

Viewpoint

Monthly market update

March 2017



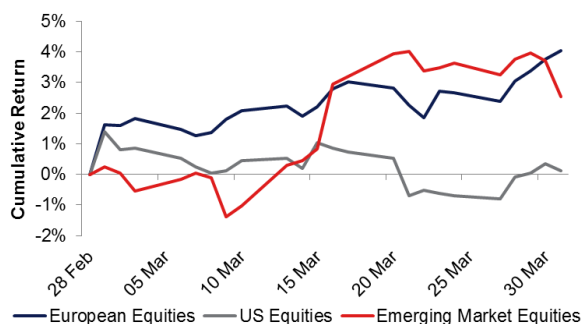
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1. Market commentary

Despite a mid-month wobble in the US equity market, it was another benign month overall for equity markets and most risk assets made further upward progress, continuing the pattern of performance since Trump's election success. Volatility remained remarkably low, and equities again outperformed bonds. The most notable moves included a change in leadership within equity markets, with Europe meaningfully outperforming the US, credit marginally outperforming sovereign bonds (which posted flat or negative returns), and a renewed slide in the US dollar against most currencies, leaving its trade weighted index down by 1.8% year-to-date. Despite further evidence of strengthening global growth, commodity markets were generally weak, notably the price of WTI oil declined by 6.3% over the month. A combination of accelerating growth and a weaker dollar helped emerging markets to another strong month, leaving them as the best performing equity market year-to-date (posting a total return of 11.4%).

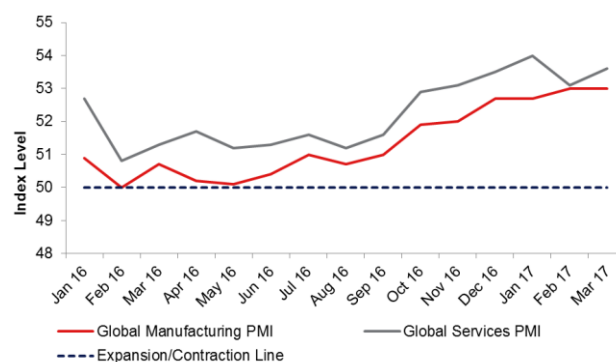
Figure 1: European equities outperform



The key fundamental factor underpinning markets both this month and throughout the first quarter has been the clear and continuing evidence of improving global growth, best illustrated by strong PMIs (Purchasing Managers' Indices) from almost all countries, as well as rising trends in consumption. This has provided a good environment for corporate profits, with earnings rising by close to 10% in Q1 in the US, which has in turn underpinned risk assets, particularly equities, as well as high yield bonds and emerging market debt. It also gave investors the confidence to absorb the US Federal Reserve's (Fed's) second rate rise since the financial crisis without concerns, despite the fact that this move had been largely unexpected until very recently, when the weight of economic evidence and the continuing

strength of the labour market caused the Fed to bring forward the timing of its move. Importantly, however, the Fed left the predicted pace of policy tightening unchanged, a factor which provided support to markets.

Figure 2: PMI's indicate upwards trending global growth

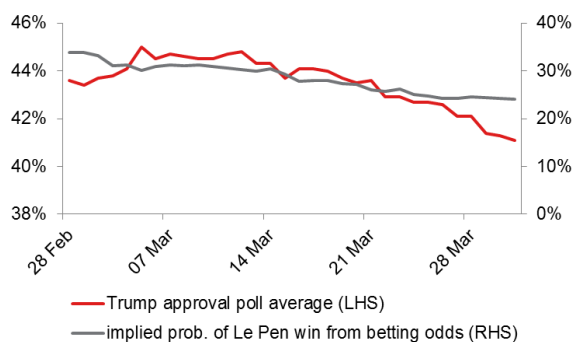


Offsetting the rising confidence and the 'Trump reflation trade' in the US, was the first meaningful setback to the President's bold campaign commitments. The attempt to overturn so-called 'Obamacare' failed in Congress, being unable to garner a necessary level of support despite the Republican majority in both Houses. While the policy itself was not considered particularly important to the general investor, it raised serious concerns that Trump would find it arduous to pass and implement the key tax reforms that investors have been hoping for, and thereby defer any boost to growth that these reforms would be expected to deliver. This initiated a stumble in US equity markets, and heralds a likely period of consolidation after the steep post-election rally enjoyed by US stocks.

At the same time European stocks enjoyed a very strong month, helped by economic data that surprised on the upside as well as an improving political backdrop. In the Netherlands' general election, the far-right, anti-immigration party failed to make sufficient progress to disturb the potential for current centrist parties to form coalition government. Support for Marine le Pen in France's Presidential election also appears to have peaked, leaving her chances of winning the second round of voting in May diminished. Focusing on economics, the European Central Bank now faces a difficult balancing act, as despite stronger growth, inflation remains sluggish. The Bank

continues to hold interest rates below zero and is committed to maintaining substantial quantitative easing through the year, even after a planned tapering of its bond buying programme from 1st April. Even so, the first evidence of a slightly less dovish approach helped to support the euro, which, perhaps surprisingly, is now up by 1.3% versus the USD so far this year. This is despite the very substantial interest rate differential in favour of the dollar.

Figure 3: Miserable March for Trump & Le Pen



Returning to politics, the UK triggered a very difficult two-year period of negotiations with the EU to determine the conditions of its departure from the bloc in March 2019 by invoking Article 50. Markets took this pre-empted move in their stride and the UK economy continues to perform well above the levels expected by most economists before the referendum. However, uncertainty levels are high and UK markets are vulnerable to the ebbs and tides of the

negotiations, at least until the broad nature of the UK's exit terms, and crucially its future trading relationship with the EU, are clearer. For now sterling has been steady against both the USD and EUR so far in 2017. It is a fundamentally undervalued currency after its sharp post referendum falls, but upside is likely to be capped by the uncertainty ahead.

Markets have performed well this year, and have risen sharply since the US election. The evidence of higher growth has been encouraging and many of Trump's policies are market friendly. However, we are now at the stage where the detail of policy will begin to be scrutinised and we will be able to gauge the extent to which it will be successfully implemented. In general then, policy uncertainties remain high. And with valuations high, the market is vulnerable to a correction, and the long period of subdued volatility that we have enjoyed over the past few months will surely be tested before too long.

This cycle is particularly long, however, and it will be important to stay invested; anything less is likely to lead to disappointment. Opportunities for returns outweigh the risks, and we expect equities to continue to outperform bonds through 2017. Indeed, periodic bouts of weakness in equity markets will present buying opportunities.

Source: Bloomberg. Returns in US dollars unless otherwise stated. March 2017.

2. Market performance – Global (local returns)

		To 31 March 2017		
Asset class/region	Index	Currency	1 month	Year-to-date
Developed markets equities				
United States	S&P 500 NR	USD	0.1%	5.9%
United Kingdom	MSCI UK NR	GBP	1.2%	3.8%
Continental Europe	MSCI Europe ex UK NR	EUR	4.3%	6.9%
Japan	Topix TR	JPY	-0.6%	0.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	3.1%	12.8%
Global	MSCI World NR	USD	1.1%	6.4%
Emerging markets equities				
Emerging Europe	MSCI EM Europe NR	USD	1.7%	1.4%
Emerging Asia	MSCI EM Asia NR	USD	3.3%	13.4%
Emerging Latin America	MSCI EM Latin America NR	USD	0.6%	12.1%
BRICs	MSCI BRIC NR	USD	1.7%	11.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	2.5%	11.4%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.0%	0.7%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.0%	1.4%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.2%	1.2%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.2%	2.7%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.4%	1.6%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.3%	1.8%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.6%	-1.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.4%	0.3%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.0%	1.8%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.1%	-0.5%
Australian Government	JP Morgan Australia GBI TR	AUD	0.5%	1.3%
Global Government Bonds	JP Morgan Global GBI	USD	0.1%	1.4%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.1%	1.3%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	0.8%	3.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	0.3%	3.8%

Source: Bloomberg. e denotes estimate

		To 31 March 2017		
Asset class/region	Index	Currency	1 month	Year-to-date
Property				
US Property Securities	MSCI US REIT NR	USD	-2.5%	0.7%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	0.6%	-1.1%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	0.8%	9.1%
Global Property Securities	S&P Global Property USD TR	USD	-0.7%	3.7%
Currencies				
Euro		USD	0.7%	1.3%
UK Pound Sterling		USD	1.4%	1.6%
Japanese Yen		USD	1.2%	5.0%
Australian Dollar		USD	-0.4%	6.0%
South African Rand		USD	-2.2%	2.0%
Commodities & Alternatives				
Commodities	RICI TR	USD	-2.9%	-1.7%
Agricultural Commodities	RICI Agriculture TR	USD	-3.2%	-0.3%
Oil	Brent Crude Oil	USD	-5.0%	-7.0%
Gold	Gold Spot	USD	0.1%	8.4%
Hedge funds	HFRX Global Hedge Fund	USD	0.0%	1.7%
Interest rates				
United States			1.00%	
United Kingdom			0.25%	
Eurozone			0.00%	
Japan			0.00%	
Australia			1.50%	
South Africa			7.00%	

Source: Bloomberg. e denotes estimate

3. Market performance – UK (all returns in GBP)

		To 31 March 2017		
Asset class/region	Index	Currency	1 month	Year-to-date
Equities				
UK - All Cap	MSCI UK NR	GBP	1.2%	3.8%
UK - Large Cap	MSCI UK Large Cap NR	GBP	1.0%	3.5%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	1.4%	4.3%
UK - Small Cap	MSCI Small Cap NR	GBP	1.1%	5.1%
United States	S&P 500 NR	USD	-0.9%	4.2%
Continental Europe	MSCI Europe ex UK NR	EUR	4.1%	6.7%
Japan	Topix TR	JPY	-1.0%	3.7%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	2.1%	11.0%
Global developed markets	MSCI World NR	GBP	0.1%	4.7%
Global emerging markets	MSCI EM (Emerging Markets) NR	GBP	1.5%	9.7%
Bonds				
Gilts - All	BofA Merrill Lynch Gilts TR	GBP	0.3%	1.6%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	GBP	-0.1%	0.2%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	GBP	0.1%	1.5%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	GBP	0.7%	2.6%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	GBP	0.6%	1.9%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	GBP	0.0%	0.9%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	GBP	0.9%	2.3%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.3%	1.8%
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-1.0%	-0.9%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-1.2%	-0.4%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-1.2%	1.1%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.8%	-1.7%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.5%	0.1%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.1%	1.7%
Global Government Bonds	JP Morgan Global GBI	GBP	-0.9%	-0.2%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	GBP	-0.9%	-0.3%
Global Convertible Bonds	UBS Global Focus Convertible Bond	GBP	-0.2%	2.2%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-0.7%	2.1%

Source: Bloomberg. e denotes estimate

		To 31 March 2017		
Asset class/region	Index	Currency	1 month	Year-to-date
Property				
UK Direct Property	UK IPD All Property TR	GBP	0.0%	1.3%
Global Property Securities	S&P Global Property USD TR	GBP	-1.7%	2.1%
Currencies				
Euro		GBP	-0.7%	-0.6%
US Dollar		GBP	-1.4%	-1.7%
Japanese Yen		GBP	-0.1%	3.3%
Commodities & Alternatives				
Commodities	RICI TR	GBP	-3.9%	-3.3%
Agricultural Commodities	RICI Agriculture TR	GBP	-4.2%	-1.9%
Oil	Brent Crude Oil	GBP	-5.9%	-8.5%
Gold	Gold Spot	GBP	-0.9%	6.7%
Interest rates				
United Kingdom			0.25%	
United States			1.00%	
Eurozone			0.00%	
Japan			0.00%	

Source: Bloomberg. e denotes estimate

4. Asset allocation dashboard

Positive	Neutral	Negative
Asset class	View	
Equities		
Developed equities		
UK equities (relative to developed)		
European equities (relative to developed)		
US equities (relative to developed)		
Japan equities (relative to developed)		
Emerging market equities		
Fixed Income		
Government		
Index-linked (relative to government)		
Investment grade (relative to government)		
High yield		
Loans		
Emerging market debt		
Convertible bonds		
Alternatives		
Commodities		
Property (UK)		
Currencies		
GBP		
Euro		
Yen		



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