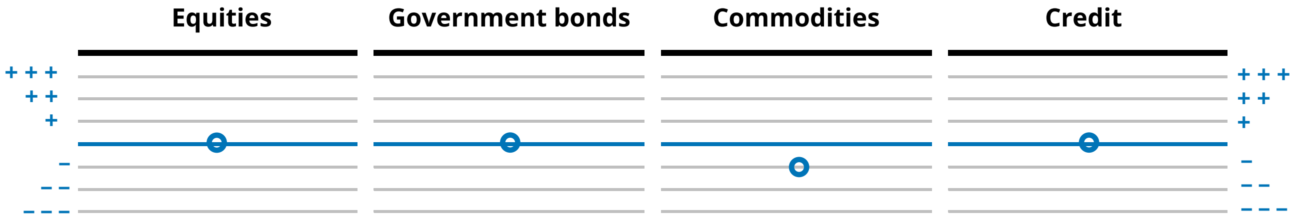
Schroders Multi-Asset Investments

Monthly Views

July 2017



	Category	View	Comments
MAIN ASSET CLASSES	**Equities**	0	We expect to see a rebound in growth momentum and inflation expectations in the coming months to provide the next catalyst to upgrade.
	Government bonds	0	We are neutral duration. Valuation remains unattractive, but without inflation central banks are able to tighten slowly, thus it's hard for yields to rise faster than the market already expects.
	Commodities	- ▽	Despite relatively robust global growth, the pace of improvements in the data has ebbed and price momentum in the commodity universe has turned negative.
	Credit	0	Credit spreads remain resilient although valuations appear increasingly expensive, making the risk/ reward prospect less favourable.

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EQUITIES	US	- ▽	Despite the high-quality nature of the market, which makes it attractive to hold, valuations have become richer compared to the rest of the world.
	UK	0 △	We expect a cyclical slowdown driven by weaker business investment and higher inflation. However cheaper valuations continue to attract inflows from domestic and overseas investors.
	Europe	+	Despite the strengthening currency, corporate earnings have markedly improved. Monetary policy remains accommodative and political risks have receded compared to the start of the year.
	Japan	+ △	Japanese equities stand to benefit from an environment where the yen weakens, as a result of the Bank of Japan retaining ultra-accommodative monetary policy.
	Pacific ex-Japan	0 △	With recent Asia economic and earnings data improving, especially in the technology sector, we upgrade to neutral while mindful of the risks of a continued China slowdown.
	Emerging Markets	+	The recovery in global growth and trade should benefit the emerging world. Furthermore, we believe headwinds from a stronger US dollar environment have eased.
GOVERNMENT BONDS	US	0	The stretched valuation has been offset by both falling inflation expectations and term premium, so we remain neutral.
	UK	0	The near-term economic outlook is poor, but gilts already price this therefore there it's tough to add to duration, particularly with the Bank of England sounding more hawkish.
	Germany	-	Improved domestic growth continues to put pressure on the European Central Bank to scale back policy accommodation, thus weighing on Bunds and justifying our negative view.
	Japan	0	The Bank of Japan remains resolute in backing of its JGB yield target, therefore we remain neutral for now.

	US inflation linked	+	△	Upgraded to positive given improved valuations and low market expectation.
	Emerging markets USD	-	▽	Downgraded to negative given stretched valuations, whilst spreads could come under pressure should global liquidity start to tighten.
	Emerging markets local	0	▽	Downgraded to neutral as growth prospects are now deteriorating whilst investors have become too optimistic on the potential for further central bank rate cuts.

IG CREDIT	US	-		A deteriorating valuation picture continues to outweigh the support for carry in a low growth environment.
	Europe	-		We maintain our cautious view due to the combination of the tight spreads and uncertainty surrounding the future of the local central bank's actions.

HY CREDIT	US	0		Although valuations continue to look expensive relative to history, high yield spreads remained resilient during the energy selloff, suggesting a continuing bid for carry.
	Europe	0		EUR HY spreads screen very expensive on a range of metrics. However, the continuing economic recovery and the attractive carry offered to local investors suggests retaining a neutral score.

COMMODITIES	Energy	0		We remain neutral as the rebalancing in inventories is occurring more slowly than expected given the strong recovery in US shale production.
	Gold	0		Real rates remain range bound as the Federal Reserve gradually normalises monetary policy, hence we remain neutral.
	Industrial metals	0		Chinese financial tightening is having a direct impact on industrial commodity prices, with the authorities trying to balance growth and clamping down on speculative excess.
	Agriculture	+		Prices have reacted positively to weather disruption and we remain positive as future supply of major grains may be impacted by low prices.

CURRENCIES	US $	0		Remain neutral, given softer outlook for US economy and the anticipated economic and business friendly programmes are unlikely to be implemented in the near term.
	UK £	-		Further downside may still be possible with Brexit uncertainty, weaker economic fundamentals and heightened political risk weighing heavily on sterling.
	EU €	+		A continuation of global growth should keep the euro grinding higher thanks to the positive growth differential versus its trading partners.
	JPY ¥	-	▽	We do not see a catalyst for yen strength in an environment where growth remains benign. The Bank of Japan is expected to maintain its easing bias.
	Swiss ₣	0		Given the openness of the economy, stronger activity in the euro area will provide a further tailwind to domestic Swiss growth.

Source: Schroders, July 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.