October 2018

Monthly Investment Overview

MelvilleDouglas
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Investment Environment

Investors have had disappointing returns from domestic equities this year after a promising start. SA is now in a recession and the global backdrop is no longer as supportive, so President Ramaphosa will have his work cut out to instil a new sense of confidence to ignite growth. His stimulus package and a revised mining charter are good signs, but scepticism dominates markets. Hope alone is not enough – implementation is required. Where is the turning point?

Bernard Drotschie

Chief Investment Officer

Jerome O'Regan

Executive Director

Market Performance %

September 2018

EQUITY	SEP	QTR	12M
All Share Index	-4.2	-2.2	3.3
Resources	1.0	5.2	26.9
Financials	-2.0	2.8	8.1
Industrials	-7.7	-7.8	-7.7
All Bond Index	0.2	0.8	7.1
MSCI US	-3.0	11.0	23.5
MSCI UK	-1.7	1.5	7.9
MSCI Emerging	-3.9	2.3	4.3
MSCI AC World	-3.0	7.8	15.6

US DOLLAR RETURNS	SEP	QTR	12M
MSCI US	0.5	7.5	17.9
MSCI UK	1.8	-1.6	2.9
MSCI Japan	3.2	3.8	10.6
MSCI Emerging	-0.5	-0.9	-0.4
MSCI AC World	0.5	4.4	10.3
Citigroup WGB Index	-1.4	-1.7	-1.3
Currency vs. US dollar			
Rand	3.5	-3.1	-4.6
Euro	-0.2	-0.5	-1.8
Yen	-2.4	-2.5	-0.9
Sterling	0.3	-1.2	-2.8

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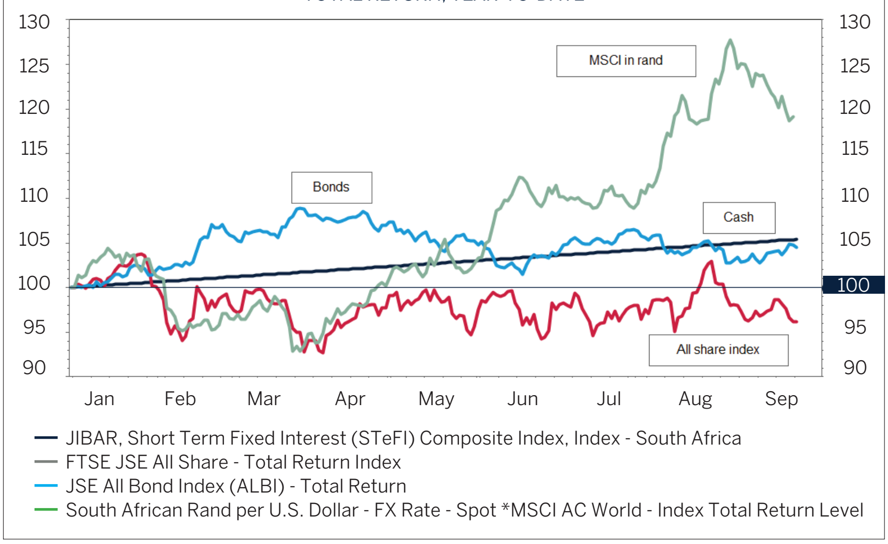
> "Equities continue to struggle given no visible signs of a recovery and very present reminders of recession."

After a strong start to the year, equity returns on the JSE are negative for the year thus far and one, three and five year returns are well below historical averages. Ramaphoria has gone. The economy is in recession and unemployment is rising. The external environment has also deteriorated, not only as a result of trade tensions, but idiosyncratic events in Turkey, Brazil and Argentina have spooked emerging market investors and resulted in large-scale outflows. A stronger US dollar, reduced US dollar liquidity and a higher oil price have added to the pressure for emerging markets.

SA ASSET CLASS PERFORMANCE
TOTAL RETURN, YEAR-TO-DATE



Source: FactSet

Since Ramaphosa's inauguration, he has taken decisive steps to rebuild confidence. The focus has been on dealing with corruption in government and state capture, restoring good governance at state-owned enterprises and strengthening critical public institutions. The various enquiries such as the state capture enquiry and the SARS commission have revealed the extent of corruption and deliberate incompetence. State-owned enterprises remain fragile given the state of their balance sheets and lack of capacity to maintain and deliver services and infrastructure. Significant change is required.

After a period of consultation, including the private sector, Ramaphosa announced a recovery and stimulus package. This was shortly followed by the release of a more pragmatic and business-friendly mining charter. The announcements were well received, but many will stay sceptical because too many of the goals and announcements are not new: we've heard them from the ANC before with no result. Yet Ramaphosa has differentiated himself from his predecessor by being hands-on and pragmatically results orientated. The next significant events are the jobs summit and the Medium Term Budget Policy Statement. Whilst, the rand and bond markets have recovered from lows, equities continue to struggle given no visible signs of a recovery and very present reminders of recession.

> "The goals are not so high as to be unattainable, and instead of overpromising we can expect a focus on delivered outcomes."

SA 10YR BOND AND USDZAR

Source: FactSet

Economic recovery and stimulus package

The package has four broad aims:

- Implementation of growth-enhancing economic reforms.
- Reprioritisation of public spending to support job creation.
- Establishing an infrastructure fund.
- Addressing urgent and pressing matters in health and education.

None of these objectives are new. They were part of the National Development Plan (NDP) that was comprehensively ignored by the Zuma administration, and supposedly incorporated in government's medium-term expenditure plans, although nothing much was implemented. Ramaphosa has elected to keep to the sound long-term plans of achieving the necessary structural reforms and sustainable growth plans recommended by the National Planning Commission, instead of reinventing the wheel.

In his speech, Ramaphosa provided a sober synopsis of the challenges facing the economy. The plan singled out infrastructure spending as a critical driver of economic activity and employment growth, with the aim of reprioritising fiscal spending towards activities that have the greatest impact on economic growth and job creation rather than increasing overall spending. Much as this is a reshuffling of budget items, SA cannot afford any fiscal slippage. There will be more detail in the Medium Term Budget Policy Statement at the end of October. For now, the numbers are in one sense not as important as the message. An additional R50 billion to be allocated to infrastructure is in the context of annual government expenditure of over R1.7 trillion (33% of GDP). The key is the signal regarding focus and implementation within the constraints of what is possible. The goals are not so high as to be unattainable, and instead of overpromising we can expect a focus on delivered outcomes.

"The gazetted charter is more pragmatic and investor friendly than was previously feared, and provides a framework for business to plan and make informed investment decisions."

Because implementation has historically failed, an infrastructure execution team has been established in the presidency: "The team will identify and quantify 'shovel-ready' public sector projects, such as roads and dams, and engage the private sector to manage delivery". This illustrates the government's change in tone towards private sector inclusion.

A number of other initiatives were announced to enhance growth, including;

- Changes to SA's visa regime to support tourism and business travel.
- The revised Mining Charter, which isn't perfect, but which should restore some confidence.
- A crackdown on illegal imports to protect sensitive sectors.
- Support for agricultural development including better leasehold terms for new farmers which should unlock financing.

Mining Charter

The revised Mining Charter is an additional step in the right direction. Until now, a lack of regulatory certainty has been a major obstacle to investment in the sector. Removing this uncertainty has been a top priority for President Ramaphosa's government. The gazetted charter provides more certainty on a number of aspects, such as the "once-empowered, always-empowered" principle. Without going through all the detail it is clear that the new mining charter has addressed many of the concerns raised by Minerals Council South Africa when the previous draft was released in July, and an illustration of government's willingness and commitment to finding a credible solution while redressing historic socio-economic inequalities and ensuring broad-based economic empowerment. The gazetted charter is more pragmatic and investor-friendly than was previously feared and provides a framework for business to plan and make informed investment decisions.

“Implementation will remain a key issue and so a considerable amount of scepticism is warranted.”

“While most investors are watching for a “trigger event” that will launch a confidence revival, and then an economic recovery, the way things are going it is much more likely that there won’t be a specific trigger – it will happen by stealth.”

Conclusion

Under the new president, politics has not settled and uncertainty regarding Ramaphosa’s ability to implement policy change is high. Yet a considerable number of changes have been made, both to strengthen governance and to remove obstacles to business and investment. Within the current constraints of government finance, limitations on what can be done are substantial. None of the changes individually will make much difference, but collectively represent a significant change of direction. Implementation will remain a key issue and so a considerable amount of scepticism is warranted. But with the Treasury more clearly back in the driving seat, a shift in spending priorities and hopefully outcomes can be expected.

SA is stuck in a low-confidence cycle and a recession, which complicate the outlook; but it has all the required basics to enable a cyclical recovery, even without lower interest rates. While most investors are watching for a “trigger event” that will launch a confidence revival, and then an economic recovery, the way things are going it is much more likely that there won’t be a specific trigger – it will happen by stealth. At some point an accumulation of factors will have combined to lift the country out of a recession. But don’t over expect. As far as portfolios are concerned, we prefer to adapt rather than to take aggressive positions based on hope. We have balanced portfolios so that when growth returns, we will be ready for it, even if we have not anticipated all of the nuances.

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Asset Allocation

Domestic Equity	Overweight
Domestic Cash	Underweight
Domestic Bonds	Neutral
Global Equities	Neutral

Paolo Senatore

Strategist

- Until recently the external environment has deteriorated, as far as emerging markets are concerned. A combination of a stronger US dollar combined with reduced global US dollar liquidity and idiosyncratic events in countries such as Argentina and Turkey have highlighted some of the challenges evident in the region. As a result of that, and weak domestic economic data (GDP and confidence indicators) we have seen a sell-off in South African assets including equities, the bond market as well as the rand. A more recent consideration, compared to six months ago, is how Moody's may react to the slower growth environment as they have indicated it is a credit negative event. It would be a surprise if SA was downgraded before the medium-term budget, which is to be presented in a few weeks' time. The message from the medium-term budget will, in this regard, be critical.
- South African cash rates are relatively attractive versus current inflation levels with one-year rates trading at just over the 8% mark. We do not expect the Reserve Bank to increase interest rates this year, but a sustained increase in core inflation from a weak rand and a higher oil price could result in a different outcome. We find the domestic bond market attractive given that investors can lock-in real adjusted returns of 4% and higher.
- Equity returns are looking decisively more attractive after the recent sell-off and are offering mid-teens returns from both our bottom-up and top-down analysis. The equity market currently faces a number of macro headwinds but is considered to have a valuation underpin. Based on the forecast returns the portfolios are slightly overweight domestic equities.

Domestic Equities

Basic Materials	Underweight
Financials	Overweight
Consumer Goods	Overweight
Consumer Services	Underweight
Technology	Underweight
Telcos	Underweight
Industrials	Neutral
Healthcare	Underweight

Greg Wood

Head of Domestic Equities

- South African Equities have had a very volatile year to date, down 4% to September 2018 largely driven by global macroeconomics, trade wars and geopolitical uncertainty. Emerging Markets have underperformed dramatically on the back of rising interest rates in the developed world, currency weakness and fragile balance sheets. The latest financial threat has come from Turkey and the contagion effects are yet to be felt globally. The risk of achieving adequate returns in SA equity has increased. The expected GDP growth post the ANC elective conference has failed to materialize and has been pushed out due to policy uncertainty. South Africa will, therefore, have to continue to operate in an environment with high real interest rates and low demand.
- Earnings revisions have come down as the year has progressed, but much of the poor news and earnings revisions are now priced into South African equity valuations. Notwithstanding the risk highlighted above, we remain overweight South African equity given current valuations.

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Fixed Income

Government	Neutral
Inflation -Linked	Underweight
Corporate Investment Grade	Overweight

Mzimasi Mabece

Head of Fixed Income

- The effects of an escalating trade war between the USA and China was felt by emerging markets with risk assets remaining under pressure throughout the quarter. Coupling this with poor local economic data i.e. poor GDP growth data, the disappointing high-frequency economic data and the weak rand collectively dampened risk appetite and we saw foreigners selling local assets in droves during the quarter. Emerging markets were on the back foot with fears that the developments out of Turkey would have an adverse effect on the EM basket. Turkish President Tayyip Erdogans appointed his son in law as the governor of the central bank thus further compromising the independence of the central bank and political relations between Turkey and the United States deteriorated to an extent where the US imposed targeted sanctions on certain individuals. In the midst of this rout, Argentina turned to the International Monetary Fund asking for an early release of funds from a USD 50 billion deal to ease concerns that the country will not be able to meet its debt obligations for 2019. The rand swings during the quarter were wide, with the difference between the highs and lows at -18%. This on the back of a strengthening dollar and massive risk-off sentiment in response to Turkey and Venezuela's persistent economic problems. It didn't help that Moody's issued a warning about risks to SA's fiscal consolidation plans and President Trump's comment via Twitter on South Africa's land reform policy debate.
- Despite the concerns about oscillating trade tensions between USA and China, September was a better month for EMs compared to August's indiscriminate sell-off. The central banks in key EMs raised interest rates, whilst the SARB opted to leave rates unchanged. The decision was a close call though, with three members of the seven-member committee voting for a rate hike. In its meeting, the SARB revised its inflation forecast upward and sees inflation moving away from the target midpoint but remaining within the 3.0% – 6.0% target band until 4Q2020.
- We expect that the SARB will keep rates on hold for the remainder of the year but the risks for further rate hikes in 2019 have increased.
- We believe the below factors will weigh heavily on our capital markets and the rand in the near term:
    - Tightening global financial conditions.
    - Tariff standoff.
    - Credit rating agents' decisions.
    - Domestic politics ahead of general elections.
- At above 9.0% we believe bonds are cheap and are buyers of bonds at these levels. We are comfortable with a neutral duration position at this stage given the volatility in the markets.
- Later this month, the Minister of Finance will, in parliament, table the Medium-Term Budget Policy Statement (MTBPS) and we will watch that closely for guidance on the fiscal trajectory of government in the short to medium term.

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"Investors have been voting with their feet, as illustrated by the significant outperformance of US equities over China and emerging markets equity indices."

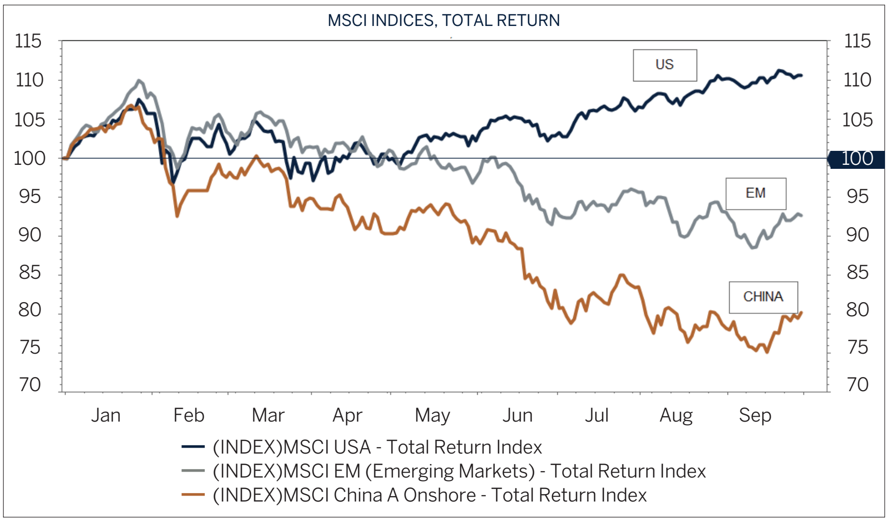
Global

Asset classes have largely moved in line with changing but positive economic fundamentals this year. Global equities have outperformed fixed interest assets and the US dollar has benefited from increasing interest rate and growth differentials. The divergence in growth between the US and the rest of the world was not expected, and Donald Trump's strategy of "America first" has had a dampening effect on global trade and the value of emerging market assets. Outside the US, the world is struggling with the higher cost of US capital, and the higher costs of doing business imposed by tariffs. The outlook is not expected to change much, but the path will become rougher as global liquidity becomes less supportive, US-China trade tensions escalate and the political backdrop in Europe stays uncertain.

Trade war

Global trade continues to make headlines. The US imposed tariffs on another $200 billion of imports from China on 24 September. Up to now, investment markets have largely shrugged off the news as the initial tariff of 10% was less than expected. If no progress is made, tariffs on Chinese imports will rise from 10% to 25% on 1 January 2019. Furthermore, the Trump administration has threatened to follow up with a third round of tariffs on remaining imports from China. The Chinese immediately retaliated with tariffs on $60 billion of US imports and showed no sign of backing off. The response from China is not surprising, but the end result of these escalations will certainly be much more damaging for the Chinese economy should some form of compromise not be achieved, which at this point looks unlikely. But it is not just China's economy which will be affected. The whole supply chain, including many emerging Asian economies will also be influenced. Investors have been voting with their feet, as illustrated by the significant outperformance of US equities over China and emerging markets equity indices.

EQUITY MARKETS 2018



Source: FactSet

“Investors have been voting with their feet, as illustrated by the significant outperformance of US equities over China and emerging markets equity indices.”

China does however have other options to consider other than trade tariffs. Certain US companies with operations in China such as GM and Apple sell more of their products in China than the US, and Chinese authorities could introduce certain measures or regulations which could be damaging for US subsidiaries operating in China in the long run.

Although the overall impact is somewhat uncertain – much supply will be derived from markets where tariffs do not apply – tariffs are nevertheless an additional cost to businesses. The effect is negative in the short run as companies will defer investment spending, but certain economies could benefit as importers in the US and China would switch to alternative suppliers.

US companies in the meantime will have to decide whether to pass on the higher import prices or absorb the increased costs. The first option will result in inflationary pressures for the Federal Reserve to contend with and the latter option in lower profit margins and a slowdown in earnings growth. Both options are headwinds for US equity investors and perhaps the US dollar.

The threat of escalating trade tensions alongside a more restrictive US monetary policy and fading fiscal stimulus will act as additional risks to the global economy, which is already understandably showing signs of a slowdown in growth momentum.

Italy

Italy's debt at 132% of GDP has for some time been a headache for the European Commission (EC), as the sheer size of outstanding government debt makes Italy too big to bail out and makes the economy very vulnerable to any cyclical or external shocks. Past governments have been able to keep a tight rein on finances, but it has been exactly these restrictive measures and structural reforms that have opened the door to a populist coalition government.

The new government made many promises leading up to the elections earlier this year, which include lower taxes and increased government spending in an effort to stimulate economic growth. Although this may deliver some short term relief, structural reforms such as improved labour productivity are required to get the economy on a more sustainable long-term growth path.

The budget deficit target of 2.4% of GDP was higher than previously promised by the government and much higher than the EC would have wanted (although still below the 3% Maastricht requirement) and higher than the recommendation made by the Minister of Economy and Finance, of 1.6% of GDP. Investment markets reacted negatively: Italian equity prices fell sharply and bond yields jumped again.

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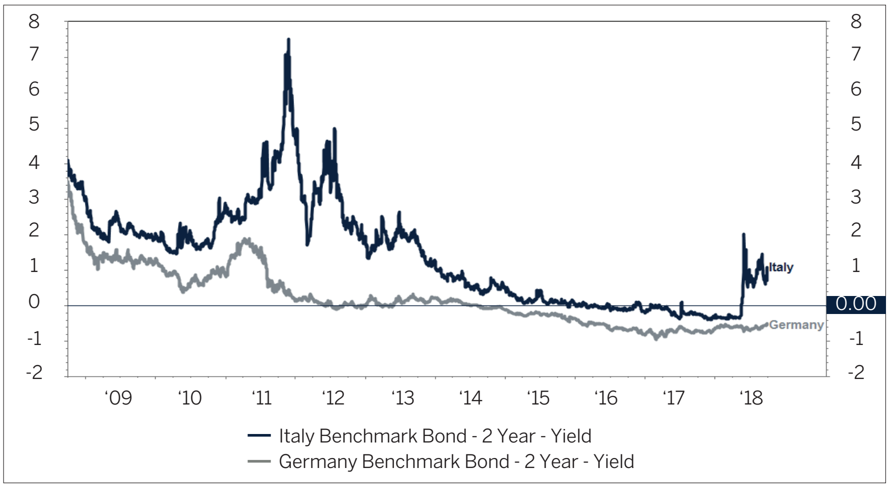
> "Italy's government debt position, without growth, is unsustainable. Borrowing more without simultaneously doing anything to correct the growth problem is guaranteed to make the situation worse."

Italy's government debt position, without growth, is unsustainable. Borrowing more without simultaneously doing anything to correct the growth problem is guaranteed to make the situation worse. The backstop that is the European Union (EU) will not prevent that, and markets will be doubtful of the EU's willingness to do anything different than it did in the case of Greece – which was a much smaller problem. Italy cannot have a currency devaluation to help it through, so it is caught between the shambles that is BREXIT, which has been an object lesson for potential leavers, and the necessary domestic price adjustment that Greece continues to endure. As Italy's cost of financing rises, and the government continues to ignore the needed reforms, a disruptive outcome becomes a rising risk. The EC is very likely to push back in October and the risk of a sovereign rating downgrade has just increased. Italy is now the ECB's point of vulnerability, capping its ability to allow interest rates to rise, given the exposure of the Eurozone's banking system to Italian government debt.

EUROZONE 2-YEAR YIELDS: ITALY AND GERMANY



Source: FactSet

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"Whether markets fully reflect the impact and probability of a "no deal" outcome is impossible to say, but the risk remains material."

BREXIT

It is now more than two years since the United Kingdom European Union membership referendum was held in June 2016. There are only six months remaining before the UK officially leaves the European Union in March 2019. The outcome of the eventual "divorce" remains uncertain and will continue to weigh on business confidence and economic activity until the terms are known. Like most divorce settlements, there will be a cost and no one party really wins. In time, both the UK and the EU will establish relationships with and access to new trading partners, but in the short term it will be complicated if free movement of goods and people between the UK and EU is restricted. There is no certainty as yet that a deal will be done. It has been suggested by the EU that November is the latest that a deal could be finalised. This will be a month after the EU summit in October, which is expected to outline the terms of the withdrawal agreement. If a deal is concluded, MPs will then be asked to vote for or against the agreement. In other words, the next few months will be critical for the process of establishing and approving a BREXIT deal. Various sticking points are significant, such as keeping the Irish border open between Northern Ireland and the Republic of Ireland. At present, it is hard to read the final outcome. Whether markets fully reflect the impact and probability of a "no deal" outcome is impossible to say, but the risk remains material and significant price adjustments (currency, interest rates) may be needed to cushion the shock and rebalance capital and goods flows. Time is short.

Summary

The US economy has been the leader of a strong global economy this year, but also the cause of volatility and unpleasant adjustments elsewhere as the impacts of tariffs, trade renegotiations and sanctions start to bite. For the US, the growth outlook for next year is less certain. The benefits from lower taxes will begin to fade as we enter 2019, and the Federal Reserve will continue to increase the policy interest rate. For now, this process remains one of deceleration - foot off the accelerator; whether an inflationary surge will force it into full braking mode is a rising but still remote risk. US companies will also have to deal with the implications of a trade war with China as well as a higher oil price. Earnings growth will certainly slow. Other risks are also material; BREXIT looms and Italy will have to find a solution to its debt problems. Prices have adjusted, but not so much as to discount extreme outcomes.

We have learned over time that it does not pay to bet on political and macro events as the eventual outcomes are at best difficult to predict. Our preferred strategy is to focus on fundamentals where the upward progression of corporate earnings along with an extension of this business cycle leads us to continue to support equities over other asset classes, whilst ensuring that portfolios are well diversified.

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"USD strength continued to temper Global USD multi-asset client portfolio returns whilst benefiting GBP Global mandates. Domestic GBP portfolios struggled against the backdrop of a weaker, Technology light, FTSE100 index."

Investment Performance

Global economic expansion remains on track, despite there being no end in sight to the US/China trade war and Emerging Market pressures as a result of tightening USD monetary conditions. Global equities continued to advance, outperforming both cash and global fixed income during the quarter. USD strength continued to temper Global USD multi-asset client portfolio returns whilst benefiting GBP Global mandates. Domestic GBP portfolios struggled against the backdrop of a weaker, Technology light, FTSE100 index. Our equity stock selection process has again added value, especially within our Information Technology and Healthcare sector selections. At the asset class level our long held strategic underweight and defensive strategy towards fixed income has protected capital as bond prices eased. In general, portfolio performance continues to please and peer group comparisons highlight very favourable 1,3 and 5 year relative returns.

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Asset Classes

Equities	Neutral
Fixed Income	Underweight
Cash Plus	Overweight

- The global economic backdrop remains fundamentally supportive. The strong growth achieved in corporate earnings should not be a surprise to investors given the strong economic backdrop, supportive confidence levels and low unemployment rate. **The US economy continues to support global growth,** which is expected to be above potential output for the balance of the year. Europe should start to catch up as the impact of a stronger EUR and inventory overhang start to fade, while consumer demand continues to provide a favourable underpin.

- Although the reported data remains positive, investors should not become too complacent as the numbers are already history. The risks to the global trading environment and uncertainties that accompany increased protectionism and nationalism remain. BREXIT still needs to play out and Italy's commitment to fiscal discipline will surely be tested. **Probably, economic and earnings growth momentum have peaked;** less accommodative monetary and fiscal policy will start to affect markets first and real activity later. We therefore remain with a neutral allocation to equities.

- We remain with an underweight weighting to fixed income on the belief that the yield normalisation process has not played out in full. Whilst central banks in the US, UK and Eurozone are adjusting monetary policies at differing speeds, all are **moving in the same tightening direction as growth conditions remain sufficiently strong enough to do so.**

Equities

Consumer Discretionary	Overweight
Consumer Staples	Neutral
Energy	Underweight
Financials	Neutral
Healthcare	Neutral
Industrials	Neutral
Materials	Underweight
Technology	Overweight
Utilities	Underweight
Telecommunications	Underweight

- Wall Street hit record highs on strong macroeconomic data, robust Q2 corporate results and tax-cut fuelled share buybacks. The Twittersphere buzzing US-China trade war had limited impact on rose-tinted corporate and consumer sentiment. Microsoft, a core holding in our discretionary portfolios, was a notable top performer due to the insatiable demand for its cloud computing offerings. After some momentary jitters, investors compartmentalised the currency crises in a handful of fragile emerging market economies to specific issues rather than a globally systemic problem.

- Global equities remain an attractive asset class for long term investors. The nine-and-a-half-year US stock market rally is the longest in history. However, contrary to popular opinion bull markets do not die of old age. Instead they are killed off by recession or aggressive central bank policy. The third quarter provided little convincing evidence of a developed world recession over the next 12 months or of runaway inflation. Hence, we remain positive about equities. The neutral weight against strategic benchmarks reflects the late stage of the business and interest rate cycles, high US valuations, and tail-risks surrounding escalating trade wars and a possible no-deal BREXIT.

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Fixed Income

G7 Government	Underweight
Index-Linked (US Government)	Overweight
Investment Grade – Supranational	Overweight
Investment Grade – Corporate	Overweight

- Economic growth in the **US** remains above trend and many indicators suggest the economic expansion, whilst mature, still has further to run. Second quarter Gross Domestic Product at 4.2% can only be described as robust and although the pace will certainly moderate in the third and fourth quarters, we expect full year growth in the region of 3%. Inflation at target and a strong employment market, notably with wage increases now at levels last seen at the end of the recession in 2009, have proved sufficient enough for the US Federal Reserve to maintain their tightening cycle. Interest rates were raised for a third time this year in late September to 2.25% and we concur with 12 of the 16 Fed officials who expect another hike in December. Geo-political noise, trade wars and weakness in emerging markets were enough to keep a ceiling on US government bond yields for much of the quarter, however, ten-year yields breached 3% again in September and further normalisation looks set in the coming months. Given our ongoing bearish outlook for the fixed income market and with almost no extra yield compensation for assuming more duration risk, our only conclusion can be to remain defensively positioned.

- As widely anticipated, the Bank of England raised interest rates by 0.25% to 0.75% in August, but we believe that savers waiting for the next tightening will have to be patient, potentially well into 2019. More recently, some **UK** economic indicators have beaten expectations but overall growth conditions remain sanguine, particularly when compared to peers. Inflation ticked marginally higher in the quarter, remaining heavily influenced by the direction of Sterling, which has fallen sharply against the US Dollar and Euro since mid-April. The BREXIT news flow is both relentless and unpredictable and therefore acting as a barrier to new investment – at least until a definitive outcome can be pinpointed. Despite this uncertainty, ten-year UK government bond yields have risen sharply in the quarter but we put this down to two key factors. Firstly, the market had discounted perhaps too much negative news when the yield dipped to 1.18% in July. Secondly, although at different levels, UK bond yields remain correlated to the direction of US government bond yields and when the tide rises in that market, it is powerful enough to take others with it.

Currencies / Interest Rates

RECOMMENDATION - INTEREST RATES			
		CURRENT	DIRECTION
US Dollar	Overweight	2.25%	↑
Sterling	Neutral	0.75%	→ ↑
Euro	Underweight	0.00%	→

- We maintained our overweight **US Dollar** strategy in the quarter which, despite trading sideways for the period, remains approximately 2.5% higher year-to-date in broad value terms. Favourable growth, interest rate and yield differentials provide ongoing support for the currency although the longer term negative ramifications of President Trump's tax cuts and fiscal spending plans cannot be ignored. Over the short term, the uncertain outcome of trade war negotiations should continue to lend support to the US Dollar which appears to have regained its safe haven status. In addition, as the Federal Reserve push on with their interest rate hikes at a quarterly pace, Sterling and the Euro remain very far down the list for those investors seeking positive risk free rates of return.

- Whilst our **Sterling** International Bond strategies remain marginally biased to base currency relative to benchmark, we still consider it prudent to maintain an element of foreign currency exposure. Unsurprisingly, August's 0.25% hike in interest rates had minimal positive impact on Sterling as the future pace of tightening is very uncertain. In fact, excluding inflation, many other key economic indicators are not suggestive of higher interest rates and 'real' inflation adjusted rates are likely to stay deeply negative for the foreseeable future. As mentioned above, BREXIT remains a constant source of uncertainty and we see little merit in attempting to second guess the myriad of possible outcomes.

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