

Suzanne Hutchins: What does 2017 hold for the Real Return team?

The liquidity backdrop is challenging generally speaking and I do think that that will continue into 2017 and that's primarily because you know, a lot of the major banks have stepped back from proprietary trading. So the liquidity, the buyers and sellers in the market are other investors like you and I and we know that there's been a significant wall of money that's gone into the debt markets, particularly high yield and at some point when bad debts do start to rise, or when interest rates start to rise and money flows out of that asset class, I think it will be quite challenging to be able to sell it on to another investor.

Equity markets are at or near all-time highs and so at an index level you know, it is challenging to find value. But obviously as active stock pickers we look beneath the index and there are a number of opportunities, companies that really have interesting characteristics which we think are relevant for this volatile and uncertain backdrop, you know we want businesses that have sustainable franchises that can grow, that have got pricing power, some sort of deep note and also scale advantage. So we can really sieve through the wider opportunities set and through our fundamental analysis there are those opportunities.

What role will alternatives play in 2017? I guess the question is, well what is an alternative first of all? Is it just an alternative to an equity or alternative to a bond? Because the opportunity set is obviously very, very broad. We do think that it's very, very important to diversify your sources of return and obviously alternatives, whether it's in precious metals or whether it's perhaps infrastructure related, will provide a source of uncorrelated return, perhaps through a portfolio that is heavily concentrated in equities or bonds. There are a lot of alternative structures that are perhaps leveraged or perhaps don't own the underlying, that are perhaps synthetic. When you get a challenging environment or a left turn event it might be actually very difficult to trade out of these securities.

Within 2017 there is the potential for a transition from monetary policy into more of a fiscal approach to try and engineer economic activity within the real economy. However with a fiscal approach it's quite a drawn out affair. I mean you've got to get a lot of people together in a room to agree on what the spending is going to be, how it's going to be funded and what it's going to be directed towards, which is very different to making a snap decision on an interest rate policy for example.

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