

Multi-Asset

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What our underlying managers are telling us:



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In our most recent quarterly tactical review in the 3rd quarter, we kept our overall ranking for investment markets at four (five is our most bullish rating and one is the most bearish). We had previously raised it from three to four in the 1st quarter.

We have a four ranking for equities overall along with UK equity, UK small caps, emerging markets and Asian equities and investment grade corporate bonds.

But what do our underlying fund managers currently think about the investment markets they invest in?

A gilt fund manager says that the valuation adjustment seen in UK bonds last year has led to an increase in return forecasts for them over the next 10 years, with annualised nominal returns predicted at between 4.3%–5.3% according to his models. He said: “A large part of this improved performance is driven by the sharp rise in UK yields, the compounded effect of which is adding to the outlook for UK bonds.”

Another bond fund manager said that his team used liquidity to capitalise on heavy market volatility earlier this year. He said: “When spreads on corporate credit spiked after the collapse of three regional US banks, we tactically added high-quality credit exposure.” However, post the rallies in

equities and fixed income following the mini-banking crisis, he said they have started to reduce their exposure because valuations do not incorporate the possibility of a hard landing.

Valuation and dividend appeal

We have been positive for some time on the outlook for UK equities, which have been shunned by international investors since Brexit and are therefore undervalued. It is hard to predict when the UK might turn, but to our mind it won't require a major catalyst.

A UK fund manager said that the last 18 months have enabled his team to upgrade the quality of its portfolio without diluting its valuation and dividend appeal. He said: "A wider list of high-quality UK cash compounders within the investable universe came back into range for us from a valuation and

dividend perspective. More generally, we are encouraged by the excellent combination of quality, valuation and dividend appeal now in our portfolio."

Asia has several global leaders

Fund managers are also seeing opportunities in Asia. The region's markets have had a few difficult years, first with China going into draconian lockdown last year plus geopolitical issues with the US. China is seen as being a potential flashpoint for markets globally too because of severe problems in its property sector.

An Asia ex-Japan manager points out that this is mostly an emerging region, which means the policy environment is consistently evolving and therefore exhibits greater volatility than developed markets. But he added: "The region has several world leading semiconductor companies and in the generative artificial intelligence industry in both Korea and Taiwan. We expect to see rapid earnings recovery for these stocks in the coming six to 12 months."

An emerging markets fund manager is also positive on China. He said: "Right now, China is clearly the cheapest part of the market. You can see that when you look at top-down valuations. Also, there are lots of individual stocks and sectors that are under-priced for the kind of growth those businesses can achieve. There are definitely risks, but the list is shorter than it was a year ago, so we're overweight the region in our emerging markets fund."

Another economic powerhouse in Asia is India, which offers many opportunities in its burgeoning economy. A global emerging markets manager points out that India's urbanisation rate is low at around 35%, and opportunities will emerge as this figure rises. "What this investment up-cycle implies is rising urban job creation, whether it is in construction, manufacturing, or associated service jobs, and only this will drive urbanisation. Experience says that an urban job comes with an income that is a multiple of the rural one left behind, and that multiplier drives consumption."

Japan has been a highlight for investors this year. Its equity market reached a 33-year high in the second quarter as confidence rose that its economy was emerging from a multi-decade doldrum. A manager who is optimistic about Japan over the medium-term says: "It does seem the pace of change in Japan is accelerating. Many investors are still not aware of the corporate governance movement and see Japan as a global cyclical market. The news of Warren Buffett's investment earlier in 2023 had an effect on sentiment but also, hopefully, an effect on foreign money actually coming into Japan, which hasn't happened for many years."

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested.

The Funds and Model Portfolios managed by the Multi-Asset Team may be exposed to the following risks:

Credit Risk: There is a risk that an investment will fail to make required payments and this may reduce the income paid to the fund, or its capital value. The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay;

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss;

Liquidity Risk: If underlying funds suspend or defer the payment of redemption proceeds, the Fund's ability to meet redemption requests may also be affected;

Interest Rate Risk: Fluctuations in interest rates may affect the value of the Fund and your investment. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

Derivatives Risk: Some of the underlying funds may invest in derivatives, which can, in some circumstances, create wider fluctuations in their prices over time;

Emerging Markets: The Fund may invest in less economically developed markets (emerging markets) which can involve greater risks than well developed economies;

Currency Risk: The Fund invests in overseas markets and the value of the Fund may fall or rise as a result of changes in exchange rates.

Index Tracking Risk: The performance of any passive funds used may not exactly track that of their Indices.

Any performance shown in respect of the Model Portfolios are periodically restructured and/or rebalanced. Actual returns may vary from the model returns.

The risks detailed above are reflective of the full range of Funds managed by the Multi-Asset Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

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