AUTUMN OUTLOOK

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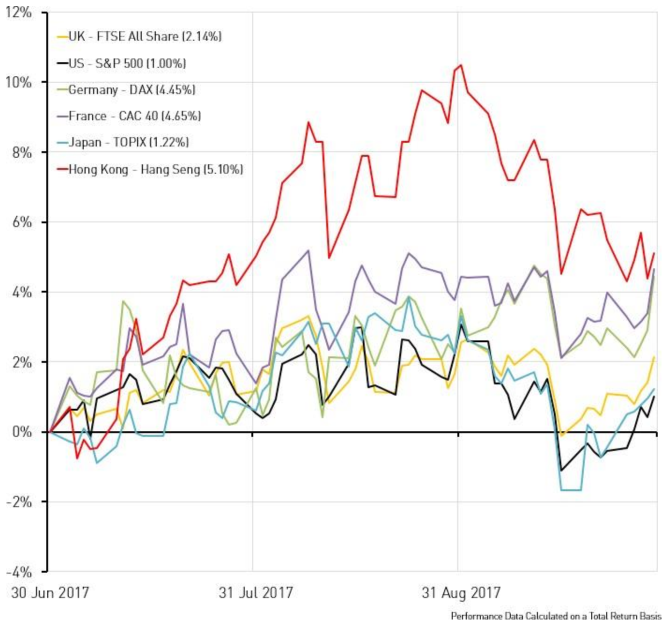
REVIEW OF THE PAST QUARTER:

A continual stream of mixed data and UK growth downgrades over the last quarter meant a relatively volatile time for the UK currency, although a dash of clarity was provided by Theresa May's speech in Florence. Sterling subsequently strengthened, aided by a more hawkish-sounding Mark Carney and fears of increased inflation. Germany's Angela Merkel was re-elected, with a surprisingly strong performance from both political extremes. This meant the summer was not as sleepy as most for equities, with performance differences between stocks rising and several disappointing earnings reports were severely punished by investors.

The US Federal Reserve left rates unchanged but provided detail on the phasing out of quantitative easing, which is to begin on October 31 with only amounts exceeding US$10 billion to be re-invested. Mixed US economic data meant the US dollar weakened over this period while the euro and emerging markets went from strength to strength. The quarter will also be remembered for the irresponsible rhetoric and threats traded by the US and North Korea, as well as further proof of North Korea's intercontinental nuclear capability. Asian stocks fluctuated against this backdrop.

Hurricanes and earthquakes caused indiscriminate devastation globally, but particularly within the Atlantic and Americas. Within commodities, we witnessed oil strengthen through this quarter as both demand increased and supply constraints aided prices.



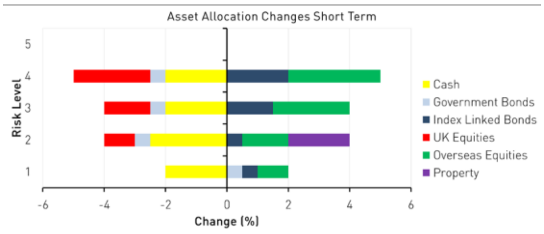
ASSET CLASS RETURNS

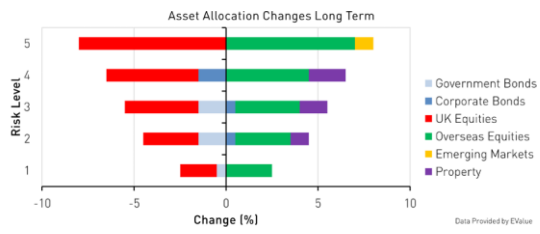
UK	US	Japan	Europe	Emerging Markets	Commodities	Property	Corporate Bond	Gilts	Cash
+2.14%	+1.00%	+1.22%	+4.66%	+4.46%	+3.81%	+1.62%	-0.12%	-0.45%	+0.04%

THE ACTUARIAL VIEW:

The last quarter has been another where market developments have failed to match the volatility of political news. It has generally been a healthy but unexciting quarter for developed market equities. We have seen two opposite stories regarding interest rates, as long-term US rates fell while European ones rose; however, in reality, the divergence is small.

In the UK uncertainty remains high, as the country is experiencing inflation not seen elsewhere, while the threat of a significant economic shock looms. This makes life difficult for policy makers, although the Bank of England seems closer than it has at any point in the last decade to raising rates. For this reason, UK exposure has been reduced, in place of developed markets. The prospects for emerging markets are bucking the trend of their developed counterparts, as fundamentals have kept pace with their strong performance, meaning prospects are catching up with developed markets. Prospects for property have also notably increased, leading to an increased weighting to both asset classes.





WHAT TO LOOK FOR IN Q4:

- Japan: A general election has been set for October 22 as Prime Minister Shinzo Abe aims to take advantage of a weak opposition to consolidate power and reform the constitution. There will be a Bank of Japan announcement on October 31, with the release of the unemployment rate.
- US: The end of quantitative easing is to commence on October 31 with a Federal Open Market Committee (FOMC) meeting on the same date. Federal Reserve Chair Janet Yellen is to make an announcement on October 4 followed by minutes to be released on October 11 of the September meeting. Further statements will follow that but the next most important press conference is on December 13 (after employment statistics are released on December 8).
- Europe: There is a European Central Bank (ECB) announcement on October 26 following the ECB Governing Council meeting in Frankfurt. There will be another press conference and announcement on December 14.
- UK: Monetary Policy Committee (MPC) announcements and minutes are scheduled for November 2 and December 14. The Conservative Party conference takes place October 1-4. The EU hopes to complete divorce principles between October and December (EU leaders meet in Brussels on October 19-20 to assess the issue).
- Other Data: The UK Consumer Price Index (CPI) is released on October 17. The Office for National Statistics is to release UK Productivity April to June 2017 on October 6. The US Census Bureau is to release US International Trade in Goods data on October 28 and November 28.

ASSET CLASS SCENARIOS:

UK EQUITY

Most Likely: Prime Minister May's Florence acceptance of a transitory two years paying into EU coffers has bought business time and some EU goodwill. UK sterling strengthening until the next round of negotiations will drag back FTSE 100 performance as smaller caps continue to outperform. A likely headwind for equities could be the raising of rates by the Bank of England in the event inflation continues to rise.

Worst Case: Brexit negotiations do not progress and, with time running out, quality and defensive stocks remain in favour. Inflationary pressures force the Bank of England into a rate rise, while a lack of wage growth continues to squeeze consumers, hurting UK markets. Financials benefit from the rate increase but don't hold up forever as the economy worsens.

Best Case: A breakthrough in Brexit negotiations allows for access to the free market and acts as a stimulant for investment and consumer confidence. Cyclicals outperform as internationals struggle and re-rate due to the strengthening UK sterling.

CASH

Most Likely: Consumer Price Inflation is likely to remain in the 2.5-3 per cent range and rates are unlikely to go up more than 0.25 per cent, meaning that real returns on cash are highly likely to be negative. It is most likely that the Bank of England will raise rates once in November or December, which could marginally push up rates on cash accounts.

Worst Case: If the economic news darkens swiftly, the Bank could be forced to cut rates even further. However, it is more likely that it would resort to more quantitative easing instead, and the news would have to be very poor and out of keeping with recent modestly positive data.

Best Case: The best realistic case for cash savers is that inflation falls while the Bank of England raises rates by 25 basis points, meaning that losses in real terms narrow, although real returns are highly likely to remain below zero. A significant fall in the oil price or a rise in the price of UK sterling would be the most likely causes, although the effect of the latter could take more time to work through the numbers.

GLOBAL EQUITY

Most Likely: Stronger corporate earnings growth is likely to continue to be supportive for US equities. As central banks become less accommodative, value sectors such as financials could benefit while bond proxies and defensive sectors may come under pressure. Japanese equities could see some volatility ahead of the snap elections, given the large number of undecided voters.

Worst Case: Rising geopolitical tension relating to North Korea is negative for global equities. Such tensions lead the Japanese currency to climb higher as investors seek haven assets, which weighs negatively on Japanese equities. If the US Federal Reserve hikes rates more than expected, this could hurt consumers and overall US growth. Falling support for Chancellor Merkel in the recent German elections, resulting in a weak coalition, could reduce the potential for European integration.

Best Case: As stronger nominal growth boosts sales and operating leverage, we could see an improvement in profit margins across Europe. While margins and valuations are already high, US equities could benefit from stronger sales growth. Japanese equities continue to be supported from fiscal stimulus, which should benefit corporate earnings growth.

FIXED INCOME

Most Likely: The most likely course over the next quarter is a gradual rise in gilt yields, although we expect UK sovereigns to continue to rally when political or economic news looks poor, as it has done more than once this year to date. We do not believe a sharp rise in yields is likely.

Worst Case: If UK economic data is extremely positive and Brexit negotiations go very well then bond yields could sell off; in such an environment we would expect equities to make good money. If the Bank of England decides to raise rates in response to rising growth and inflation, this could strengthen this trend, although it would take extremely strong data for the Bank of England to raise rates more than once.

Best Case: UK corporate bonds are currently yielding more than US and EU equivalents thanks to a 'Brexit premium'; this premium could evaporate and the bonds make gains if the EU negotiations go smoothly. Poor economic data or political issues in the UK or on the global scene could cause gilt yields to fall on risk aversion.

EMERGING MARKET EQUITY

Most Likely: We expect emerging markets to continue to outperform in the fourth quarter, with improving fundamentals and rate cuts in Brazil and Russia driving growth, as well as strong inflows from developed markets seeking higher returns in what is now a more stable region. China will not see any major negative economic news, at least not until the Communist Party congress and 'elections' in October.

Worst Case: There are still political risks in specific countries: for example, the corruption crisis in Brazil could yet see the country's pro-business president, Michel Temer, prosecuted, which could call into question reforms and cause that market to stumble. More globally, a sharp slowdown in the US could cause the repatriation of cash by developed world investors and the US dollar to rise versus local currencies, hurting the region economically.

Best Case: This positive outlook could be improved further by higher-than-expected inflows from the developed world. A recovery in commodity and energy prices could see those sectors follow the current consumer-led rally.

PROPERTY

Most Likely: UK bricks and mortar funds are likely to continue their progression, driven by the rents collected on their assets. In the listed space, housebuilders might again be affected by a slowdown in house prices but the tight supply should provide support.

Worst Case: The current pressure on US real estate investment trusts (REITs) could intensify if the US Federal Reserve hikes interest rates at a higher pace than expected. While this would signal a stronger economic environment, which is good for real estate, this would also diminish the attractiveness of the asset class relative to others. In the UK the market is still dominated by Brexit uncertainty, so any prospect of a bad deal for the UK is likely to depress prices.

Best Case: Progress in the Brexit negotiations would give businesses a clearer idea of what to expect and allow them to plan for the future, and clarify their expectations in terms of office space. This would help commercial property prices. In the US, the economic recovery is supportive of rental growth. The Christmas period could help retail REITs that have recorded losses earlier in the year.