

L&G Multi-Index Funds

MONTH IN FOCUS

THE HEADLINES

- The new year brought new highs in equities...
- ... new lows in the US dollar...
- ... and a new face in Davos.

MARKET OVERVIEW

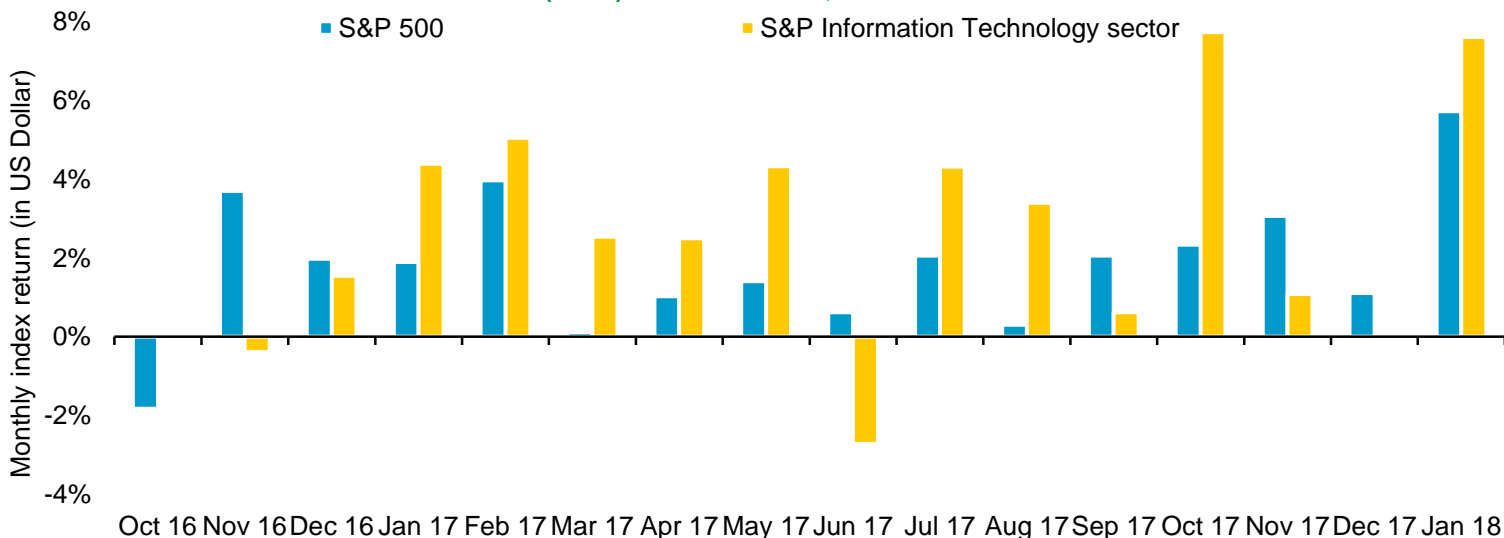
While January typically marks new beginnings, markets rejected New Year’s resolutions in favour of their old habits of 2017. Strong sentiment and confidence in global growth continued to support risk assets. US equities completed an impressive run of 15 consecutive positive monthly returns driven by cyclical sectors, including information technology (see Chart of the Month).

Bond yields increased, but there was sufficient faith in ‘Goldilocks’ that the weakness in fixed income did not affect broader equity markets. The only two laggards were European and UK equities, with the latter facing headwinds from the stronger domestic currency and its more defensive sector exposure. Investors shunned ‘defensive’ sectors, with consumer discretionary, technology and financials leading the charge higher. Global REITs and infrastructure declined on a hedged basis.

While investment grade credit spreads continued to fall, softening the impact of higher yields, US dollar weakened against both the pound and the euro. Markets seem to hold onto the belief that strong global growth might signal the end of quantitative easing or very low rate environment in Europe and that may more than offset the prospect of further rate hikes in the US.

January also saw US President Trump visiting the World Economic Forum in Davos for the very first time. Although not a market-moving event in itself, his ‘America First is not America Alone’ speech brought back to the surface growing concerns about the rise of protectionism, which could harm global trade in the future.

CHART OF THE MONTH – S&P 500 HAS A (BULL) RUN OF ITS LIFE, WITH US TECHNOLOGY STOCKS SOARING ABOVE



Source: LGIM

FUND PERFORMANCE REVIEW

January saw flat performance across most funds. Lower risk funds recorded small negative returns as they hold larger weight in fixed income assets and were affected more by the rising bond yields across the developed world. Our holdings in UK gilts, UK credit, global credit and global linkers all detracted from the overall fund performance. Australian bonds and emerging market debt were largely flat.

Within equities, emerging market equities finished the month on top, followed by Asia Pacific and North American equities. That was particularly beneficial for Multi-Index 6 and Multi-Index 7, which had higher exposure to these assets.

January saw a mixed performance among alternative assets. It was a positive month for a direct UK property, but global REITs and our infrastructure proxies were held back, partly due to their higher sensitivity to rising interest rates.

Pound sterling strengthened in January, and we used that opportunity once again to trim our exposure in line with our long-term strategic target.

RECENT PORTFOLIO CHANGES



EQUITIES AND MID RISK ASSETS



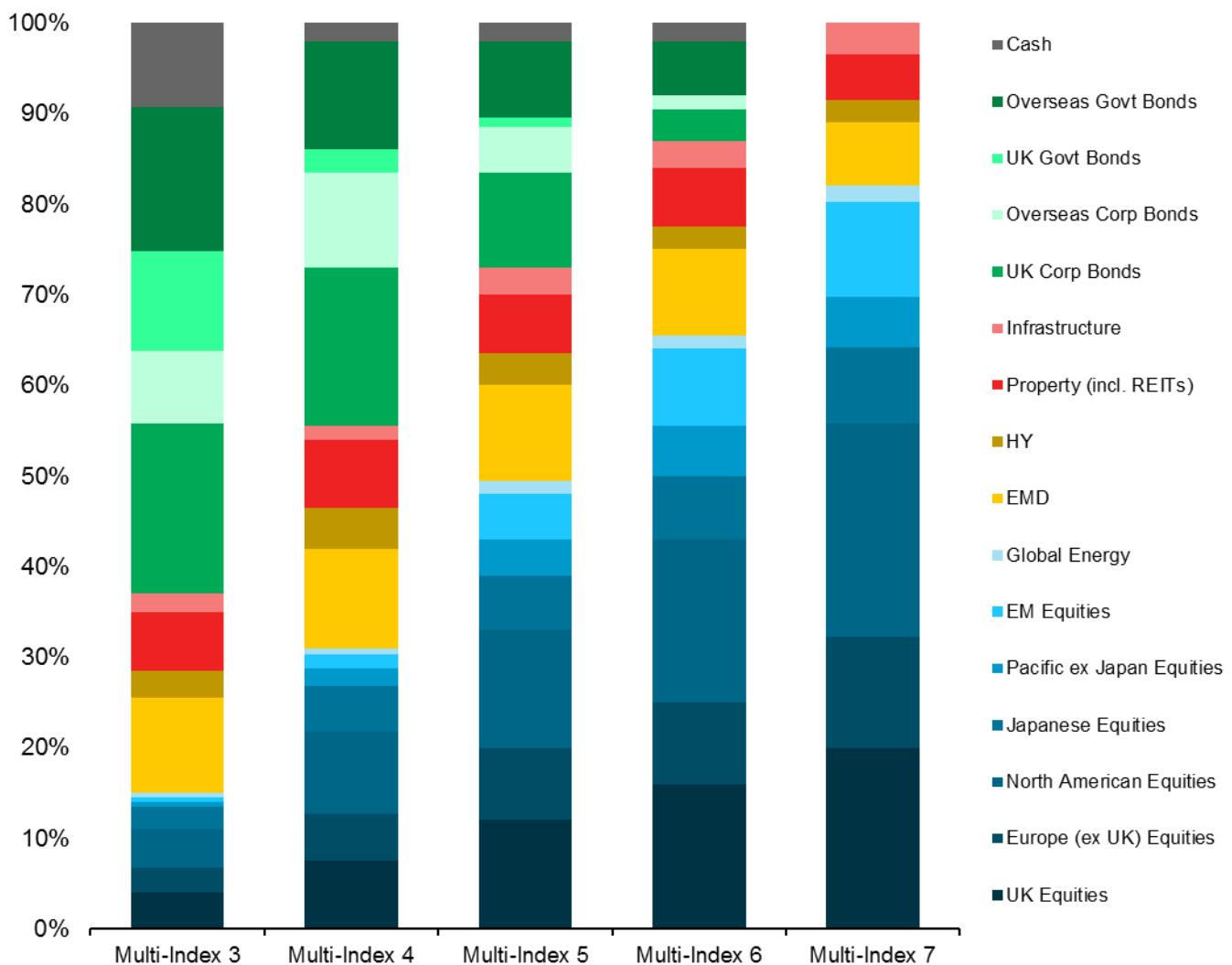
CASH AND UK BONDS

MARKET OUTLOOK

The pace of equity market gains has come as a bit of a surprise in January, continuing a long positive streak for equities thanks to a synchronised economic recovery but only subdued inflation. While this is consistent with mid-economic cycle dynamics, rising inflation would start to push us towards late cycle. While our economists do not see a recession as imminent, we remain vigilant as we inch closer. The economic scenario playing out is one of lower unemployment, President’s Trump’s tax plan and protectionism collectively stoking inflationary pressures, while global growth remains strong. The recent US Employment Report supported the case that inflation could be heading higher.

While there is little visibility on what would be the next catalyst for a large asset price correction, we remain prudent in our investment strategy. If markets and economic data progress as we expect, we will gradually reduce equity exposure as we go deeper into 2018; but if inflation stays subdued and other risks do not build up, we will be more inclined to stay closer to neutral positioning. In addition, we hold some specific hedges in the portfolio, namely a larger allocation to the US dollar as well as US inflation linked bonds amongst our diversified fixed income assets.

TARGET ASSET ALLOCATION (AS OF 31/01/2018)



Source: LGIM

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