For immediate release

Further shocks ahead despite supportive environment: Momentum GIM

London, 27 November 2014

“Emerging markets equity and debt offer selective opportunities, but we expect further periods of volatility across all asset classes globally”, says **Mike Allen, CIO of Momentum Global Investment Management**

“This volatility will come from fragile growth and deflationary forces globally, alongside divergent central bank policies and a high debt overhang and asset values, which in most cases are no longer intrinsically cheap, and often expensive.

“It is clear, however, that central banks are ready to take action to ensure stability which, in turn, supports markets.

“Emerging market equity valuations, in our opinion, are sufficiently attractive to justify an allocation. Nonetheless, care should be taken to ensure that the strong valuation bifurcation between high and low quality stocks does not impact returns. Also, this is a volatile section of the equity market, so care should be taken on position sizing. Investor sentiment is beginning to turn positive and, coupled with attractive valuations, makes for an enticing combination. On the downside, near term headwinds are likely to persist and further signs of a slowdown in Chinese growth may weigh on markets.

“Spreads on EM debt today make the hard currency elements of emerging markets debt attractive. Moderate allocations are justifiable, but be aware of making an oversized allocation at present.

“We are broadly neutral on developed market equities. Central Bank policy remains key and short term noise could also be a result of increasing geopolitical tensions.

“Among developed equities, we mildly favour UK equities which are reasonably attractive, but remain vulnerable to resource price normalisation and to knock-on effects from the EU.

“European equities remain cheap, but do not qualify for the “fat pitch” that we look for, especially given the risk of negative growth in the region. It is also the most over indebted developed region.

Ultimately the macro story and the lack of a valuation extreme suggests caution in this region. Longer term, Europe needs some sort of political and banking consolidation, but the ECB is calming the waters for now.

“The Japanese government’s pro-liquidity policies are welcome – and a weaker yen helps – but inconsistent data readings and a habit of not ‘mean reverting’ make Japanese equities a difficult market to call. We rate this market as neutral today, but it is improving.

“US equities appear the most expensive relative to other developed markets. Despite the better US news flow, it warrants an underweight. Investors can buy very similar companies elsewhere for less. Monetary policy remains a key swing factor for the US.

“Where appropriate, we are also relatively positive on senior secured loans. Unlike high yield, the spread available on loans appears attractive, with the additional benefit of a floating rate coupon which will make these securities less sensitive to interest rate rises. Seniority over unsecured bonds provides some extra security in the event of defaults picking up unexpectedly. Obviously, investors need to consider the less liquid nature of this market.

“Elsewhere in the debt markets, we are fairly neutral on investment grade credit – a decent play against government bonds, but if taken in isolation, the asset class is not particularly attractive. We are also cognisant of debt issuance to support share buybacks, which has become more prevalent this year.

“In high yield, we see the best valuations at the short end of the curve today. Convertible bonds have moved to fair value.

“On a medium-term outlook, government bond yields are not attractive and the asymmetry of potential returns from this asset class is stark. Index-linkers also look expensive, but do provide some protection against unexpected inflation.

“Commodities remain sensitive to negative news on growth. They have performed very poorly of late and could rally from here but volatility and ongoing economic uncertainties suggest caution. UK property provides income which is attractive versus gilts but limited room for capital growth - here we retain a neutral view.”

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For further information please contact:

Caroline Church-Taylor	Lansons	020 7294 3625
	carolinect@lansons.com	
Nick Robert-Nicoud	Momentum Global Investment Management	020 7618 1742
	nick.robert-nicoud@momentumgim.com	

Momentum notes to editors

Momentum hosted its annual think-tank in London on 15 and 16 October 2014. The theme this year was "Liquidity, bubbles and bull markets" and once again a host of top quality speakers from a wide range of investment firms shared their expert views with the delegates.

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