Alpha Beta PARTNERS

Manager's Quarterly Review

Q1 2019

Q1 2019		Return	Level
Equity	MSCI AW Index	12.31%	508
	S&P 500 Index	13.65%	2,834
	MSCI EM Index	9.89%	1,058
	MSCI CH Index	18.00%	84
	FTSE 100 Index	9.50%	7,279
Debt	BBARC GA Index	2.20%	489
	US G2Y Index*	0.36%	2.26%
	US G10Y Index*	1.81%	2.40%
	US G30Y Index*	2.50%	2.81%
Infrastructure	S&P GI Index	14.07%	2,591

* Returns are calculated using Generic Futures on CBOE

(Source: Bloomberg)

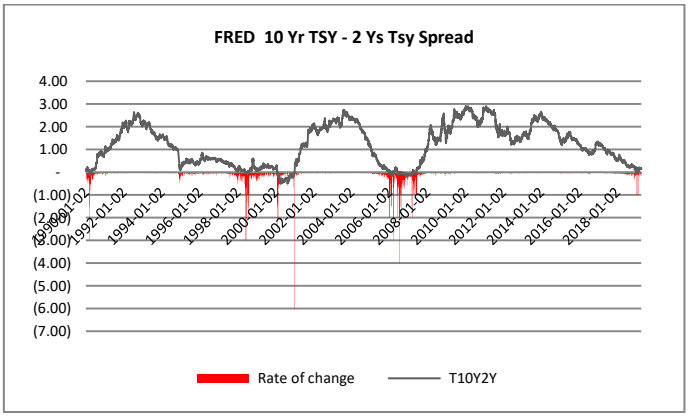
The first quarter saw a marked recovery across both bond and equity markets, fuelled largely by the US Federal Reserve adopting a more pragmatic and dovish stance towards interest rates as the evidence pointed to a moderation in US GDP growth ahead and relatively subdued inflation, despite low unemployment.

Geo-political developments remained a major theme in Q1 as Brexit negotiations continued to drag on and pointed towards a softer exit, boosting sterling and UK assets in general. More conciliatory noises from both Washington and Beijing sparked optimism surrounding the US-China trade talks, although no final resolution appeared. On a more negative note, the European Union suggested tariffs on certain US goods could be on the horizon.

Equities retraced their Pre October levels in the US but the recent yield curve inversion (3m Vs 10Yrs) and weakening economic data does not bode well for corporate earnings and the market, as the year progresses. The continued inversion of the yield curve has historically been an indicator of a potential recession 12-18 months ahead.

The inverted yield curve and expectations of sharply slower US growth in H2 prompted the Federal Reserve to revise its stance and issue a more cautious policy statement with an implicit guarantee not to raise rates in 2019. US President Trump even went as far as asking for renewed Quantitative Easing programme.

The resultant dovishness from the Fed has encouraged investors to pile back into risk assets in Q1. FOMC Dot Plot points to the FED's outlook and shows that the expected interest rate glide path is now much lower than the previous quarters'. Our expectations are that the Fed will sustain its dovish stance for the rest of the year but that we may see some more flattening of the US Yield Curve. The current spread between 2-Year and 10-Year Treasury stands at 15 basis points.



(Source: Federal Reserve Bank)

Additionally, the fundamentals have started to look stretched again. Cyclically Adjusted Price to Earnings ratios are once again in the 25+ area, and historically these levels have presaged a correction.

The US earnings season is to begin soon and that will give us more indications of future earnings expectations. While easier monetary conditions may be boosting

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markets for now, we are cautious of chasing US equities from here.

The UK equity market saw a similar recovery in Q1 on the back of US news and some direction on the Brexit issue. Prime Minister May's deal has been struck down thrice now and at the time of writing, there are negotiations underway between Labour leader Corbyn and PM May.

We maintain our bullish view on UK equities; these will benefit from the resolution of the Brexit issue, one way or the other. UK Monetary policy remains static, with no movement indicated by the BoE as the events around the world play out.

In its recent outlook the IMF lowered its forecast for World GDP growth citing challenges to the global economy especially those emanating from China.

The Chinese GDP growth rate is showing signs of fatigue, although a monetary stimulus is being applied. In line with IMF global forecasts, the consensus has been revised down to between 6.20% and 6.10% in 2019. Also, despite current optimism on the trade wars front with the US, there is a slowdown in the domestic economy that is hurting the growth prospects of China.

The PBOC has cut its Required Reserve Ratio (RRR) four times since 2017 in order to shore up spending. Loose monetary policy and support is to help put growth back on track or at least avoid a hard landing. Chinese manufacturing PMI recovered above the 50 mark with a positive momentum at the end of March. However, it remains to be seen if this momentum will persist. We expect the PBOC to keep an expansionary stance and support growth.

Rate of Change in PMI (MoM)	3/31/19	2/28/19	1/31/19
China	4.3%	-0.4%	-2.5%
United Kingdom	-2.9%	2.4%	-2.1%
United States	-1.6%	2.0%	0.0%
Developed Markets	-0.4%	1.1%	-0.8%

(Source: Markit, Bloomberg)

Emerging markets recovered in Q1 but only in line with the other risk assets. Helped by the dovish shift in US Treasury rates and a rebound in the world equity markets, one would have expected High Beta markets to have performed better than they did. The Fed's dovish stance and Chinese stimulus has helped their recent recovery. However, with Global GDP set to slow down, Emerging Markets are expected to find the going tougher as the year progresses.

We de-risked our portfolios during Q3 and Q4 of 2018 and increased our UK equity weightings at the expense of European ex UK weightings in Q1 2019.

Performance	Year to Date	Quarter to Date	Month to Date
AB1	4.80	4.52	1.67
AB2	5.98	5.99	2.18
AB3	7.93	7.09	2.49
AB4	9.11	8.04	2.65
AB5	9.41	8.25	2.66
AB6	9.99	8.24	2.74

(Source: Morningstar, Data as at 31/03/2019)

We expect to carry out further defensive positioning as the markets unwind and geopolitical events are known with some certainty.

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