Q2 2019

GAM MFS asset allocation review

Marketing material for professional/ institutional investors only

Asset class	Tactical views 3-12 Months		Outlook
	Previous Quarter	**Current**	
Fixed Income	Negative	Negative	From a bond investor's perspective, the fall in yields during Q2 across global fixed income reflected not only pessimism about the growth and inflation outlook but also a concerted communications effort by the US Federal Reserve and the European Central Bank to reassure markets that they stood ready to support their respective economies. We see opportunities in subordinated debt structures and debt instruments that we believe should generate positive and steady returns, including mortgage backed securities.
Equity	Neutral	Neutral	The absence of compelling alternatives has been a key driver of equity performance in recent months. As yields have plunged, the appeal of bonds has waned. The chief beneficiaries in global equity markets have been companies able to deliver solid earnings, cash flows and dividends, or those with compelling future growth stories. Yet that has become a tired story, reflected in stretched valuations and strong consensus positioning. However investors do not yet see an alternative. They do not appear ready to move into cyclical, value, small capitalisation or financial stocks, given concerns about future growth as expressed in flat or inverted yield curves.
Absolute Return	Neutral	Neutral	We feel that traditional 'fixed income like' returns and volatility are possible through exposure to select global macro managers who should play a role in providing capital preservation in an environment of overall subdued returns and higher volatility.
Alternatives	Positive	Positive	We continue to hold a position in a gold ETF. Political risk remains high and gold can act as a protective hedge against volatile market moves. We also hold listed European property exposure focusing on management teams who are able to deliver income growth.
Cash	Neutral	Neutral	It is likely that short-term interest rates will remain low for the foreseeable future, however given the uncertainty surrounding global trade and growth, cash remains at levels higher than the historical norm. This will prove useful during any elevated periods of volatility.

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Positive Neutral Negative

Fixed Interest	Government	Negative	Global government bonds have recently become expensive again and we have very little exposure. Instead, our focus is on a more reliable return stream that can produce positive returns independent of the main indices.
	Investment Grade and High Yield	Positive	Styles here comprise junior financial debt and active management of investment grade bonds. Junior debt remains a compelling long-term investment, tapping into the theme of increasing financial regulation and continued deleveraging within the banking system.
	Securitised Debt	Positive	The mortgage backed securities market is a large, diversified and liquid universe offering a range of instruments with unique characteristics, attractive yields and low correlation to other fixed income assets.
	Emerging Markets	Positive	Increased issuance from EM issuers, sound fiscal policies, floating currencies and a yield pick-up versus developed markets makes emerging market debt a good alternative.
Equity	UK	Negative	Given the uncertainties surrounding Brexit, we continue to hold an underweight to the region.
	US	Neutral	We maintain a meaningful allocation to the US, however we believe other regions have more upside potential.
	Europe	Positive	Weakness in European growth in 2018 was, in part, due to special factors which we believe are likely to recede in importance, for example disruptions to the German automobile industry or to transportation. As those effects fade, growth could pick up more than expected, helping to lift earnings expectations.
	Japan	Positive	Japanese equities have long-term potential due to the continuing benefits of Abenomics and, while momentum has moderated due to global growth concerns, we continue to believe the asset class offers greater upside than other developed markets.
	Emerging Markets	Positive	We continue to see good opportunities in emerging markets. With a high exposure to global trade, any reduction in trade tensions would disproportionately benefit them. Additionally, any efforts by China to inject stimulus into its economy will have a positive spillover effect to wider emerging markets.
Absolute Return	Global Macro	Neutral	We continue to believe that select AR managers can offer differentiated return drivers that provide diversification to the portfolio as a whole.
Alternatives	Gold	Positive	Political risk remains high in global developed markets and gold can act as a protective hedge against volatile market moves.
	Property	Positive	With negligible European bond yields, investors are forced to look elsewhere for income. We continue to hold the Premier Pan European Property fund as the sector provides an alternative to yield starved investors - a wide range of buyers, including pension funds and sovereign wealth funds, need income to cover short–term liabilities and should act as continued support for the sector as a whole.

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Important legal information

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