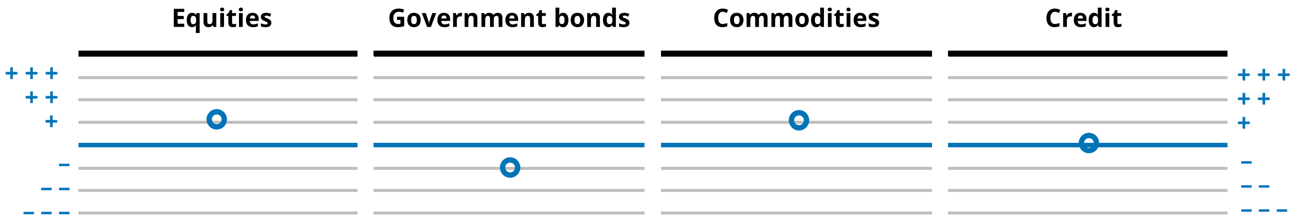
Schroders

Schroders Multi-Asset Investments

Monthly Views

October 2017



	Category	View	Comments
MAIN ASSET CLASSES	**Equities**	+	Steady economic momentum and supportive financial conditions are creating a reflationary window in which equities can thrive.
	Government bonds	-	We maintain our negative view on government bonds this month, led by poor valuations and our cyclical models.
	Commodities	+	Our scores remain unchanged. The supportive cyclical environment and ongoing supply side discipline are likely to combine to deliver positive returns over 12 months.
	Credit	0	Carry and momentum continue to be supportive, but valuations have become very expensive.

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EQUITIES	US	+	Despite elevated valuations we are still positive on the outlook due to the quality of the earnings, as well as the current market pricing very little in terms of fiscal stimulus.
	UK	+	While Brexit uncertainty continues to undermine investor appetite, we believe that the near-term impact will be offset by the cyclical upturn in the global economy.
	Europe	++	Typically the region outperforms during periods of rising bond yields and stronger growth. Over the near term, a stable euro should ease the pressure on profit margins.
	Japan	++	Valuations and earnings momentum are attractive. Bank of Japan expansionary policy encourages corporations to grow profits despite a strong yen.
	Pacific ex-Japan	+	Attractive valuations and improvement in global trade benefit Singapore, while falling bond yields and cyclical rebound provided a tailwind for Hong Kong.
	Emerging markets	++	In a global expansion, emerging markets provide the desirable combination of deep value and cyclical growth.
GOVERNMENT BONDS	US	-	Despite the recent rise in yields, Treasuries still remain slightly rich, particularly with the upcoming reduction in Fed balance sheet and chances of tax cuts.
	UK	- ▽	Moved to small underweight on a cross-market basis. We see better opportunities for government bonds in other countries such as Canada and Australia.
	Germany	0 △	Improving growth should encourage the ECB to reduce QE. This will likely cause European yields to rise generally, whereas the impact on Bunds is less clear.
	Japan	0	The Bank of Japan remains resolute in its JGB yield target, therefore remain neutral for now.

	US inflation linked	+		Remain positive given attractive valuations and low investor inflation expectations.
	Emerging markets local	+	△	Valuations are attractive and the cyclical backdrop is supportive.
IG CREDIT	US	-		Expensive valuations combined with increased leverage make us cautious. Investors are focused on carry, but we view risks to be tilted to the downside.
	Europe	-		We maintain a cautious view due to the combination of tight spreads and uncertainty over future central bank actions.
	Emerging markets USD	-		North Korea/US geopolitical tensions continue to escalate with China, the third player involved in the conflict, reaching a limit on concessions to the US sanctions.
HY CREDIT	US	0		Although valuations are expensive, low rates of default and solid earnings support current spread levels and provide a favorable backdrop for carry assets.
	Europe	-	▽	We downgraded European high yield as valuations touched their most expensive level and now appear vulnerable to central bank actions and political risks.
COMMODITIES	Energy	+		Carry is now positive for the sector. We expect this to improve as inventories continue to normalize. The largest risk remains OPEC abruptly unwinding its production cuts.
	Gold	0		We remain neutral with real rates expected to remain range bound.
	Industrial metals	0		The impact of supply side reforms and a robust manufacturing cycle have supported prices.
	Agriculture	0		While prices are depressed, we see few catalysts for a recovery at present.
CURRENCIES	US $	-		The current "Goldilocks" environment, declining fiscal policy expectations, monetary policy convergence and the plentiful global liquidity create a weak USD environment.
	UK £	0		Economic growth is likely to remain soft and we do not foresee UK domestic headwinds overcoming the risk-friendly environment.
	EU €	+		Low political risk premia, strong cyclical recovery and monetary policy will continue to support the currency.
	JPY ¥	-		Conditions remain negative for the yen, given the risk-friendly environment and no change in Bank of Japan policy.
	Swiss ₣	-		We see reversal of safe haven flows out of the franc and we expect that the SNB will partially reduce the size of its intervention given the current levels.

Source: Schroders, October 2017. The views for equities, government bonds and commodities are based on return relative to cash in local currency. 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. IMPORTANT NOTE: The scores for equities have been adjusted upwards from October to reflect the revised scoring framework which uses returns relative to cash, making scoring consistent across different markets. These do not reflect upgrades in our outlook.