MULTI-INDEX FUND RANGE MONTHLY UPDATE

Market overview

Following the chaotic post-Brexit fallout, markets regained their poise in July. Investors weighed up the various scenarios for each asset class once the panic subsided and started to pick winners and losers in the UK, with the result being that most markets progressed nicely. With Brexit out of the way, global investor attention turned once again to central bank rumours, speculation, action or lack of it. A stronger dollar and weaker oil failed to hold back markets as risk assets ground higher throughout the month. Markets see no reason yet to doubt a goldilocks scenario with reasonable growth, sound, if unexciting earnings and accommodative central banks boosting valuations of risk assets to further elevated levels.

Multi-Index Funds performance and activity

All funds recorded strong positive returns in July, led by US and UK equities after risk assets recovered most of their post-Brexit losses. Although European banks failed to recover over solvency concerns, broader EU equities were a still a positive absolute contributor for Multi-Index 5, 6 and 7. UK corporate bonds also recovered, contributing to positive returns for the funds, particularly Multi-Index 3 and 4.

Despite the initial drop in UK consumer confidence, investors put trust in central bankers and their ability to ease further and support the underlying economy. Equities rallied, on expectation of more stimulus to come (monetary, fiscal or both). A more dovish tone from the US Federal Reserve also supported emerging markets assets (both equities and bonds), high yield and interest-rate sensitive assets like global real estate investment trusts (REITs). Further fair-value adjustments resulted in property being the only asset class with negative return on the month.

As expectations for the Bank of Japan meeting at the end of July mounted, we believed that investors would likely be left disappointed with the new fiscal package and with what the Bank can actually deliver. Hence, we wanted to maintain only a small overweight to Japanese equities in the funds, a position we have been slowly reducing throughout 2016. In Multi-Index 6 that meant we reduced our overweight somewhat and kept our Japanese yen hedge ratio at 50%.

Multi-Index Income Funds performance and activity

All funds recorded strong positive returns in July, led by US and UK equities across all funds after the risk assets recovered most of their post-Brexit losses. Among equities only European banks failed to recover over solvency concerns, although broader EU equities were a positive contributor for the funds. UK corporate bonds also recovered, making the largest single contribution to returns for Multi-Index Income 4. A more dovish tone from the US Federal Reserve also supported emerging market equities and bonds, as well high yield bonds, interest-rate sensitive assets like Global Real Estate Investment Trusts and dividend strategies in Asia, emerging markets and Europe. Asian equities were particularly positive for Multi-Index Income 6, given the higher weight to the asset class.

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Outlook

Markets have been relativity tranquil and while the relief over the UK's swift transfer of power to strong leadership may mean that can continue. Markets may refocus on risks to the Chinese economy, Italian banks, the strong US dollar and the potential for a Trump presidency. In addition investors are likely to continue to monitor interest rates in all the major economies, with headlines and rumours sparking changes in market direction. Chinese currency weakness has largely gone unnoticed recently with official data readings seem to be suggesting that China has capital flight under control. We think the risks to the Chinese currency may be heavily under-priced, this could in turn spill over to global equity markets. While we still believe risk assets will continue benefit our portfolios in the long-run, the combination of the risks above support our decision to remain cautious.

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