L&G Mixed Investment Funds

MONTH IN FOCUS

THE HEADLINES

- **Coronavirus fears impact markets...**
- **…US-Iran tension flares then fades…**
- **…concerns Italian coalition would collapse recede**

MARKET OVERVIEW

Safe-haven assets performed well in January as investors became increasingly concerned over the spread and impact of the coronavirus. Government bonds received an extra fillip from weaker-than-expected inflation, particularly in the UK and Eurozone. Conversely, risk assets – especially those linked to China, such as commodities and emerging-market equities – corrected somewhat. Geopolitical tension between the US and Iran, which had flared up earlier in the month, faded into the background.

Commodity-linked sectors and regions were among the worst performers over the month. The oil price, having initially risen in response to the US-Iran crisis, fell sharply as investors worried over how the virus would affect the global economy. Equities lost ground in local currency terms, with exception of the US, which proved surprisingly resilient after a good start to earnings season.

By contrast, gilts and US treasuries all performed well over the month. Italian government bonds also generated a positive return as Matteo Salvini's Lega party failed to win a key regional election, alleviating fears about the collapse of the governing coalition.

FUND PERFORMANCE REVIEW

The Mixed Investment Funds delivered positive performance in January, with the exception of the highest-risk fund, and the majority of funds outperformed their peer-group average.

Fixed income assets, in particular global and UK credit, were the largest drivers of performance in January. Infrastructure also made a modest contribution.

Equities, especially emerging-market equities and also UK equities, detracted from performance.

In terms of positioning, we moderated our positive preference for infrastructure across a number of the funds following strong performance over the past two years. We also added Korean bonds in the higher-risk funds and reduced our Nasdaq exposure, taking profits after the sector's exceptional performance and in the light of potential political risks to the sector.

RECENT PORTFOLIO CHANGES

↑ KOREAN BONDS

↓ INFRASTRUCTURE

MARKET OUTLOOK

We have moved from cautious to neutral on risk on a medium-term view as the economic cycle has been extended and recession risks have decreased. While we are still late in the economic cycle, it is fair to say that late-cycle dynamics have not worsened over the past few months. With reasonable growth, limited inflation, and central banks committed to defending against the downside, there is no immediate catalyst for a correction; we have therefore upgraded our view on equities from negative to neutral.

While we believe that there is too much optimism around the so-called 'Phase One' trade deal between China and the US, and that it has already been priced in by the market, it is also difficult to see what would upset equity markets, assuming President Trump sees the S&P 500 Index as one of his success indicators. In addition, although there is not enough caution around the Democratic primary elections and the probability that a less market-friendly Democratic candidate could win, it appears too early for the primaries to play a decisive role at this stage.

We remain positive on emerging-market bonds and inflation-linked bonds but are less positive on technology stocks given their recent rally. We are, however, cautious on corporate debt.

Legal & General
INVESTMENT MANAGEMENT