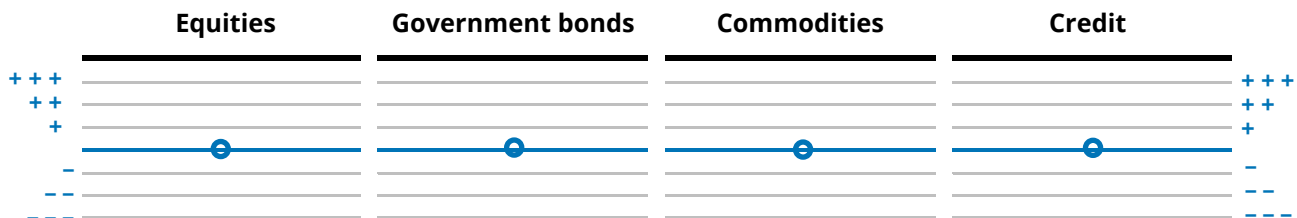


Schroders Multi-Asset Investments

Monthly Views

May 2017



	Category	View	Comments
MAIN ASSET CLASSES	Equities	0 ▽	Our move to neutral expresses the near-term risk of a soft patch in the cyclical data. This would leave the market vulnerable to a correction after recent strong returns.
	Government bonds	0 △	Upgrade to neutral. Although valuation remains on the expensive side, lower growth and inflation make it difficult to see a considerable increase in yields.
	Commodities	0 ▽	Broad commodity momentum has turned negative. Chinese tightening of financial conditions is creating concerns over prices.
	Credit	0	Although spreads remain resilient, the risk/reward prospects look less favourable as valuations have become more expensive.

	Category	View	Comments
EQUITIES	US	0	While relative valuations appear stretched, the Federal Reserve's commitment to a gradual pace of tightening and a potential tax reform lend support to the market.
	UK	- ▽	Downgraded as the strengthening sterling could hurt the export-related sectors. Earnings momentum continues to deteriorate and Brexit uncertainties linger.
	Europe	+	Strong economic and earnings momentum allow us to maintain our positive view as better growth prospects in Europe surface amid fading political risks.
	Japan	0	A weaker US dollar is supporting the yen and negatively affecting the earnings outlook.
	Pacific ex-Japan	- ▽	Downgraded Australia where softer economic data and a correction in industrial metal prices are major headwinds.
	Emerging Markets	+	With an attractive relative valuation, emerging market (EM) will continue to benefit from strong economic growth leading to better earnings.

	Category	View	Comments
GOVERNMENT BONDS	US	0 △	Turned more cautious as a June Federal Reserve (Fed) hike is priced in and growth and inflation momentum have failed to accelerate.
	UK	0 △	Upgrade to neutral as the Bank of England is expected to remain on hold this year.
	Germany	- △	Despite more positive political news out of the eurozone, we are expecting the European Central Bank (ECB) to stick with ultra-loose monetary policy.
	Japan	0	Remain neutral as the Bank of Japan's stance is expected to stay loose.

	US inflation linked	0	With inflation short-term stabilising and some disappointments about Trump policy, we remain neutral.
	Emerging markets USD	0	Have stayed neutral on EM USD bonds, expecting to earn the carry.
	Emerging markets local	+	Remain positive on EM Local bonds given supportive inflation and growth dynamics and attractive real yields.
IG CREDIT	US	--	Valuations continue to look expensive relative to history, offering limited support against interest rate volatility and potential disappointment in future fiscal measures.
	Europe	-	Political risks have diminished, but the combination of the tight spreads and uncertainty of future central bank actions continue to support our cautious view.
HY CREDIT	US	0	Although valuations remain expensive, high yield spreads were resilient during the recent energy selloff, suggesting a strong global bid for carry.
	Europe	0	European high yield remains expensive but is offset by continued strong economic momentum. Therefore, we maintain our neutral score, with a downside bias.
COMMODITIES	Energy	+	US supply growth has delayed rebalancing of inventories to normal levels. OPEC is committed to managing this transition and we expect a recovery in prices.
	Gold	0	We remain neutral while real rates remain range-bound and the Fed's reaction remains balanced.
	Industrial metals	0	Chinese financial tightening is having a direct impact on industrial commodity prices. How much is speculative and how much will impact growth remains unknown.
	Agriculture	+	Major grains are in abundant supply, increasing pressure on farmers due to low prices which may impact future reserves.
CURRENCIES	US \$	0	Remain neutral, given that the Fed's resolute rate-hiking path offsets US growth and is likely to remain underwhelming compared to other developed markets.
	UK £	0	Despite positive forward-looking momentum, there still remains underlying political from Brexit fallout.
	EU €	+	Upgraded due to fading political risk following French election results and the likelihood of the ECB being pressured to change its dovish tone after positive macro data.
	JPY ¥	0	The pickup in economic activity is offset by central bank intervention to keep the 10 year rate at 0%.
	Swiss ₣	0	We await more evidence of a change in tone from the Swiss National Bank or of slower FX intervention before moving away from neutral.

Source: Schroders, May 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.

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