

The year so far...

'Trump reflation trade' over as doubts increase about his ability to deliver on promises



Reflation trade when investors put money into stocks in the hope they will benefit from increased government spending

Tax cuts

Deregulation

Infrastructure spend

PROMISE

PROMISE

PROMISE



20%

Oil prices fall 20% since last peak in March despite OPEC keeping output at lower levels

Market performance this year

Best performing asset classes:

Global equities

Spanish IBEX 35 index leading the way (+21.8% USD)



+11.5% YTD

Gold, global high yield bonds and global investment grade corporate bonds have been strong performers



+8.5% YTD

HY

+5.8% YTD

IG

+5.4% YTD



Investment grade bond:

a bond of the highest quality as assessed by a credit ratings agency



High yield bond: a speculative bond with a credit rating below investment grade

Worst performing asset class: commodities

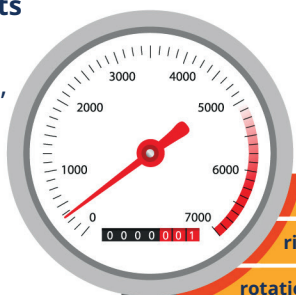


-8.7% YTD

Source: Thomson Datastream, Schroders Economics Group as at 26 June 2017, measured by total returns in USD

Are investors complacent?

Equity markets rallying and volatility low as 'fear gauge' touches a new low...



...this is at odds with the signs that usually reflect lower risk appetite:

falling bond yields

rising gold price

rotation out of cyclical equities*

FEAR GAUGE

Catalysts for rising volatility:



Sharp drop in oil prices



Greater than expected tightening from the Federal Reserve

Complacency may persist as liquidity continues to drive markets - a risk of moving into bubble territory



LIQUIDITY

Global liquidity & emerging markets

Where are the danger points?

Major central banks are tightening policy



Central banks in emerging markets (EM) could be forced to **tighten policy** to defend against the inflationary impacts of exchange rate moves, and to prevent large capital outflows

Risks on the horizon in 2018:

South Africa and Turkey are most vulnerable with Peru, Chile and Colombia also vulnerable

EM Europe and much of EM Asia look less at risk



EMERGING MARKETS

*Cyclical equities are stocks that perform best when the economy recovers

Source: Schroders as at July 2017, RC62268

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