SARANAC
PARTNERS

Investment Committee Update

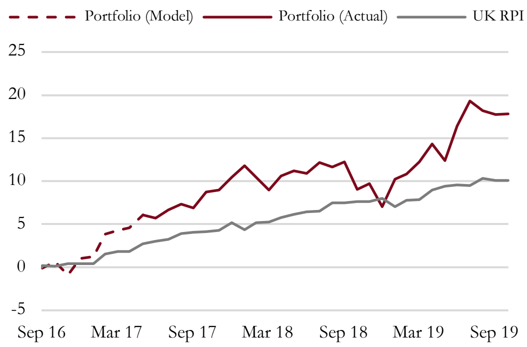
November 2019

AT A GLANCE

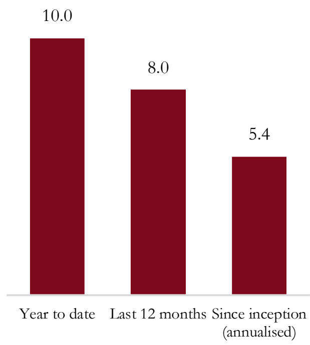
- We believe the global macro environment is potentially at a turning point, with the possibility of recovery and stronger growth.
- This view is supported by improving survey data (both manufacturing and non-manufacturing) and is likely a response to extensive monetary easing by central banks.
- Furthermore, we are starting to see a rotation into more value-orientated assets and into regions such as Japan and emerging markets, which typically perform when growth is improving and broadening.
- Finally, there has been some progress with respect to specific geopolitical risks (e.g. US–China trade, Brexit), which reduces the probability of severely negative outcomes.
- We have therefore taken the decision to increase our equity allocation in portfolios focusing on higher beta markets such as Europe and emerging markets. We continue to maintain protection in portfolios to mitigate downside risks.
- The increased allocation to equities has been funded by reducing the high yield and emerging market credit allocations as well as utilising some cash.
- We have also decided to close our sterling option strategy given the recent strengthening in the currency.
- We continue to hold significant positions in gold and alternatives.

Multi-asset strategy (sterling moderate risk)

Performance (%)



Periodic returns (%)



Monthly returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2016									0.1	0.7	-1.6	1.9	1.0
2017	0.2	2.6	0.4	0.3	1.4	-0.4	0.9	0.6	0.4	1.7	0.2	1.4	9.4
2018	1.2	-1.2	-1.4	1.6	0.6	-0.3	1.1	-0.5	0.6	-2.9	0.6	-2.4	-3.1
2019	3.0	0.5	1.3	1.9	-1.7	3.5	2.5	-1.0	-0.4	0.0			10.0

Source: Saranac Partners.
Performance figures from inception (31 December 2016) are based on model portfolios, simulated from a full record of trading decisions and execution levels are readily available for review. Dividends have been included on an accruals basis. All performance is shown exclusive of fees.

MARKET PERSPECTIVES

After a couple of false starts earlier in the year, we believe the global economic environment has significantly increased potential for recovery and growth.

Zeitgeist: the long-term context

We are starting to see early indications of improvements in survey data.

Manufacturing PMI data has stabilised in developed markets and is improving in developing economies. Additionally, non-manufacturing numbers have also indicated improving performance.

These improving trends are likely to be a response to the supportive policy environment which has developed over the last year, with 85% of central banks easing monetary policy. We would expect the impact of these policy decisions to lag implementation by six to 12 months.

We have also seen a rotation in risk assets away from growth and momentum stocks and the US market, into more value-orientated equities and regions such as Japan and emerging markets.

Given these sectors and regions tend to outperform when growth is improving and broadening, it suggests the market is starting to recognise the potential for accelerating growth.

Macro drivers: medium-term environment

Economic performance this year has been impacted by the persistence of specific geopolitical risks. The past few weeks has seen an easing of some of these headwinds.

The US and China seem keen to strike a trade deal, albeit limited in scope, which marks a departure from the escalation in tariffs which preceded it.

Furthermore, the agreement of a deal between the UK and EU, despite the subsequent failure to pass the deal through parliament, did significantly reduce the likelihood of a no-deal outcome with respect to Brexit.

Signals: short-term indicators

Given positive developments in markets, our risk appetite has increased this month although we recognise the potential for mini corrections that have characterised markets in recent months.

We also recognise the increased probability of a 'melt-up' scenario, in which markets rise strongly on the back of strong confidence and optimism.

ASSET ALLOCATION

Given our view of the economic outlook, we are increasing our allocation to equities this month. For a moderate risk portfolio, we have increased equity holdings from around 35% to 40% of the portfolio.

We are funding part of this increase in equities through a reduction in the high yield and emerging market debt components of the portfolio. We are therefore partially offsetting the higher risk inherent in increased equity allocation with a reduced position in higher-risk fixed income assets.

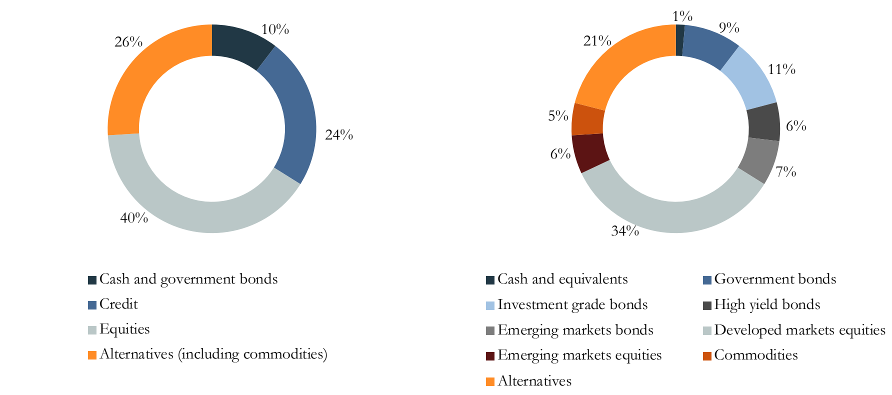
We are also utilising some cash to build the equity position.

EQUITIES

We have increased our equity allocation this month from 35% to 40% for a typical moderate risk portfolio.

We have focused this additional equity allocation on higher beta markets such as Europe and emerging markets, which we would expect to outperform in a stronger growth environment.

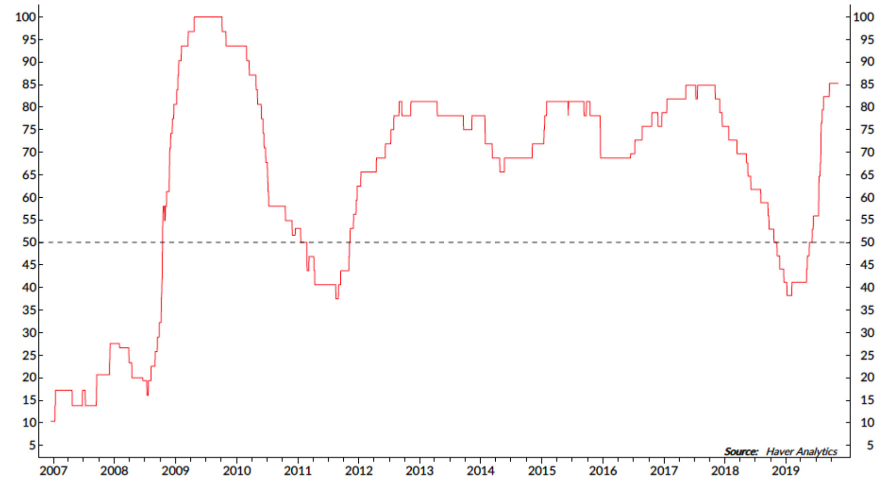
Multi-asset strategy (sterling moderate risk)



Source: Saranac Partners.

Breadth of central bank rate changes

Percent of central banks show last rate change was a decrease (8 Nov 19 = 85.29)



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We continue to have an option strategy in place, which protects about half the equity exposure, reducing risk. We believe this is appropriate in order to protect against a deterioration in the geopolitical environment or renewed weakness in manufacturing data.

FIXED INCOME

We are funding part of the increased equity position in portfolios by reducing our allocation to high yield and emerging market debt.

These riskier fixed income assets have seen yields tightening to the extent that they offer little valuation upside relative to government bonds.

Furthermore, in our central scenario of improved growth over the next few months, bond yields will rise from the low levels seen earlier this summer, thereby reducing the returns from high yield and emerging market debt.

ALTERNATIVES

Our allocation to alternatives is unchanged. Portfolios currently have around a 20% allocation to alternatives and a further 5% allocation to gold.

CURRENCIES

We have seen a healthy bounce in sterling in reaction to the Brexit deal between the UK and EU. Even though this deal subsequently failed to pass through parliament, it did significantly reduce the risk of a disorderly no-deal outcome and therefore led to a re-pricing of sterling.

In light of this re-pricing, we decided to close out the option strategy purchased in June. The option strategy was implemented to protect portfolios against extreme outcomes for sterling and was generating marginal returns.

We believe there is now reduced probability of extreme outcomes with respect to sterling and we have therefore closed out the strategy and crystallised a modest gain in portfolios.

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