

# Q4 INVESTMENT VIEW

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## QUESTION 1:

What are our strongest Q4 convictions?



We are underweight bonds and overweight equities going into the 4th quarter. Known as the reflation trade, it's a theme that has played out successfully over the year and continues to gain momentum. The return of inflation and synchronised growth are the driving forces supporting our view. Changes in US fiscal and monetary policies are leading the way and last week the White House announced proposals on US tax reform, including a corporate tax cut from 35% to 20%. This shift in fiscal policy will boost US corporate earnings and equity valuations, which will extend the bull market well into next year. The Federal Reserve has begun to unwind its QE programme and indicated that it will raise rates in December and at least 3 times in 2018. Strangely, the market is less hawkish than Fed officials, but history suggests that it's never wise to "fight the Fed".

## QUESTION 2:

As Halloween approaches, what scares us the most in the investment world at the moment?

It has been 30 years since "Black Monday" – the largest ever one-day stock market crash. The anniversary has prompted many investors to ask whether something on this scale could happen again? Then, like now, stocks look historically expensive. Today, systematic quantitative trading strategies have the potential to exacerbate a market sell-off similar to the impact of the portfolio insurance techniques used during the 1980s.

Volatility in global bond and equity markets are at all-time lows. This has driven many investors into increasingly riskier investments, leaving them vulnerable to a significant reversal back to the longer-term moving averages. This will likely manifest itself in higher bond yields and discounted equity valuations. The most likely catalyst is a policy mistake linked to the end of QE and monetary policy normalisation. To counter these concerns, we have shifted our portfolios towards historically relevant Sharpe Ratios, reduced duration across the board and increased exposure to Smart Beta equity strategies.

