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Scope

Elston ETF Research focuses on ETFs listed on the London Stock Exchange. All tickers relate to London listed securities. Our target audience is UK asset managers and intermediaries.

About Elston

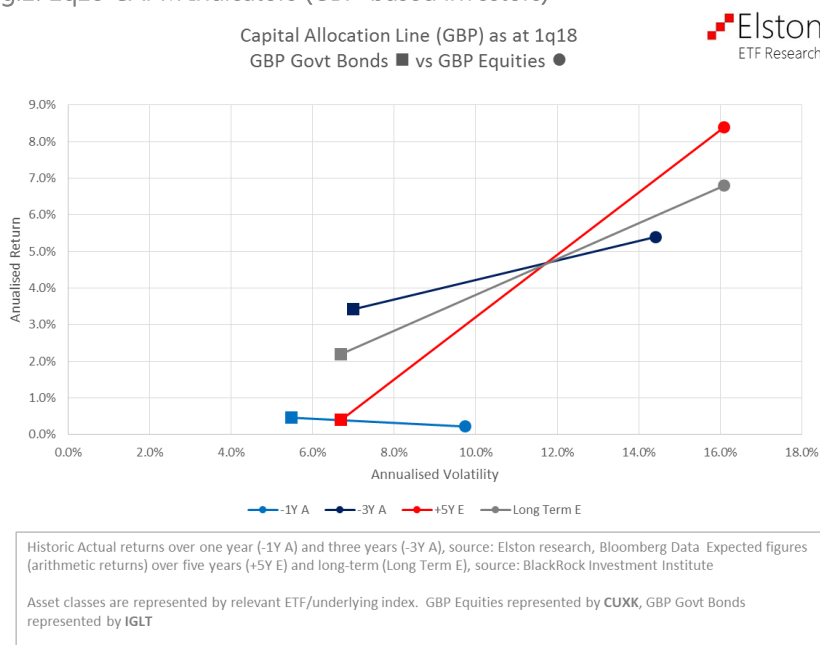
Elston aims to be the UK's leading independent ETF specialist. We provide ETF Research, ETF Portfolios and Indices to asset owners and asset managers.
www.elstonconsulting.co.uk

All data is at 31st March 2018

CAPM INDICATORS (GBP) 1Q18 UPDATE

In this report, we compare expected risk/return assumptions for UK Equities and Bonds to recent actual performance, and review the realised risk-return profile for key asset classes for GBP-based investors.

Fig.1. 1q18 CAPM Indicators (GBP-based investors)



The Capital Allocation Line is the line that links the risk-free asset with the market portfolio.

For GBP-based investors, we use UK Government Bonds as a proxy for the risk-free asset, and UK Equities as a proxy for the market portfolio.

For 5 year, and Long-term, expected risk/return of these asset classes we use estimates from BlackRock Investment Institute.

As expected, the CAL is upwards sloping: the higher the expected risk, the higher the expected return.

For comparison, we superimpose on to those estimates, a snapshot of the historic 1 year and 3 year actual risk/return of these asset classes based on the performance of their respective ETFs.

This gives an informative snapshot over capital market performance and outlook for GBP-based investors.

Fig.2. Data table

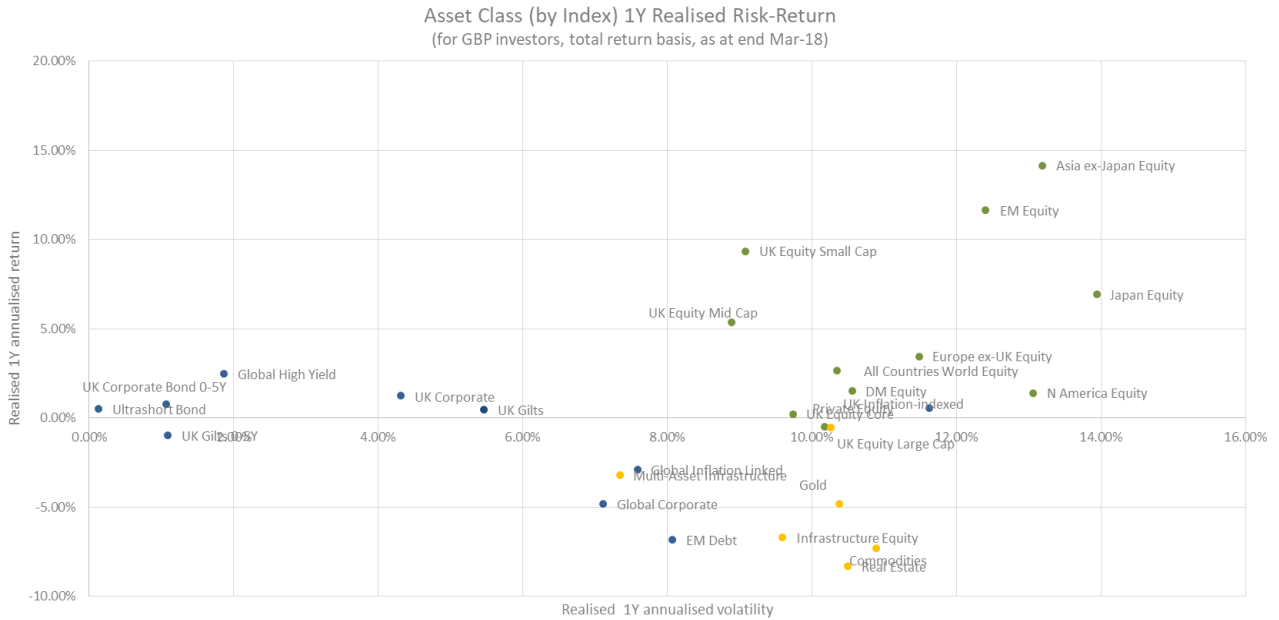
	Volatility Return		Time Horizon	
GBP Equities	9.7%	0.2%	-1Y	Actual
GBP Govt Bond	5.5%	0.5%	-1Y	Actual
GBP Equities	14.4%	5.4%	-3Y	Actual
GBP Govt Bond	7.0%	3.4%	-3Y	Actual
GBP Equities	16.1%	8.4%	+5Y	Estimated
GBP Govt Bond	6.7%	0.4%	+5Y	Estimated
GBP Equities	16.1%	6.8%	LT	Estimated
GBP Govt Bond	6.7%	2.2%	LT	Estimated

Source: BlackRock Investment Institute (estimates; Elston Research, Bloomberg data (actual))

From an asset-class perspective, we look at key asset classes as represented by relevant indices and respected ETFs.

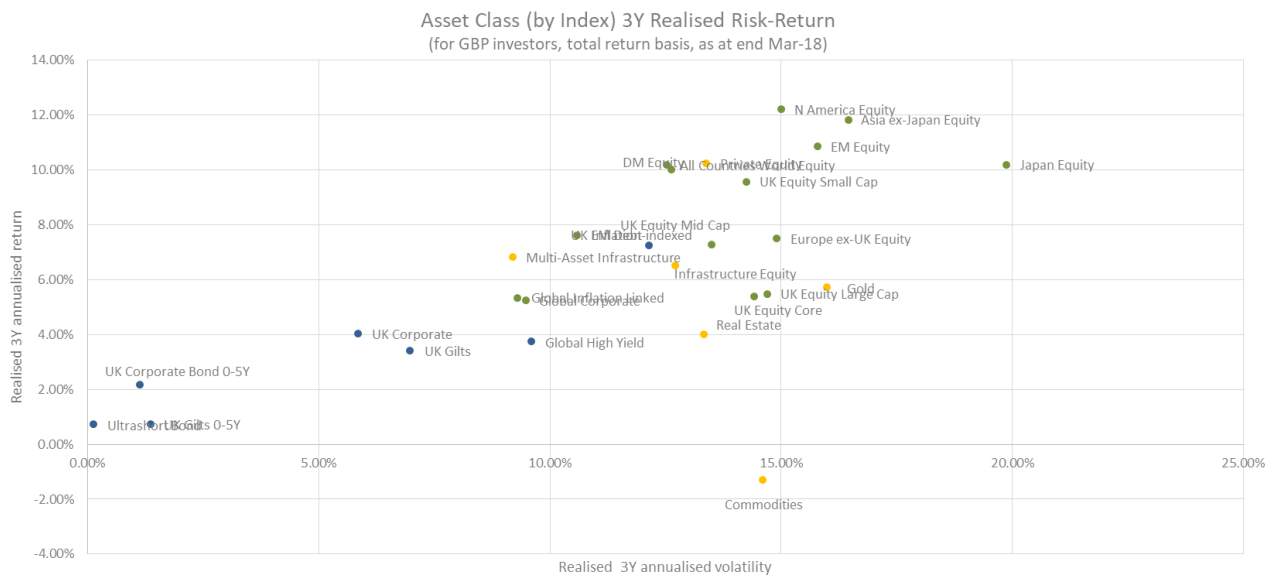
The 1-year and 3-year historic risk/return analysis for key asset classes in GBP terms is presented below.

Fig.3 Historic 1Y risk-return of key asset classes (GBP-basis) to 1q18



Source: Elston research, Bloomberg data

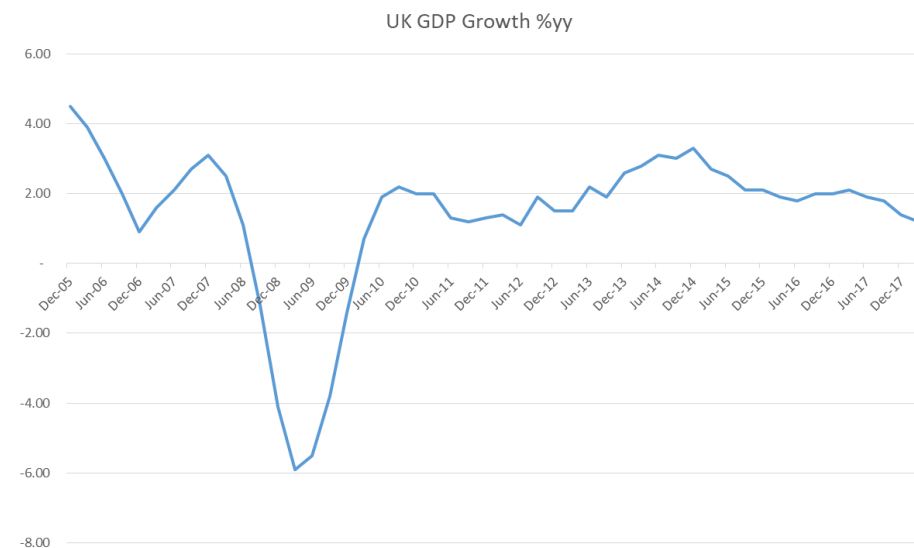
Fig.4 Historic 3Y risk-return of key asset classes (GBP-basis) to 1q18



Source: Elston research, Bloomberg data

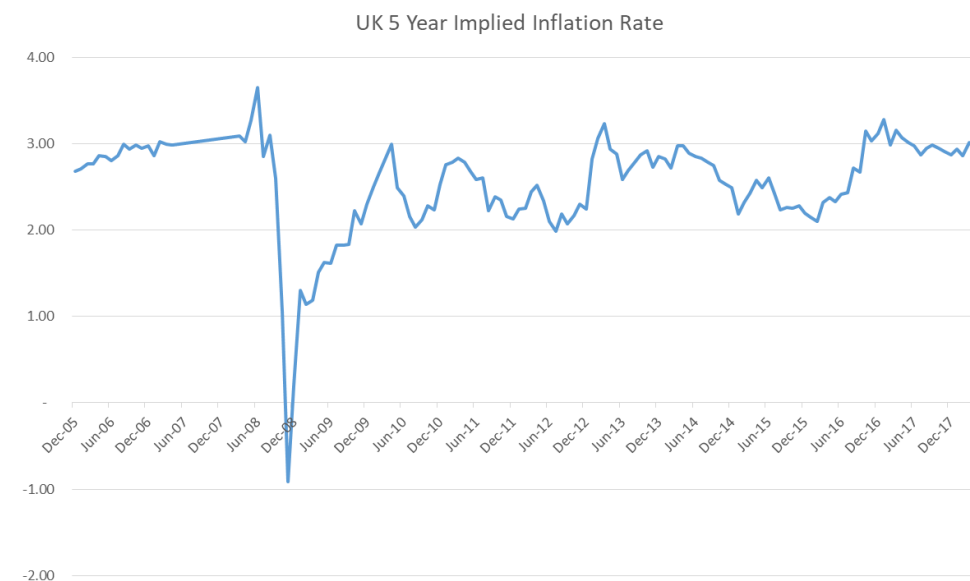
Source: Elston Research, Bloomberg data

Fig.5. UK GDP Growth



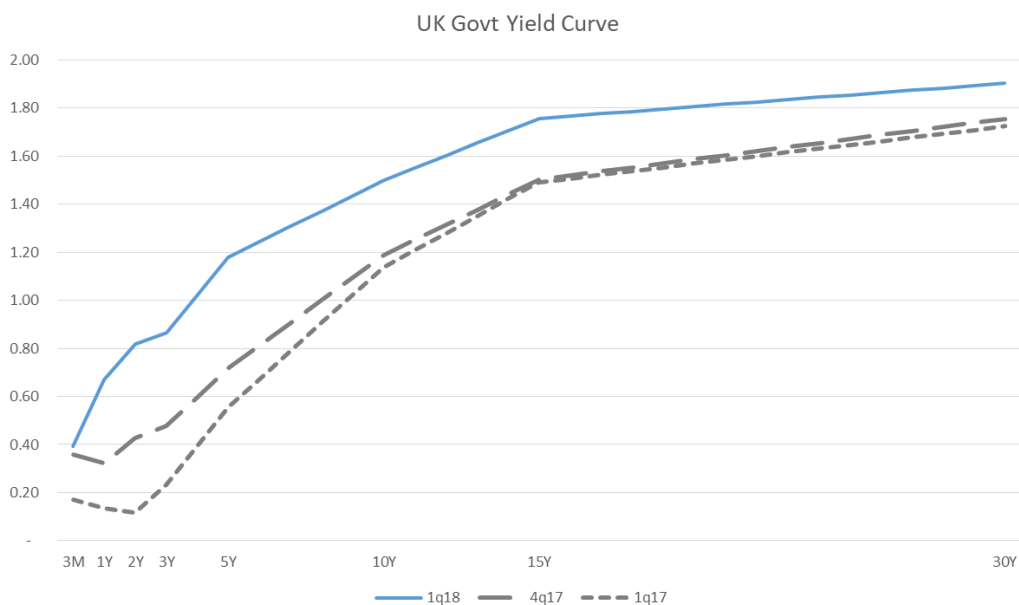
Source: Elston Research, Bloomberg data

Fig.6. UK Implied 5Y Inflation Rate



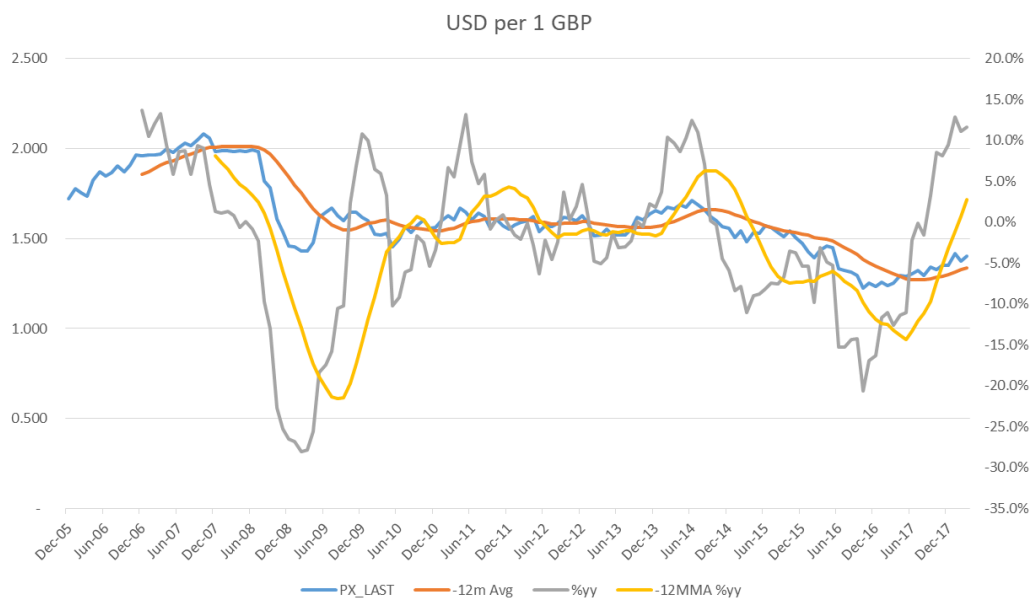
Source: Elston Research, Bloomberg data

Fig.7. GBP Government Bond Yield Curve



Source: Elston Research, Bloomberg data

Fig.8. GBP Exchange Rate



Source: Elston Research, Bloomberg data

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