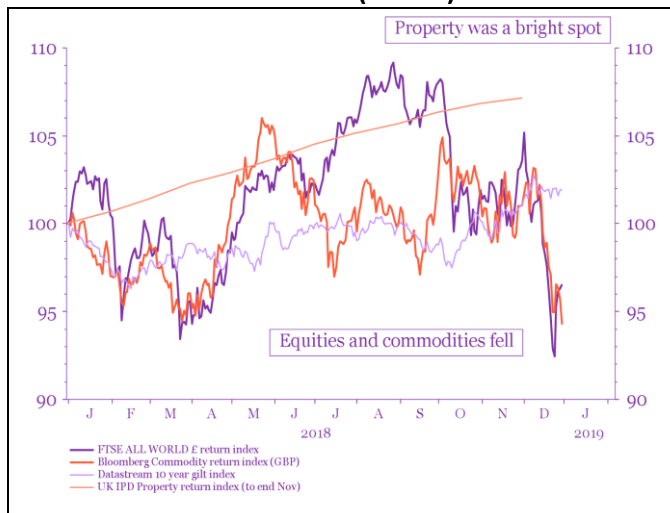




2018 & Q4 REVIEW: VOLATILITY IS BACK

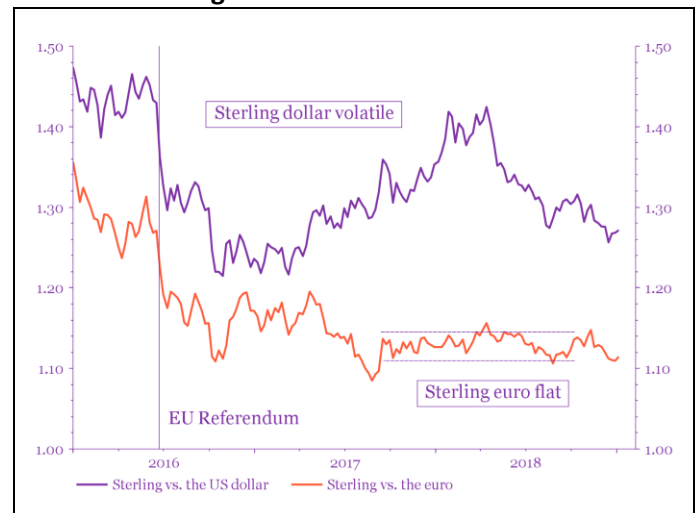
Volatility returned with a vengeance in 2018 after a very quiet 2017. Stock markets saw wild swings and ended the year lower after the worst December for Wall Street since the 1930s. Our Balanced multi asset benchmark saw its first annual decline since 2008, however, diversification and risk management limited losses. We expected volatility to rise in Q4 and have bought equities on weakness. China is easing, the US Federal Reserve (Fed) is less hawkish and we believe geopolitical tensions in the US and Europe are likely to come to a head in Q1. Longer-term risks are rising, however, and we are likely to move to a more cautious position as the year progresses.

Chart 1: Asset class returns (in GBP)



Past performance is not a reliable indicator of future results. Source: Thomson Reuters Datastream as at 07/01/2019.

Chart 2: Sterling since the 2016 EU Referendum



Past performance is not a reliable indicator of future results. Source: Thomson Reuters Datastream as at 07/01/2019.

Table 1: Sterling-based annual returns from major asset classes 2007-2018

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	EM Stocks +37.4%	Gilts +12.8%	EM Stocks +62.5%	EM Stocks +23.6%	Gilts +15.6%	EM Stocks +12.8%	Global Stocks +21.2%	Property +19.5%	Property +13.9%	EM Stocks +35.4%	EM Stocks +21.1%	Property +7.2%
2	Commodities +14.3%	Cash +5.7%	UK Stocks +30.1%	Commodities +20.5%	Property +8.1%	UK Stocks +12.3%	UK Stocks +20.8%	Gilts +13.9%	Global Stocks +4.4%	Commodities +33.3%	Global Stocks +14.0%	Cash +0.6%
3	Global Stocks +11.2%	Multi Asset -10.4%	Global Stocks +20.6%	Global Stocks +17.2%	Multi Asset +1.6%	Global Stocks +12.1%	Property +11.0%	Global Stocks +12.2%	Multi Asset +1.8%	Global Stocks +30.3%	UK Stocks +13.1%	Gilts +0.6%
4	Cash +6.0%	Commodities -10.9%	Multi Asset +12.6%	Property +14.7%	Cash +0.6%	Multi Asset +7.1%	Multi Asset +7.3%	EM Stocks +7.9%	UK Stocks +1.0%	UK Stocks +16.8%	Property +11.2%	Multi Asset -1.2%
5	Multi Asset +5.5%	Global Stocks -18.5%	Commodities +5.9%	UK Stocks +14.5%	UK Stocks -3.5%	Gilts +2.7%	Cash +0.5%	Multi Asset +6.5%	Gilts +0.6%	Multi Asset +12.1%	Multi Asset +6.3%	Global Stocks -3.1%
6	UK Stocks +5.3%	Property -22.6%	Property +1.9%	Multi Asset +11.7%	Global Stocks -6.9%	Property +2.3%	Gilts -3.9%	UK Stocks +1.2%	Cash +0.5%	Gilts +10.1%	Gilts +1.8%	Commodities -5.7%
7	Gilts +5.3%	UK Stocks -29.9%	Cash +1.0%	Gilts +7.2%	Commodities -12.7%	Cash +0.6%	EM Stocks -5.3%	Cash +0.5%	EM Stocks -10.3%	Property +2.6%	Cash +0.3%	EM Stocks -7.6%
8	Property -5.4%	EM Stocks -34.8%	Gilts -1.2%	Cash +0.6%	EM Stocks -18.4%	Commodities -5.4%	Commodities -11.2%	Commodities -11.8%	Commodities -20.3%	Cash +0.4%	Commodities -7.1%	UK Stocks -9.5%

Past performance is not a reliable indicator of future results. Source: RLAM, DataStream as of 31 December 2018; Property Return as of November 2018. Multi Asset returns are based on the benchmark asset mix of the Royal London Global Multi Asset Portfolio (GMAP) Balanced Fund / Governed Portfolio 6 (GP6).



MARKETS: A DISMAL END TO A VOLATILE YEAR

As of 31-Dec-18

- Global equities plummeted in Q4, as geopolitical tensions and recession fears dragged US stocks to their worst yearly performance since the financial crisis.
- The dollar strengthened steadily as the Fed raised rates by a percent. Sterling was weak on Brexit worries, flattering overseas returns.
- A sharp decline in the oil price in Q4 left commodities in negative territory for 2018 but UK property was a bright spot.
- Defensive assets like gold, government bonds and the Japanese yen outperformed in Q4 as investors turned fearful.

FX	1 GBP buys	%chg Q4 (vs GBP)	2018
USD	1.27	2.2	6.0
EUR	1.11	0.9	1.2
CHF	1.25	2.1	5.1
JPY	139.8	6.0	8.9
AUD	1.81	-0.3	-4.4
CAD	1.74	-3.1	-2.2

CB rates	Rate (%)	chg in Q4 (%)	2018 (%)
Fed	2.50	0.25	1.00
BoE	0.75	0.00	0.25
ECB	-0.40	0.00	0.00
BoJ	-0.05	0.01	0.01

Bond Yield	Yield (%)	chg in Q4 (bps)	chg 2018 (bps)
US 10 Year	2.68	-38	28
UK 10 Year	1.28	-30	9
EU 10 Year	0.24	-23	-19
JP 10 Year	0.00	-13	-5

Multi Asset	Local Currency Q4	2018	GBP Q4	2018
UK Stocks	-10.3	-9.5	-10.3	-9.5
Global ex UK Stocks	-12.6	-7.3	-10.6	-3.1
Gilts	1.9	0.6	1.9	0.6
UK Cash	0.2	0.6	0.2	0.6
UK Property*	0.8	7.2	0.8	7.2
Commodities	-9.4	-11.2	-7.2	-5.7

Equity Regions	Local Currency Q4	2018	GBP Q4	2018
UK	-10.3	-9.5	-10.3	-9.5
North America	-13.4	-4.7	-11.6	0.8
Europe ex UK	-11.8	-10.7	-10.9	-9.5
Japan	-17.4	-15.3	-12.4	-7.6
Pacific ex Japan	-9.3	-8.0	-8.1	-6.8
Emerging Markets	-6.4	-8.8	-3.9	-7.6

Global Equity Sectors	Local Currency Q4	2018	GBP Q4	2018
Consumer Discretionary	-14.5	-6.9	-12.3	-2.3
Industrials	-15.5	-12.7	-13.5	-8.6
Financials	-11.2	-12.6	-9.7	-9.9
Consumer Staples	-6.1	-7.7	-4.2	-4.3
Utilities	1.4	4.4	3.4	8.6
Healthcare	-9.4	3.4	-7.4	8.6
Energy	-19.1	-9.4	-18.1	-7.2
Materials	-12.5	-12.1	-11.2	-10.4
Telecoms	-5.5	-7.8	-3.4	-4.1
Technology	-17.1	-5.0	-15.1	0.4

Bonds	Local Currency Q4	2018	GBP Q4	2018
Conventional Gilts	1.9	0.6	1.9	0.6
Index Linked Gilts	1.9	-0.3	1.9	-0.3
GBP Credit	0.1	-1.5	0.1	-1.5
Global High Yield	-3.1	-2.2	-3.5	-3.4

Commodities	Local Currency Q4	2018	GBP Q4	2018
Energy	-25.8	-12.7	-24.0	-7.3
Agriculture	0.2	-10.8	2.5	-5.2
Industrial Metals	-8.7	-19.5	-6.5	-14.5
Precious Metals	6.8	-4.6	9.4	1.4

Note: Standard indices sourced from DataStream and Bloomberg; * Property data as of end November 2018.

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