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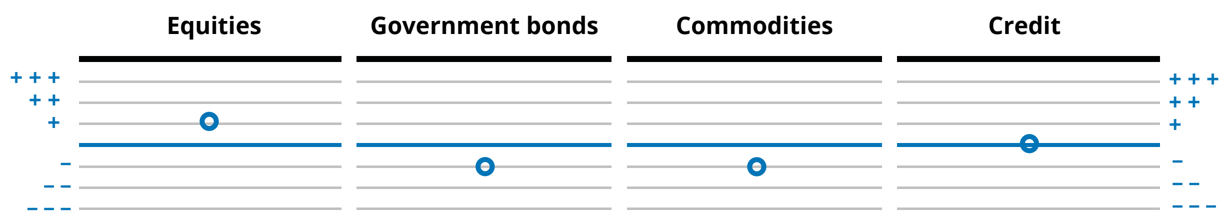
Schroders Multi-Asset Investments

Monthly Views

August 2017



	Category	View		Comments
MAIN ASSET CLASSES	**Equities**	+	△	The encouraging outlook for global growth is translating into better earnings; as global liquidity remains loose, we expect equities to grind higher.
	Government bonds	-	▽	Rich valuations, the stage of the economic cycle and technical indicators all support our negative view on bonds.
	Commodities	-		Broad commodity price momentum, on a 12 month basis, remains weak.
	Credit	0		Although spreads remain resilient, the risk/reward prospects look less favourable as valuations have become more expensive.

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EQUITIES	US	-		We remain negative, believing that non-US equities offer greater upside potential via higher earnings.
	UK	0		Without a tailwind from currency depreciation, the market is lacking the momentum in earnings to drive outperformance, although valuations are appealing.
	Europe	+		We remain positive as the region offers broad-based economic growth and healthy earnings momentum.
	Japan	+		Japanese equities are exhibiting strong earnings growth while providing relatively inexpensive exposure to the cyclical expansion.
	Pacific ex-Japan	0		We expect the uncertainty around Australian domestic policy along with the softer data to act as a drag on Australian equities, which dominate the Pacific ex. Japan universe.
	Emerging markets	+		We expect emerging markets' pro-cyclical sensitivity to drive outperformance, should economic momentum persist globally as expected.
GOVERNMENT BONDS	US	-	▽	Treasuries look rich, implying only 1-1.5 Federal Reserve (Fed) hikes by the end of 2018 and little chance of improving growth/inflation. There seems a low hurdle for surprise.
	UK	0		The near-term outlook remains uncertain, but gilts already price this therefore it is hard to go overweight, particularly with some MPC members sounding hawkish.
	Germany	-		Improved domestic growth continues to pressure the European Central Bank to reduce policy accommodation, thus weighing on Bunds and justifying our negative view.
	Japan	0		The Bank of Japan remains resolute in its JGB yield target, therefore remain neutral for now.

	US inflation linked	+		Remain positive given improved valuations and low current inflation expectations in the market.
	Emerging markets USD	-		Hard to see further spread tightening, whereas spreads could come under pressure if developed market credit spreads widen and/or global liquidity tightens.
	Emerging markets local	0		Valuations remain attractive and external vulnerabilities have improved, but investors appear overly optimistic. Therefore, we prefer to wait before re-entering.
IG CREDIT	US	-		Valuations continue to look expensive relative to history; carry is dominating investors' preference but we think that the risk rewards are tilted to the downside.
IG CREDIT	Europe	-		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		Although valuations remain expensive, a low inflation and low growth backdrop continues to provide a favourable backdrop for carry assets.
HY CREDIT	Europe	0		European high yield remains expensive; however, this is offset by continued strong economic momentum. We maintain our neutral score, with a growing downside bias.
COMMODITIES	Energy	0		Output growth in the US and the return of Libya and Nigerian production has materially blunted the OPEC cuts.
COMMODITIES	Gold	0		Real rates remain range bound as the Fed gradually normalises monetary policy.
COMMODITIES	Industrial metals	0		Chinese financial tightening is having a direct impact on industrial commodity prices, the authorities are trying to balance growth and clamp down on speculative excess.
COMMODITIES	Agriculture	+		Prices have reacted positively to weather disruption but stocks remain high.
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.
CURRENCIES	UK £	-		Maintain negative view given weaker economic growth. Additionally, the Bank of England is unlikely to hike rates due to Brexit-related downside risks.
CURRENCIES	EU €	+		Positive growth and the resulting flows are likely to continue to support the currency.
CURRENCIES	JPY ¥	-		The cyclically stronger macro environment and abundance of global liquidity should continue to be positive for risk taking, but negative for JPY.
CURRENCIES	Swiss ₣	-	▽	Downgraded to negative as safe-haven flows into the CHF unwind and return to the eurozone, a trend that we expect to continue.

Source: Schroders, August 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.