weekly digest

momentum

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What is your SAA?

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Whenever you do any kind of planning, there are some decisions that are more important than others. Planning for holidays, for example; selecting the destination and the time of travel might be the key drivers that will determine what activities you will take part in and whether your holiday goals will be fulfilled. If you are hungry for some fresh snow to brush up on your skiing, do not travel to the Alps in the middle of the summer. No matter how great the chalet you could find, you will come short of fulfilling your craving for the adrenaline of speeding down the mountain on two sticks.

> *"Planning for one's financial future also involves taking some key decisions early that are more important than others."*

Now, that seems obvious when it comes to holiday planning, but in managing someone's financial wellness and fulfilling their financial goals, this might be less apparent. Planning for one's financial future also involves taking some key decisions early that are more important than others.

Any good adviser would first sit down with their client and analyse their financial situation, understanding their financial goals and their ability and willingness to take the risk. Once they have a good understanding of the clients' financial needs and their risk profile then they can move on to planning.

Now, here comes, in my opinion, the most important decision: deciding on the strategic asset allocation (SAA) that will have the best chance of achieving the stated goals, while considering all the risk constraints. Matching the client risk profile with the risk profile of the strategy/portfolio is by itself not enough, as there are thousands if not millions of different asset allocations that would match a single risk profile. Looking at each of the possible asset allocations and their expected outcomes over mid to long-term time horizons, the differences between them are stark, and could easily be the difference between a happy client, enjoying their retirement or a disappointed client, falling short of their financial dreams.

> *"Matching the client risk profile with the risk profile of the strategy/portfolio is by itself not enough"*

We at Momentum are fully aware of the importance of the SAA in fulfilling financial goals, and we spend a lot of effort and time on constructing optimal asset allocations for our clients. We understand that in most cases the SAA will explain most of the portfolio's success and therefore making the right decision on this at the start is essential. We are not only looking to maximize the returns for the risk profile, but we focus most of our attention on our clients' longer-term goals and constructing portfolios that have the best possibility of reaching those consistently. The second consideration is to make the journey as palatable as possible, by minimizing the portfolio drawdowns, so that clients stay on course and arrive to their destination.

So now that the strategic decision to travel to the Alps in the winter has been successfully made, you can start choosing a favourite resort and finding the perfect chalet or lodge. I am sure that strategic decision alone will give you high odds of shredding the slopes with your friends, meeting the main objective. The next part of choosing a good resort and accommodation could make the skiing experience that much greater. In portfolio management, this part is down to strategy and manager selection, which can make a significant difference. But if you set your client portfolio on the wrong strategic path, no matter how good your strategy and manager selection, most likely you will be stuck with a disappointed skier!

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If you would like to find out more about our Strategic Asset Allocation process please get in touch.

Market Focus

- Brent crude rose 1% to $65.7 a barrel
- Gold recovered to end the week flat at $1298 an ounce
- A poor week for global equities
- US annual trade deficit at a 10-year high

US

- The US annual trade deficit widened to a 10 year high of $621 billion during 2018
- The US department of Labor payrolls report published last Friday showed 20,000 jobs were added to non-farm payrolls last month, the weakest gain in seventeen months and marked a sharp drop from the 311,000 jobs added in January. Unemployment dipped to 3.8% from 4%
- Equities fell with large and small-cap indices falling around 2%
- 10-year treasury yields fell to 2.62% last week from 2.76%, bringing them back to levels seen at the beginning of the year

UK

- Brexit talks appear to be at an impasse with the EU seeing little hope of a breakthrough in talks. Another vote on May's deal is due to take place in parliament this week on Tuesday 12th March
- Despite global equities declining on the week, UK equities rose 0.2%
- GBP declined for an eighth straight day as investors short ahead of the key stage in the Brexit negotiations

Europe

- The ECB cut the growth forecast for the euro area from 1.7% to 1.1%. They also indicated that they will leave interest rates unchanged for the rest of the year
- Continental European equities fell 1.0% last week with banks leading the falls in response to the ECB's downbeat and dovish meeting

Rest of the World/Asia

- Japanese equities fell 2.7% on the week
- Turkey officially entered a recession as GDP sank 2.4% in the last quarter as debt mounts
- Chinese blue-chip stocks fell by 2.5% last week as reports came in that exports fell by 20% in February

Past performance is not indicative of future returns.
Source: Bloomberg, returns in local currency unless otherwise stated.

Currency returns					
Asset class/region	Currency	Week ending 08 March	Month to date	YTD 2019	12 months
Developed markets equities					
United States	USD	-2.1%	-1.5%	9.7%	1.6%
United Kingdom	GBP	0.2%	0.6%	6.7%	3.0%
Continental Europe	EUR	-1.0%	-0.5%	9.8%	-0.1%
Japan	JPY	-2.7%	-2.2%	5.3%	-6.0%
Asia Pacific (ex Japan)	USD	-1.7%	-1.3%	8.3%	-8.1%
Australia	AUD	0.6%	1.0%	11.2%	9.0%
Global	USD	-2.1%	-1.6%	9.3%	-1.6%
Emerging markets equities					
Emerging Europe	USD	-1.6%	-2.0%	7.1%	-10.7%
Emerging Asia	USD	-2.0%	-1.6%	7.4%	-11.2%
Emerging Latin America	USD	-1.7%	-3.2%	7.1%	-8.4%
BRICs	USD	-1.3%	-0.9%	10.2%	-9.1%
MENA countries	USD	-0.9%	-0.9%	4.7%	7.1%
South Africa	USD	-2.3%	-3.6%	2.4%	-25.8%
India	USD	3.0%	3.5%	1.3%	1.7%
Global emerging markets	USD	-2.0%	-1.9%	6.9%	-11.7%
Bonds					
US Treasuries	USD	0.8%	0.6%	0.8%	3.8%
US Treasuries (inflation protected)	USD	0.6%	0.4%	1.8%	2.1%
US Corporate (investment grade)	USD	0.7%	0.5%	3.1%	3.3%
US High Yield	USD	-0.5%	-0.4%	5.8%	4.1%
UK Gilts	GBP	1.2%	1.4%	1.5%	3.8%
UK Corporate (investment grade)	GBP	0.8%	0.9%	2.8%	2.5%
Euro Government Bonds	EUR	1.1%	1.0%	1.7%	2.3%
Euro Corporate (investment grade)	EUR	0.3%	0.3%	2.1%	1.1%
Euro High Yield	EUR	-0.3%	-0.2%	4.0%	0.2%
Japanese Government	JPY	0.3%	0.2%	1.0%	1.8%
Australian Government	AUD	0.8%	0.5%	2.3%	7.8%
Global Government Bonds	USD	0.4%	0.1%	0.6%	-1.3%
Global Bonds	USD	0.3%	0.1%	0.9%	-0.9%
Global Convertible Bonds	USD	-1.1%	-1.0%	4.9%	-3.2%
Emerging Market Bonds	USD	-0.3%	-0.6%	4.3%	1.4%

Source: Bloomberg. **Past performance is not indicative of future returns.**

Currency returns					
Asset class/region	Currency	Week ending 08 March	Month to date	YTD 2019	12 months
Property					
US Property Securities	USD	0.1%	-0.5%	11.9%	16.5%
Australian Property Securities	AUD	1.6%	3.8%	11.5%	17.0%
Asia Property Securities	USD	-0.8%	-0.6%	8.0%	2.7%
Global Property Securities	USD	-0.2%	-0.3%	9.8%	6.6%
Currencies					
Euro	USD	-1.1%	-1.2%	-1.9%	-8.8%
UK Pound Sterling	USD	-1.5%	-1.9%	2.1%	-5.8%
Japanese Yen	USD	0.8%	0.3%	-1.2%	-4.4%
Australian Dollar	USD	-0.4%	-0.7%	0.1%	-9.5%
South African Rand	USD	-1.4%	-2.4%	-0.2%	-17.2%
Swiss Franc	USD	-0.8%	-1.0%	-2.4%	-5.7%
Chinese Yuan	USD	-0.2%	-0.4%	2.3%	-5.7%
Commodities & Alternatives					
Commodities	USD	-0.5%	-1.3%	7.4%	-2.9%
Agricultural Commodities	USD	-1.2%	-1.3%	-2.4%	-13.4%
Oil	USD	1.0%	-0.4%	22.2%	3.3%
Gold	USD	0.0%	-1.3%	1.3%	-1.8%
Hedge funds	USD	-0.2%	0.0%	2.7%	-4.3%

Source: Bloomberg. Past performance is not indicative of future returns.

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