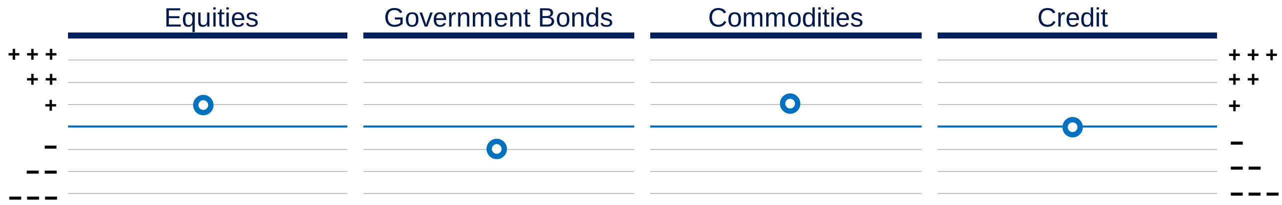
Schroders Multi-Asset Investments

Monthly Views

January 2017



	Category	View		Comments
MAIN ASSET CLASSES	**Equities**	+		The strong readings in global activity data continue to support our positive view, although this is based on expected earnings growth rather than multiples expanding.
	Government bonds	-		We continue to underweight developed market bonds, but remain positive on EM local bonds as the inflation/growth trade-off continues to improve.
	Commodities	+		Prices have reached levels where we are now seeing evidence of a meaningful contraction in supply in some markets, which should support prices.
	Credit	0		Spreads remain supported in a reflationary scenario. However, less attractive valuations no longer protect against the potential for growth disappointments.
EQUITIES	US	0		The president-elect's fiscal policies should offer support to earnings growth, although a stronger US dollar, tighter Fed policy and higher bond yields are a concern.
	UK	0		UK equities remain attractively valued and benefit from strong momentum. However, the tailwind from a weaker pound is likely to fade.
	Europe	+	△	The region should benefit from the reflationary backdrop, while recent relative underperformance due to political uncertainty provides an attractive entry point.
	Japan	+		The recovery in the global economy is positive for this pro-cyclical market, while a weak yen should provide a boost for corporate earnings.
	Pacific ex-Japan	0		The attractive valuation of Australian equities is offset by the market's sensitivity to rising bond yields.
	Emerging Markets	0	▽	We have downgraded emerging markets due to slowing global trade activity and fears of a more protectionist trade policy originating from the US.
GOVERNMENT BONDS	US	-		Fiscal policy expectations, expensive term premia and the global uplift in inflation expectations are a threat to US bonds.
	UK	-		Bank of England may be unable to implement more monetary stimulus amid post-Brexit uncertainty and increasing inflationary concerns due to the weak pound.
	Germany	-		Negative as quantitative easing expectations appear to be priced in, creating the potential for disappointment.
	Japan	0		Neutral, given the continued weakness of the Japanese yen.
	US inflation linked	0		Valuation support for break-evens has moderated following a significant improvement in sentiment.

	Emerging markets USD	0		Momentum has continued to deteriorate; carry should remain the main theme in the market, hence our preference for EM local over EM USD bonds.
	Emerging markets local	++		We remain positive as the inflation/growth trade off continues to improve along with the political dynamics in large countries such as Brazil, Russia and South Africa.
IG CREDIT	US	- -		Spreads are fully pricing in a reflationary, low-default environment after a strong rally in 2016. Valuations are no longer attractive and fundamentals are deteriorating.
IG CREDIT	Europe	-		Continues to provide some valuation support. Tighter spreads reinforce our conviction that the risk premia still remains vulnerable to the downside.
HY CREDIT	US	0		Although the rally since February has rendered valuations less attractive, the consensus is positioning for an improved US growth outlook.
HY CREDIT	Europe	0		Valuations remain moderately expensive relative to history. However, limited local issuance and improving fundamentals are supportive of a neutral positioning.
COMMODITIES	Energy	0		We believe that the action by OPEC will support prices around current levels.
COMMODITIES	Gold	0		Real rates have been pushed higher on hopes of reflation; we will wait to see if growth structurally picks up before downgrading further.
COMMODITIES	Industrial metals	0		Provided supply discipline remains in place and global growth remains firm, then current price levels are warranted.
COMMODITIES	Agriculture	+		Major grains are in abundant supply and any reduction in supply should boost prices.
CURRENCIES	US $	+		Probability of further rate hikes still under-priced; ‘high-pressure’ economy will yield higher inflation and real yields for an economy already close to full employment.
CURRENCIES	UK £	0		Economic data held up better than expected and the medium term valuation is attractive.
CURRENCIES	EU €	-	▽	A downgrade in the euro is warranted by potential for increasing monetary policy divergence and increased political risk from multiple European elections this year.
CURRENCIES	JPY ¥	0		Improvements in macroeconomic data remain balanced by the yen’s tendency to underperform in a rising US interest rate environment.
CURRENCIES	Swiss ₣	0		Record low interest rates and better growth outside Switzerland should encourage net capital outflows but European political risk keeps us neutral.

Source: Schroders, January 2017. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.