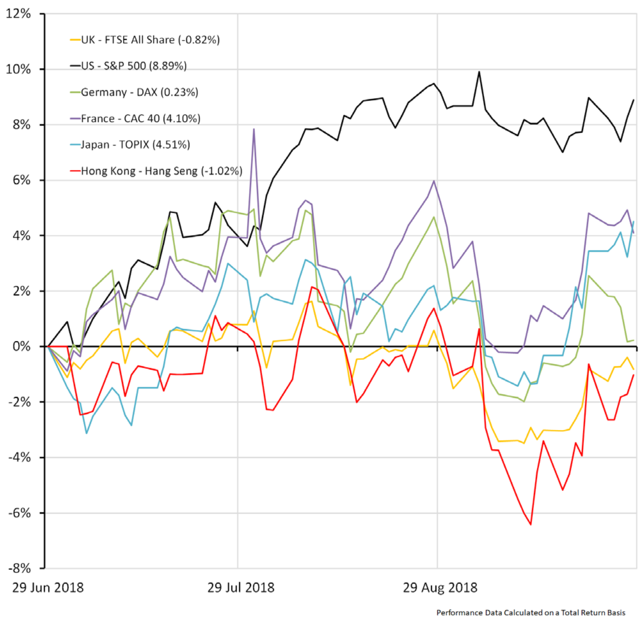
AUTUMN OUTLOOK

REVIEW OF THE PAST QUARTER:

September revealed contrasting monetary policy announcements. The Bank of Japan avoided tightening its interest rate and bond-buying policies, maintaining both with a long-term view of meeting the 2 per cent inflation target. In contrast, the Bank of England hiked rates and the US Federal Reserve is expected to announce another round of rises. In addition, Turkey's Central Bank moved to raise interest rates, increasing them to 24 per cent to deal with ramping inflation rates and currency depreciation.

Meanwhile, the US equity market continued its extended bull run this quarter. The run has largely been driven by tech stocks, with the FAANG (Facebook, Amazon, Apple, Netflix and Google) stocks all helping drive performance. Apple broke the trillion-US dollar market capitalisation barrier, becoming Americas first trillion-US dollar company in August; Amazon joined the exclusive shortly after. Another factor for the S&P 500 rally was the corporate tax break authorised in the first quarter, which subsequently helped companies post better earnings growth.

The emerging markets have continued generate negative headlines this quarter. The Turkish lira has been one of the worst performing currencies against the US dollar this year alongside the Argentine peso. South Africa entered its first technical recession since 2009, with GDP declining by 0.7 per cent in the second quarter, causing the rand to decline. Even an increase in the oil price wasn't enough to prevent the emerging markets sell-off, with the effects spreading to the rest of the developing markets.



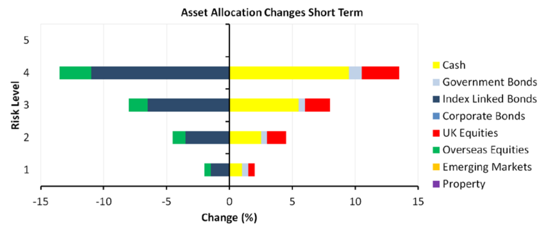
ASSET CLASS RETURNS

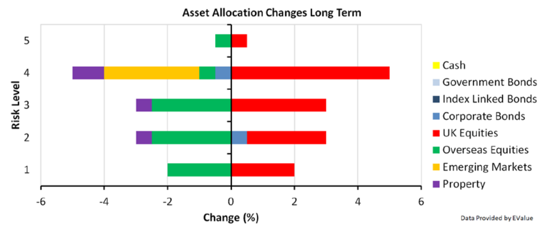
UK	US	Japan	Europe	Emerging Markets	Commodities	Property	Corporate Bond	Gilts	Cash
-0.82%	+8.89%	+4.51%	+1.15%	+0.13%	+2.60%	+1.11%	-0.08%	-1.73%	+0.17%

THE ACTUARIAL VIEW:

The most significant change to asset allocation has been the complete removal of index-linked bonds from the short-term portfolios. This is less driven by a change in markets, but instead can be attributed to a revision in the model. Low bond yields are no longer being viewed as exceptional; this means less upward pressure on rates in the short term, which in turn reduces short-term inflation expectations. The result of this is that lower returns are forecast from the asset class, making them look much higher-risk than previously.

Prospects for the UK market have improved, with the gains being based on improved fundamentals rather than just sentiment. It is worth emphasising, however, that the UK market is very different from the UK economy, which still faces significant Brexit headwinds. In contrast, European equities have not had a good run recently, which conversely slightly improves their prospects, helped by euro weakness. Following a strong quarter for Japan and America, the outlooks for those two asset classes are reduced. Finally, the prospects for emerging markets are down – not only have they had a poor recent quarter but, also, the possibility of increasing trade barriers remains a real concern.





WHAT TO LOOK FOR IN Q4:

- **UK:** Monetary Policy Committee (MPC) announcements and minutes are scheduled for 1 November. The Bank of England is set to announce Consumer Credit data on 1 October. The Conservative Party Conference takes place 30 September-3 October.
- **US:** There will be interest rate decisions from the Federal Open Market Committee on 18-19 December. Minutes will be published three weeks after each decision. US mid-term elections are set to take place on 6 November.
- **Eurozone:** The unemployment rate for the August period is set to be released on 1 October. The trade balance figures for the August period are expected on 16 October.
- **Other Data:** Brazil's general election is set to take place on 7 October. The Irish presidential election is scheduled for 26 October.

ASSET CLASS SCENARIOS:

UK EQUITY

Most Likely: With little more clarity on Brexit, a continuation of uncertainty into Q4 2018 is likely. Though political ambiguity is largely priced in, deadlines for the final agreement are now looming, which will increase the impact and magnitude of volatility. Added pressure on UK sterling and switching between the internationally focussed larger companies and domestic-orientated smaller caps will heighten, with a preference for the former. Further rate increases

Worst Case: No agreement is reached and Prime Minister Theresa May's government collapses, necessitating a general election and a new PM. A repeat of June 2016 would ensue: UK sterling depreciation and a UK equity sell-off, particularly of domestic-orientated, small caps. Trade tensions dampen returns from large cap stocks, adding to general downward pressure on UK equities.

Best Case: A Brexit settlement favourable for the UK is finalised coupled with reduced trade tensions. UK sterling would rally, paving the way for higher returns from domestic-orientated smaller cap and cyclical stocks. Large cap stocks would suffer on the margin from UK sterling appreciation but benefit to a greater extent from reduced trade tensions.

CASH

Most Likely: Following the Bank of England's decision to hike rates, the return from cash has slightly improved. Core inflation should remain within the 2 per cent-2.5 per cent range, which means returns from cash remain negative. Headline inflation is unlikely to come down significantly over the coming quarter due to cost pressures from a range-bound oil price.

Worst Case: The worst-case scenario for cash savers is that inflation continues to rise with cost-push pressures at the fore. Another likely headwind is UK sterling weakness as Brexit negotiations turn sour and imported inflation compounds woes, with the Bank of England refraining from further tightening for the already weakened consumer.

Best Case: In the likely event that OPEC successfully negotiates to curb supply cuts to arrest oil price increases and geo-political tensions subside, any progress in Brexit negotiations could well be taken by the Bank of England as a signal to continue tightening, especially if wage growth also picks up. In such a scenario, returns to cash would improve.

GLOBAL EQUITY

Most Likely: The US market is supported by healthy macroeconomic conditions and tax cuts continue to boost company profits, making the region attractive. The European Central Bank plans to reduce the ultra-loose monetary policy as it stops quantitative easing by the end of the year. However, rates remain low for the foreseeable future, supporting growth. Despite these positives the escalating trade tensions between the US and China continue to increase uncertainty in the market.

Worst Case: The trade spat between China and the US keeps equities on the defensive and stands to slow global growth. This uncertainty over trade could hurt Japan and Europe, as their stockmarkets are relatively cyclical versus the US. If the world's largest oil producers maintain their current approach of not increasing production, this will push the price of oil up and hold back real consumer spending.

Best Case: A broad economic expansion and relatively attractive valuations are supportive for corporate profits in Europe. On top of this, the slow and steady approach towards tighter monetary policy should reduce uncertainty. Monetary policy and fiscal stimulus in Japan are helped by improving corporate governance, share buybacks and business investment, in turn supporting Japanese equities.

FIXED INCOME

Most Likely: We expect to see further dispersion in returns between regional bond markets. While it is expected that the US Federal Reserve will look to increase its base rate and to bring its domestic bond markets into negative territory, other central banks are limited by political noise. The same macro noises might negatively impact credit markets, especially UK European financial companies.

Worst Case: After several years of monetary stimulus, we might have reverted to a normal situation where any positive economic news is bad news for bond markets. If a Brexit deal is quickly reached, the Bank of England might follow in the footsteps of the US Federal Reserve and trigger an unexpected rate hike. The cost of financing for companies should increase, pushing bond investors to reconsider their investments in debt instruments.

Best Case: Bond markets might have already priced-in negative news – as such the downside is now limited. Political uncertainty will continue to act as a drag on bond yields, anchoring the investors' expectations to lower levels from current ones. Companies might further delay their capital expenditure decisions and decrease their leverage, providing a catalyst for credit markets to re-rate.

EMERGING MARKET EQUITY

Most Likely: Emerging markets are likely to be volatile over the quarter as they continue to be impacted by tariff tensions. Recently, the market has been reacting more to 'tweets' rather than to actual macroeconomic data, and this could continue until the dispute is resolved. In the short term, currency moves may have a negative impact on returns.

Worst Case: Should the issues surrounding Turkey and Argentina persist, it is likely that risk-off sentiment could lead to further capital flights away from emerging markets. Tighter financial and fiscal conditions could lead to slowing Chinese growth. The uncertain nature of Brazil's upcoming election has begun to hurt both equity and currency markets. The road could get even bumpier as the Brazilian election draws near with no clear-cut favourite to win.

Best Case: Easing tensions or a US-China trade deal would allow the market to steer away from macroeconomic noise and focus on fundamentals. A weaker US dollar would be a much-needed tailwind for emerging markets. While part of the risk-off sentiment has been driven by Turkey and Argentina, we do not foresee any spill-over impact to other emerging market countries.

PROPERTY

Most Likely: In the US, where the cycle is more advanced, economic expansion should see rental growth come through. Higher interest rates are not a problem at this stage and property companies can still generate healthy margins. European REITS remain attractive, with an ultra-low interest rate environment supporting prices and favourable to corporate activity. The UK is still the least attractive region given the noise around Brexit.

Worst Case: In the UK, Brexit talks dominate investor sentiment and drive prices. The continued strong performance of the industrial sector could also be at risk of profit taking. Elsewhere, the US property market is probably the most sensitive to an interest rate rise, as we have seen in Q1. While the Fed's decision would reflect a stronger economic environment, this means property yields are less attractive given their riskier nature.

Best Case: Continental Europe could still surprise on the upside as some peripheral countries have prices below their pre-financial crisis level. The region could also benefit from corporate activity thanks to cheap financing. Any outcome favourable to UK businesses in the Brexit negotiations are likely to support prices despite unchanged fundamentals. In the US like other overseas regions, a weak pound would boost performance.