L&G Mixed Investment Funds

MONTH IN FOCUS

THE HEADLINES

- **Halloween deadline passed without spooking markets...**
- **…The Fed cut interest rates again…**
- **…and the ECB said arrivederci to Mario Draghi**

MARKET OVERVIEW

In local currency terms, October was a positive month for risk assets whilst more defensive assets were largely in negative territory. This was underpinned by the diminishing likelihood of a no-deal Brexit at the end of October, more promising news on the US/China trade-war front, and a rate cut by the US Federal Reserve that was almost entirely anticipated by the market. In local currency terms, Japanese and emerging market equities were the strongest performers followed by the US and Asia ex Japan Pacific equities. European ex UK equities lagged but remained in positive territory whereas UK equities delivered negative returns as sterling strengthened, driven by a decreasing probability over the course of the month of a hard Brexit by 31st October. High-yield bonds were up over the month, as were listed infrastructure and listed global real estate.

More defensive assets such as developed government bonds performed poorly, with German bunds particularly weak. This was largely the result of investors preferring riskier assets to safe havens. In addition, index-linked gilts suffered as a result of their higher duration and a fall in UK inflation expectations as worries about hard Brexit risk dissipated.

FUND PERFORMANCE REVIEW

The Mixed Investment Funds returned a modest negative performance in October, although year-to-date returns remain strong, outperforming the peer-group average across the range.

Given the strengthening in sterling, the largest detraction from performance came from the Funds' foreign currency exposure, largely offsetting the positive performance of equities in local currency terms. The UK and European sovereign bond exposure also detracted, as yields ended the month up, while UK mid-cap equities and high-yield bonds added slightly.

In the higher-risk funds we reduced US equity exposure to reflect our more cautious medium-term view on risky assets given the market outlook below. We also titled the European equity exposure towards cyclical stocks versus defensive stocks as we believe over the short term we may have reached a turning point in negative manufacturing data, which could benefit cyclical stocks relatively more if we see a rebound in the coming months.

RECENT PORTFOLIO CHANGES

↑ **EUROPEAN CYCLICALS VS DEFENSIVES**

↓ **US EQUITIES**

MARKET OUTLOOK

Our overall stance on "risk assets" has been dialled down to cautious – the risks over the medium-to-long term facing the global economy are tilted to the downside, albeit with tentative signs of a stabilisation in confidence and a trade-war ceasefire. Reflecting the latter, our economists' 12-month global recession probability has eased slightly to 30% from 35%, which is still relatively high in an historical context. Even though the risk of an escalation in the trade war seems to have decreased for now, we believe part of the impact will be semi-permanent in the US as uncertainty around President Trump's erratic US trade policy will remain. Yet US equities are breaking new records and therefore, as we are increasingly convinced that investors are now in a 'late cycle' period, we believe the buy-on-dip strategy we have deployed over the past few years might prove less effective going forward.

Legal & General
INVESTMENT MANAGEMENT