



Investment Strategy

Global growth to support equities

Investment Strategy
& Portfolio Expertise

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Given a more positive outlook for global growth, the Investment Committee increased the allocation to equities.

After increasing the allocation to stocks in October, the Investment Committee believes that the positive conditions that were identified then have strengthened. The equity allocation was further increased at the committee's meeting on 17 November.

The continued conviction in equities as an engine of portfolio growth is based on a combination of improving fundamentals, stabilising market conditions and expected fiscal stimulus in the US. Moreover, the result of the elections in the US and the market's response reinforces the positive environment for stocks.

Shift toward more cyclical exposure

Given an improved outlook for economic growth, the Investment Committee has taken steps to restore cyclical exposure to the portfolio. Cyclical sectors, which typically respond positively to economic growth, are expected to benefit from the fiscal stimulus that is likely in the US from

the Trump administration, and which should have global repercussions. Within the equity sector allocation, the following changes were made to increase cyclical exposure:

- ▶ **Industrials sector was increased** (from underweight to neutral), based on solid third-quarter earnings and signs that capital expenditures in the sector are set to increase, given more fiscal spending and the bottoming out of oil and commodity prices.
- ▶ **Consumer staples and telecoms were reduced** (from neutral to underweight), based on the goal to rotate away from interest-rate sensitive, dividend-rich and defensive market segments. News flow around economic growth and profit growth has also improved over the last couple months, which will likely favour cyclical sectors more than the consumer staples and telecoms sectors.

Balance returned to regional equity allocation

With Donald Trump's win of the US presidential election, US economic growth is expected to be more robust than expected, based on tax cuts and increased fiscal spending. This, in turn, will trigger renewed concerns regarding interest rate hikes and a stronger US dollar, which would be negative for emerging markets and emerging markets currencies.

The regional allocation was therefore adjusted to restore a neutral allocation to all regions. This involved reducing the allocation to emerging markets from overweight to neutral and increasing developed markets from underweight to neutral. Within emerging markets, there is a clear preference for Asia, and China and Korea in particular, (overweight), at the expense of Singapore and Hong Kong (underweight).

Bonds remain out of favour

Bonds as an asset class remain out of favour. Monetary policy, particularly in the US, is expected to move back to normal, meaning rising interest rates and inflation expectations. The decision was made to reduce the overall duration of the bond portfolio from overweight to neutral, using duration reducing instruments. This move helps to neutralise the portfolio from the effect of rising rates. In addition, the position in emerging markets bonds was sold, as risks mount due to the prospects of US higher rates and a stronger US dollar.

What should clients do?

Clients whose portfolios remain below the tactical asset allocation that is recommended for stocks, can consider increasing their holdings in developed stock markets by adding industrials, information technology and health care positions. These new holdings can be funded from cash or by selling emerging markets bonds or by taking profits in consumer staples stocks.

Global Investment Committee

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