CANACCORD Genuity
Wealth Management

Watching and waiting

February/March 2017

On a global basis, financial markets still offer a seemingly positive story - the outlook for growth is on an upward trajectory and equity markets are reaching new highs. Fortunately, for investors, none of the fireworks in the political arena over the past 12 months have really seeped into the overall tone of financial markets.

However, there's a noticeable absence of the 'irrational exuberance' which normally marks the top of financial markets - a sure sign that there is some nervousness around. This perhaps explains why many investors are watching and waiting.

For our clients, we are doing exactly that.

Although we are moderately bullish towards risk assets on the back of a gently improving global economic backdrop, we are also mindful of potential risks on the horizon. Hence, before we commit further funds to the equity markets, we will continue to explore alternatives along with a broadened range of products for clients, including structured products.

The case for sitting tight

Global equities continued their winning streak in February. However, we are not inclined to chase any market at present because most remain seriously overbought. The present low level of volatility would also seem to suggest that investors are complacent to medium-term risks; investors could well be taking a too-positive view on President Trump's anticipated fiscal stimulus measures, while paying insufficient attention to the potential negative effects of his possible protectionist policies.

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Where markets are not overbought, such as Europe and emerging markets, it is still too early to add to them. With Greece once more making the headlines, and upcoming elections across Europe likely to cause nervousness over the next few months, we are inclined to wait for clarity about what the populist vote will do to the political map of Europe before increasing European equity exposure.

And while a case could be made for increasing emerging market equity exposure, we believe there is merit in waiting to see if President Trump's anti-trade rhetoric leads to any specific protectionist policies, given that much emerging market growth is export-led.

Finally, the Bank of England has upwardly revised the UK economy's growth forecast from 1.4% to 2%. Although positive, triggering Article 50 and the subsequent exit negotiations must surely weigh heavily on sentiment, which is why we continue to be underweight in UK equities.

Overall, there is greater scope for markets to encounter shocks over the next few months and so we believe it prudent to hold off before committing further funds to the equity market. Let's not forget, economic turns come unannounced and are never obvious.

We will continue to closely monitor events which may indicate important changes in the economic landscape. We want to ensure we are well placed to react swiftly as more of the picture comes into view and opportunities arise.

Nigel Cuming
Chief Investment Officer

Our investment views as at February 2017

The view in this table refers to our balanced, risk profile 5 model portfolio. This risk profile has a benchmark with 57.5% in equities, 35% in bonds, 5% in alternatives and 2.5% in cash.

Indicative positioning of £ 'balanced' portfolio.

Asset class positioning	- -	-	=	+	++	Outlook	
Alternatives					■	↑	Viewed as a way of moderating portfolio risk.
Bonds (Govt)	■					↓	Yields may give up more ground over the coming months before reaching a sustainable level. Inflationary pressures are a key risk.
Bonds (Other)			■			→	Greater opportunities would appear to be available for strategic bond managers, but liquidity in certain segments needs to be monitored.
Commodities			■			→	US dollar strength, reduced demand and supply side response will restrain prices, although a partial recovery has taken hold.
Equities			■			→	Equity markets will likely remain volatile in the short term. A more pro-growth environment after the US election has led us to add exposure.
Property (direct)			■			→	Yield, rather than capital growth, should be viewed as the primary reason for investment.
Cash				■		→	Cash levels reduced gradually over past six months.

Equity allocation	- -	-	=	+	++	Outlook	
Emerging markets				■		→	Emerging markets have pulled back since the US election, although we see value in India.
Europe		■				↓	Euro area break up fears may resurface as a raft of elections in 2017 may cause volatility.
Far East				■		→	Valuations appear cheap; China and global trade are key to the region's outlook. Chinese debt levels and housing bubble are a concern.
Japan			■			→	Recent economic developments have been disappointing but stock market offers value and corporate Japan in good shape.
North America				■		→	Valuations are least appealing in a global context, but economic momentum is strong; after the election we added to US thematic exposure.
Sector specific					■	↑	Recent additions to US healthcare, industrials and financials to take advantage of a steeper yield curve after Trump's victory.
UK	■					↓	Stock market has been boosted by a weaker currency, but company fundamentals have deteriorated.

Currency allocation	- -	-	=	+	++	Outlook	
US dollar				■		↑	Close to previous highs. Interest rate backdrop and safe haven status continue to argue for the dollar moving higher.
Euro		■				↓	Euro weakness expected to persist.
Sterling		■				↓	Sterling likely to remain weak for foreseeable future.

'=' Weighting within 1% of benchmark. '+ / -' Weighting between 1% to 5% away from benchmark. '- - / + +' Weighting in excess of 5% away from benchmark.

** The outlook arrows indicate our expectation of future trends.

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