Bending, not breaking

Investment outlook

Q4 2019

Fidelity Editorial

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Bending, not breaking

If investors wanted a quiet summer period, they didn't get it. The third quarter saw no resolutions to the many risks weighing on the markets and introduced a few new ones. But no resolution does not mean an absence of progress. Central banks have turned dovish rhetoric into material action, which, along with lower bond yields that support growth and targeted Chinese fiscal and monetary stimulus, gives us comfort. And economic data is pointing to flatlining, not declining, activity.

For now, the economy is bending, not breaking. In this environment we suggest portfolios are tilted towards safety but remain exposed to risk assets. That means a quality bias in equities, favouring US government bonds for protection in market sell-offs and being more selective on tenant exposure within real estate.

Key highlights

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We are neutral risk at an aggregate level in equities and credit. Signals from key data points are diverging. We express our view through moving up in quality, selectivity and long Yen exposure.

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With key headwinds from last year reversing, even in the face of ongoing US-China uncertainty, there is a basis for expecting continued recovery and global growth compared with Q4 2018.

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Despite favourable news on US-China trade and global monetary policy easing, the economic backdrop remains uncertain. Such an environment favours more defensive, growth companies.

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We are positive on US government bonds to guard against sell-offs in risk markets. The underwhelming QE package from the ECB should mean that spreads widen between semi-core countries and Germany.

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In some of our portfolios, managers are choosing to hold 'taper tantrum insurance' in the form of exposure to financials that should outperform in the event of monetary tightening.

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Real estate will continue to be favourably viewed in a multi-asset portfolio for its attractive pricing and income, but the recent softening of economic growth and external downside risks call for a more tailored approach to late-cycle investing.

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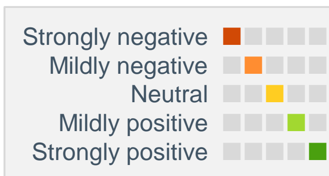
House view

There's increasing fear of a global recession, but we don't see an imminent risk of such an event. However, visibility is low beyond next year. We suggest paying close attention to 2020 earnings estimates, consumer and employment data, and private equity flows to understand how the balance of risks could play out.

House view on asset allocation

September 2019



	Near-term (3-6 months)		Medium-term (12-18 months)		
Asset Class	**Allocation**	**Change**	**Allocation**	**Change**	**Key Views**
EQUITIES		0		0	**Near-term view on equities remains neutral.** Fundamental view assumes slower but plateauing growth, but with high level of vigilance around 2020 earnings, given downward earnings revisions. Focusing on 'quality at a reasonable price' and maintain bias to growth over value. Relatively neutral on region.
US					
Europe					
Japan					
EM					
EM DEBT		- 1		- 1	**Downgrading to moderate overweight.** Lower return expectations on failure of stronger growth to materialise over the summer against a backdrop of lingering trade tensions and rising geopolitical risk. Valuations still attractive versus other asset classes but largely at 1-year tights.
EM Corp					
EM Sov $					
EM Sov local					
CREDIT		0		0	**No change to near-term overall neutral view.** An uncertain picture stemming from the conflicting forces of late cycle dynamics, trade and geopolitical risks, a global manufacturing recession and a historic year-to-date rally; countered by still resilient labour and consumer data and central bank efforts to prolong the expansion by any means necessary.
Global IG					
Global HY					
Asia Credit					
SOVERIEGN BONDS		0		0	**No change to near-term moderate overweight.** This reflects our preference to buy US Treasuries and Gilts on weakness. We moved to a tactical neutral on Bunds and Chinese government bonds. The ECB underwhelmed on QE and valuations are uncompelling assuming a recession in Europe is not imminent. We've taken profits on CGBs, which face technical headwinds in supply.
US					
Europe					
UK					
China					
CASH		0		0	Neutral over the near-term view.

Source: Fidelity International, September 2019.

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Strong conviction views

September 2019

Asset Class	Long / Overweight	Short / Underweight
EQUITIES	▪ **'Quality at a reasonable price':** Reflecting the reach for yield, central bank support and share buybacks. A hedge against late-cycle risks. ▪ **Small cap equities:** Size factor, related to cyclicality, less liquidity and higher leverage, has been very detrimental to small caps over the last two quarters. These fears are now more than discounted in the price. ▪ **EM Asia:** While vulnerable to trade tensions, the overall picture remains positive, given central bank easing and Fed cuts leading to a lower USD.	▪ **Banks**: Lower for longer policy rates a significant headwind. ▪ **Value**: We do not see the rotation from momentum into value as sustainable; recent surge more likely a dead cat bounce.
FIXED INCOME	▪ **Breakevens:** Signs of rising US inflation, eventual stimulus and valuations amongst the cheapest in fixed income drive our overweight position. ▪ **EM corporates:** Slightly less risk-on due to sluggish growth, but stimulus, monetary easing and valuation remain tailwinds in our view. ▪ **Chinese govt bonds:** Continued PBOC easing and expectation of eventual convergence to US Treasury yields.	▪ **US Treasuries and Bunds**: Although downside risks are growing, our base case is that the global economy will bend but not break over the course of 2020. We also see some upside risk to US inflation. US Treasuries and Bunds price in more recession risk and rate cuts than we currently anticipate.
CURRENCIES	▪ **JPY:** Expect soft global growth to keep JPY well-bid as a fundamentally cheap safe haven. Rate differentials are also closing with other economies, given the BoJ's limited ability to lower rates.	▪ **USD:** We are negative on USD over the medium-to-long-term on valuation. An accommodative Fed and slower growth should also contribute to a lower USD.
COMMODITIES	▪ **Copper:** Near-term, global growth will override fundamentals. Longer-term, struggling supply conditions and solid demand should provide support for copper price. ▪ **Gold:** In a depressed real yields environment, gold should outperform; similarly, it will do well in the context of an inflationary policy response.	▪ **Natural gas:** Ramping US shale oil results in US gas as a by-product. ▪ **Iron ore:** Recovering supply over 12-18 months and softening demand.
REAL ESTATE	▪ **EUR mixed use:** Tenants attracted to assets integrated into the urban fabric, offering attractive live-work-play environments in order to attract and retain staff. Expected to be resilient in any slowdown. ▪ **Focus on income:** Acquire longer duration (5+ years) and extend leases on existing assets to provide liquidity and income stability within portfolios.	▪ **Low liquidity markets:** Aggressive repricing no longer compensating for additional risks. ▪ **UK retail:** Sector has begun to reprice, but disruption still impacting on security of income.

Source: Fidelity International, September 2019.

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Economic outlook

Many of the key headwinds global growth faced last year are reversing but growth is still subdued. This should cap expectations and investors should be wary of complacency while the economy remains delicately balanced.

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Data & Policy: Central banks set the dovish tone

No imminent recession expected

What's changed

- US showing clear signs of slowing down, Germany in recessionary territory, but signs of tentative stabilisation in the Eurozone, emerging markets and China. Both major and emerging market central banks are taking dovish action.

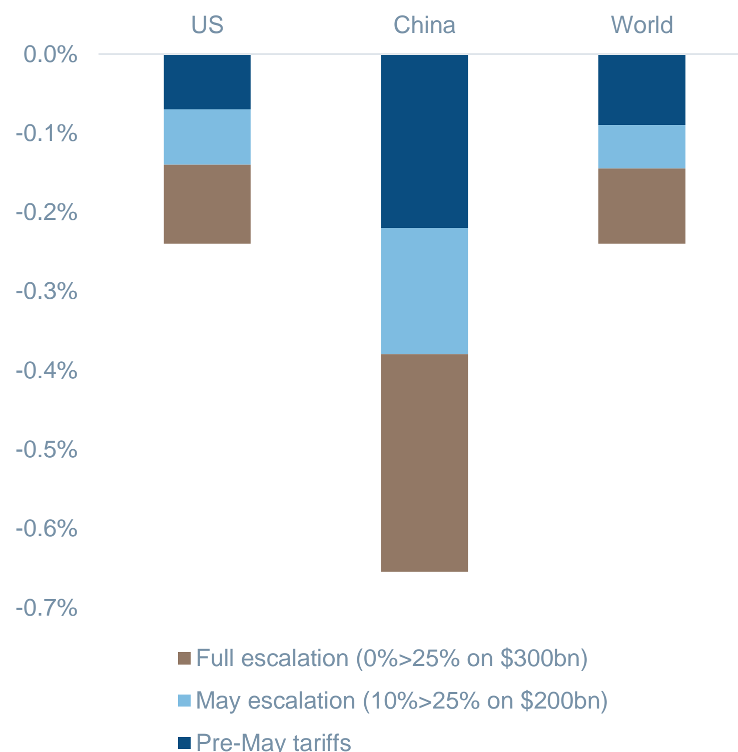
Key takeaway

- We expect a recovery from the lows of Q4 2018, but still-subdued growth acts as a warning against complacency. We don't subscribe to the view we are facing an imminent global recession.

Investment implication

- With key headwinds from last year reversing, even in the face of ongoing US-China uncertainty, there is a basis for expecting continued recovery and global growth compared with Q4 2018.

Trade war effects on global growth should be milder than feared



Trade war GDP impacts include both direct tariff effects, multiplier effects, and confidence effects. Does not include potential currency or policy effects. Source: Oxford Economics, June 2019.

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GEARs: Stable and subdued

Pick-up in the US, stabilisation in Europe, slowing China

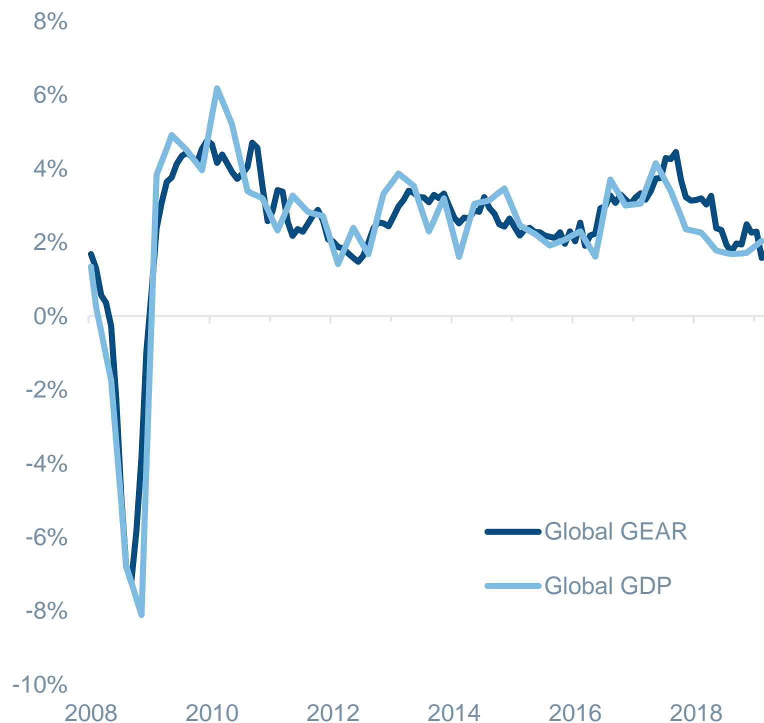
What's changed

- Despite their trade war, the behemoth economies of the US and China continue to hold up.

Key takeaways

- China's GEAR continues to edge higher, comfortably above its lows after a big slowdown in the fourth quarter.
- In the US, consumption data weakened from unsustainably strong growth rates, but consumer components remain above-trend for now.
- External trade components of many GEARs, having led this cycle on the way down, are starting to edge up, albeit from very weak levels. This could be an important bellwether for global recovery.

Global GEAR show activity has stabilised



Source: Fidelity International, August 2019.
The Fidelity Gauges of Economic Activity in Real-time (GEARs) are monthly 'close-to-real-time' indicators of current activity across several key developed market and emerging market economies. They are a proprietary quantitative input to Fidelity's investment process, providing insight into economic activity that supports tactical decision-making in portfolios.

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FLI: Global recession fears are overblown

Global economy resilient despite trade policy headwinds

What's changed

- The US-China trade war has not derailed the positive drivers pushing the FLI into accelerating territory. More than three quarters of the FLI's underlying components are accelerating, a dramatic reversal from early 2019.

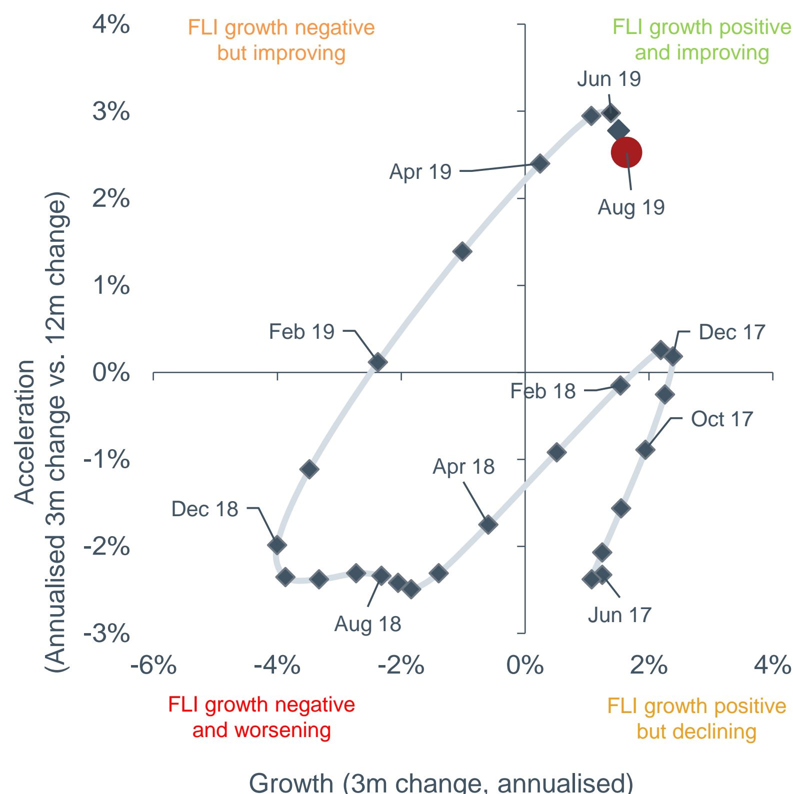
Key takeaway

- The current upbeat reading suggests a buffer of resilience in the global system. The global outlook has been supported by the dramatic plunge in developed market sovereign bond yields since 2018, as well as more supportive policy in China and other key EM countries.

Investment implication

- Overall, the Fidelity Leading Indicator (FLI) suggests that global bond yields should rise from their current depressed levels and risk assets should be modestly supported.

Firming FLI indicates healthy global activity



Source: Fidelity International, September 2019.
The Fidelity Leading Indicator (FLI) is a proprietary quantitative tool, used as an input into shorter-term asset allocation decisions by Portfolio Managers. It is a model designed to anticipate the direction and momentum of global growth over the coming months, and - importantly for investors - identify its key drivers.

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Equities

Renewed optimism around US-China trade talks, hopes of avoiding a ‘No Deal’ Brexit, and increasingly dovish central banks helped drive an increase in risk appetite and the switch to value, but a more concrete improvement in the outlook for economic growth is required for a longer-term change in market leadership.

Equities: Overview

Climbing a wall of worry

What's changed

- Equities faced a challenging environment as continuing concerns over US-China trade frictions and a weakening global economic outlook weighed on markets in the first half of the quarter. Overall sentiment improved in the latter half of the quarter, with US equities once again near all-time highs.

Key takeaway

- In September, quality-growth stocks sold off and previously shunned value stocks outperformed. However, the persistence of such reversals depends on the broader market environment.

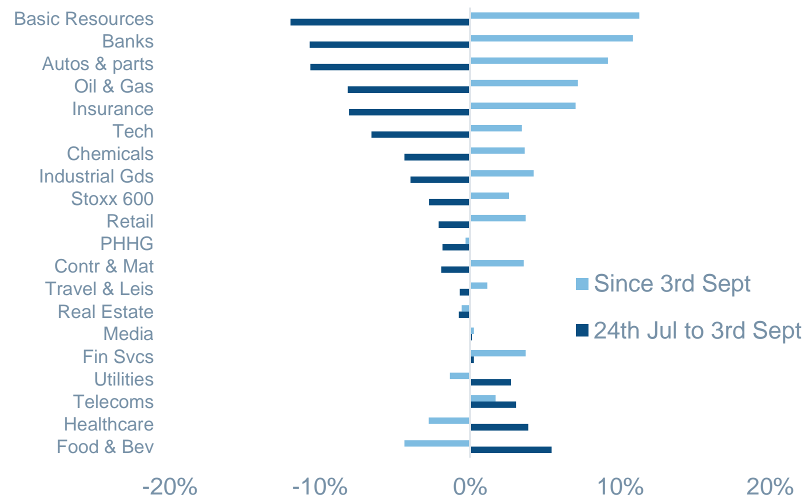
Investment implication

- In the event of a more certain macro outlook and increasingly available growth opportunities, we may see the momentum trade evolve to focus more on cyclical growth than defensive growth.

Fidelity global forecasts

	2019	2020
Earnings growth	1.0%	7.8%
Return on equity	13.8%	14.3%
Dividend yield	2.6%	2.8%
P/E valuation	16.1x	14.7x
P/B valuation	2.2x	2.0x

Markets undergo swift sector rotation



Top - Source: Fidelity International, 24 September 2019.
Bottom - Source: Stoxx 600 sector returns. Source: Bloomberg, September 2019.

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Equities: Regions

Synchronised Fed and ECB dovishness

US: Flying high amid weaker fundamentals

- The S&P 500 is still high compared to historical levels, yet economic fundamentals have deteriorated over 2019 with the US manufacturing sector close to recession.
- Faced with this mixed picture, investor sentiment remains fragile. As we head towards the end of the year, we expect volatility to increase as the Fed eases policy further.

Europe: ECB measures fall short

- While the overall ECB package is expected to dampen volatility and will provide temporary support, it may not be sufficient to further boost the 'hunt for yield' in the near term.
- Many institutional investors are ignoring the UK stock market because of the Brexit factor, but in so doing they are ignoring value that cannot be obtained elsewhere.

Fidelity earnings growth forecasts

	2019	2020
US	0.3%	10.5%
Europe	-1.2%	4.9%
Asia ex Japan	4.1%	8.1%
Japan	-1.0%	4.8%
Emerging markets	4.9%	8.6%

Fidelity capital market assumptions

	3 years	5 years	10 years
US equities	6.0%	6.1%	6.4%
European equities	3.7%	4.4%	4.5%
Japanese equities	3.5%	4.1%	4.2%
Developed market equities (US$)	6.3%	6.6%	6.8%
Emerging market equities (US$)	7.0%	7.4%	7.5%

Top - Source: Fidelity International, 24 September 2019.
Bottom - Source: Fidelity International, March 2019.
These are estimates of return per year in USD, based on our proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International. Indices used for calculation: US equities - S&P 500, European equities - MSCI EMU, Japanese equities - TOPIX, DM equities - MSCI World, EM equities - MSCI EM.

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Equities: Regions

Short-term volatility ahead

Asia ex Japan: Long-term growth story, short-term volatility

- Long-term outlook for Asia Pacific ex Japan is positive, but in the short term there is likely to be some volatility.
- Trade dispute could escalate further and weak China data could hurt sentiment. But China remains committed to stimulating domestic demand and loosening financial conditions. Valuations are above their long-term averages but are attractive relative to other regions.

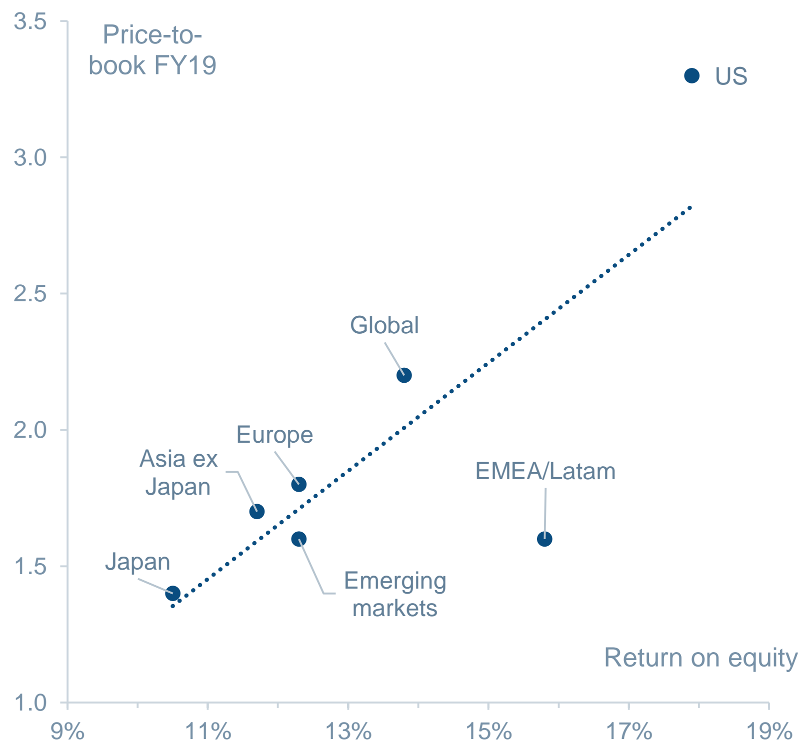
Japan: Bifurcation in the economy

- Confidence among Japanese manufacturers has clearly weakened, but sentiment in the non-manufacturing sector is robust.

EM: Fed policy shift supports equities

- EM may be negatively impacted if the global economic outlook deteriorates and the US-China trade conflict deepens. But the EM story is a long-term narrative.

Valuations marginally more attractive than the end of last quarter



Based on FY19 results. Source: Fidelity International, 24 September 2019.

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Equities: Sectors

Most bullish on utilities earnings versus consensus

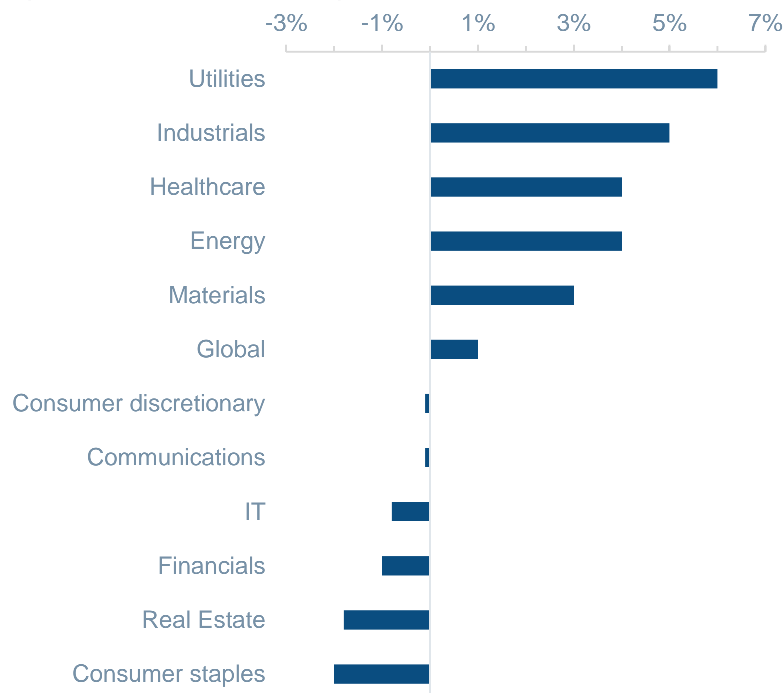
Top sector: Renewables stand out within utilities

- While we are not bullish per se on the sector, we are considerably more positive on earnings expectations for utility stocks than the consensus view.
- While low bond yields have boosted the valuations of utility companies, September's rotation away from defensives into value has made them relatively more attractive.

Bottom sector: Lofty expectations in consumer staples

- Most negatively correlated sector to bond yields, so the falling yields seen over Q3 have acted as a pervasive rising tide for share prices. But the sector has become expensive.
- For US market, while consumer demand remains resilient this year, given the tailwind of the tax windfall and employment gains last year, comparisons are challenging.

Fidelity analysts diverging most from consensus on utilities



Source: Fidelity International, IBES, September 2019.

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Equities: Sectors

Energy sector is one to watch

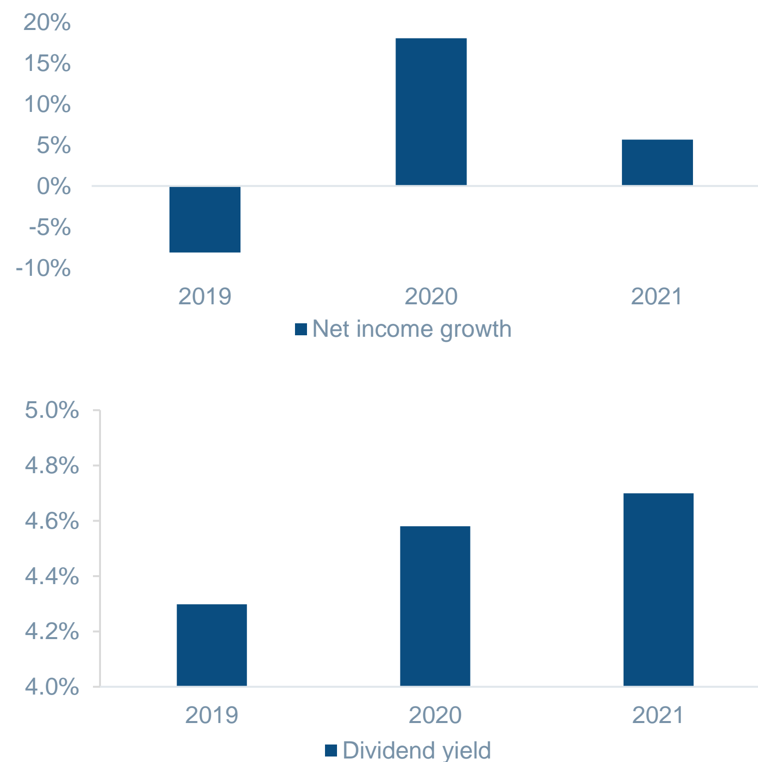
ESG increasingly impacting energy

- Energy companies are facing a mixed bag of challenges around the oil price and cost of capital, making for a complicated outlook.
- Despite the yo-yoing oil price, energy company prices haven't matched the fluctuations. We believe part of that comes down to the disappearance of the marginal buyer of oil stocks.
- The increasing attention on fossil fuels and their impact on the climate has deterred the marginal buyer and reduced the correlation between spot energy and company stock prices.

Diverging cost of capital

- Cost of capital for companies with 'good ESG' policies has fallen while it has risen for those with bad ones. Sifting through companies' ESG practices will make a big difference to spotting future winners and losers.

Bottom-up energy sector forecasts



Source: Fidelity International, September 2019.

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Fixed Income

This quarter has proved particularly eventful. Both geopolitics and debt market fundamentals have been at the forefront of investors' minds, and will continue to be so in the next quarter. That's why a focus on quality income rather than yield at all costs is so important right now.

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Fixed Income: Overview

From fear to reassurance

What's changed

- The Fed cut rates for the first time since the global financial crisis, implementing two 25 basis point cuts. The US Treasury curve flattened, with the 2-year and 10-year yields inverting for the first time since 2007. The ECB announced a new round of QE having finished its previous programme nine months ago.

Key takeaway

- The ongoing trade war and weak economic data spurred investors to seek out safe-havens such as government bonds and gold, a reflection of mounting concerns of an upcoming recession.

Investment implication

- We are positive on US Treasuries to guard against sell offs in risk markets. The underwhelming quantitative easing package from the ECB should mean that spreads widen between semi-core countries and Germany.

US Treasury 2s10s curve has inverted for first time in over a decade

Fidelity capital market assumptions

	3 years	5 years	10 years
US Treasuries	1.0%	1.3%	2.0%
German government bonds	-1.2%	-1.2%	-1.1%
US investment grade	2.4%	2.8%	3.4%
European investment grade	0.0%	0.3%	0.7%
US high yield	3.6%	4.1%	4.8%
European high yield	2.5%	2.4%	2.5%

Top – Source: Refinitv, September 2019.
Bottom – Source: Fidelity International, June 2019.
These are estimates of return per year in USD, based on our proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International. Indices used for calculation: US Treasuries - 10 year US treasury from ICE BofAML par yield curve, German government bonds - 10 year German government bond from ICE BofAML par yield curve, US investment grade - ICE BofAML US Corporate Index, European investment grade - ICE BofAML Euro Corporate Index, US high yield - ICE BofAML US High Yield Index, Euro high yield - ICE BofAML Euro High Yield Index.

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Fixed Income: Inflation-linked

Inflation expectations fall amid yield pressure

Inflation expectations fall amid yield pressure

- Global inflation expectations fell as risk markets came under pressure and nominal bond yields across the developed market world reached new record lows.
- Valuations across inflation markets do look relatively cheap and there has been a pick-up in capital flows into the asset class as a result.

US breakevens are cheap

- The fall in US breakevens over August strengthened our view that US inflation markets are fundamentally cheap.
- We moved to being short UK breakevens prior to the announcement that RPI would be reformed. Given RPI has been up to 1% higher than CPIH, the prospect of lower inflation linked-bond coupons, which are currently indexed to RPI, caused a sell-off in long-dated breakevens.

UK breakevens sold-off on RPI reform concerns

Source: Fidelity International, Bloomberg, September 2019.

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Fixed Income: Investment grade

Falling yields support credit demand

Negative yielding assets reach all-time high

- Falling government bond yields over the quarter supported investment grade (IG) credit total returns, while credit spreads were broadly unchanged over the quarter.
- The stock of negative yielding assets reached an all-time high at around $17 trillion, which further supported flows into IG credit.

Prefer Europe to US

- We continue to prefer European IG to US IG on a relative basis. Central bank policies and rhetoric from the US President around currency manipulation could put pressure on US IG credit spreads.
- Brexit will be associated with binary outcomes over the next few weeks, leading us to remain cautious on sterling IG, preferring to be in the more defensive areas of the credit market.

Investment grade credit spreads largely unchanged

Source: Fidelity International, Bloomberg, ICE BofA Merrill Lynch bond indices, September 2019.

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Fixed Income: High yield

More volatility to come

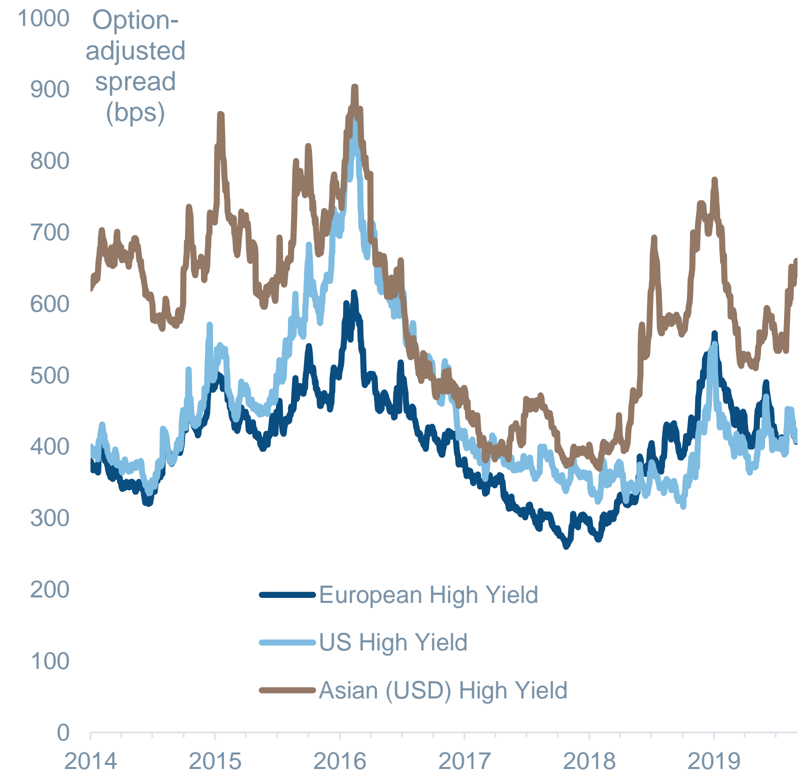
Conflicting pressures

- The high yield market is caught between supportive monetary policy and stretched valuations, feeding into a volatile quarter.
- Dovish monetary policy is technically supportive but valuations are high and the risk of recession exerts pressure on corporate balance sheets.

End of cycle remains top of mind

- We remain neutral in high yield overall as we expect more volatility in the months to come. Despite the continuing search for yield, investors are sharply focused on the potential for an end to the credit cycle and a return to higher levels of default.
- We retain a positive view on Asian high yield due to attractive valuations, although liquidity management is a top priority.

High yield credit spreads move wider



Source: Fidelity International, Bloomberg, ICE BofA Merrill Lynch bond indices, shows option-adjusted spreads, to 31 August 2019.

Economic outlook | Equities | Fixed Income | Multi Asset | Real Estate

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Fixed Income: Emerging markets

Opportunities for upside

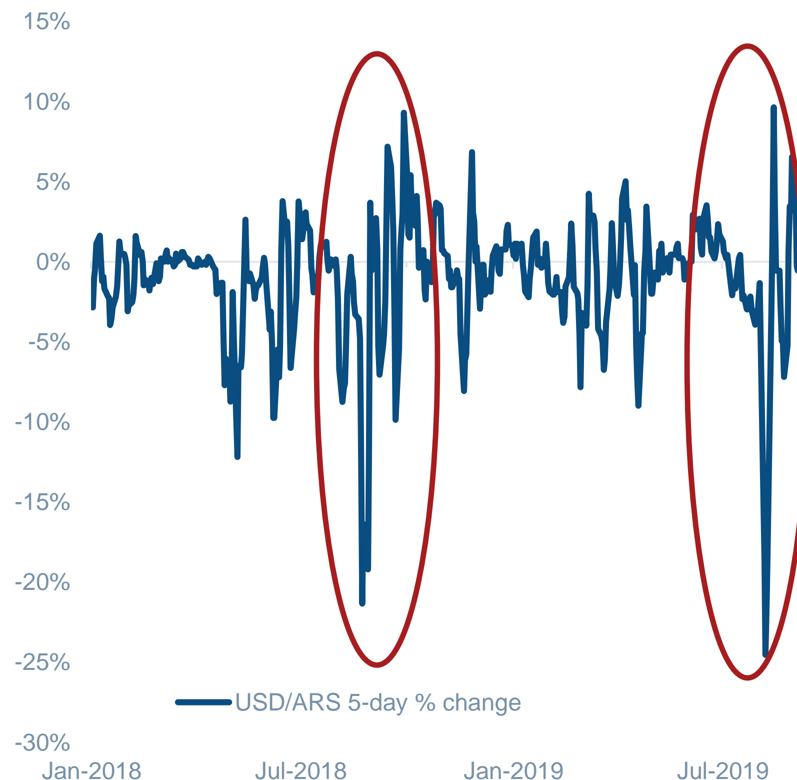
Argentina bonds at distressed levels

- Both hard currency sovereigns and corporates delivered slightly positive returns mostly driven by falling US Treasury yields despite widening spreads.
- Argentina's government suffered a major defeat in the primary election causing a sell-off for all asset prices in the country. However, the bonds are trading at distressed levels and the balance of risks are tilted towards the upside from here.

Dovish central banks supports EM

- We keep a positive outlook for EM credit overall, backed by the chorus of dovish global central banks and further domestic stimulus expected from China.
- In the portfolio, we used the weakness across the broader EM currency markets to add tactical positions in several places including Russia, Brazil, the Philippines and India.

Déjà vu? Another bad summer for the Argentine Peso



Source: Refinitiv, September 2019.

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Multi Asset

We see two possible scenarios emerging: either flatlining but not declining growth or a further slowdown feeding through to impact consumer and service sectors forcing a rerating downwards. At this point, we are leaning towards the first scenario.

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Multi Asset: Overview

Which is right: Bonds or equities?

What's changed

- While equity markets are still strong year-to-date, there is persistent demand for safe-haven assets such as gold and US Treasuries. This suggests markets are still undecided on the economic path forward from here.

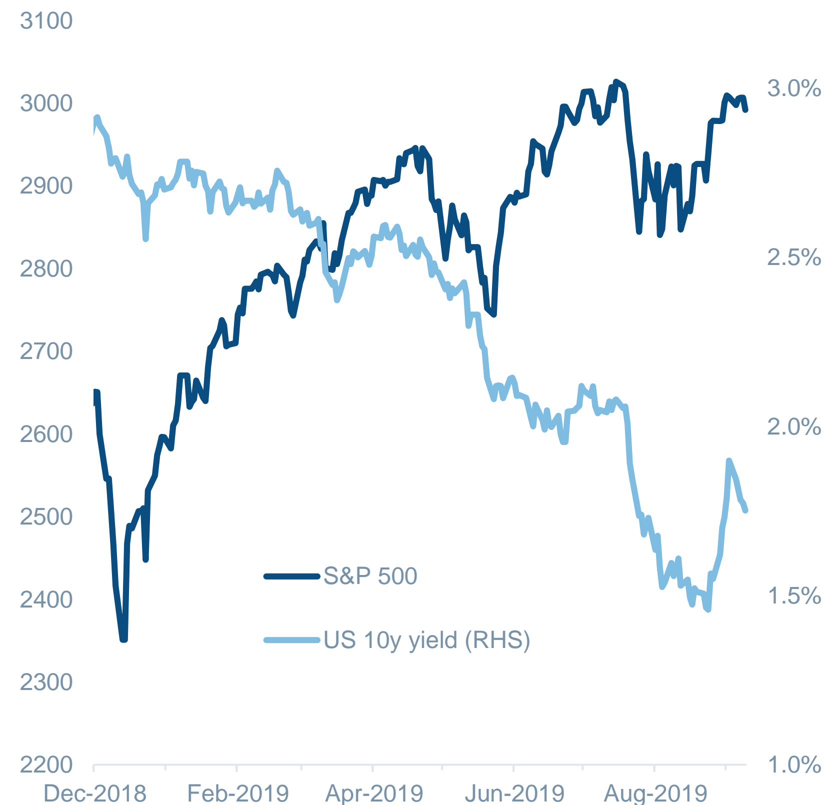
Key takeaway

- We think the evidence points to flatlining but not declining growth, which acknowledges the global slowdown, but sees some acceleration along with central bank support keeping markets near their current levels.

Investment implication

- Against this backdrop, we have not made any changes to our high-level asset allocation views. We maintain a negative view on duration, are positive on cash and neutral on equities, albeit with nuanced outlooks across markets.

Bonds and equities telling a different story



Source: Refinitiv, September 2019.

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Multi Asset: Equities

Maintaining neutral

What's changed

- We maintain a neutral view on equities. We are biased to emerging Asia given the extent positive news is baked into earnings in both Europe and the US.

Investment implications for selected markets

- **US –** We maintain our neutral view. Relative earnings are holding up, and Fed dovishness continues to act as a tailwind, but there are concerns over the outlook for the technology sector's earnings and economic growth.
- **Europe incl. UK -** Banks are under pressure, German growth is concerning, Brexit headwinds are increasing, and trade tensions with the US and a slowing China persist. We are cautious given markets are not pricing these risks adequately. On the UK we are neutral given the risk of binary outcomes on Brexit.
- **Asia Pacific ex Japan** - Australia continues to be impacted by slower Chinese growth and trade headwinds, but house prices have seen positive signs. There is still liquidity in Hong Kong despite China slowing. We remain neutral on the region overall.
- **Global emerging markets** - We remain positive on emerging markets, with a tilt towards Asia. EM central banks have significant room to ease, contributing to our view of the region's higher likelihood of hitting earnings forecasts relative to others.

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Multi Asset: Fixed Income

Maintain negative view

What's changed

- We continue to hold a negative view on duration. Our preference is still for high quality US duration as negative yielding debt is around $15 trillion at the end of Q3.

Investment implications for selected markets

- **Government bonds** - US Treasuries remain an important allocation for defensiveness as well as income relative to other developed market government bonds. However, given the significant moves year to date, we maintain our neutral view. We remain negative on euro core and peripheries.
- **Investment grade** - We retain a neutral view at a global level and maintain our preference for US dollar denominated issues with relatively short duration exposure. We are carefully watching credit quality within the investment grade space.
- **High yield** - US high yield has continued its strong performance year-to-date, but is vulnerable to any change in course by the Fed. European high yield is at more attractive valuations, but Eurozone headwinds leave us unwilling to move from a neutral view. In our income-generating portfolios, we continue to have a positive view of Asia high yield. Technicals and corporate balance sheets are attractive, and the domestically-focused sector is less vulnerable to trade wars.
- **Emerging market corporate debt** - Hard currency debt is important for our income-focused range to add to US dollar duration given poor valuations elsewhere. On local currency debt we maintain a positive view given attractive yields, oil price stabilisation reducing pressure on oil importers, dovish EM central banks, and cheap FX. On EM corporate debt we remain biased to quality.

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Multi Asset: Currency

Negative USD, positive EUR, positive JPY

Investment implications for selected markets

- **US dollar –** Rate cuts, falling growth and inflation, 'twin deficits', poor policymaking and fundamental over valuation has us negative on USD despite its resilience this year. 'US exceptionalism' in monetary tightening and growth is over.
- **Euro -** Despite headwinds for the Eurozone, EUR seems to be pricing excessive pessimism. The currency is fundamentally cheap, has a current account surplus and ECB easing is fully-priced.
- **Japanese Yen -** JPY remains attractive as a 'defensive' asset with supportive near-term technicals. Significant upside potential remains, based on valuation, and the Bank of Japan looks set to remain on hold.

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Real Estate

Real estate will continue to be favourably viewed in a multi-asset portfolio for its attractive pricing and income, but the recent softening of economic growth and the escalation of external downside risks call for a more tailored approach to late-cycle investing.

Real Estate: Overview

Capturing performance in competitive market requires tailored approaches

What's changed

- Reflecting the weaker growth, inflation expectations have been revised downwards. If inflation does turn out to be lower in the short to medium term, this will reduce the levels of income growth that real estate investors will be able to capture through lease indexations.

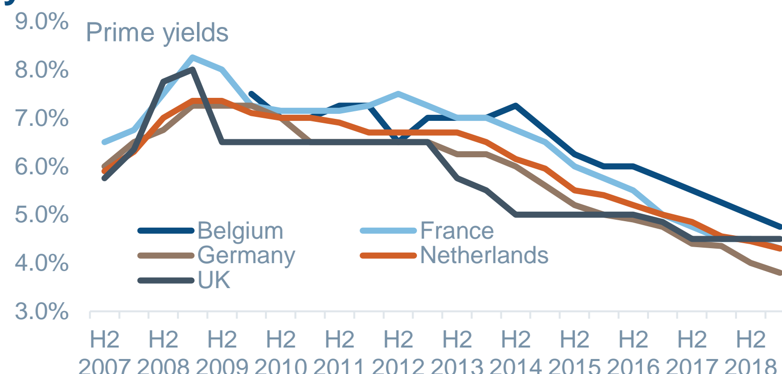
Key takeaway

- Strong income characteristics, urbanisation, land values and growing liquidity across several alternative sectors will be some of the key near-term investment themes in both the UK and the Eurozone.

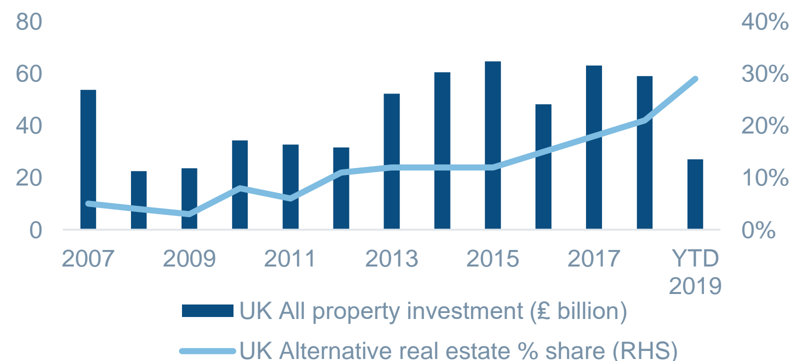
Investment implication

- Being selective and actively assessing tenant exposure to optimise and sustain high income returns, while limiting allocations to markets and sectors that historically have been illiquid during downturns, is key.

European industrial/logistics report lower yields than in the UK



Demand for alternative sectors is holding steady



Top - Source: CBRE, end Q2 2019.
Bottom - Source: Fidelity International, Property Data, September 2019.

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Real Estate: Continental Europe

Eurozone is more resilient than it appears

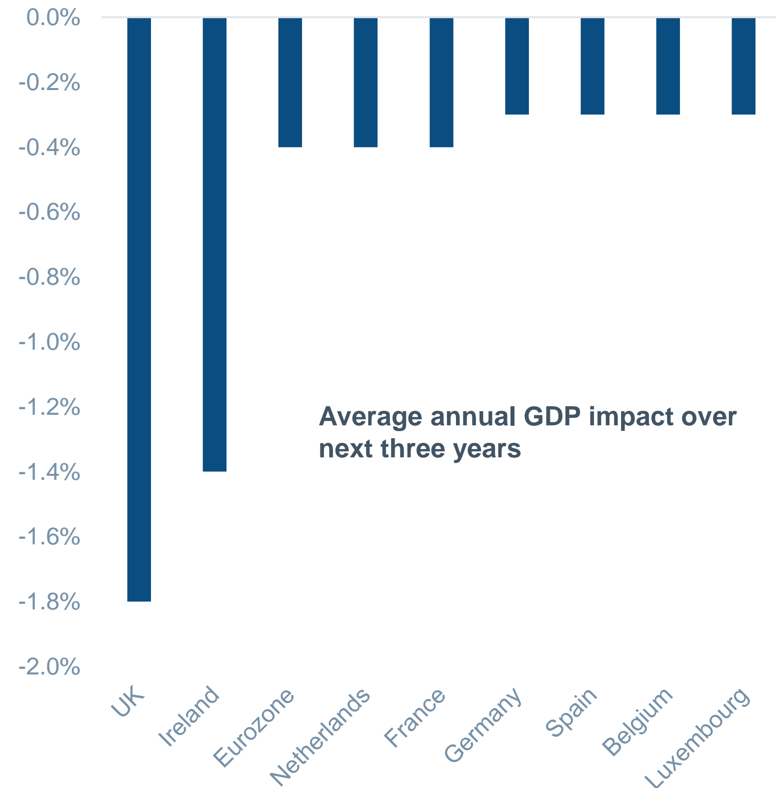
Supportive conditions

- A strong labour market and robust consumer sentiment across the board, and the ECB's latest rate cut and new stimulus programme should help support the Eurozone.
- Overall, the short-term outlook is more of a balancing act of relatively robust domestic conditions and negative external forces, rather than a clear deterioration.

Focus on income

- Prudent investors should lower return expectations and focus on sustainable income. However, should global markets pick up, the robustness of the Eurozone economy could surprise on the upside, feeding into stronger total return expectations.

The economic impact from a no-deal Brexit is not significant for most of the Eurozone



Source: Oxford Economics, September 2019.

Fidelity INTERNATIONAL

Real Estate: UK

Brexit continues to cloud the outlook

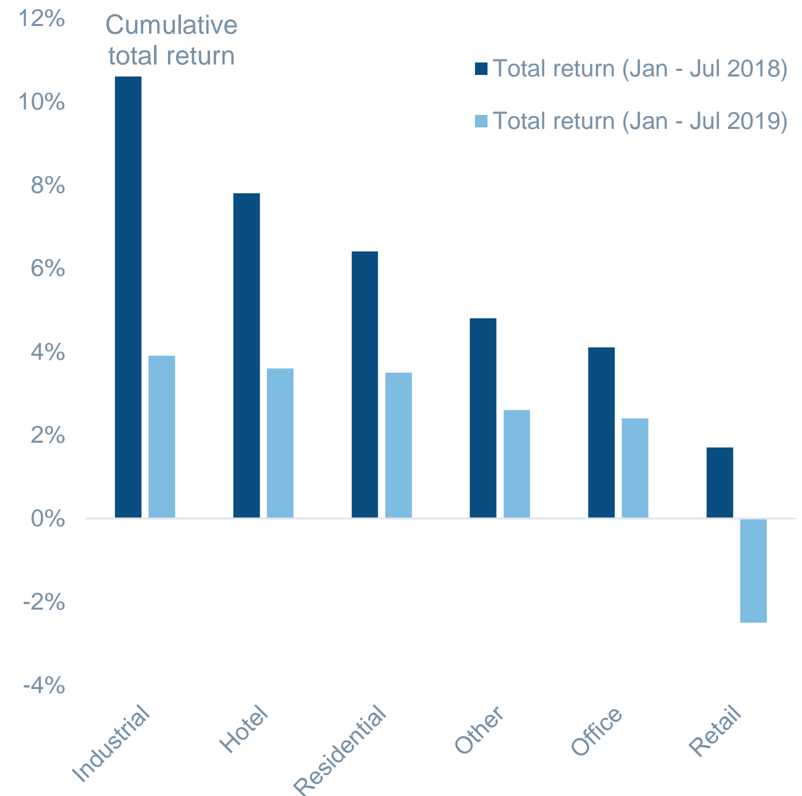
Uncertainty has hurt investment

- The extended uncertainty has adversely impacted investor sentiment. Having already slowed substantially in the first half of 2019, we expect full-year real estate investment activity to fall below £40 billion for the first time since 2012.

Brexit planning

- Moderately increasing cash reserves is sensible at this point in the cycle. This should create strategic benefits regardless of which Brexit scenario plays out.
- Under a 'No Deal' Brexit, a cash cushion will mitigate potential cash outflows. Under a more moderate Brexit outcome, it will give investors a lead in deploying capital back into the market, especially as accessing investment opportunities should become easier and pricing points more favourable.

UK industrial / logistics and alternative sectors continue to outperform



Source: Fidelity International, MSCI UK Monthly Property Index, July 2019.

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Summary…

House view: We are neutral risk at an aggregate level in equities and credit. Signals from key data points are diverging. We express our view through moving up in quality, selectivity and long Yen exposure.

Equities: Despite favourable news on US-China trade and global monetary policy easing, the economic backdrop remains uncertain. Such an environment favours more defensive, growth companies.

Multi Asset: In some of our portfolios, managers are choosing to hold 'taper tantrum insurance' in the form of exposure to financials that should outperform in the event of monetary tightening.

Economic outlook: With key headwinds from last year reversing, even in the face of ongoing US-China uncertainty, there is a basis for expecting continued recovery and global growth compared with Q4 2018.

Fixed Income: We are positive on US government bonds to guard against sell offs in risk markets. The underwhelming QE package from the ECB should mean that spreads widen between semi-core countries and Germany.

Real Estate: Real estate will continue to be favourably viewed in a multi-asset portfolio for its attractive pricing and income, but the recent softening of economic growth and external downside risks call for a more tailored approach to late-cycle investing.

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