5%	-0.3%	7.6%	2.3%
Commodities & Alternatives						
Commodities	RICI TR	GBP	3.4%	9.7%	-20.3%	-21.0%
Agricultural Commodities	RICI Agriculture TR	GBP	0.4%	2.2%	-4.6%	-7.8%
Oil	Brent Crude Oil	GBP	15.9%	81.2%	-33.2%	-36.6%
Gold	Gold Spot	GBP	2.4%	13.1%	25.8%	29.6%
Interest rates						
United Kingdom				0.10%		
United States				0.25%		
Eurozone				0.00%		
Japan				-0.10%		

BLUESTAR AMG
GLOBAL MATTERS: MONTHLY VIEWPOINT - #VOL 164 - JULY 2020

ASSET ALLOCATION DASHBOARD

EQUITIES

Developed Equities

» We remain mindful of resurgent risks to global growth following the fastening pace of (US) rebound in recent weeks as there is a risk this could roll over with any wave of second round infections resulting from lockdown easing measures
» Policy measures remain accommodative and are likely to remain so for many months, or years
Where mandates allow we have sought to protect portfolios whilst retaining upside should the rally extend
+ Despite lofty index valuations in some markets, global equities still offer selective regional and sectoral value
– Business shutdowns will impact corporate earnings more deeply if Coronavirus risk remains entrenched or resurges, notably so in global manufacturing supply chains
– Dividends are likely to fall, and share buybacks to largely dry up
– Earnings are likely to move sharply lower as the year progresses; where they settle to market pricing is the key question

UK Equities

» The Brexit path remains second fiddle to Corona risk today but the balance is shifting. Nonetheless, the UK market's larger cap constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, which makes them less sensitive when/if those issues resurface. Thus the UK is not unattractive when thinking beyond 2020
» The government's financial response to the crisis has largely been well received but places a meaningful burden on public finances, and imminent withdrawal/reduction in corporate support will likely see redundancies increase at a quickening pace
+ Most UK assets remain at a multi decade discount to the global index. Long term investors can buy into some great UK businesses at today's levels, and be paid handsomely while they wait
+ The UK has lagged the recovery and offers some scope for a cyclically led catch up
– UK Plc is having to deal with an extraordinary fallout from the Covid-19, with the high street already under extreme pressure
– The banks and energy heavy UK index may continue to struggle against this backdrop

European Equities

» Europe has been hard hit by the outbreak, notably so Italy and Spain, but which are now emerging from lockdown
Knock on effects will undoubtedly damage the economy and corporate earnings, and potentially reignite tensions within the Eurozone
» The E750bn European Recovery Fund augurs well for a more unified cross European political response to the crisis, though details are yet to be finalised
+ Renewed ECB asset purchases and policy stimulus will provide support to risk assets in the region
– The ECB has little room to manouvre with rates at current levels; more devolved fiscal action and helicopter money may be needed

US Equities

» The extraordinary US rebound from the lows has continued to gather pace, surprising many. We remain cautious at index level today given that little in the way of second wave infection is priced in and recognise the US as being the hardest hit in terms of loss of life. Active stockpickers have opportunities from the two speed market, dominated by the still advancing tech stocks
+ The US remains one of the higher quality markets, and the Dollar something of a haven. It is a natural home for those looking to add to their equity allocations, and that could keep US equities supported despite froth in some places
+ The Fed stimulus is constructive for credit, risk assets and by extension should be constructive for equities
– US equity valuations remain elevated vs other regions today, even more so after the recent moves, and are priced almost to perfection of a virus free world
– The US now has by far the highest rate of reported infections and some states are re-entering lockdowns following the recent surge in infections
– Trade and geopolitical risks are coming very much to the fore again, notably with China, ahead of November's election

Japanese Equities

» Japanese equities have lagged the broader market, and asian equities, in recent months which leaves them sitting at still reasonable longer term valuations. At a high level, and considering demographics, Japan has probably had a better outcome from the virus to date than many might have expected
+ BoJ ETF buying is supportive. Asia appears is ahead of other DM economies in the global Corona-cycle which could put Japan on the front foot for a rebound in activity
– In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities
There is a notable absence of catalyst for any rerating

Emerging Market Equities

» On a longer term view we remain in favour of EM assets more generally over DM but recognise the risks to developing economies from the Coronavirus, and the potential for lower reporting and testing rates in these markets. Countries like Brazil and India are fast catching up the US as hotbeds of infection
» EM equities had a very strong June, led largely by China, which puts EM stocks almost on a par with the US over 3 months
+ EM currencies remain down for the year, but after an oscillatory June in aggregate they remain off the April lows. At a lower level, for businesses that earn foreign income this translates into better earnings that helps in some way to offset weaker revenues that will likely eventuate through 2020
+ Valuations remain attractive today
– Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. Negative newsflow, which seems to be escalating in some countries, would likely crimp returns

Q2 MARKET REWVIEW
MARKET PERFORMANCE (GLOBAL)
MARKET PERFORMANCE (UK)
ASSET ALLOCATION DASHBOARD

FIXED INCOME

Government

» DM government bond prices remain near record highs/low yields following the supernormal moves in bond markets through the Coronavirus-striken first half of the year. On the most painful days for risk assets they struggled to provide the level of diversification expected, and liquidity has also been tested, but the policy response has largely alleviated this problem, for now. Cash may prove a better diversifier in the short term

+ Quality government bonds remain one of the better diversifiers, over the long term, in a multi asset portfolio, even when they are optically expensive. For that reason we advocate having at least some exposure depsite extreme valuations

− Liquidity in the treasury market has been tested several times over the last year, both in the cash treasury market and repo. This causes some concern, but can be allayed with unlimited Fed firepower, which has been provided

− Any spike in inflationary expectations, increasingly a concern among investors albeit still small, could see 'risk free' bonds sell off sharply

Index-linked
Relative to government

» Inflation linked bonds cheapened in Covid induced sell off but have rebounded meaningfully in the interim, but still offer value. Whilst near term inflation risk looks limited, over 5 to 10years we take a more constructive view than the market and view breakevens more favourably at these levels, preferring over pure rate risk in select markets

+ Index linked bonds are one of the few ways to meaningfully protect against inflation risk, and with the amount of money pumped into the system, and more scope for helicopter style money, it is a more menaingful concern down the line

+ Valuations remain attractive today

− Inflationary forces remain muted today, arguably more than at any time in recent years (in the near term at least)

Investment Grade Corporate
Relative to government

» Investment grade bond spreads present a more modest upside opportunity today after the recent tightening, but we continue to favour as they remain well supported. Implied default rates still remain excessive at current spread levels; it is mostly a liquidity premium

+ IG remains reasonably attractive at current levels, but we have taken some profit on recent trades

+ Central bank buying of IG bonds provides a tailwind for the asset class; there is still upside on the table

− Liquidity remains challenged

− The IG universe remains at greater risk of BBB downgrades today given the Corona backdrop

High Yield Corporate

» As we saw in investment grade, spreads widened significantly in Q1 for high yield bonds, to a level that presented an attractive opportunity, some of which remains on the table despite strong gains more recently. We are mindful of the more equity like characteristics of the asset class, and sensitivity of the (US) index to energy

+ Maturity profiles have been extended in the recent good years, and rates policy and stimulus measures will be directed to keep credit markets functioning, as evidenced by the Fed stepping in to buy HY ETFs - largely to support 'fallen angels'

− Any further weakness in equity markets, for which there is a real possibility at this time, will likely hit HY bonds more than IG

− There is still a meaningful amount of energy exposure in US high yield markets which remains sensitive to any renewed pressure on oil prices

Emerging Market Debt

» The asset class has not been immune from recent price action, both to the downside and the recovery, but spreads have moved little over the last month. The asset class continues to look optically attractive, yield well, and we continue to rate favourably. Risks clearly remain and some EM countries still have concerningly high and growing Covid infection rates, so some caution warranted.

+ We believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today, moreso after recent price action, and implied default rates look excessive

− Renewed Dollar strength may weigh on EM assets, with local bonds and FX likely bearing the brunt

− EM governments will come under more pressure if Corona related expenditure and support continues to rise

Convertible Bonds

» Convertible bonds did a good job of limiting capital loss in Q1 and have tracked equities up almost one for one as risk prices recovered in Q2. The perfect outcome. Optionality continues to look somewhat cheap

» We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings, and the relative valuation. We have been adding in recent months

+ The natural convexity provided by convertibles should continue to provide reasonable protection against any further equity weakness, which is quite possible

+ The embedded options look cheap given the risks out there

− With implied vols having gone through the roof, any return to more normal levels may crimp future returns, and come off a lower delta base

Q2 MARKET REWVIEW
MARKET PERFORMANCE (GLOBAL)
MARKET PERFORMANCE (UK)
ASSET ALLOCATION DASHBOARD

REAL ASSET / ALTERNATIVES

Commodities

» The prices of some commodities continue be buffeted by newsflow, notably so oil which cratered in April and has since rebounded sharply. These risks seem likely to persist in the near term

» Commodity prices are primarily supply and demand driven (Coronavirus and oil a prime example) and idiosyncratic factors can be as important as the global economic cycle

+ Gold remains a reasonable hedge against risk off outcomes, and deflationary sentiment, as witnessed more recently, though granted nearer term protection has softened

+ Any cyclical upside and a post Covid ramp up in industrial production should help industrial commodity prices move higher

− Coronavirus is likely to continue to weigh on the industrials commodities sector in the near term, and supply chains remain challenged

− Gold is sensitive to real rates and susceptible to pricing lower on any meaningful move higher in rates, albeit unlikely in the near future

Property

» Property remains an attractive asset class for investors requiring yield and the Q1 price action only improves that, where dividends can be maintained

» When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property still holds appeal, with selective industrial and office space having more attractive fundamentals than under pressure high street retail

+ Premium yields and quality assets should attract capital and provide some floor to prices, notwithstanding recent market turbulence

+ The longer duration qualities of the asset class make it a good diversifier over the long term within multi asset portfolios; less so in the short term as we have seen

− As a long duration asset class property remains susceptible to any repricing in long term bond yields
UK property remains sensitive to eventual Brexit terms, which will continue to evolve through 2020; the retail sector also remains under pressure

− Rent holidays and tenants being unable or unwilling to pay pressures cashflow and ability to pay out income

Infrastructure

» Infrastructure stocks have not been spared from recent volatility, both on the way down and up following a strong recovery. Their income generating potential should in the medium term support the sector and attract buyers of quality infrastructure assets, at a time when the need for infrastructure capital and investment remains strong in the medium to longer term

+ In a multi asset portfolio the usually more defensive nature of the asset class and a degree of inflation protection make the asset class appealing

+ The asset class offers a high yield at a reasonable valuation today - both equity and debt flavours

− As a long duration asset class infrastructure remains susceptible to any repricing higher in long term bond yields

− Regulation can work both for and against the underlying investments, and underlying infrastructure stocks remain exposed to these risks

Liquid Alternatives

» We define this section as less/non-directional, absolute return type strategies that seek to capture long term risk premia or market mispricings, and includes hedge fund alternatives/systematic strategies in predominantly UCITS vehicles.
We favour owning an allocation to a basket of liquid strategies today to provide additional diversification with high quality bonds having become even more expensive

+ These strategies provide additional diversification with reasonable return potential

− The sector is relatively young and growing. Thorough due diligence is vital, and blend is recommended, as idiosyncratic performance can be unpredictable

CURRENCIES*

GBP

» Sterling could become challenged in the coming months as Brexit reappears on our horizon. The downward bias to base rates (even talk of negative) and the new Chancellor's stimulatory package is unlikely to lift the currency higher anytime soon, but it remains cheap on long term valuation measures

EUR

» The Euro has shown itself to be the favoured carry currency in recent years and this recent volatility has led to short covering. Not a time to be short and we take a more neutral view going forward given low confidence about the risk recovery being sustained

» In real terms the common currency looks about fair value today but there is no obvious and imminent catalyst for an uplift, and on balance the local fundamental backdrop appears weak which makes the currency largely unattractive today

JPY

» Rate differentials continue to offer little reason to buy the Yen. However, in real terms the Yen remains cheap today. What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities at times of risk. With bond diversification/upside more limited today, the Yen looks increasingly attractive to own in this role