

## Manager's Quarterly Review Q3 2019

	Return	Level
Equity	MSCI AW Index	-1.19%
	S&P 500 Index	0.42%
	MSCI EM Index	-5.93%
	MSCI CH Index	-5.89%
	FTSE 100 Index	-1.19%
Debt	BBARC GA Index	0.96%
	US G2Y Index	0.28%
	US G10Y Index	2.27%
	US G30Y Index	4.32%
Infrastructure	S&P GI Index	0.25%
		2,674

\*Total Returns are calculated using active Futures  
(Source: Bloomberg)

Q3 broke the last two quarter's trend, was more volatile and most equity markets ended the quarter in red. It was marred with economic and political uncertainties, leading to volatile markets across the globe. Whilst both the European Central Bank and the Federal Reserve further eased their monetary policy stance, it has done little to arrest the sentiment in the equity markets.

Historically, recessions usually lag yield curve inversion by around 10-12 months, however there has never been quantitative easing to the extent we are witnessing now. This begs a question; are we in a different paradigm now? Investor behaviour is interesting to note where the risky assets have seen some inflows despite concerns of a recession. Is investor behaviour still anchored in the fundamental valuations driven by the 10-Yr Treasury yield?

PMIs for US and China finished the quarter in positive territory.

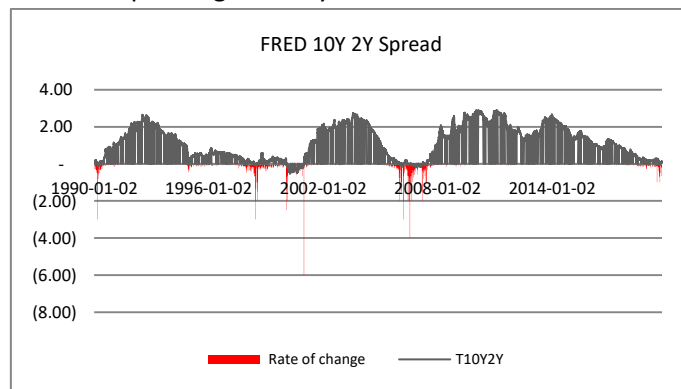
PMI Rate of Change	9/30/19	8/31/19	7/31/19
China	2.0%	1.0%	1.0%
United Kingdom	1.9%	-1.3%	0.0%
United States	1.6%	-0.2%	-0.4%

(Source: Markit, Bloomberg)

The US Treasury Yield Curve inverted for a few days in August. The longer end of swap rate curve however remains below the yield curve signalling further downward expectations. Market is already implying another rate cut by the end of 2019.

Consistent with our previous quarterly reviews, we believe there is further weakness to come in this quarter and that Fed's hand will be forced to deliver another cut this year. Current spread between 2-Year and 10-Year treasury stands at 5 basis points. With increasing uncertainty and further slow down in the global economy, the spread will inevitably move into a negative territory. This will trigger another round of easing and possibly quantitative easing by Fed in 2020.

High yield bond and Corporate bond spreads, seen historically as an early indicator of market fracture, have started expanding recently.



(Source: Federal Reserve Bank)

As interest rates now likely to move in dollar's favour, and the economic uncertainties set in, we expect a flight to Treasury and to safe haven currencies such as USD and JPY. Our portfolios are positioned to take advantage of this, with caution of course. Our currency exposure also helped us deliver superior Year To Date returns.

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## Manager's Quarterly Review

### Q3 2019

Fundamental indicators have been pointing to an overpriced equity markets since the last correction in 2018. As covered in our previous review, we expect a correction in Q4 and Q1 2020 where the fundamental indicators show an overpriced market by a considerable margin. We expect the equity risk premium to rise due to economic risks and growth to be subdued in the near future.

Whilst the above remains true for the US equities, UK and European equities are suffering due to political uncertainties and economic conditions. Brexit remains a limiting factor and so far there is no clear direction on the subject. European data is subdued mainly due to manufacturing downturn in Germany.

Emerging Markets have been faring relatively better when it comes to the monetary policy tools compared to the developed markets. Studies show that Emerging markets are correlated with Chinese markets rather than the US equity markets as was the case in the 1990 and early 2000. One reason of this can be the size of Chinese component in the emerging market index.

Chinese PBOC remains committed to expansionary monetary policy without following the Federal reserve or the ECB. SHIBOR and the Required Reserve Ration (RRR) remained unchanged during the quarter but has fallen significantly during the year. PBOC has ample monetary tools to support the economy.

In a rare, Chinese Renminbi broke the seven against the US dollar level during the quarter. PBOC refrained from arresting this devaluation, and we expect the Renminbi to devalue further once the trade talks resume. We don't expect a resolution of US-China trade war in 2019 and there is a further whispers of Capital war albeit with low probability

Official Chinese GDP numbers for 2019 are expected to come in around 6.2% and forecast of 5.8% next year. This shows impacts of cooling global demand and intensifying US-China trade war. So far, transshipment via ASEAN and weaker Renminbi has helped keep offset much of the drag from US tariffs.

Chinese economy ended last quarter on a strong note, posting a positive momentum in PMIs.

In continuation of our previous actions, we remain cautious and have increased cash positions across the range. This serves two purposes, one to reduce equity exposure and second to reduce non Sterling exposure. We are cautiously watching as events unfold and will deploy cash when we think the markets are attractive.

Our last quarter's call to include US debt with mid to long term duration skew has helped take advantage of the yield curve changes and translated into improved total returns for our portfolios.

Performance %	Year to Date	Quarter to Date	Month to Date
AB1	12.01	4.20	0.67
AB2	13.49	3.57	0.64
AB3	15.54	3.84	0.82
AB4	17.11	3.69	0.80
AB5	16.77	2.82	0.80
AB6	15.37	1.65	0.76

(Source: Morningstar, Data as at 30/09/2019)

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