CITY OF LONDON
Investment Management Company Limited

Cross-Asset Quarterly Outlook

September 2020*

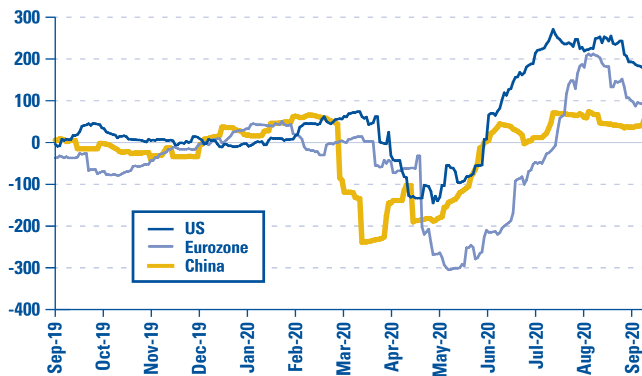
Overview

A Surfeit of Imponderables

- *Risk assets have entered an uneven W-shaped phase as we had anticipated, but the overall health- and economic situation one year from now is likely to be better than today.*
- *Nevertheless, the recovery faces serious challenges and uncertainties over: continued policy support, the US elections, the outlook for the US dollar and the search for a successful vaccine.*
- *Our allocation positions for upside wherever possible but encounters significant valuation constraints. Most pro-cyclical positioning thus takes place within asset classes this quarter.*

Data releases have provided a slew of positive surprises recently (Chart 1), continuing to point to a broadly reflationary environment. Yet, any recovery will have to overcome the triple challenges of scarred labour markets, weak business sentiment and investment as well as deteriorating global trade relations. What is more, risks of setbacks on the road to recovery remain high due to recurring infection clusters as business activity and lifestyles attempt to normalize and as the end of expansive fiscal support programs looms large.

Chart 1: Citi Economic Surprise Indices



Source: Citi, Bloomberg. As of September 11, 2020.

Indeed, the crisis stands out as having hurt the supply side of the economy as much as the demand side. But the recovery also has powerful supports: unprecedented fiscal and monetary stimulus, forced savings by households and businesses and a strong worldwide push (albeit not in a coordinated fashion) to search for inoculation against COVID-19. Historic sea-changes have occurred on all these fronts: aside from the unprecedented size of the respective national fiscal and monetary stimuli, the EU agreed a €750bn recovery fund for its member states, the US Federal Reserve (Fed) altered its inflation targeting regime to provide prolonged accommodation and Russia released a vaccine into the general population without completing the internationally recommended and essential Phase 3 trials.

Asset Allocation

	Chg	-3	-2	-1	0	+1	+2	+3
Equities	–				X			
Rates	–			X				
Credit	–			X				
Commodities	–					X		

Allocation Breakdown

	Chg	-3	-2	-1	0	+1	+2	+3
EQUITIES	–				X			
US	↓				X			
Eurozone	↑					X		
UK	–	X						
Japan	↑				X			
EM	–						X	
RATES	–			X				
USTs	–			X				
Bunds	–	X						
JGBs	↓				X			
EM Local	–						X	
CREDIT	–			X				
US IG	–		X					
US HY	–			X				
European IG	–			X				
European HY	↑			X				
EM Sov $	–				X			
EM Corp $	–				X			
COMMODITIES	–					X		
Energy	–				X			
Industrial metals	–				X			
Precious metals	↓					X		
Agricultural	–					X		

Note: Up/down arrows indicate a positive or negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

Source: CLIM

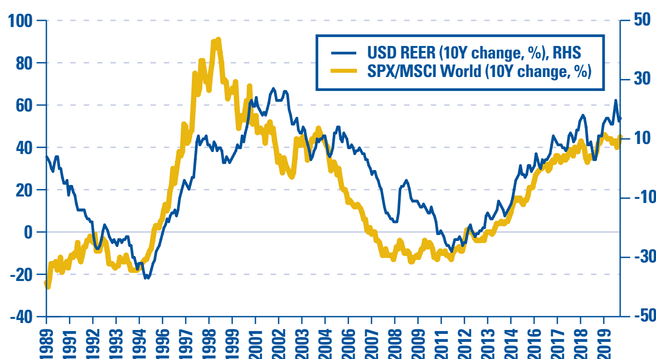
**The publication reflects asset performance up to August 31, 2020, and macro events and data releases up to September 10, 2020, unless indicated otherwise.*

Uncertainties with respect to the economic outlook are compounded by those on the political front ahead of the pivotal US presidential and congressional elections. Despite former VP Joe Biden's consistent lead in the national polls, the outcome remains impossible to predict as it hinges on a candidate's performance in each electoral college and given the poor quality of state-level polls. Further complicating the picture is that the impact of either candidate's victory will depend on winning either or both chambers of Congress. The extreme outcomes (either a 'red' or 'blue wave') are easiest to gauge as they would offer the greatest chance for either party's legislative agenda to be enacted. In turn, that could mean a greater chance for either infrastructure or healthcare expenses and be most supportive for growth and thus equities. It would also imply higher inflation and interest rates than otherwise.

Intermediary outcomes where either president has to cohabit with one or two chambers dominated by the other party are likely to have less clear cut economic implications. Each president's or party's policy initiatives would be constrained by the opposition, whether in the Senate or in the House. The outlook for growth and inflation, equities and rates would likely be broadly unchanged. The biggest differences would appear in the realm of regulation, trade and foreign policy.

The other big question concerns the outlook for the US dollar. After a decade of real appreciation, the currency is ill-poised for further strength: high valuations, large US fiscal deficits and a loose monetary stance provide little underpinning vis-a-vis other currencies, even before other US weaknesses such as the poor response to the pandemic or the uncertainty surrounding the US elections are considered. What is more, current monetary policy exerts tight control over US long term yields, leaving the currency as the only adjustment mechanism to the largest fiscal imbalance in the developed world (at 17% of GDP). The US dollar generally undergoes 7-10 year-long cycles and has appreciated some 30% in real effective terms over the past decade. The deterioration in fundamentals and the accommodative policy stance suggest that this phase could now be coming to an end. As chart 2 illustrates, this generally bodes ill for the US stock market, a leading risk barometer for many other markets.

Chart 2: USD (REER) and Relative US Stock Market Performance



Source: Bloomberg. As of July 31, 2020.

Despite these considerations, the world economy is likely to be in a better position one year from now than today as medical treatments improve, businesses learn to adapt to the new environment and/or a vaccine becomes available. This broad trend is likely to suffer, but survive, multiple setbacks: accelerating infection rates during the winter months, disappointing short term economic performance, setbacks in the search for a vaccine and the fiscal cliffs each country faces: first, the end of current income support programs and second, the austerity measures required to rein in current outsized fiscal deficits next year and beyond.

Central banks retain plenty of ammunition though, in particular in the US. While the shift in the Federal Reserve's inflation-targeting framework to an average inflation target is primarily designed to extend a recovery once it matures and once inflation has reached the target, it retains other powerful policy options such as explicit yield curve control which it could yet deploy.

Market Strategy

As has been widely reported, the US stock market has to a significant extent been driven by the stellar performance of 'new economy' stocks (including, but not limited, to those classified as IT stocks). This reflects their growing importance in the economy given the rise of online activities comprising retail, finance, advertising, and social interactions – all of which have been turbo-charged by the physical distancing required by the pandemic this year. But as these businesses mature, room for the upside of their stocks becomes more limited. A key market driver of the past - public policy - will likely want to remain stimulative, but whereas that may be achievable with monetary policy, fiscal policy is increasingly likely to meet political and financial constraints. In turn, this is set to become a headwind for the recovery and thus stock markets.

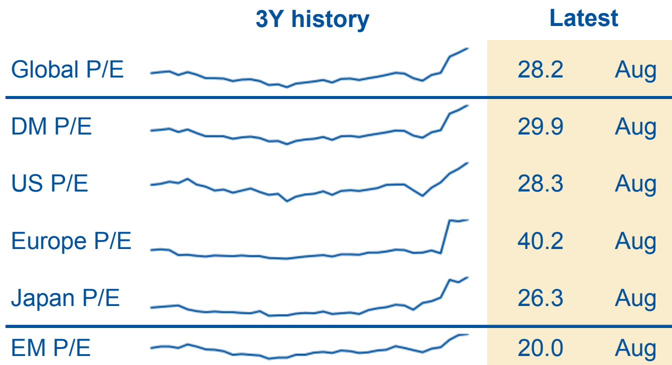
Our outlook for the world is not as dire as our cross-asset allocation may suggest, but encounters valuation constraints in many instances. While we do not embrace risk assets wholeheartedly, we take selective exposure where we suspect upside. In sum,

- We remain *neutral* on **Equities** as we expect an uneven economic recovery and regard the discovery of a vaccine as less of a panacea than commonly perceived;
- We stay *underweight* **Rates** given the shortage of positive real yields; we seek exposure only in EMs;
- Are *underweight* **Credit**, where spread compression has been extensive;
- Are *overweight* **Commodities** which are aided by improving global demand and a weakening US dollar.

Equities

Neutral

Markets remain beholden to many factors but have shifted from a uni-directional recovery mode to the uneven W-pattern we had anticipated.



	3Y history	Latest	
Global P/E		28.2	Aug
DM P/E		29.9	Aug
US P/E		28.3	Aug
Europe P/E		40.2	Aug
Japan P/E		26.3	Aug
EM P/E		20.0	Aug

Source: Bloomberg, MSCI

After the sell-off when the pandemic began and the recovery rally when lockdowns were lifted comes the to-ing and fro-ing of the market as businesses reopen and new COVID-19 clusters appear. A recent sharp sell-off in tech stocks appeared not only overdue given valuations and positioning indicators, but also ended as abruptly as it started. If there will be a correction in the US and other equity markets, the latest bout of volatility was at best the beginning of it, but the catalyst will likely come from elsewhere. Four factors will define the trajectory of stock markets during the remainder of this year and early next year: 1) the pace of the economic recovery, 2) the continued provision of policy stimulus, 3) the discovery and distribution of a successful vaccine, and 4) increasingly, the outcome of the US elections.

Even in the absence of recurrent virus outbreaks, the recovery is likely to be drawn out given the continued need for containment measures, the heavy blow to business and consumer sentiment, the damage inflicted to investment and, ultimately, productivity and the scars inflicted on the labour market which will take time to heal. In addition, the risk of stimulus withdrawal weighs increasingly on the economic outlook. US Congress failed to agree on a new support package at end-July and is increasingly unlikely to do so ahead of the November elections. Monetary policy remains very accommodative, but the Fed's shift in the inflation targeting framework to an average inflation target will do little in the short term. It is primarily designed to extend a recovery once it arrives and once inflation has reached the target. The Fed retains other powerful policy options such as explicit yield curve control or negative interest rates but has so far chosen not to deploy them.

The discovery of a successful vaccine is unlikely to represent the watershed event the market has come to expect. It will have to overcome issues of deployment on a massive scale and generalized acceptance. Ironically, the quicker a vaccine is released, the lower public acceptance could be. Rejection rates currently vary from 26% to 40% depending on the country.

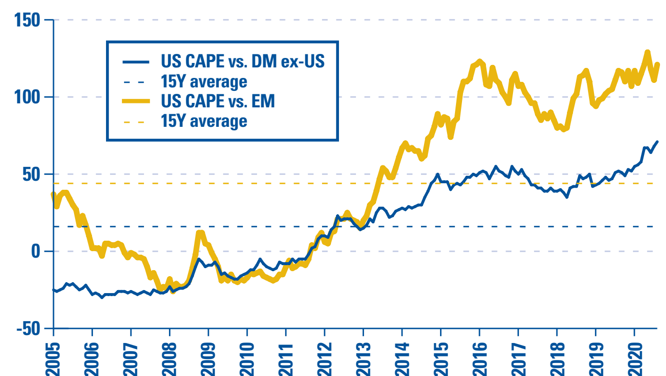
The US presidential and Congressional elections due in November could fundamentally alter the political landscape. A Democratic sweep of Congress would give the party a lock on the legislative agenda, irrespective of who holds the presidency (at least until the next mid-term elections). Thus, if Donald Trump is re-elected but does not carry both chambers, his policy options will be constrained by partisan hostility and the lack of readily agreeable policy measures (such as tax cuts). If Joe Biden were to win, his room for manoeuvre would also be circumscribed by the recent explosion of fiscal deficits and the federal debt, but he might find it easier to "reach across the aisle" to garner Republican support for smaller-scale stimulus measures. His presidency would raise the risk of increased regulatory oversight of the tech sector (with outright break-up a remote possibility) given rising concerns over monopoly power and data privacy. In turn, this could narrow the performance differential between US stock markets and the rest of the world given the leading role played by the tech sector.

Market Strategy: Although we believe that the situation will gradually improve over the next 12 months, this appears already fully priced into risk assets. What is more, a deterioration from the current status over the winter months remains a distinct possibility in the Northern hemisphere and could necessitate renewed lockdowns and additional (increasingly costly) policy stimulus.

Given elevated equity market valuations due to a lack of attractive alternatives for investors and a multitude of factors presenting various downside risks, we maintain our *neutral* allocation to equities.

Importantly, within equities, we have recently reduced our allocation to the US to *neutral*, while shifting Europe to *overweight*. We maintain our *underweight* to the UK, but position for a possible upside scenario with an *overweight* to Australia.

Chart 3: Relative Cyclically-Adjusted P/E Ratios (CAPE)

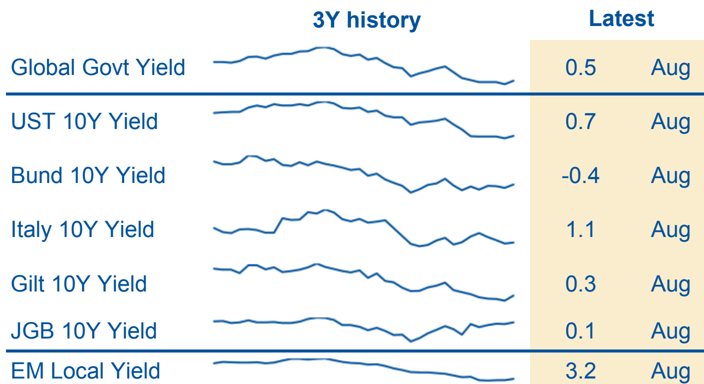


Source: Bloomberg. As of August 31, 2020.

Rates

Underweight

Extraordinarily low, long-term yields and caution about negative interest rates have reduced the effectiveness of government bonds as a hedge against future recessions. Only EM stand out with positive real yields.



	3Y history	Latest	
Global Govt Yield		0.5	Aug
UST 10Y Yield		0.7	Aug
Bund 10Y Yield		-0.4	Aug
Italy 10Y Yield		1.1	Aug
Gilt 10Y Yield		0.3	Aug
JGB 10Y Yield		0.1	Aug
EM Local Yield		3.2	Aug

Source: Bloomberg Barclays Indices. Yield in %.

Central banks exceeded market expectations and delivered innovative monetary responses in H1. For instance, the Fed effectively expanded its role from "lender of last resort to banks" to "commercial bank of last resort for the whole economy" with liquidity provision to almost every corner of the market, e.g. Treasury, mortgage-backed securities, investment-grade corporate bonds and junk bonds (via ETF purchases).

The market has now become accustomed to – and expects for the foreseeable future - extraordinarily accommodative monetary and liquidity conditions. For one, the interest rate futures market expects no rate hike (if not a moderate rate cut) by any major DM central bank in the next 12-18 months. Second, long-term interest rates remain close to their historical lows despite improving economic growth and rising inflation expectations. Indeed, the market response was muted when Fed Chair Powell unveiled the monetary policy framework of flexible average inflation targeting for the next five years which allows inflation to temporarily overshoot the 2% target.

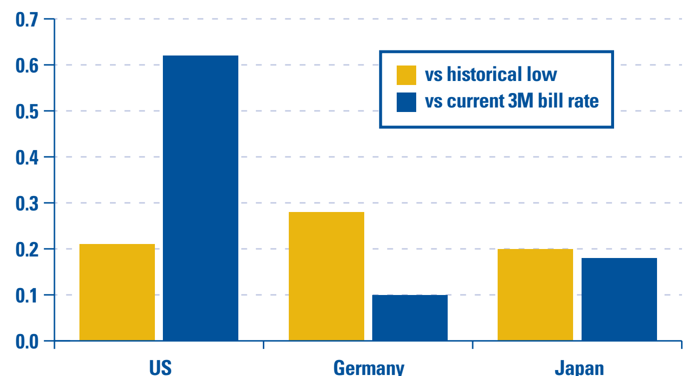
Thus, central banks face a high bar for delivering dovish surprises in the future. That caps the upside potential of government bond prices. Hence, we remain underweight rates as an asset class.

US and Germany (UW): The hedging benefit of holding DM government bonds is reduced for a cross-asset portfolio. Specifically, DM government bonds may fail to generate a decent amount of positive returns in the next growth downturn (including recession) or equity bear markets. We remain *underweight* US Treasury and German bonds for the following reasons.

First, 10-year government bond yields in the US, Germany and Japan are less than 30bps above their historical low (Chart 4). In comparison, 10-year US Treasury yields fell 120bps and delivered capital gains of approximately 11% on average in previous bear markets since 1990 (i.e. 1990 Gulf War, 1998 Long-Term Capital Management Crisis, the 2000 dot-com bubble, the Global Financial Crisis, the Euro Crisis in 2011 and the bear market in March 2020). In other words, even if DM government bond yields reach the historical low again in the next downturn or recession, the capital gain will be much less impressive, reducing their ability to hedge against equity bear markets.

Second, central banks remain cautious about negative interest rates. Even though the ECB, the Bank of Japan (BoJ) and the Swiss National Bank all keep short-term policy rates negative, they avoided cutting them further when the pandemic hit. As they worry about the negative impact on bank profitability and credit growth, other central banks with positive policy rates seem to have taken note. Chair Powell said in May that "the committee's view on negative rates really has not changed. This is not something that we're looking at." That suggests that negative interest rates remain outside the Fed's toolkit. Therefore, short-term policy rates have limited room to fall further, capping upside potential of bond prices.

Chart 4: 10-Year Government Bond Yield Differences, %



Source:Bloomberg. As of September 4, 2020.

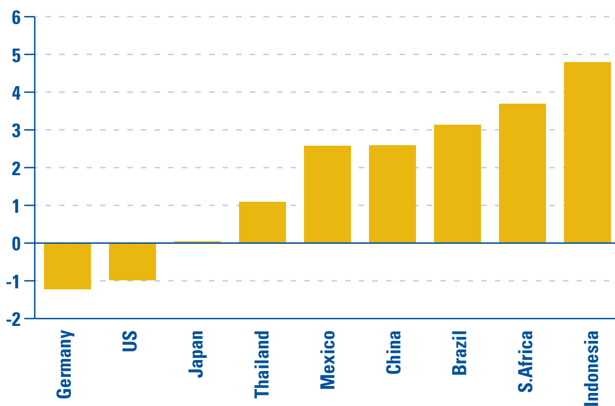
Japan (↓NW): We prefer Japanese government bonds (JGBs) to US Treasury and German bunds as JGBs provides zero real (inflation-adjusted) yields (Chart 5) while the latter two are negative. Also, the yen remains a safe-haven currency.

That said, we downgrade JGBs to *neutral* as the potential for the yen to appreciate versus the USD in times of another liquidity crunch or equity bear market has diminished, as shown earlier this year. The yen did appreciate against the USD by approximately 10% in late February and early March when the pandemic was worsening, equity prices were falling and liquidity was drying

up. However, the currency lost the entire gain – while the equity market sell-off was still deepening - as soon as the market expected the BoJ to step up Qualitative and Quantitative Easing later that month (as it did). The 10% move also paled relative to the nearly 25% appreciation in Q4 2008 and in H1 2016. This quick reversal of the yen's moderate gain reflects the BoJ's ability to keep the yen at a relatively cheap level to support the economy.

Prime Minister Shinzo Abe resigned in August for health reasons, ending his term as the longest-serving PM in the country's history. However, the BoJ's monetary policy (as well as its implicit stance on the yen) is unlikely to change as a result. For one, governor Kuroda's term lasts until 2023 and he is likely to stay on to assist Abe's successor who will come from the same Liberal Democratic Party. In addition, the pandemic and its serious impact on the global and the Japanese economy suggest that extraordinarily accommodative monetary policy will need to remain in place in Japan.

Chart 5: 10-Year Real Government Bond Yield, %



Source: Bloomberg, as of September 4, 2020. Real yield is the difference between nominal yield and breakeven inflation. Core inflation is used if breakeven inflation is unavailable.

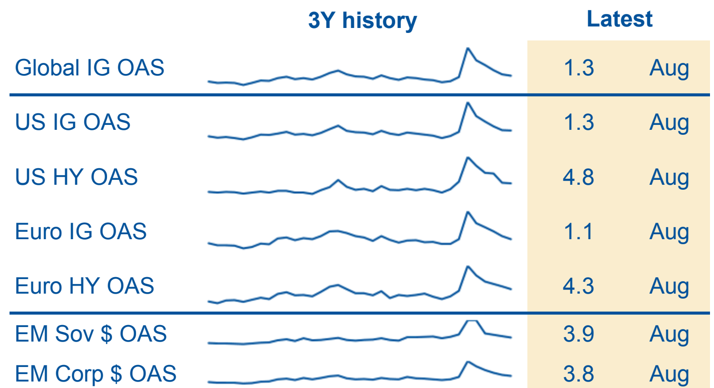
EM (OW): EM local-currency government bonds continue to offer decent positive real yields despite continued monetary easing in EMs (Chart 5). Ample dollar liquidity and EM yield advantage support our *overweight* view on EM local-currency bonds.

The changed country composition also favours EM local-currency bonds. The addition of Chinese government bonds to EM indices has improved the overall credit profile of the EM local bond universe. China is now the biggest or the second biggest sovereign issuer in an EM local-currency government bond benchmark. China's success in containing COVID-19 domestically and the subsequent economic recovery support both Chinese bonds (in USD terms) and sovereign issuers that are sensitive to base metal prices, such as Indonesia, Brazil, South Africa, Peru and Chile.

Credit

Underweight

The majority of corporate bonds fail to provide notably positive real (inflation-adjusted) yields. We continue to prefer EMs to DMs, high yields to investment grade.



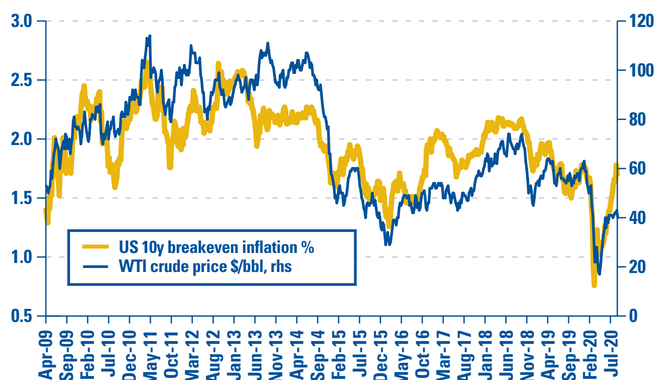
	3Y history	Latest	
Global IG OAS		1.3	Aug
US IG OAS		1.3	Aug
US HY OAS		4.8	Aug
Euro IG OAS		1.1	Aug
Euro HY OAS		4.3	Aug
EM Sov $ OAS		3.9	Aug
EM Corp $ OAS		3.8	Aug

Source: Bloomberg Barclays Indices. Yield in %.

Credit increasingly struggles to provide a decent income for a cross-asset portfolio. Corporate bond yields, as measured by Bloomberg Barclays Global Agg Corporate Index, fell sharply from 2.2% at the beginning of the year to currently 1.6%. US investment-grade (IG) bonds yield just below 2% and Euro IG bonds yield 60bps. The investable universe of bonds with income that beats inflation is shrinking.

What about capital gains now that income has diminished? Looking ahead, we think it is difficult for credit spreads to tighten much further. First, rating downgrades and defaults continue to rise as economic output is still significantly below the pre-pandemic level while the unemployment rate remains elevated. Some worry that another round of redundancy may take place as fiscal support moderates later this year, particularly in the US. Second, tech companies have been a significant force behind the US equity market rally, but they have limited presence in the bond market. Value stocks – which are more relevant for corporate bonds – have so far lagged growth stocks despite the economic reopening that began in May. Third, inflation expectations, as measured by the US 10-year breakeven, have been steadily rising since March and have recovered to the pre-pandemic level despite still depressed economic activity (Chart 6). That reflects market optimism about policymakers' ability to normalise growth and inflate the economy. However, it is at odds with oil prices which historically correlate with breakeven inflation rates, but have stopped rising since May (Chart 6). It suggests inflation (and arguably growth) expectations are subject to reversal, which in turn weighs on corporate bonds. Therefore, we remain *underweight* credit.

Chart 6: Inflation Expectations and Oil Prices



Source: Bloomberg. As of September 4, 2020.

DM (UW): Credit spreads have substantially tightened in March due to central bank purchases and their readiness to purchase more in the future, reducing the expected returns going forward. For instance, the planned ECB purchase of European IG bonds may exceed new issuance over the next six months. A better entry point for private investors may emerge when spreads widen again in the next downturn, which then calls for additional central bank intervention.

We prefer high yield (HY) bonds to IG bonds as the former's market is less distorted by price-insensitive players such as central banks. We trim our *underweight* in Euro HY bonds as the Eurozone seems to have a clearer outlook for fiscal support than the US, partly backed by the recently agreed €750bn Recovery Fund. Indeed, France announced in September additional fiscal stimulus worth 4% of GDP over the next two years. Germany extended its furlough scheme until the end of 2021. Continued fiscal support helps mitigate the negative economic impact of the recent resurgence of COVID-19 infections in Europe.

EM USD (NW): We maintain our preference of EMs over DMs due to the former's wider spreads for comparable credit ratings. This spread advantage has widened during the pandemic partly due to a lack of price-insensitive central bank purchases of EM dollar bonds. For instance, 60% of EM corporate bonds are IG-rated. And the EM corporate spread over a blend of 60% US IG and 40% US HY spreads has widened to 120bps from 85bps in February.

Oil-exporting issuers increasingly dominate the EM USD sovereign space. An upgrade to *overweight* would require a further rise in oil prices, which have stalled since May due to depressed international travel demand. Stalling oil prices also affect Latin American oil producers, a headwind for EM corporate bonds. Chinese developers, which are big issuers of EM USD bonds, also face tight financing environment as policy makers want to direct new lending to the real economy rather than the property sector.

Commodities

Overweight

Commodity prices are supported by rising demand, restricted supply and USD weakness.

	3Y history	Latest	
Commodities*		14.1%	Aug
Brent Oil		28.2%	Aug
Copper		24.0%	Aug
Aluminum		16.3%	Aug
Gold		13.7%	Aug
Corn		7.0%	Aug
Soybeans		13.1%	Aug

*Source: Bloomberg. 3M return is shown in "Latest". *S&P GSCI Total Return Index.*

Commodity prices have moved higher across the board in recent months. The economic and market backdrop have boosted the asset class, aided by continued USD weakness. The economic recovery following the end of lockdowns and global stimulus measures have helped push oil and base metal prices higher. Meanwhile, gold rose to new historical highs as real interest rates fell and uncertainty over Covid-19 continued to linger.

Fears of a second wave of infections during the northern hemisphere's winter could yet lead to further lockdowns but also additional economic stimulus. This is likely to support the gold price, but may be negative for more cyclical commodities like base metals. However, in the event of a second wave, prior experience will likely allow more targeted lockdowns and more limited economic damage. As a result, a sell-off in cyclical commodities could prove to be a good entry point unless it emerges that the second wave is worse than the first. The latter is not our base case, so we are comfortable remaining *overweight* commodities.

Energy (NW): The oil price is set to face both demand and supply headwinds in the coming months. Momentum in the global recovery is likely to slow as the vast majority of countries have now emerged from lockdown and economies have already reopened. The marginal increase in oil demand is thus likely to be moderate. In addition, demand from the US and China, which amounts to around a third of global demand, could waver. Activity in the US may slow in the absence of further fiscal stimulus. Demand from China may also decelerate as inventories have been built up, with J.P. Morgan estimating the country storing 40% of global oil stocks. Global inventories declined slightly in April and May as demand recovered and stocks have been drawn down. Inventory drawdown is likely to continue, blunting the effect of the marginal increase in demand.

On the supply side, there is set to be a marginal increase in output as OPEC+ cuts are tapered over the next six months. In addition, Saudi Arabia, Kuwait and the UAE have also stopped their voluntary cuts. Some of this is offset by cuts by countries that had previously not complied. Overall, this is set to raise output by a net 2.4 million barrels/day by September. The net impact on the oil market is also lessened as additional output from Russia and Saudi Arabia is due to be consumed domestically. In any case, the strategy of OPEC+ will be assessed monthly and could thus be revised. North American production is also recovering, with both Canadian and US shale producers raising output in recent months.

Positioning in oil has recovered in recent months, but is still significantly below the February peak. OPEC+ acts as a price stabiliser as it is likely to raise cuts should Brent crude fall decisively below $40/barrel. However, OPEC+ is also likely to reduce its cuts if oil prices rise towards $60 as this would make more US shale production economically viable and raise excess supply. Indeed, flagging marginal demand and increased supply is likely to remain a limiting factor for the oil, so we stay *neutral*.

Industrial metals (NW): The robust recovery in Chinese activity has boosted industrial metals prices. Industrial production is now above pre-COVID-19 levels. This has been supported by strong demand from the housing, infrastructure and auto sectors. China accounts for a substantial proportion of global metals consumption and ongoing policy support is set to keep demand robust.

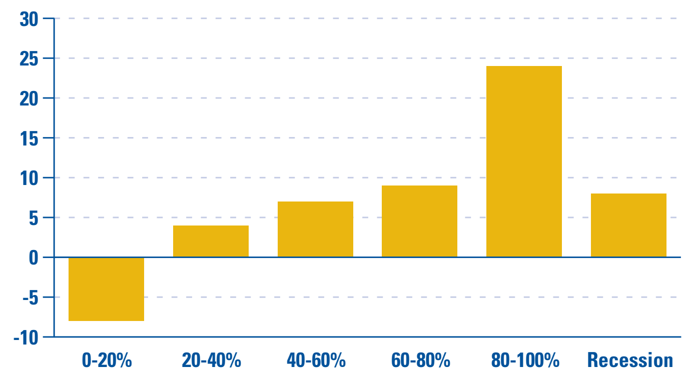
The supply outlook is mixed. Copper output is set to contract this year, while that of aluminium and nickel are expected to rise as Chinese and Indonesian production, respectively, expand. Meanwhile, positioning in base metals is now around the five-year average, up from a five-year low reached three months ago. This partly reflects the view that supply is unlikely to outpace demand in the near term. However, given a likely slowing in the pace of the recovery, we remain *neutral*.

Precious metals (↓OW): The gold price rose to a new record high in August, aided by falling real yields and a weak USD. This backdrop puts positioning in gold comfortably above the five-year average but below the peak for the year.

Gold continues to be an attractive hedge against heightened uncertainty, but there are now a number of factors that counter this including: 1) global yields are already extraordinarily low and downside from here is limited; 2) valuations for gold are more stretched than three months ago (e.g. the ratio of the S&P 500 to gold is at its lowest since 2016) and 3) central bank buying is beginning to dissipate, e.g. the Central Bank of Russia (30% of global gold net purchases in 2019) stopped its gold buying programme earlier this year.

In addition, past cycles suggest that returns from here could be less favourable as a recovery (tepid or otherwise) begins to take hold (Chart 7). A further downside risk to the gold price is the potential discovery and launch of a COVID-19 vaccine, optimism over which has risen recently.

Chart 7: Median Gold Return in Previous Cycles, %*



Return categorised by quintile of cycles since January 1975. 0-100% includes the current 2009-2020 cycle, but this cycle is not yet included in the recession median calculation.

Source: J.P. Morgan

However, we maintain the view that precious metals are a valuable hedge against heightened global uncertainty in light of the pandemic. Moreover, a potentially contested US election result in November represents a key event risk. We therefore maintain our *overweight*, albeit slightly reduced as its attraction has diminished from three months ago.

Agricultural commodities (OW): The global demand recovery has helped agricultural commodity prices rebound. Demand from China for soybeans has been particularly strong, driven by a recovery in the hog herd following an outbreak of African swine flu earlier in the year. This meant that soybeans were the only soft commodity in the US to experience a fall in inventories in the three months through end-August.

Supply has broadly responded to the demand recovery and this has muted price gains in some areas. However, weather-related supply risks are on the horizon with La Niña expected to lead to drier conditions and reduced supply. Like base metals, positioning in agricultural commodities has risen from below the five-year low in June to the five-year average currently. Demand is expected to remain healthy, while supply risks and positioning point to potential price upside so we stay *overweight*.

The information contained herein is obtained from sources believed by CLIM to be accurate and reliable. No responsibility can be accepted under any circumstances for errors of fact or omission. Any forward looking statements or forecasts are based on assumptions and actual results may vary from any such statements or forecasts.

KEY ASSET ALLOCATION INDICATORS *(All data shown are as at end-August 2020 unless otherwise stated)*

	ASSET ALLOCATION							PERFORMANCE						BENCHMARK INDEX & WEIGHTS	
	-3	-2	-1	0	+1	+2	+3	5Y	3Y	1Y	2019	Ytd	Jun-Aug		
EQUITIES				■				**62.6**	**29.5**	**16.5**	**26.6**	**4.8**	**15.3**	**MSCI ACWI**	**50%**
US				■				92.4	49.7	23.1	30.9	11.0	16.3	MSCI USA	25%
Eurozone					■			24.5	2.3	5.9	23.0	-4.9	15.2	MSCI EMU	7%
UK	■							-1.6	-8.5	-7.7	21.0	-19.4	6.5	MSCI UK	3%
Japan				■				32.6	13.4	10.2	19.6	-1.6	5.9	MSCI Japan	5%
EM						■		51.4	8.7	14.5	18.4	0.4	19.5	MSCI EM	10%
RATES			■					**21.7**	**11.5**	**4.6**	**5.6**	**6.3**	**3.5**	**Bloomberg Barclays Global Treasury Total Return Index Value Unhedged**	**30%**
USTs			■					21.1	16.3	7.0	6.9	8.8	0.1	Bloomberg Barclays US Treasury Total Return Unhedged USD	10%
Bunds	■							10.9	6.4	-2.6	3.0	1.6	-0.3	Bloomberg Barclays Euro Aggregate Treasury Germany TR Index Unhedged USD	10%
JGBs				■				6.5	1.5	-3.4	1.7	-1.1	-0.6	Bloomberg Barclays Asian-Pacific Japan Treasury TR Index Unhedged USD	5%
EM Local						■		26.7	6.0	2.4	13.2	-2.7	3.5	Bloomberg Barclays EM Local Currency Liquid Govt TR Index Unhedged USD	5%
CREDIT			■					**29.5**	**16.1**	**7.8**	**11.5**	**6.7**	**6.1**	**Bloomberg Barclays Global Aggregate Credit Total Return Index Value Unhedged USD**	**15%**
US IG		■						35.1	20.6	7.5	14.5	6.9	3.8	Bloomberg Barclays US Corporate Statistics Index	5%
US HY			■					36.7	15.4	4.7	14.3	1.7	6.7	Bloomberg Barclays US Corporate High Yield Statistics Index	3%
European IG			■					13.7	5.9	-0.8	6.2	0.5	3.0	Bloomberg Barclays EuroAgg Corporate Statistics Index	2%
European HY			■					21.4	6.2	-0.5	11.3	-2.1	5.2	Bloomberg Barclays Pan-European High Yield (Euro) Index Statistics	2%
EM Sov $				■				33.1	11.5	4.0	13.3	2.1	7.2	Bloomberg Barclays Emerging Markets Sovereign TR Index Value Unhedged USD	2%
EM Corp $				■				35.9	17.0	7.3	13.1	4.2	6.0	Bloomberg Barclays Emerging Markets Corporates TR Index Value Unhedged USD	1%
COMMODITIES					■			**-35.5**	**-20.4**	**-23.8**	**17.6**	**-30.9**	**14.1**	**S&P GSCI Total Return Index**	**5%**
Energy				■				-54.4	-34.7	-43.8	29.7	-50.0	17.8	S&P GSCI Energy Total Return Index	2%
Industrial metals				■				21.4	-7.8	5.7	2.6	3.2	20.4	S&P GSCI Industrial Metals Total Return Index	1%
Precious metals					■			66.8	45.1	28.7	17.6	29.3	14.6	S&P GSCI Precious Metals Index Total Return Index	1%
Agricultural					■			-28.8	-16.6	3.2	-0.3	-7.3	7.6	S&P GSCI Agriculture Index Total Return Index	1%

**Regional allocation relative to other asset classes*

Source: Bloomberg, City of London Investment Management

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