L&G Mixed Investment Funds

MONTH IN FOCUS

THE HEADLINES

- **Markets continued on the upward trend…**
- **…while 'Brexit' got pushed further out …**
- **…and the effects of China's stimulus measures started to materialise**

MARKET OVERVIEW

Equities continued to surge ahead in April, with the S&P 500 hitting a new all-time high. This was underpinned by an extension of the economic cycle, the result of more sustainable growth, and benign inflation. In addition, the earnings season in the US has been broadly supportive, news flow about the US-China trade war has been consistently one-sided, pointing towards a deal. A soft landing for the US economy appears much more likely than it did in January, with the US Federal Reserve adopting a more dovish tone. In China, a bumper credit stimulus has seen activity indicators stabilise. The market is waiting to see whether a genuine growth pick-up will emerge.

Developed market equities led the pack during April and were up between 2 and 5% (in local currency terms). Europe ex UK equities and US equities were the top performers, as the US posted good first quarterly earnings results. Global high yield bonds and investment grade credit had a solid, if unremarkable month, particularly in the context of negative returns from US Treasuries and German bunds. In the UK, gilts struggled on the back of stronger data. A renewed extension to the UK's membership of the European Union, and ongoing cross-party talks saw fears of a crash exit dissipate.

FUND PERFORMANCE REVIEW

All of the Mixed Investment Funds delivered a positive return in April, with the higher risk funds out performing the lower risk funds.

Given that developed market equities were the stand-out performers on an outright basis, they were also the largest contributor to the funds' positive performance. In particular, our overweight to European continental equities provided a healthy boost to return as they led the pack.

After the recent outperformance, we have also seen the first signs of downbeat sentiment towards Europe starting to normalise. With that in mind, we have closed our long-standing regional preference for continental European stocks, and will be reverting to a more neutral regional equity positioning.

There were few detractors from performance this month, with UK corporate bonds being the largest in most funds, and followed by a mild negative return from global REITs.

RECENT PORTFOLIO CHANGES

↑ US EQUITIES

↓ EUROPEAN EQUITIES

MARKET OUTLOOK

After spectacular returns over the first quarter, what's left on the table for investors? A lengthening economic cycle and the scaling down of immediate credit risks are driving a brighter medium-term outlook for equities. With the Fed loosening its monetary stance once again, we think that the economic cycle is likely to grow longer yet. This is bullish, in our view, as it gives space for markets to go back to more mid-cycle dynamics – where investors tend to buy equities on the dip, instead of selling the rallies.

We believe credit risks over the coming year are less imminent. There are still severe warning signs over credit creation in China. But we struggle to identify a disaster catalyst, given the economy's fiscal space, the decent loan-to-deposit ratios within its banking sector and its limited dependence on foreign investors. We believe the country has managed to stabilise its deleveraging process for now – and expect capital flight to subside or even reverse. A rebound in Chinese economic activity is likely, pepping up the outlook for global growth over 2019.

However, political risk remains a worry, given rising populism, income inequality and the Thucydides trap in which the US and China find themselves locked – with no sign of fundamental improvement – as well as fractures in Europe.
Despite these risks, given our more constructive view on the economic cycle, monetary policy and China, we have moved to positive on our medium term view to bring it in line with our bullish tactical view. In practice this means we are inclined to buy market dips should they occur. We acknowledge we will need to remain dynamic where we can as most of the positive equity returns we anticipated for 2019 have already been chalked up in less than a quarter.

Legal & General
INVESTMENT MANAGEMENT