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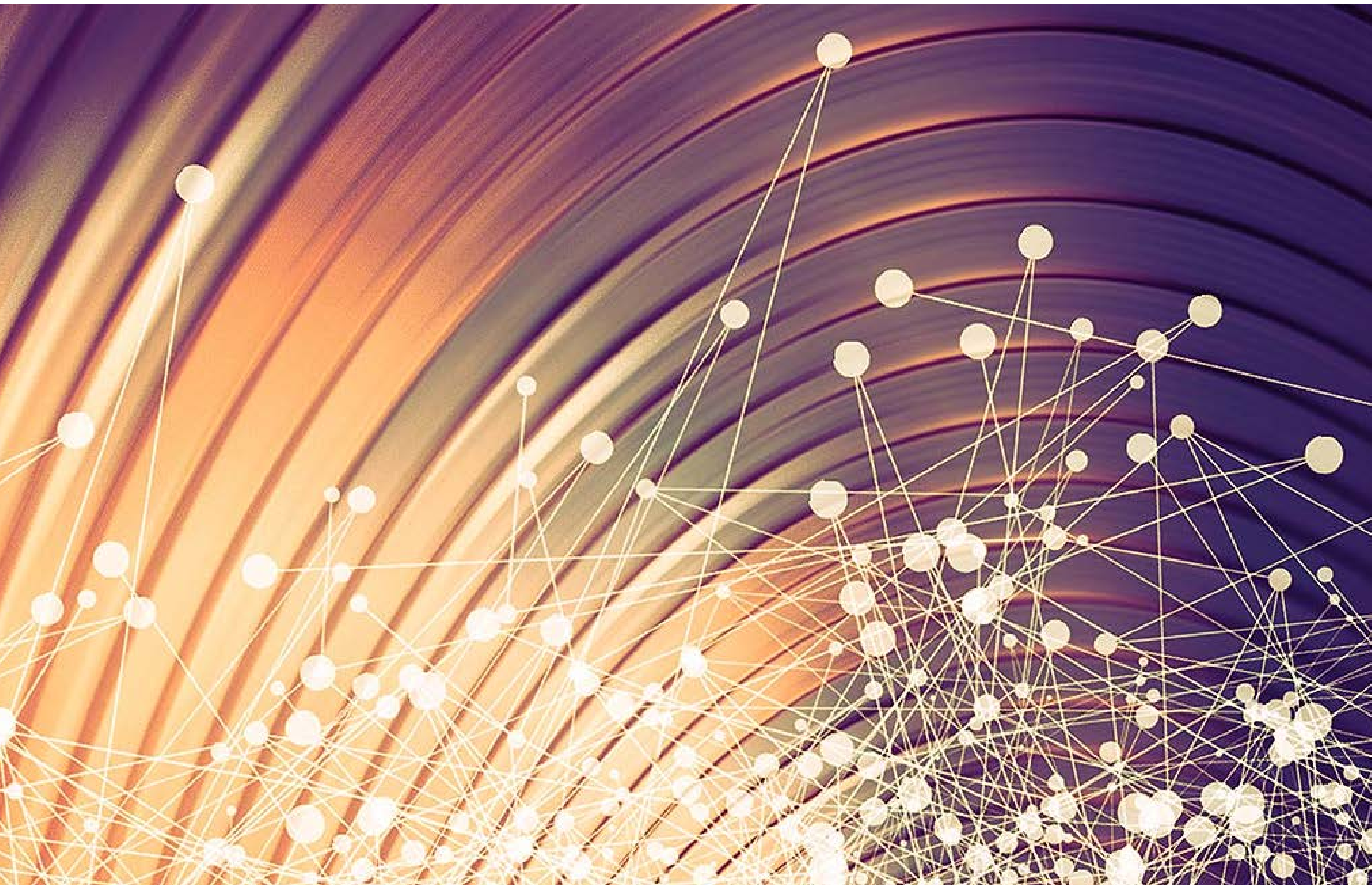

# Be selective but invested

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**Despite the noise in markets, the global growth backdrop is positive for growth-sensitive risk assets. There are value opportunities in Europe and emerging markets. However, investors must tread carefully, be selective but be invested into year-end.**

Global Asset Management

**There are many uncertainties facing investors at the moment. What are your main focuses and how would you navigate the current environment?**

I think that investors should be wary of being distracted by the cacophony of noise from politics – Italy, Brexit or the ups and downs of the Trump White House. That's not to say political developments are unimportant, politics is more important than ever, but investors should not lose sight of the fundamental drivers of future returns – growth, corporate earnings, and valuations. Global growth is strong and it is not just a US story. The European economy is running above trend as unemployment is falling and corporate fundamentals are improving. A key risk to markets is that the Chinese economy slows more quickly than expected – but we don't see evidence of that at the moment, but it is important to monitor.

Regarding navigating the current environment, we believe 'go anywhere' and absolute return strategies are best placed to potentially exploit relative value opportunities and preserve capital against a backdrop of core bond yields likely to end the year higher than current levels. The transition to the post-QE investment regime characterised by divergence, dispersion and volatility has created what in our view are good value opportunities for global macro and alpha-focused alternative investment strategies.

**What are the key investment themes across BlueBay strategies?**

The recent volatility in Italian markets is creating opportunity potential across the periphery and European credit more broadly. We believe an inherently Eurosceptic market is once again mispricing eurozone peripheral risk. In European corporate credit, spreads have fully priced political risk, lower growth expectations and the end of bond buying by the European Central Bank. We expect positive returns from European sovereign and corporate credit into year-end. Moreover, European bank healing and the secular improvement in bank credit fundamentals is a key theme and bank subordinated debt is a strategic overweight across several of our strategies.

Emerging market (EM) high yield sovereign and corporate credit is screening as cheap after this summers sell-off, but care and patience are required ahead of the key Brazilian elections in October.

Quantitative tightening – tighter US dollar financing conditions – means higher interest rates for EM and weaker currencies. The adjustment is not yet over but it can provide a strategic entry point for investors. In general, we have seen that investors are responding to the more uncertain post QE-era with a preference for alternative fixed-income and credit strategies that we believe are well placed to generate returns in a rising rate environment and preserve capital during episodes of volatility.

**What do you think will be key market drivers in the fourth quarter?**

The most important driver into year-end in asset markets will be relative growth performance of the US compared to Europe and the rest of the world.

2018 has so far been dominated by US growth outperformance that has underpinned widening interest rate expectations, a stronger US dollar and equity market (S&P 500) and US high yield outperformance. There is too much growth pessimism priced into European risk assets and EM and there is no shortage of bullish sentiment towards the US. With evidence of a modest pick-up in European growth and strong US growth fully-priced, the US dollar is likely to be range-bound and we believe there is scope for European risk assets and EM to outperform into year-end.

Despite the noise, the global growth backdrop is positive for growth-sensitive risk assets. There are value opportunities in Europe and EM in particular. However, investors must tread carefully, be selective but be invested into year-end.

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