momentum
global investment management

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Global Matters | Quarterly

Market Review

December 2022

BLUESTAR AMG

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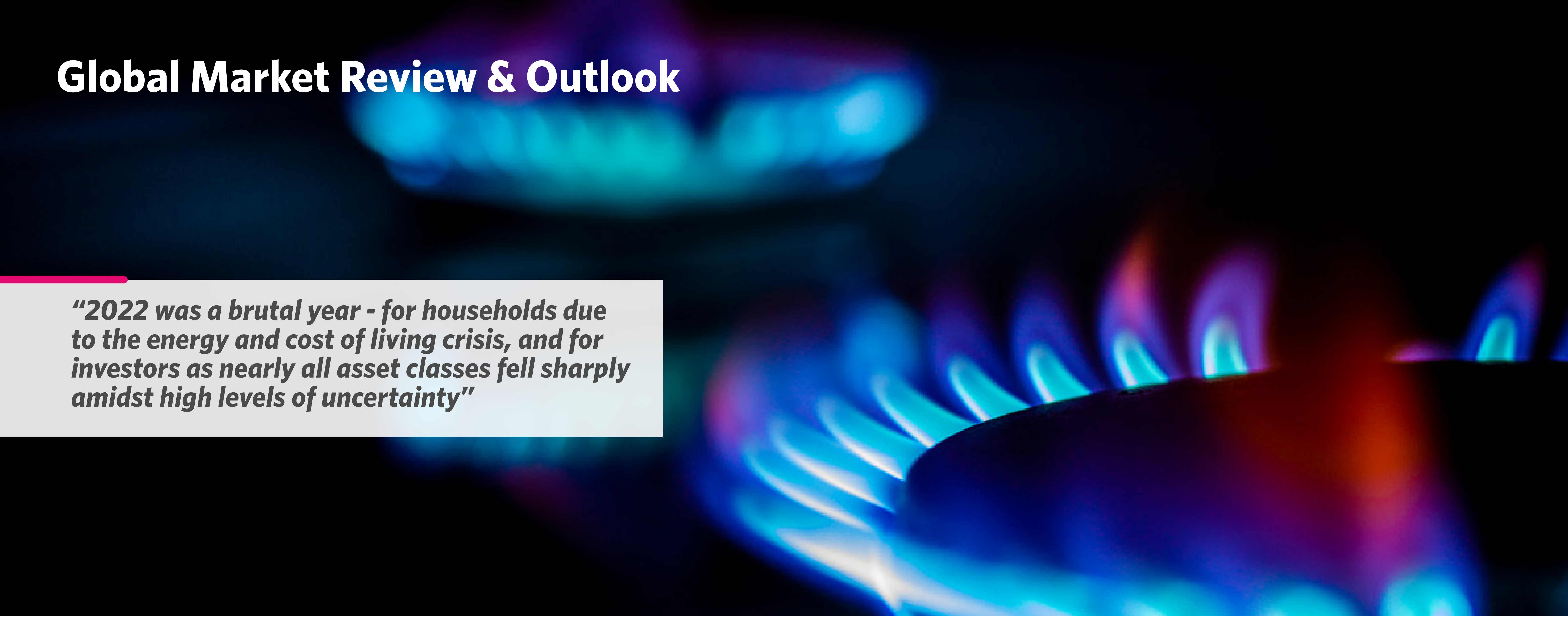
Contents



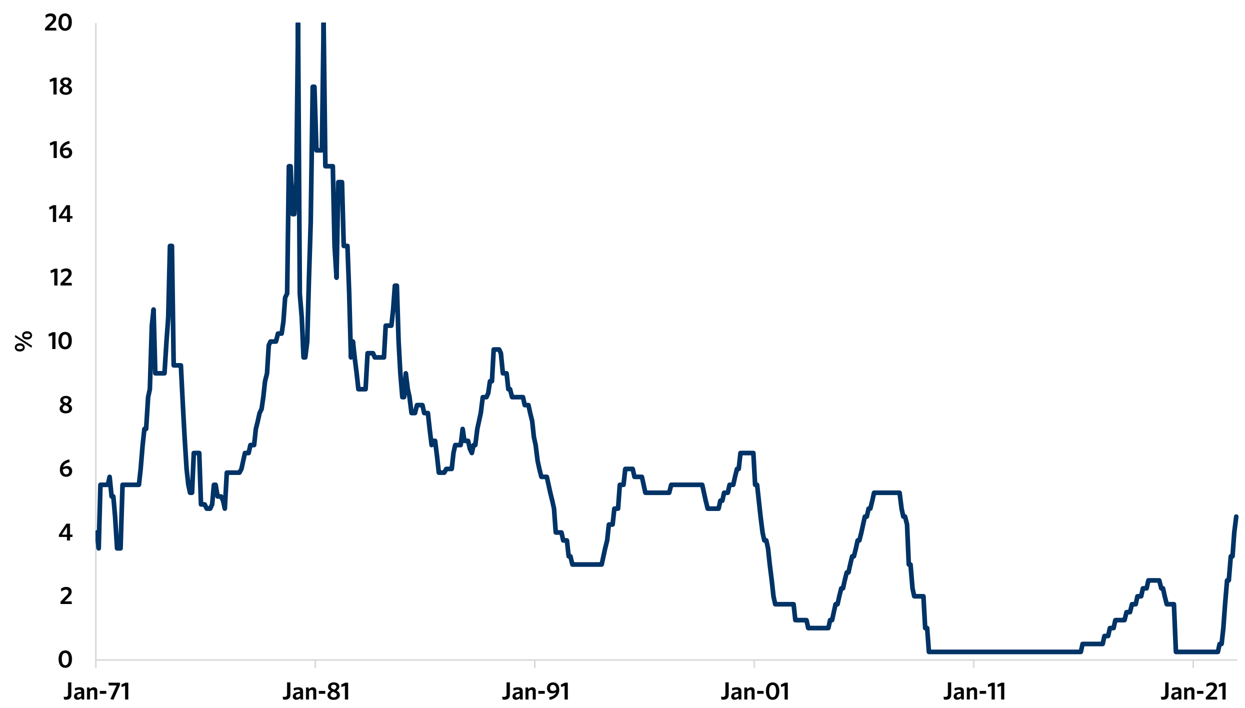
Global Market Review & Outlook

> ***"2022 was a brutal year - for households due to the energy and cost of living crisis, and for investors as nearly all asset classes fell sharply amidst high levels of uncertainty"***

2022 was a brutal year: for households due to the energy and cost of living crisis; for investors as nearly all asset classes fell sharply amidst high levels of uncertainty; and most of all for Ukraine because of Russia's barbaric invasion. While Putin's war was the dramatic shock of the year, triggering an immediate surge in food and energy prices, it was the strength and persistence of inflation that had been building well before the war and the ensuing central bank policy tightening which ultimately drove asset prices.

At the end of 2021 central banks saw the pick-up in inflation as transitory, policy rates remained close to or below zero across the developed world and sizeable central bank asset purchases continued; the Federal Reserve projected its policy rate to be 0.9% by the end of 2022. The policy shift of 2022 is the steepest tightening in over 40 years, with the Fed Funds rate increasing by 4.25% to 4.25-4.5%, and liquidity tightened substantially by moving from asset purchases of $60bn per month to a reduction at the rate of $95bn per month. Since peaking at close to $9tn in mid-2022 the Fed's balance sheet has shrunk by around $0.5tn and if current policy is maintained it will shrink by a further $1.1tn through 2023, far above the scale of quantitative tightening in 2017-2019. Other central banks were forced into similar policy reversals, but it was the Fed which tightened most aggressively, underpinning a sharp rise in the dollar, up by 19% on a trade weighted basis by late September, before reversing course in the fourth quarter, leaving the dollar 8.2% higher over the year.

Sharpest policy tightening in 40 years - Fed Funds Rate



Source: Momentum Global Investment Management, Bloomberg Finance L.P. as at 30 December 2022.

Global equities and bonds suffered steep falls, in the case of bonds one of the worst periods in history. During geopolitical crises and intense uncertainty safe-haven government bonds usually provide some protection for investors, but in 2022 the JPMorgan Global Government bond index returned -17.3%, only marginally better than the return of -18.1% from the MSCI World index of developed equity markets. As a result, the traditional 60/40 equity/bond portfolio had an extremely disappointing year, -17.8%. However, opportunities for adding relative value came from asset class selection, with infrastructure, renewables, commodities, gold and some hedge fund strategies holding up well, and from country, sector and style selection in equities. The UK produced a positive return in the year, the only major market to do so, followed by Japan; value stocks substantially outperformed growth, and there was a very wide dispersion of returns from sectors; MSCI World Integrated Oil and Gas +52%, compared with MSCI World IT -31%. In the face of the rapid rise in the discount rate, duration proved to be the enemy. The US 30Y Treasury bond returned -33.3% in 2022 compared with -4.1% from 2Y Treasuries. Highly rated growth stocks, whose valuations depend on earnings well into the future, came under severe pressure: the NASDAQ index in the US fell by 33% and the FANG+ index of big tech stocks by 40%. The importance of broader diversification across and within asset classes was emphatic.

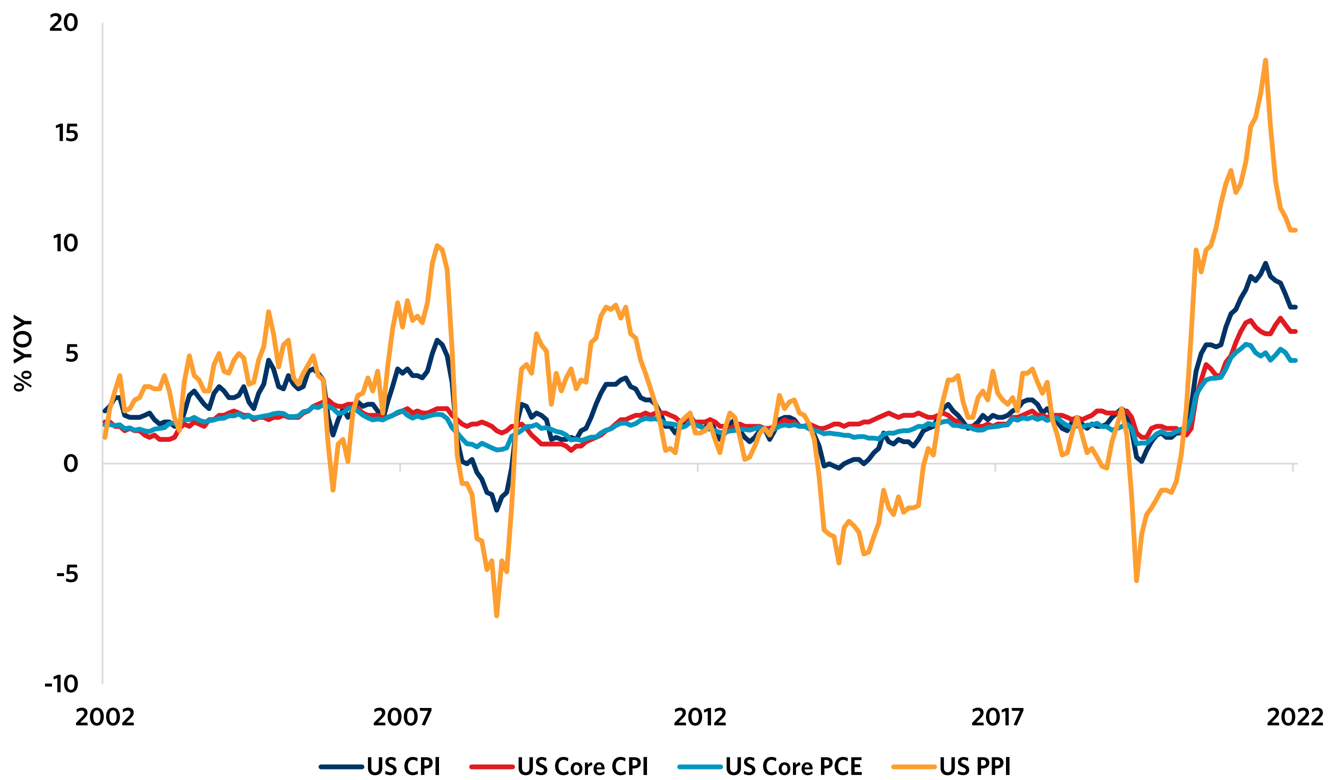
Traditional 60/40 equity bond portfolios offered no protection

*Source: Momentum Global Investment Management, Bloomberg Finance L.P. as at 30 December 2022. *60/40 portfolio comprises 60% MSCI World Index and 40% JPMorgan Global Government Bond Index.*

The key factors driving market performance in 2022 – inflation, monetary policy tightening, supply chain disruption, fears of recession, the multiple challenges faced by China, including the deterioration in relationships between China and the West, war in Ukraine, and the impact of climate change, remain the dominant themes as we enter 2023, and there is a broad sense of deep uncertainty mixed with pessimism. We recognise these uncertainties and risks, but we see the foundations for a sustained recovery in markets as we go through 2023 and believe the prospects will improve as the year progresses. The reasons are several:

1. Inflation has reached a peak, and we expect it to fall materially this year. Base effects will help, and central bank policy tightening, particularly in the US, has been steep and dollar liquidity is very tight. Core measures of inflation will fall more slowly than headline rates, but forward inflation expectations remain well-anchored, helping central banks to bring inflation under control. Monetary policy takes effect with lags, but its impact on activity and inflation is beyond doubt, and the Fed has been clear that it will tolerate an economic slowdown and higher unemployment to bring inflation down to its 2% target.

Inflation has peaked - how quickly will it return to 2% target?

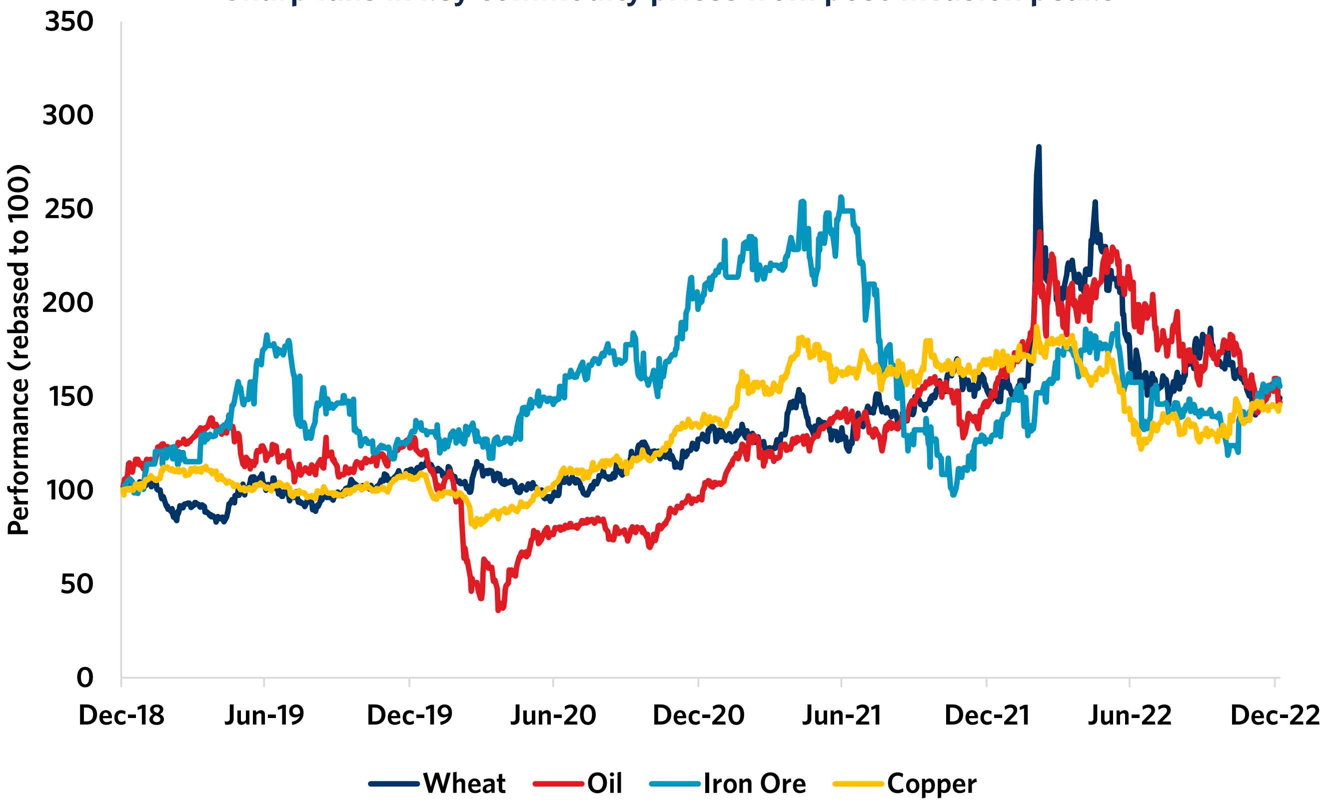


Source: Momentum Global Investment Management, Bloomberg Finance L.P. as at 30 December 2022.

"Inflation, monetary policy tightening, supply chain disruption, fears of recession, remain the dominant themes as we enter 2023"

2. Energy prices, a key element of the inflation surge, have fallen sharply; crude oil and European natural gas prices are back to pre-invasion levels. Fears of energy shortages in Europe in the winter have proved unfounded as supplies from Russia have been replaced in part by other countries, stock levels replenished, and a warm winter is helping in the transition away from Russian gas. Furthermore, the energy crisis has shone a spotlight on the dependency on fossil fuels, and, by injecting much greater urgency and scale into investment in renewables, will accelerate that vital transition.

Sharp falls in key commodity prices from post-invasion peaks

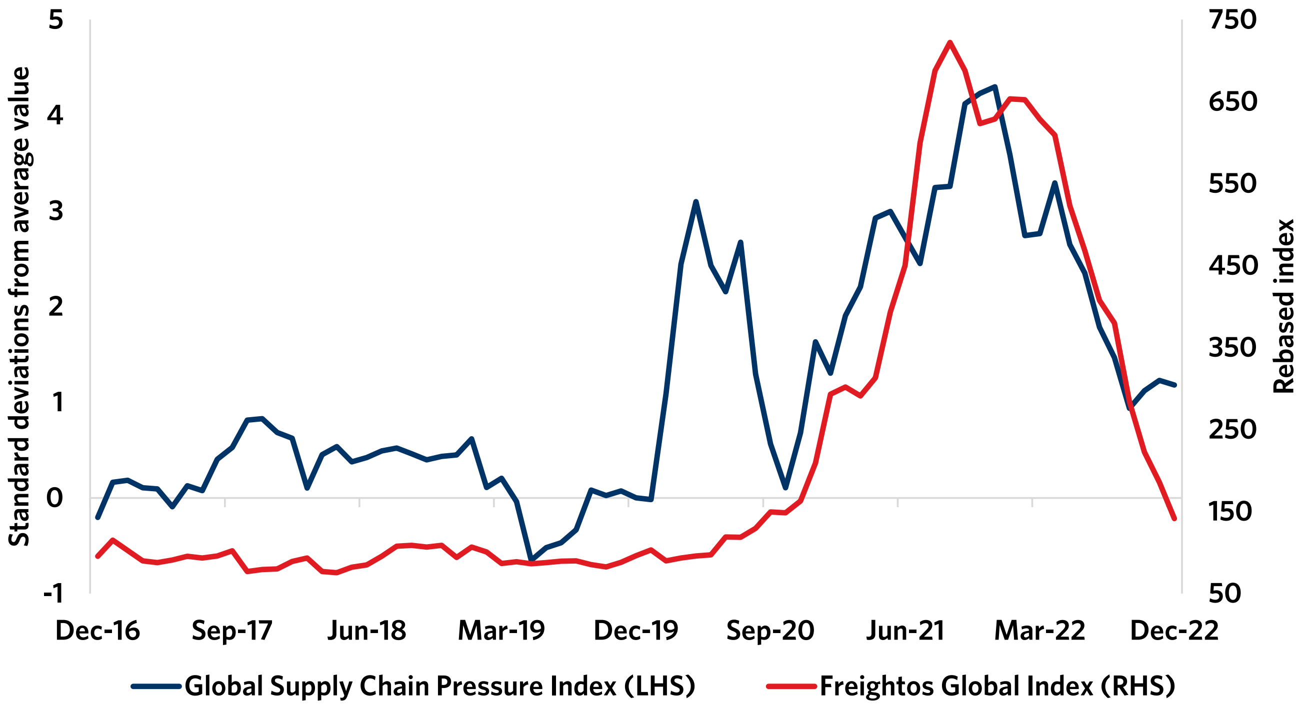


Source: Momentum Global Investment Management, Bloomberg Finance L.P. as at 30 December 2022.

"Energy prices, a key element of the inflation surge, have fallen sharply; crude oil and European natural gas prices are back to pre-invasion levels"

3. Global supply chains have been unclogged, shipping rates have fallen dramatically from post-pandemic levels and shortages have been largely addressed. Greater resilience is being built into supply chains to mitigate this risk in future.

Supply chains returning to normal

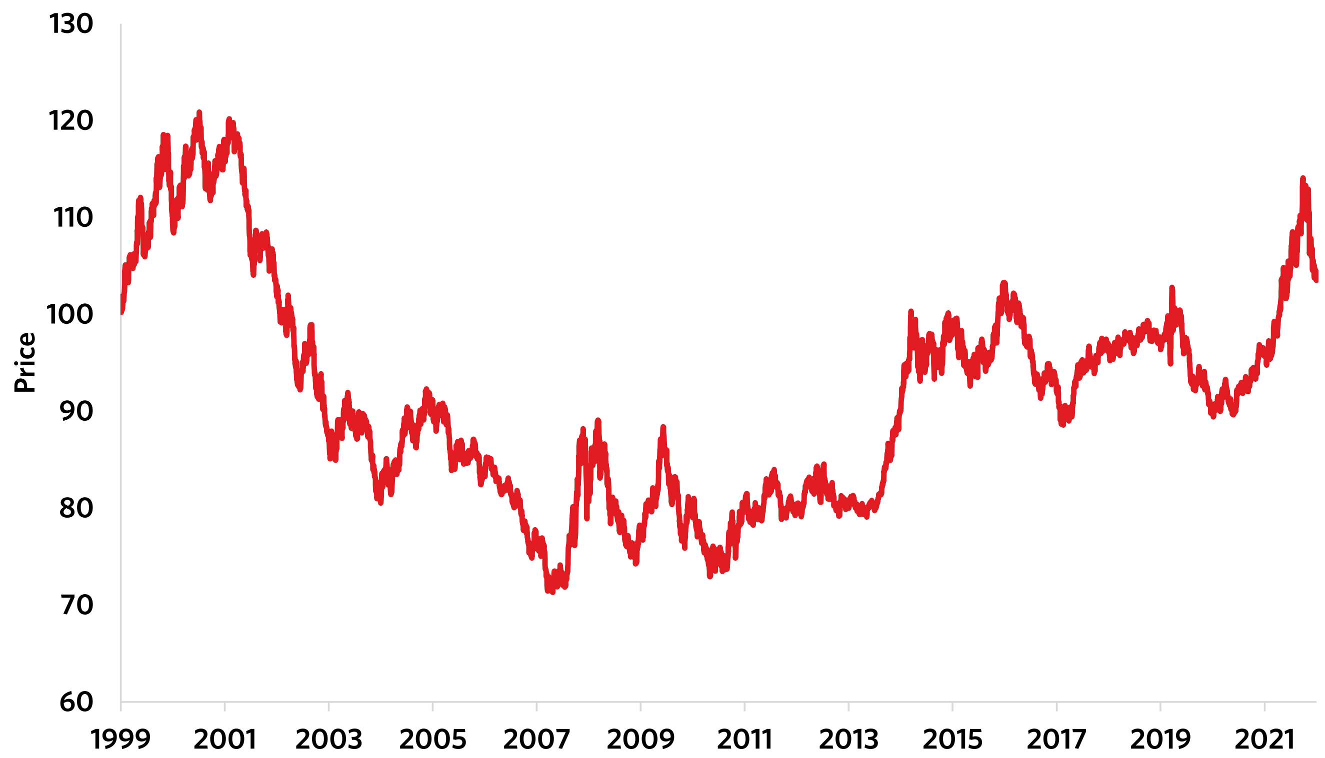


Sources: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, https://www.newyorkfed.org/research/gscpi.html. Bloomberg Finance L.P., Momentum Global Investment Management. Data to 30 December 2022.

4. The risk of recession in 2023 is very high, but is also widely anticipated. Economies are slowing, many leading indicators are into contractionary territory, liquidity is tight, M2 money supply in the US has been contracting in nominal terms since January compared with a peak rate of growth in early 2021 of 27%, and the 2Y-10Y yield curve has been continuously inverted since mid-2022, a forward indicator that has preceded all post-WWII recessions. Economic activity is under pressure from the damaging effect of high inflation on disposable incomes, rising interest rates on mortgage costs, with housing markets in many countries facing a significant downturn, and businesses suffering from steep rises in input prices and labour costs. Recession appears inevitable in the UK and Europe, which are more exposed to higher energy prices than the US, but even in the US a recession is increasingly likely. However, households, corporates and banks enter this tougher period in good shape, with strong balance sheets, and labour markets across the developed world remain tight, unusually so at this stage of the cycle. This increases the likelihood of the slowdown being relatively mild. Reduced activity will bring some pain but importantly it will also bring supply and demand back into balance, bear down on inflation and ultimately result in an easing of monetary policy.

5. The Fed is likely to downshift the pace of tightening before pausing and peaking in the first half of 2023. There is considerable uncertainty around the duration of restrictive policy, but there is less uncertainty around the peak, and we are confident that most of the Fed's tightening, and the steepest part, is behind us. This could well result in the dollar's strength also peaking, resulting in a significant easing of financial conditions globally. It is notable that the dollar weakened and financial markets rallied in Q4 2022 as signs of an economic slowdown mounted, inflation surprised on the downside and an earlier turn in the policy cycle seemed more likely.

Dollar bull market falters



Source: Momentum Global Investment Management, Bloomberg Finance L.P. as at 30 December 2022.

6. The pace and extent of policy tightening has been painful, but the end of the era of ultra-loose monetary policy, zero or negative interest rates and massive central bank buying of bonds, is a welcome return to normality. The excesses created by over fourteen years of almost 'free' money are being exposed: high inflation, unsustainable valuations of many assets, especially those with little or no intrinsic value (e.g. crypto), misallocation of capital, and zombie companies, with no doubt other weaknesses yet to be revealed as the cycle evolves, most likely where leverage is involved. But there is no evidence to suggest that the risks are systemic, and the nonsense of negative yields on bonds (over $18tn worth two years ago, none now) is over, aiding the process of restoring the strength of the financial sector globally. Short term pain will bring longer term gain as monetary policy normalises. The final shoe to drop in this context came unexpectedly in December when the Bank of Japan eased its yield curve control mechanism introduced in 2016 under which it maintained the yield on 10Y JGBs at zero, with a 25bps tolerance range. It raised the range to +/-0.5%, and while the policy was not intended to be a tightening it is widely expected to lead to further normalisation in coming months. The shift resulted in a surge in the yen, up over 5% in December and 10% in Q4, and a 20-25bps rise in longer maturity bond yields, but created no dislocation in markets and was an important first step in Japan's very gradual policy normalisation.

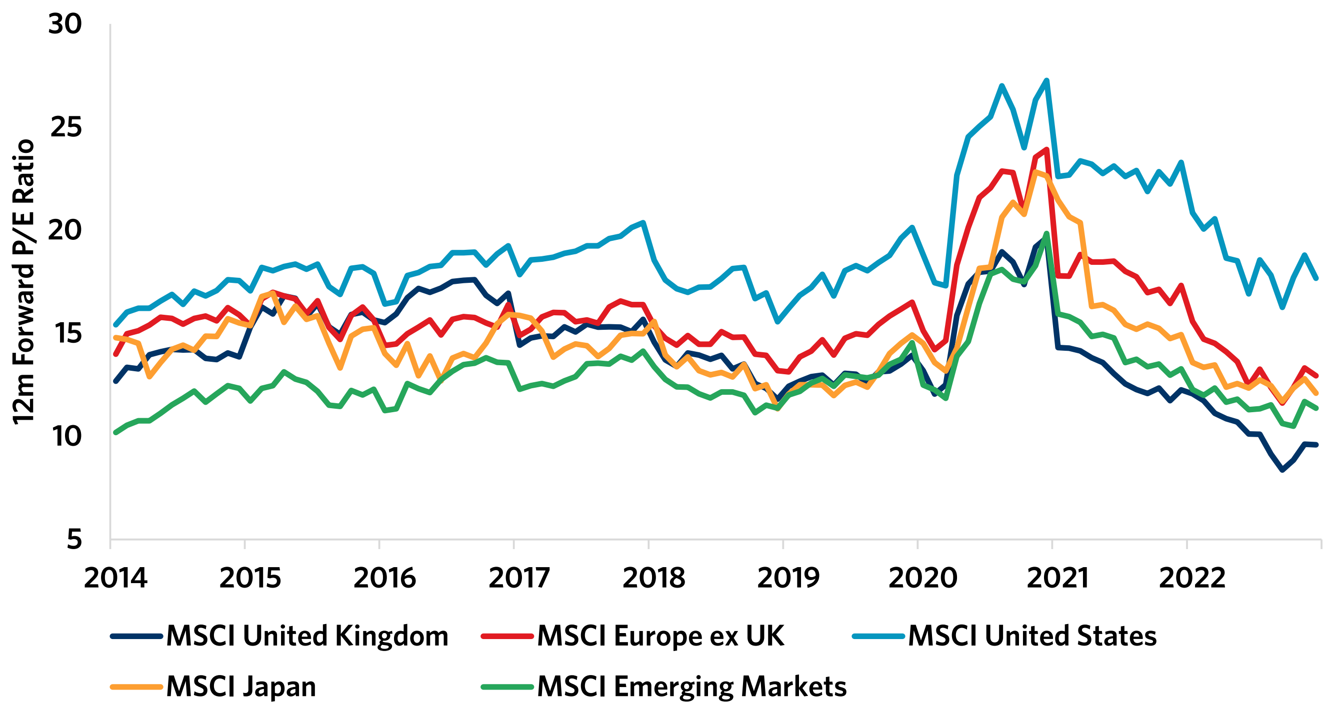
7. The world's second largest economy, and the driver of global growth for much of the past 20 years, China, has had a torrid year. The crackdown on the digital economy, the deleveraging of its huge property development industry, the zero-Covid policy and weakening global growth, have resulted in the slowest growth rate in China since the 1970s and dramatic falls in the stock market, culminating in a huge sell-off in October following the 20th National Congress and President Xi's consolidation of power. Since then, there have been some surprising positive developments, with increasing assistance for the property sector, signals that the crackdown on platform businesses is being eased, and most surprising of all, an almost complete lifting of the draconian zero-Covid-19 restrictions, raising hopes for a recovery in activity through 2023. Covid-19 is now rampant through China and its substantially unvaccinated population (or vaccinated with a relatively ineffective Chinese vaccine), and fears of a healthcare crisis have risen sharply, but evidence from the rest of the world shows that herd immunity will build rapidly and the damage falls mostly on the older, non-working demographic, with a return to near-normal activity in a matter of months. China is set for a significant recovery as it finally emerges from its Covid-19 crisis, albeit well below earlier rates of growth and facing a lower sustainable longer term level, but making a valuable contribution to global growth at a time of weakness generally. The Chinese stock market has recovered sharply in recent weeks but remains well below previous peaks and offers attractive valuations and, appropriately sized, good opportunities for investors.

8. The war in Ukraine has been a monumental miscalculation by President Putin and disastrous for Russia. Its credibility internationally is diminished, its military weakened, needing years to rebuild, NATO has expanded, the West is unified and stronger, and sanctions will remain for years to come, with few in the West likely to re-engage with Russia for years, even after Putin has gone. Trust will take years to rebuild. The risk is that the weaker Putin becomes, so he is more dangerous, but an escalation beyond Ukraine's borders seems extremely unlikely given the dire straits of Russia's military and the resolve of the West. On the other hand, absent some sort of a putsch in Russia (currently highly unlikely), it is difficult to envisage an early end to the war, so its consequential costs and risks will persist for some time. However, much of the economic fall-out has already been borne by the West and the shift away from Russian supplies of energy has moved more quickly and successfully than envisaged.

9. The other big geopolitical threat is China's ambition to reunite Taiwan. Russia's experience in Ukraine is surely likely to restrain China's ambitions, at least for the time being from a military perspective, and there appears to be some signs of a thaw in China-US relations, albeit likely to be very slow ahead of the 2024 Presidential elections in the US. Risks remain but 2022 was unequivocally a bad year for the world's autocracies, good for its democracies and the free world, and that can only enhance longer term security and prosperity.

10. Although there was a strong rally in Q4 2022 in risk assets, markets are still far below peak levels of a year ago and all those falls have come from lower valuations. From historic lows in 2021 of near zero or below, government bond yields have moved up sharply and offer much-improved diversification benefits, while equities have gone some way to discounting the uncertainties and consequences of the looming slowdown. While corporate profits face headwinds and there are likely to be some disappointments ahead, the longer-term recovery and upside potential is significant.

Equity valuations improved materially



Source: Momentum Global Investment Management, Bloomberg Finance L.P. as at 30 December 2022.

Risks and uncertainty have been abundant in 2022, and there remains much to worry about, but most of those risks are now in better balance and in some cases are substantially reduced. 2023 is set to be a difficult year for the global economy and a recession is likely across most of the developed world. There will be some casualties, but the risks are not systemic. With the peak in inflation behind us, the monetary policy cycle, already well advanced, will follow in due course.

The key uncertainties are around the extent of tightening required to bring inflation sustainably to target levels of 2%, the damage inflicted on economic activity and hence corporate profits in reaching that goal, and the unintended consequences of aggressive tightening. It seems probable that rates will reach peak levels of around 5% in the US in the first half of the year but stay at those levels for much if not all of 2023: the Fed will want to see evidence of a sustained drop in core inflation and a cooler labour market before easing. Given its continuing hawkish rhetoric, the biggest policy risk lies in the Fed over-tightening, the repricing of the risk-free rate then continuing for longer, and a soft landing, which has been increasingly priced into markets in recent weeks, becoming much less likely.

The danger for markets would then be a weaker outturn for corporate earnings than is currently expected, with consensus analysts' forecasts still calling for 5-6% earnings growth in 2023. A deeper and more prolonged slowdown would be damaging for equity and credit markets, and we are mindful of that risk in constructing portfolios and in adding to risk prematurely. But the deeper the economic slowdown ahead the more likely that interest rates will be cut this year, and government bond markets would provide protection under those circumstances, particularly as yields, if not especially good value, have at least returned to investible levels.

We are therefore balancing these shorter-term risks against the improving prospects as the year progresses. The turn in the monetary cycle is coming into sight, a key point for markets, which will begin to look through to the prospect of easier policy later this year and into 2024. Diversification as ever will be vital, combining the recovery potential and long-term growth prospects of equities with bonds, including safe-haven government bonds and parts of the credit market which now offer decent nominal and real yields; gold, a reliable diversifier in a wide range of economic and market conditions; some real assets such as infrastructure, and selective hedge funds. Within equity markets we continue to blend style factors, with a bias towards value and quality, and see better opportunities than for some time in emerging markets, where valuations are relatively attractive, particularly taking into account their superior growth prospects, currencies which are generally under-valued after the extraordinary strength of the dollar in the past decade, and perhaps most importantly China emerging from its self-induced Covid-19 coma. It is too early to be adding aggressively to risk but the substantial falls in nearly all asset classes in 2022 have materially improved valuations and we see periods of market weakness in coming months as an opportunity to add to risk to take advantage of the cyclical upturn which will be coming into sight.

"we see periods of market weakness in coming months as an opportunity to add to risk to take advantage of the cyclical upturn which will be coming into sight"

Market Performance - *Global (local returns) as at 30 December 2022*

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	-5.8%	7.4%	-18.5%	-18.5%
United Kingdom	MSCI UK NR	GBP	-1.7%	7.6%	6.5%	6.5%
Continental Europe	MSCI Europe ex UK NR	EUR	-3.4%	10.2%	-12.6%	-12.6%
Japan	Topix TR	JPY	-4.6%	3.3%	-2.5%*	-2.5%*
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.5%	12.1%	-17.5%	-17.5%
Global	MSCI World NR	USD	-4.2%	9.8%	-18.1%	-18.1%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	6.0%	43.1%	-71.2%	-71.2%
Emerging Asia	MSCI EM Asia NR	USD	-0.8%	10.8%	-21.1%	-21.1%
Emerging Latin America	MSCI EM Latin America NR	USD	-4.0%	5.7%	8.9%	8.9%
China	MSCI EM China NR	USD	1.2%	8.9%	-21.1%	-21.1%
BRICs	MSCI BRIC NR	USD	5.2%	13.5%	-21.9%	-21.9%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.4%	9.7%	-20.1%	-20.1%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-0.7%	0.6%	-12.2%	-12.2%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-1.0%	2.1%	-12.6%	-12.6%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.4%	3.6%	-15.8%	-15.8%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.6%	4.2%	-11.2%	-11.2%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-4.2%	1.7%	-24.6%	-24.6%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.7%	6.2%	-17.8%	-17.8%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-4.2%	-1.7%	-18.2%	-18.2%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-1.8%	1.1%	-13.6%	-13.6%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.7%	4.7%	-10.6%	-10.6%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-1.3%	-2.0%	-5.7%	-5.7%
Australian Government	JP Morgan Australia GBI TR	AUD	-2.5%	0.2%	-10.6%	-10.6%
Global Government Bonds	JP Morgan Global GBI	USD	0.0%	3.7%	-17.3%	-17.3%
Global Bonds	ICE BofAML Global Broad Market	USD	0.2%	4.3%	-16.9%	-16.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-1.3%	4.2%	-17.9%	-17.9%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	0.0%	8.7%	-24.7%	-24.7%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-5.3%	4.9%	-25.4%	-25.4%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-5.6%	9.7%	-24.0%	-24.0%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	1.4%	8.9%	-8.9%	-8.9%
Global Property Securities	S&P Global Property USD TR	USD	-2.6%	7.4%	-23.4%	-23.4%
Currencies						
Euro		USD	2.9%	9.2%	-5.8%	-5.8%
UK Pound Sterling		USD	0.2%	8.2%	-10.7%	-10.7%
Japanese Yen		USD	5.3%	10.4%	-12.2%	-12.2%
Australian Dollar		USD	0.4%	6.5%	-6.2%	-6.2%
South African Rand		USD	1.0%	6.2%	-6.4%	-6.4%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.8%	4.6%	19.8%	19.8%
Agricultural Commodities	RICI Agriculture TR	USD	0.7%	1.7%	8.5%	8.5%
Oil	Brent Crude Oil	USD	0.6%	-2.3%	10.5%	10.5%
Gold	Gold Spot	USD	3.1%	9.8%	-0.3%	-0.3%
Hedge funds	HFRX Global Hedge Fund	USD	-0.1%*	0.2%*	-4.4%*	-4.4%*

Interest Rates	Current Rate
United States	4.50%
United Kingdom	3.50%
Eurozone	2.50%
Japan	-0.10%
Australia	3.10%
South Africa	7.00%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
**estimate.*

Market Performance - *UK (all returns GBP) as at 30 December 2022*

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	-1.7%	7.6%	6.5%	6.5%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-1.2%	8.1%	15.0%	15.0%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-2.5%	10.7%	-23.2%	-23.2%
UK - Small Cap	MSCI Small Cap NR	GBP	-1.7%	10.3%	-22.4%	-22.4%
United States	S&P 500 NR	USD	-7.0%	-1.2%	-8.8%	-8.8%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.0%	11.0%	-8.0%	-8.0%
Japan	Topix TR	JPY	0.2%	4.9%	-4.4%*	-4.4%*
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.8%	3.1%	-7.7%	-7.7%
Global developed markets	MSCI World NR	USD	-5.5%	1.0%	-8.4%	-8.4%
Global emerging markets	MSCI Emerging Markets NR	USD	-2.7%	0.9%	-10.6%	-10.6%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-4.4%	1.7%	-25.1%	-25.1%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.4%	2.7%	-4.5%	-4.5%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-3.1%	4.5%	-17.5%	-17.5%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-8.4%	-1.9%	-40.1%	-40.1%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-5.2%	-6.1%	-34.5%	-34.5%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-3.8%	1.7%	-15.6%	-15.6%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-7.7%	-12.6%	-46.7%	-46.7%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.7%	6.2%	-17.8%	-17.8%
US Treasuries	JP Morgan US Government Bond TR	USD	-1.7%	-6.7%	-1.1%	-1.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.4%	-3.8%	-5.1%	-5.1%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.6%	4.2%	-11.2%	-11.2%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-4.2%	-1.7%	-18.2%	-18.2%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-1.8%	1.1%	-13.6%	-13.6%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.7%	4.7%	-10.6%	-10.6%
Global Government Bonds	JP Morgan Global GBI	GBP	-1.3%	-4.6%	-7.5%	-7.5%
Global Bonds	ICE BofAML Global Broad Market	GBP	0.2%	4.3%	-16.9%	-16.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-1.3%	4.2%	-17.9%	-17.9%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-1.3%	0.0%	-15.7%	-15.7%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	-3.9%	-1.2%	-14.4%	-14.4%
Currencies						
Euro		GBP	2.6%	0.9%	5.2%	5.2%
US Dollar		GBP	-0.2%	-7.6%	12.0%	12.0%
Japanese Yen		GBP	5.0%	1.9%	-1.8%	-1.8%
Commodities & Alternatives						
Commodities	RICI TR	GBP	-2.1%	-3.8%	34.0%	34.0%
Agricultural Commodities	RICI Agriculture TR	GBP	-0.6%	-6.4%	21.3%	21.3%
Oil	Brent Crude Oil	GBP	-0.7%	-10.1%	23.6%	23.6%
Gold	Gold Spot	GBP	1.8%	1.1%	11.6%	11.6%
Interest Rates				**Current Rate**		
United Kingdom				3.50%		

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
**estimate.*

Asset Allocation Views

Score	1	2	3	4	5	6	7

MAIN ASSET CLASSES

Score	1	2	3	4	5	6	7
Equities				○			
Fixed Income				○			
Alternatives					○		
Cash				○			

Our Overall View

We have upgraded fixed income to a more neutral view following the fall in bond prices this year, and pockets of value appearing. Equity valuations have also improved but an upgrade feels premature with policy still exhibiting a firm tightening bias. Alternatives remain attractive for their diversifying qualities and return potential, and whilst cash yields have improved markedly, the sharp 2022 repricing warrants a downgrade from the previously overweight view.

EQUITIES

Score	1	2	3	4	5	6	7
Developed Equities				○			
UK Equities						○	
European Equities				○			
US Equities			○				
Japanese Equities						○	
Emerging Market Equities					○		

Equities offer improving return potential after 2022's weakness. Financial conditions have tightened, but by historical standards are not restrictive, and excess savings and strong labour markets should support the consumer in the near term. Nonetheless, recession is all but expected to follow and equities are likely to remain challenged until policy tightening abates. We favour the UK and Japan on valuation grounds, with the latter also offering the accompanying (cheap) Yen exposure. European equities have cheapened but fundamental risks, notably around energy pricing, caution against increasing today. The US likely has room to cheapen further as earnings compress.

FIXED INCOME

Score	1	2	3	4	5	6	7
Government			○				
Index-Linked			○				
Investment Grade Corporate					○		
High Yield Corporate				○			
Emerging Market Debt					○		
Convertible Bonds			○				

Bonds offer increasing opportunities following 2022's historic repricing. Concerns around a slowdown in global growth have also improved the appeal of higher grade issuers, both sovereign and corporate. Although inflation expectations have all but normalized, real yields in some markets are attractive against the backdrop of weaker growth. In credit we prefer short duration bonds, including emerging markets. Core high yield is arguably premature as defaults pick up, but valuations have improved. Convertible bonds are less attractive with equities and credit both presenting reasonable opportunities today.

SPECIALIST ASSETS/ALTERNATIVES

Score	1	2	3	4	5	6	7
Commodities				○			
Property				○			
Infrastructure				○			
Liquid Alternatives				○			
Private Equity						○	
Specialist Financial					○		

Real assets and alternatives continue to look attractive on both fundamental and valuation grounds. Commodities remain volatile but with a slowdown in growth expected in the year ahead, gains in aggregate will be harder to come by. Private equity has been challenged in recent months and offers attractive discounts at current levels. Infrastructure continues to enjoy structural tailwinds from digitalisation and energy transition initiatives.

CURRENCIES vs. USD

Score	1	2	3	4	5	6	7
GBP					○		
EUR				○			
JPY					○		
Gold				○			

Sterling and Yen are mildly favoured as they remain cheap versus long term valuation metrics. The latter's (usually) diversifying qualities also retain some added portfolio attractiveness, and the Bank of Japan's recent relaxing of the yield target range adds to the positive outlook for the Yen. The Euro will probably continue to struggle in the face of relative rate expectations and more localised economic and political considerations. Gold has inflation protection qualities vs. the fiat currencies, plus haven qualities that are attractive in this elevated geopolitical climate.

The Asset Allocation views are as of December 2022 and are updated quarterly unless otherwise stated.

"Alternatives are attractive for their diversifying qualities and return potential"

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Important Notes

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