Newton’s global income team considers some of the ramifications of the U.S. election result and how the fund has responded.

Has the fund’s thinking or portfolio positioning changed due to the results of the U.S. elections?

Donald Trump’s election has created a wide range of challenges and opportunities, but our core view and outlook have not changed. Structural challenges, including global indebtedness, lower growth, deflation, geopolitical risk, limitations of current monetary policies and elevated asset prices, remain. In addition to this, it is too early to tell what Trump’s policies will actually be.

While there has not been a significant change of strategy, the fund’s yield discipline (a discipline which we believe is especially important in times of uncertainty like this) had seen the fund reduce staples in favor of some more cyclical areas earlier in the year. This has now started to shift in the opposite direction.

What is your base outlook going forward?

In general terms, we continue to believe that the thematic backdrop will remain more deflationary in nature, as evidenced by some of our investment themes, including ‘population dynamics,’ ‘abundance,’ ‘state intervention,’ ‘mind the gaps’ and ‘net effects.’

Although Trump has been elected on the promise of increased growth, we are very unclear as to how this will be achieved. Japan has attempted to stimulate its economy with a number of fiscal programs over many years, and yet remains in much the same position as it started, only with a lot more government debt.

This does not mean that the market will not anticipate more growth and worry about both inflation and significant bond issuance, and that is indeed what has happened. But it does mean that we are not inclined to chase the rally.

Indeed, if anything, strategies are seeing value emerge in stable equities and, for instance, the yield discipline of the Global Income strategy, which post Brexit was pushing to reduce consumer staples and add to more cyclical areas, is now driving an increase in staples again.

As with Brexit, we see the result of the election very much as one of a series of

1Newton uses a thematic framework to highlight the key forces of change in the global economy and this serves as the starting point for debate. Investment themes seek to identify opportunities but also challenges and key risks.
events which represent the failure of current policy to work for the majority. As a result, we expect our ‘mind the gaps’ theme to continue to increase in prominence as de-globalization continues.

Attention will now shift to the Autumn Statement in the UK and, in particular, to the Italian referendum on constitutional reform which Prime Minister Renzi lost. This will place further pressure on the Eurozone, compounded by the recent polling success of Geert Wilders in the Netherlands and Marine Le Pen in France.

In summary, we believe that it remains prudent to be cautious, particularly with equity valuations at elevated levels. It is one thing to say that you will create growth, but quite another to achieve it.

**Regarding the health care sector, what’s your current positioning and view?**

As of the end of October, the fund held a little over 14% exposure to the health care sector. The one sector which has perhaps behaved differently to the general trend of cyclical and leverage outperforming stability is health care, which had been underperforming in the run-up to the election on fears that a Clinton victory would lead to increased regulation and price pressure; we were less concerned, and hence maintained an overweight position in the fund, and the sector has recovered.

Although it is very unclear exactly what a Trump administration will mean for the Affordable Care Act (Obamacare), it does seem likely that we will not see significant pressure on drug pricing. Our view is that recent events are generally positive for the health care sector, particularly pharmaceuticals, where policy risk has seemingly eased. There may be more pressure on hospitals, although our exposure to this part of the sector remains limited. At present, there has been no significant change to the sector positioning, although current valuations or uncertainty may provide the opportunity for some tactical changes at the margins.

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The investment adviser for the fund is The Dreyfus Corporation (Dreyfus). Dreyfus has engaged its affiliate, Newton, to serve as the fund’s sub-investment adviser.

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