Schroders

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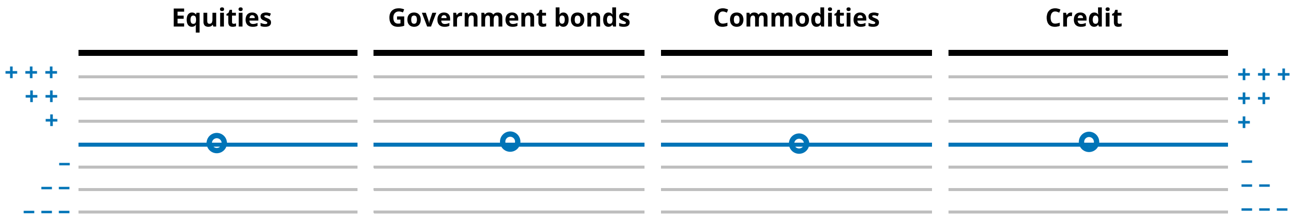
Schroders Multi-Asset Investments

Monthly Views

June 2017



MAIN ASSET CLASSES

Category	View	Comments
Equities	0	While we expect economic growth to remain supportive, we note the recent weakness in some leading economic indicators which may cause the equity rally to pause for breath.
Government bonds	0	We are overall duration neutral. Valuation remains on the expensive side, but with an inflation slowdown in both developing and emerging markets we are struggling to see rising yields.
Commodities	0	We remain neutral. While the cyclical environment remains positive, momentum remains negative. This makes us more cautious.
Credit	0	Although spreads remain resilient, the risk/reward prospects look less favourable as in the context of valuations that appears increasingly expensive.

EQUITIES

Category	View	Comments
US	0	We remain neutral on the US, which we view as more defensive equity exposure albeit at more expensive valuations.
UK	-	Deteriorating earnings momentum, weaker economic growth and the overhang from concerns around the Brexit negotiation process continue to weigh on the market.
Europe	+	Earnings have improved markedly in spite of a strengthening euro, while monetary policy remains accommodative and valuations continue to look attractive.
Japan	0	Earnings and dividends are now close to all-time highs although valuations remain attractive. We look for more evidence of weaker correlation with the yen before we can upgrade.
Pacific ex-Japan	-	We remain negative on Australia as domestic data remains weak, particularly in the household sector while weak commodity prices are a significant headwind to earnings growth.
Emerging Markets	+	Emerging markets equities are set to benefit from the long-term pro-cyclical recovery and are currently enjoying the tailwinds of a weaker US dollar and favourable valuations.

GOVERNMENT BONDS

Category	View	Comments
US	0	The stretched valuation has been offset by both falling inflation expectations and term premium, so we remain neutral.
UK	0	The Bank of England is less likely to be hawkish in a strengthening currency environment, but uncertainty remains so we stay neutral.
Germany	-	Despite the European Central Bank remaining accommodative, the growth outlook continues to improve, so we retain our negative view.
Japan	0	Remain neutral as no change expected in the Bank of Japan’s monetary stance.

	US inflation linked	0		With disappointments about Trump's reflation policy and weak commodity markets, we start to see the value of breakeven, so 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, but we are less negative as carry is attractive in a low growth environment.
	Europe	-		Although political risks have diminished, we continue to hold a cautious view due to the combination of the tight spreads and uncertainty of future central bank actions

HY CREDIT	US	0		Valuations remain expensive; however. high yield spreads were resilient during the recent energy selloff, suggesting a strong global bid for carry.
	Europe	0		Although European high yield remains expensive, this is offset by continued strong economic momentum. We maintain our neutral score, with a downside bias.

COMMODITIES	Energy	0	▽	The recent uptick in Libya and Nigeria supply means both OPEC and US supply growth are now expanding year on year, further reducing the pace of inventory adjustment.
	Gold	0		We remain neutral as we expect gold and real rates to remain range bound as the Federal Reserve remains committed to a gradual normalisation of policy.
	Industrial metals	0		The recent monetary tightening in China leads us to be more cautious on the outlook and we remain neutral.
	Agriculture	+		Consumption growth has been strong but prices remain low, reflecting high levels of global stocks. We are positive on the basis that we view agriculture as difficult to time.

CURRENCIES	US $	0		While the macro outlook is not yet conducive to a strong dollar environment, we believe there could be scope for gains against several G10 currencies.
	UK £	-	▽	Downgraded based on likely weaker economic growth going forward. The Bank of England is unlikely to hike despite higher inflation because of Brexit-related downside risks.
	EU €	+		A continuation of the benign global growth environment should keep the euro, which is still attractively valued, slowly grinding higher due to growth differentials vs trading partners.
	JPY ¥	--	▽	Downgraded as we do not believe a strong yen is likely where the US Federal Reserve is hiking while the Bank of Japan continues to insist on easy policy.
	Swiss ₣	0		Remain unchanged. Given the openness of the economy, stronger activity in the euro area should provide a further tailwind to domestic Swiss growth.

Source: Schroders, June 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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