

IAPF ANNUAL INVESTMENT CONFERENCE 2019 'Evolution'





Market Outlook

Richard Dunbar

Head of Economic and Thematic Research

Aberdeen Standard Investments

Market Outlook

Richard Dunbar, Aberdeen Standard Investments



The House View

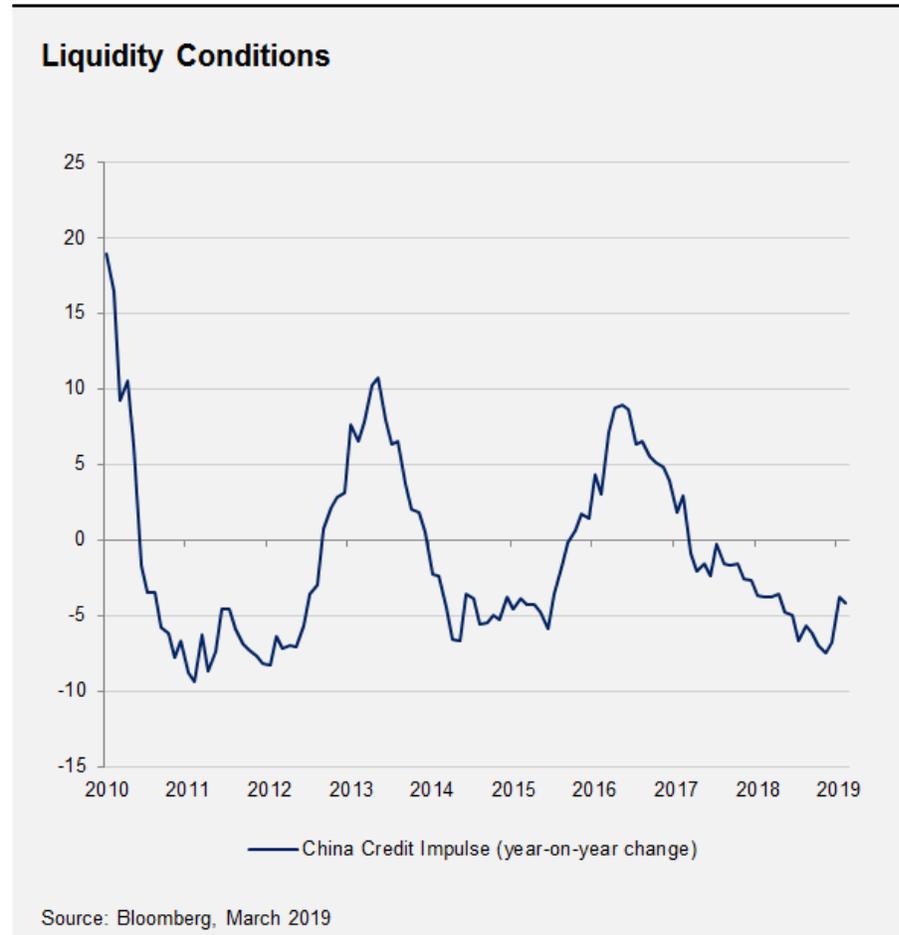
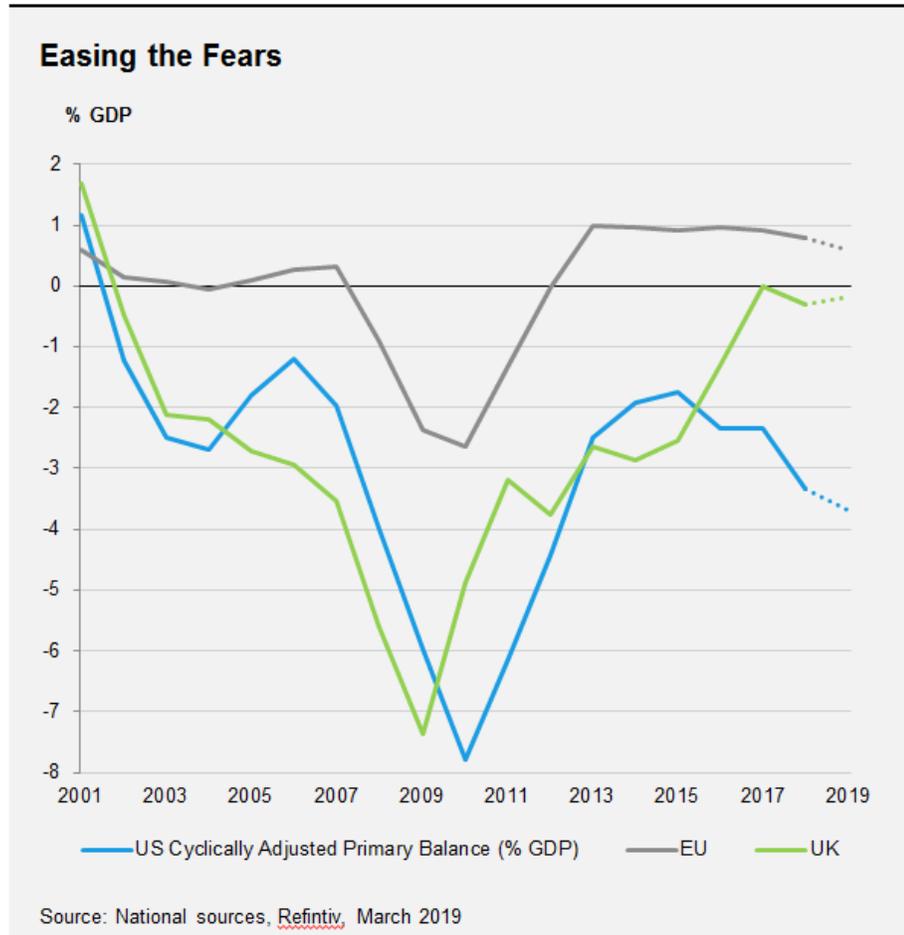
Remains pro-risk but expects further volatility

Key questions for investors to ask:

- Will future growth prospects improve?
- Why do portfolios remain risk-on?
- Will inflation be anchored this year?
- Will political and geopolitical tensions die down?
- What do valuations tell us?
- How should investors prepare portfolios for volatility?

Will future growth prospects improve?

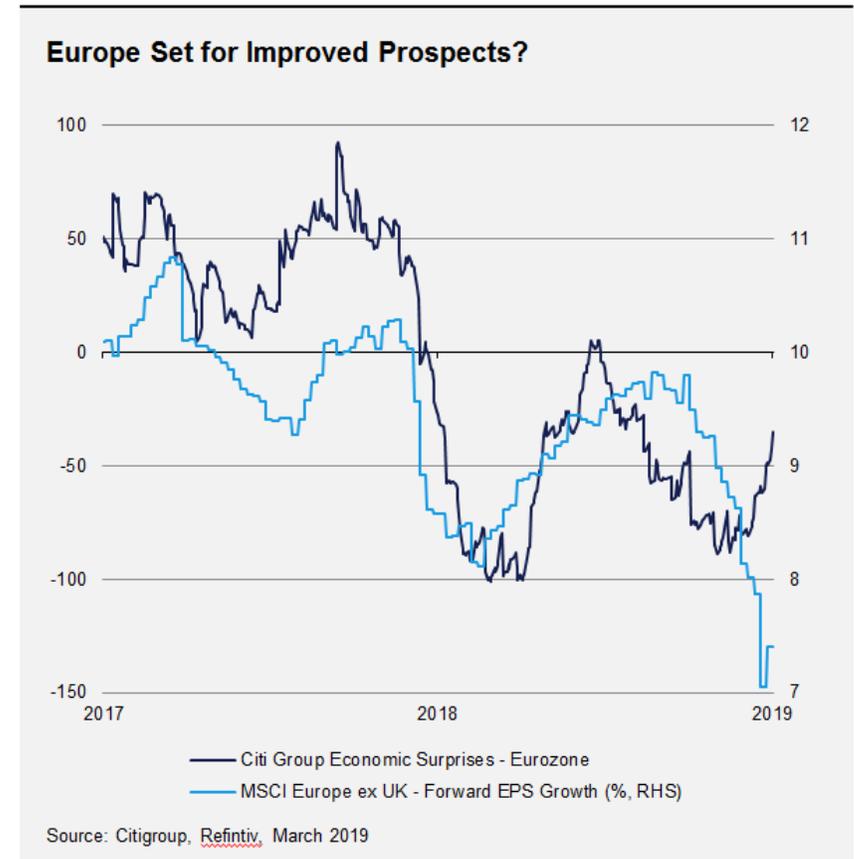
Yes, we are already seeing stimulus measures in Europe and Asia



Why do portfolios remain risk-on?

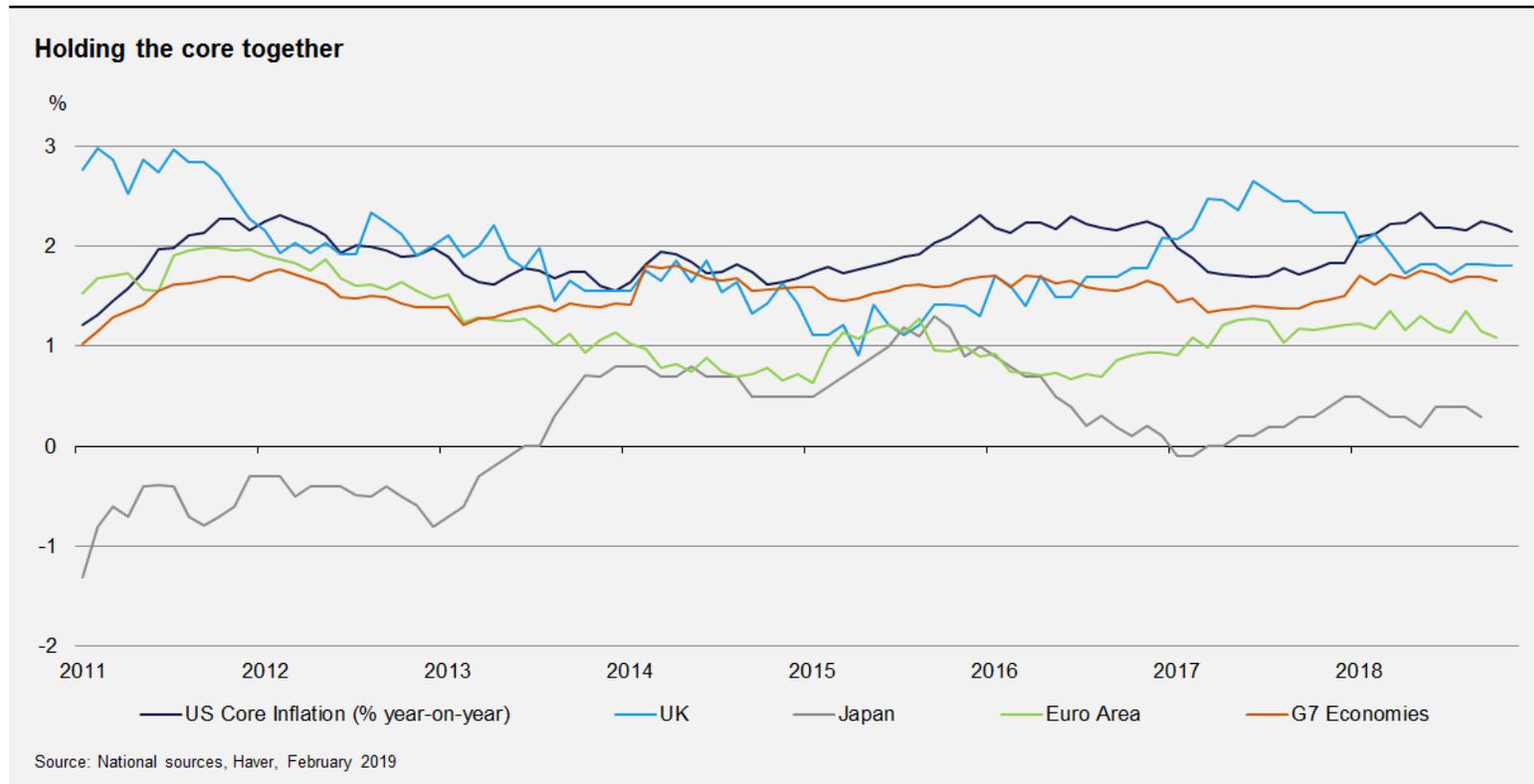
Our assessment of “what is in the price”

- Many assets have priced out a period of recession
- Not enough markets have priced in even a period of moderate economic growth
- Further stimulus measures are expected, for example in China
- After a period of modestly negative profits growth, we forecast better prospects ahead, European economic surprises are improving



Will inflation be anchored this year?

Yes; headline inflation will be affected by oil prices, core inflation is constrained



Will political and geo-political tensions die down?

No; the best we can expect is ceasefires in some areas

- The US and China may reach agreement on tariffs, but Europe likely to be next in line
- Trade is one small part of the growing strategic rivalry between the two countries

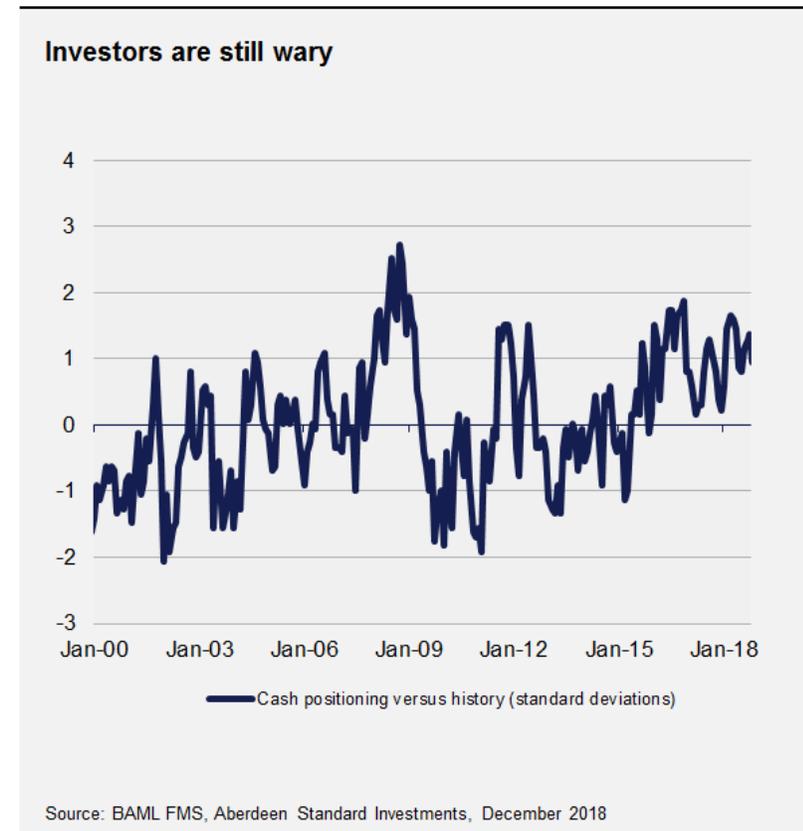
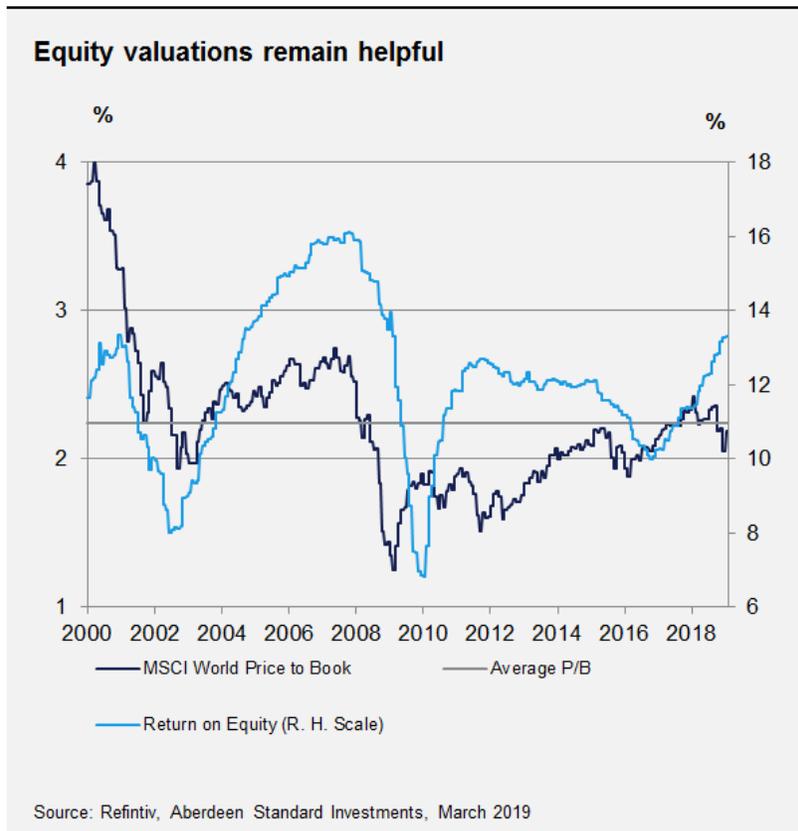
- Italy and the EU have reached temporary agreement on budget issues
- EU elections in May = generational transition and leadership change
- Plus Brexit outcomes remain uncertain

- Other issues, in Eastern Europe, the Middle East, the Koreas, are still problematical
- Global institutions and systems such as WTO are coming under growing pressure

Source: Aberdeen Standard Investments, February 2019

What do valuations and investor sentiment tell us?

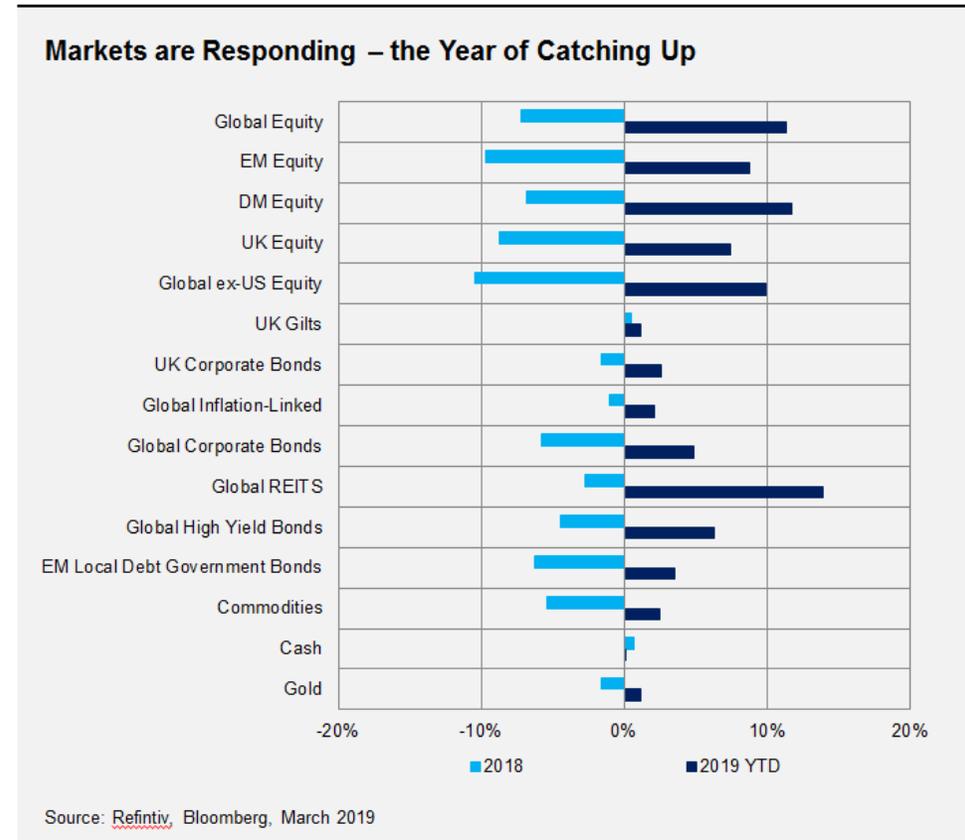
Valuations are relatively attractive, sentiment is rather depressed



Will volatility appear again?

Yes, many risks in 2019

- Many economic and political risks
- Last year, two noticeable equity market corrections during 2018
- Would not be surprising to see at least one similar event during 2019



Investment Outlook

Seeking benefits from corporate cash flow and searching for diversifiers

Global growth is supported

Prefer Emerging Market and Japanese equities & European real estate

The US equity market is seen as range trading

Real assets with growth and yield suit this cycle

EM sovereign bonds and European high yield debt are attractive – but be wary of leverage

Valuations do not support most sovereign bonds – Australia is an exception on possible rate cuts

High quality investment grade debt worth examining for portfolio diversification

Looking at diversifiers when volatility will pick up

Overweight US TIPS & the Yen as diversifiers

Valuations of the Dollar are worth examining on safe haven concerns

Source: Aberdeen Standard Investments, 31 December 2018

Medium term questions

Dynamic asset allocation should stand alongside strategic analysis

Questions about the end of the cycle

Imbalances are slowly building, if still manageable in a low interest rate world
Liquidity withdrawal by central banks is classically associated with end of cycle

Regulation and populism are expanding

Issues include: the laws of unintended consequences eg MiFID; less efficient and more fragmented markets; the rise of disruptive technologies; growing pressures on business models

Long term returns forecasts

A world of low numbers, greater allocation to private and alternative assets, but concerns about leverage and goodwill impairment

Source: Aberdeen Standard Investments, 31 December 2018

The current House View

Focused investing in a multi-speed world

Medium term stance		Tactical funds
<ul style="list-style-type: none"> Global Investment Grade Credit US Dollar FX 	<p style="text-align: center;">Overweight</p>	<ul style="list-style-type: none"> European High Yield Bond Emerging Market Local Debt Yen FX
<ul style="list-style-type: none"> Global Equities Emerging Market Equities Global Emerging Market Debt 		<ul style="list-style-type: none"> Australian Bonds US TIPS Emerging Market \$ Debt US Equity Japanese Equity Emerging Market Equity Sterling FX
<ul style="list-style-type: none"> Global Government Bonds UK Gilts Global Index-Linked Bonds UK Credit Global High Yield UK Equities UK Property Global Property Sterling FX Yen FX 	<p style="text-align: center;">Neutral</p>	<ul style="list-style-type: none"> UK Gilts Core & Peripheral European Bonds UK Corporate Bonds US High Yield Bond UK & Euro Equity UK, US, European Real Estate
<ul style="list-style-type: none"> Euro FX 		<ul style="list-style-type: none"> US Treasuries UK Inflation-Linked Debt US Corporate Bonds European Corporate Bonds Pacific ex-Japan Equity US Dollar FX
<ul style="list-style-type: none"> Cash 	<p style="text-align: center;">Underweight</p>	<ul style="list-style-type: none"> Japanese Bonds Euro FX
		<ul style="list-style-type: none"> Cash

Conclusions

Focus on change in a fast changing world

- We retain risk on portfolios, holding a range of global equity positions
- These are supported by improved valuations and forecasts of positive profits growth
- 2019 is unlikely to see a recession, but the efficacy of stimulus measures has yet to be seen
- Volatility can be triggered by trade tensions, monetary tightening or political risks
- Portfolios remain in tactical mode and continue to look for diversifiers

Source: Aberdeen Standard Investments, 31 December 2018

For professional clients only – Not for public distribution

Past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and clients may get back less than the amount invested.

Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments

The views expressed in this presentation should not be construed as advice or an investment recommendation on how to construct a portfolio or whether to buy, retain or sell a particular investment. The information contained in the presentation is for exclusive use by professional customers/eligible counterparties (ECPs) and not the general public. The information is being given only to those persons who have received this document directly from Aberdeen Asset Managers Limited or Standard Life Investments Limited (together "Aberdeen Standard Investments") and must not be acted or relied upon by persons receiving a copy of this document other than directly from Aberdeen Standard Investments. No part of this document may be copied or duplicated in any form or by any means or redistributed without the written consent of Aberdeen Standard Investments.

The information contained herein including any expressions of opinion or forecast have been obtained from or is based upon sources believed by us to be reliable but is not guaranteed as to the accuracy or completeness.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Standard Life Aberdeen*. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Standard Life Aberdeen* or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

* Standard Life Aberdeen means the relevant member of Standard Life Aberdeen group, being Standard Life Aberdeen plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

Aberdeen Standard Investments Ireland Limited is registered in Republic of Ireland (Company No.621721) at 2-4 Merrion Row, Dublin D02 WP23. Regulated by the Central Bank of Ireland.

GB-200319-85703-1



THANK YOU

Richard Dunbar

