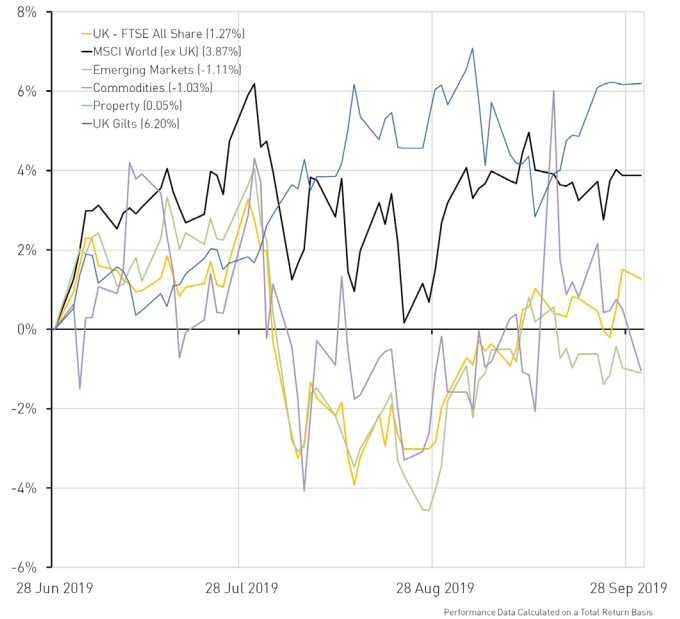


REVIEW OF THE PAST QUARTER:

Weakening global economic data triggered by heightened political uncertainty and renewed US-China trade tensions spurred central banks to continue down the dovish path this quarter. The US Federal Reserve cut rates by a quarter of a percentage point twice over three months. The Bank of England maintained rates but will look to reduce them if Brexit uncertainty continues. Finally, outgoing European Central Bank chairman Mario Draghi lowered interest rates and restarted the bond-buying scheme, all while urging key member states like Germany to open their purse strings and help combat slowing growth.

It has been a summer of political drama. In Italy, right wing nationalist leader Matteo Salvini's gamble on an early election spectacularly backfired, leaving Prime Minister Giuseppe Conte to lead a new coalition government. Tensions in the Middle East remain high after the attack on a Saudi oil processing plant, spiking up the oil price. Over in Argentina, the peso weakened by 26 per cent against the US dollar after primary election results showed the real possibility that the government could lose power in October.

Brexit uncertainty also remains high in the UK. Meanwhile, economic growth continues to be revised downwards due to anaemic business investment as companies uncertain of the short term future, prefer to hoard cash rather than investing on productivity boosting technology.



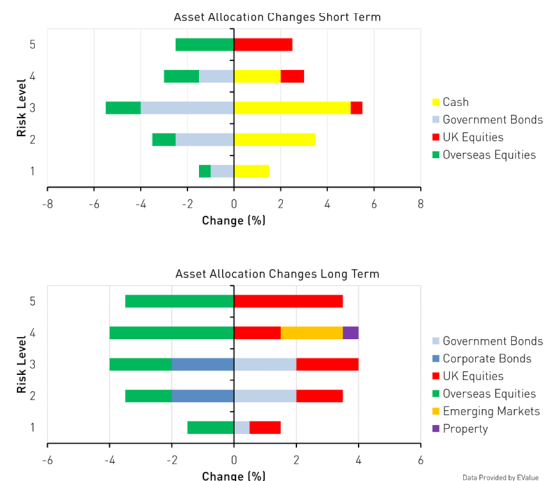
ASSET CLASS RETURNS

Cash	Government Bonds	Index Linked Bonds	Corporate Bonds	UK Equities	Overseas Equities	Emerging Markets	Property
0.19%	+6.20%	+7.76%	+3.69%	+1.27%	+3.87%	-1.11%	0.48%

THE ACTUARIAL VIEW:

Economic forecasts now make grim reading, with 2020 looking to be worse than this year, and have been getting worse with each passing quarter. Germany is teetering on the edge of recession, whereas the US has gone from asking how many rate rises there will be to how many cuts there will be. Globally, bond yields have been falling significantly – Germany can now borrow for 15 years at negative rates. Intriguingly, equity prices have also risen – normally this is because companies are expected to do better, but in some cases it can simply be that the alternatives look worse, and in the current climate it looks to be the latter.

Rising prices mean returns are down. UK equities are the asset class that has significantly lagged – they did OK in UK sterling terms, but UK sterling has also done badly. Fundamentals look better in relative terms, making them more attractive. Lower yields make bonds less attractive, particularly in the short term relative to cash. Corporate bonds have improved relative to gilts, but have deteriorated relative to UK equities.



WHAT TO LOOK FOR IN Q4:

- UK:** The Brexit deadline is on 31 October. The Monetary Policy Committee (MPC) announcements, minutes and quarterly inflation report are set to be released on 7 November.
- US:** There will be interest rate decisions from the Federal Open Market Committee (FOMC) on 29-30 October. Minutes will be published three weeks after each decision. GDP Growth for Q3 (advance estimate) on 30 October.
- Eurozone:** Quarterly GDP flash data is set to be published on 31 October. A European Central Bank monetary policy meeting has been arranged for 24 October.
- Other Data:** Argentina general elections on 27 October. China year-on-year balance of trade data is available on 14 October. Japan's tax hike comes into effect on 1 October.

ASSET CLASS SCENARIOS:



UK EQUITY

Most Likely: A negotiated Brexit deal has become the most likely scenario given the recently approved Benn Bill. The ratified Act is Johnson's least desirable outcome given his pledge to remove the UK from the EU by 31 October, "do or die". Logistics aside, leaving the EU with a deal should be positive for UK equities. A strengthening currency would hamper large companies which underperform smaller ones, further aided by the BoE's current pause on interest rate increases.

Worst Case: A no-deal Brexit remains the worst prognosis for the UK as the positive impact of a weaker UK sterling on the revenues of offshore revenue generating UK companies would likely be offset by fears of disorder and economic downturn. The likelihood of this outcome has recently decreased due to the Benn Act, which requires parliamentary approval of a no-deal outcome, for which there appears little support.

Best Case: A soft deal remains the most realistic best-case scenario as parliament's suspension has left very little time to rally significant MP support for a second referendum or even a general election. With markets having become more jittery recently a soft deal would likely be very well received as an end to the saga.



CASH

Most Likely: The BoE has signalled its intention to maintain its interest rate policy for a while. Core inflation should remain within the 2 per cent-2.5 per cent range, which means returns from cash remain negative. But demand for cash is likely to increase as investors wait for a Brexit settlement.

Worst Case: The worst-case scenario for cash savers is a no-deal Brexit, as currency weakness pushes inflation higher. As Brexit negotiations turn sour and imported inflation compounds, the BoE will be forced to cut rates to stimulate the economy. Returns from cash will further dive into negative territory.

Best Case: Any progress in Brexit negotiations could well be taken by the BoE as a signal to continue tightening, especially if wage growth surprises to the upside. In such a scenario, returns to cash would improve despite staying negative. Similar to government bonds, cash could also act as a safe-haven during bitter negotiations between the government, the UK parliament and the EU.



GLOBAL EQUITY

Most Likely: Central banks in Europe and the US continue with their accommodative policy, supporting equity markets and insuring against slowing global growth. Trump's trade war is likely to retain focus over the quarter and further bouts of volatility are to be expected as both sides look unlikely to give way. In Japan the consumer tax hike comes into effect in October, which could see Japanese equities, particularly consumer related sectors, under pressure.

Worst Case: The trade war takes a new turn with Trump targeting Europe, further dampening global growth. Weak manufacturing data in Europe continues, adding downward pressure to European equities. Brent crude continues to rise as uncertainty surrounding the attacks on oil facilities in Saudi Arabia adds a temporary boost to inflation, hurting consumer spending.

Best Case: The Fed's accommodative stance provides markets with some near-term relief and sends a signal to investors that the central bank will continue to intervene if necessary. Any progress in the US/China trade talks would be positive for markets.



FIXED INCOME

Most Likely: Next quarter could be challenging for bond markets, as central banks are not expected to intervene in the next quarter. Bond investors might not be able to rely on interest rate sensitivity (duration) to drive returns. Central banks have resumed their bond purchases programmes, meaning that the demand for fixed income instruments has increased, driving prices higher. Credit markets should outperform government bond markets, as companies sit on healthy cash balances.

Worst Case: We have reverted to a 'normal' situation where any sign of wage growth and inflation is bad news for bond markets. Any sign that global economies are nowhere near recession could bring yields up, which will drag down both government and corporate bond markets. Investors would panic if central banks reverse the decisions taken recently.

Best Case: Bond markets might have already priced in negative news – as such, the upside is now limited. But political uncertainty will continue to act as a drag on bond yields, anchoring the investors' expectations to lower levels from current ones. Companies might further delay their capital expenditure decisions and lower their debt level. Bond purchase programmes should bring prices for corporate bonds higher.



EMERGING MARKET EQUITY

Most Likely: Emerging markets are likely to be driven by market expectations of Fed easing, the US dollar and trade uncertainty. Emerging market currency strength in September was driven by the hope of more aggressive easing. Instead, the Federal Reserve forecasted no more cuts in 2019 and 2020, which was more hawkish than markets expected. If global uncertainty persists, it is unlikely that emerging markets will see a tailwind of a weaker US dollar despite the Fed easing.

Worst Case: Trade uncertainty, unfortunately, has become the new normal, with markets up or down based on US President Donald Trump's tweets rather than any change in fundamentals. If trade uncertainty continues, global investors will likely steer clear. If the strong US dollar persists, vulnerable economies like Brazil, Turkey and Argentina are set to suffer further.

Best Case: Countries like Taiwan are already benefiting from US-China tensions as corporates have begun shifting production away from China. Emerging market central banks have become the most dovish since 2008, with at least seven countries cutting rates this year. While this should be supportive for equities and bonds, there may be a negative impact on currencies.



PROPERTY

Most Likely: Central banks around the world have gone into full reversal since the end of 2018, and now all appear to not just be 'correcting' rates but embarking on an 'easing' cycle. This should be positive for global real estate investors as funds previously invested in fixed income may return to the sector looking for yield, although there is the underlying issue of slowing economic growth caused by geopolitical tensions and slowing business investment that could dampen this effect.

Worst Case: The political uncertainty in Europe could increase, especially that surrounding the Brexit deadline, causing any delays in investment to be delayed further – or worse, a no-deal scenario, causing upheaval in supply chains across the continent. In the US, any increased rhetoric around tariffs on China will be negative for economic confidence and the effects of previous tariffs could come through and hit corporate earnings growth.

Best Case: Central banks accelerate their dovish monetary policy stance further, whilst global political tensions lift and investors regain confidence for taking further risk in order to achieve a higher yield that is not currently available in fixed income markets. A clearer path on the outcome of Brexit negotiations will also help to boost UK real estate.