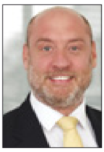
Rupert Silver on Asset Allocation



As multi-asset managers, we have historically been overweight to corporate bonds and specifically the financial sector ever since the Global Financial Crisis.

However, as global interest rates remain at or around all-time lows, record inflows into the asset class have been fuelled by global monetary policy easing as central bankers have cut interest rates a total of 66 times in the last year, according to J.P. Morgan. This has led to yields tending towards all-time lows and, incredibly, approximately a third of investment-grade debt trading at negative yields.

Subsequently there are becoming ever more limited opportunities to earn an attractive absolute return from fixed income without taking significant credit risk.

In response to this challenge, we have increased our allocation to a selection of high-returning alternative assets with a low correlation to equities and bonds. We predominately favour allocating to this asset class through investment trusts that provide access to esoteric assets with daily liquidity. This includes exposure to income from property, leasing, music royalties, energy storage, renewables and infrastructure.

The recent UK election result provides greater clarity to the local political environment and potentially a platform to remove the deadlock. This is likely to lead to a continued narrowing in the discount of UK assets as well as a potential bounce in specific companies' earnings as a result of an increase in confidence and releasing some pent-up demand from investment and spending.

Bull Points

UK asset price dislocation due to political risk has led to opportunities in UK medium- and smaller-company stocks

Alternative assets offer an attractive risk premium relative to credit

Bear Points

Difficult to make meaningful returns from fixed interest without taking excessive credit risk

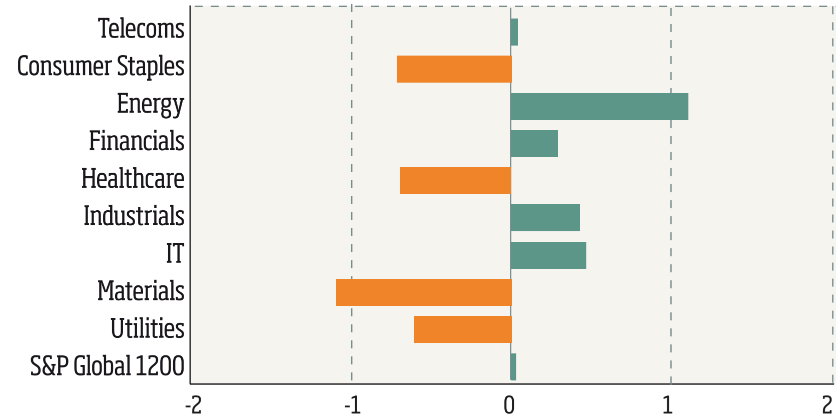
Valuations remain at elevated levels

We continue to find a select number of interesting opportunities in small- and mid-cap companies, which provide the potential for attractive returns. Examples of this include PPHE Hotel Group, Premier Miton, On the Beach and Team17.

We remain confident on long-term returns from a balanced portfolio with the tactical tilts detailed above, although cognisant that a strong rebound in 2019 and an elongated rally since the financial crisis has led to risk asset valuations trading at elevated levels. Across the market an attractive risk premium remains compared to returns available from cash or government bonds and we continue to unearth pockets of value and interesting opportunities across asset classes.

Rupert Silver is lead fund manager of the Credo Dynamic fund

S&P Global 1200 sector returns



29 December 2019 - 4 January 2020. Source: Morningstar