L&G Mixed Investment Funds

MONTH IN FOCUS

THE HEADLINES

- **US equities reached a new all-time high...**
- **…UK election polls pointed to a strong Tory majority…**
- **…The Bank of England left interest rates on hold.**

MARKET OVERVIEW

November proved to be another positive month for equities. Investors remained optimistic about potential progress on a US-China trade deal, business sentiment in the US and Europe improved, and the earnings season in the US was broadly positive. Within equities, developed markets outperformed emerging markets as concerns over China, including tighter financial conditions and weaker manufacturing and consumer data, weighed on the performance of the latter. In local currency terms, US equities were the strongest performers, followed by European and UK equities. In terms of other risk assets, high-yield bonds were also up over the month.

Government bonds and other defensive assets delivered negative returns over the month. There was little new information from central banks and the Bank of England left interest rates unchanged.

FUND PERFORMANCE REVIEW

The Mixed Investment Funds returned a positive performance in November, and year to date they continue to outperform the peer-group average.

Developed-market equities, in particular the US, Europe and UK, were the largest drivers of performance in November. UK and global corporate bonds also made a moderate contribution.

Emerging-market equities lagged the rest of the world, and emerging-market local currency debt detracted slightly from performance, but was mainly offset by positive returns from emerging-market hard currency debt.

In terms of positioning, we downgraded European peripheral debt to neutral as credit spreads narrowed, now trading well within European corporate bonds. This meant that we took profits on the Portuguese government bond exposure and reallocated to German Bunds.

RECENT PORTFOLIO CHANGES

↑ GERMAN GOVERNMENT BONDS

↓ PORTUGUESE GOVERNMENT BONDS

MARKET OUTLOOK

As we enter the last few weeks of 2019, US stocks continue to flirt with record highs while risks to the world economy remain to the downside. On the whole, this year has been a good one for investors. In fact, investor optimism on what we consider rather thin fundamentals makes us nervous for the year to come, hence why we recently dialled down our equity exposure.

We believe the slowdown in China – a crucial driver of global growth – is largely due to domestic factors, rather than the trade war. As the country's room for policy manoeuvre is now narrower, risks to Chinese growth are firmly to the downside. While the Fed still appears willing to support markets in the event that credit conditions tighten, this stance is already priced in by investors, contrary to December 2018. We also shouldn't pin our hopes on a big fiscal boost in 2020: the US already has a large deficit; and even though euro-area budget plans suggest some easing, Germany, which has the most room to act, is very reluctant to do so.

However, the picture is not completely bleak. The trade conflict could yet be resolved; equity valuations relative to bonds remain attractive; and should the world economy enter a recession, we expect it to be only a mild one. Therefore, balancing our stance on equities somewhat, we remain positive on emerging-market bonds, technology stocks, and European cyclicals versus defensives. We are, however, cautious on corporate debt. Spreads are tight and we believe liquidity would be thin in a bear market. Elsewhere, we are neutral now on developed-market bonds, versus a slightly underweight position previously.

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