Cazenove Capital

January 2018

At a glance...

A summary of our investment team's thinking on the likely direction of global markets

Fixed income

Government	■ We remain negative on GBP and euro bonds but US Treasuries are becoming relatively more attractive given the normalisation of yields that is taking place.
Investment grade	■ Credit spreads provide a small pick-up but are at a historically narrow level.
High yield	■ High yield credit spreads are at a historically tight level so we are wary of excessive exposure.
Inflation-linked	■ Inflation-linked government bonds remain attractive and provide a hedge against unexpected higher inflation.
Emerging markets	■ Selectively, local emerging market bonds offer good interest rate and currency exposure.

Equities

UK	■ Concerns over continuing economic strength in light of Brexit and that the previous tailwind from weaker sterling may be behind us leads to a more cautious stance.
European	■ Strong cyclical upturn in economic growth is supportive but investors already positioned for this.
North America	■ Potential for a strong increase in growth and earnings is offset by higher valuations.
Japanese	▲ Stronger growth and inflation after many years of disappointment is driving a recovery in corporate earning level.
Asia Pacific	■ The increase in global trade is helpful to Asia Pacific although they performed strongly in 2017.
Emerging markets	■ Continued global growth should be supportive to Emerging Markets that are cheap relative to developed markets.

Cash

	■ Cash has defensive and opportunistic qualities in uncertain and volatile markets.

Alternatives

Absolute: equity	■ Increased volatility and dispersion should provide opportunities.
Absolute: fixed income	■ Lower liquidity and flatter rate profiles reduce the attractiveness of many strategies.
Absolute: macro	■ Increased volatility across many asset classes should counter lower rate cycles.
Commercial property (UK)	■ Post-Brexit concerns have resulted in the marking down of property valuations, but income characteristics remain attractive.
Precious metals	■ Gold is attractive as a diversifier, portfolio insurance and an inflation hedge.
Industrial metals	■ Ongoing excess supply is likely to weigh on prices for some time.
Energy	■ Oil continues to be volatile as politics and supply concerns dominate the market.

Currency

Base currency / Currencies	£	US$	€	CHF
£		🔵	🔵	🔵
US$	●		●	○
€	●	🔵		○
CHF	●	○	○	

KEY ● We favour the base currency 🔵 We favour the counter currency ○ No preference

KEY

- Positive
- Positive/neutral
- Neutral
- Negative/neutral
- Negative

▲ Up from last quarter
■ No change
▼ Down from last quarter

TERMS

Spread: the difference in yield between a non-government and government fixed income security.

Duration: approximate percentage change in the price of a bond for a 1% change in yield.