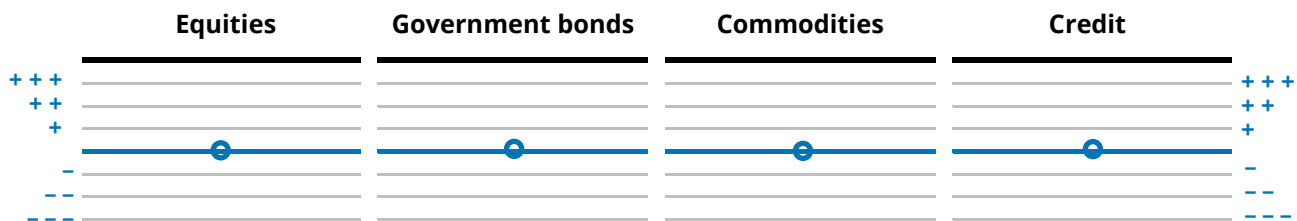


Schroders Multi-Asset Investments

Monthly Views

May 2017



	Category	View	Comments
MAIN ASSET CLASSES	Equities	0 ▽	Our move to neutral expresses the near-term risk of a soft patch in the cyclical data. This would leave the market vulnerable to a correction after recent strong returns.
	Government bonds	0 △	Upgrade to neutral. Although valuation remains on the expensive side, lower growth and inflation make it difficult to see a considerable increase in yields.
	Commodities	0 ▽	Broad commodity momentum has turned negative. Chinese tightening of financial conditions is creating concerns over prices.
	Credit	0	Although spreads remain resilient, the risk/reward prospects look less favourable as valuations have become more expensive.

	Category	View	Comments
EQUITIES	US	0	While relative valuations appear stretched, the Federal Reserve's commitment to a gradual pace of tightening and a potential tax reform lend support to the market.
	UK	- ▽	Downgraded as the strengthening sterling could hurt the export-related sectors. Earnings momentum continues to deteriorate and Brexit uncertainties linger.
	Europe	+	Strong economic and earnings momentum allow us to maintain our positive view as better growth prospects in Europe surface amid fading political risks.
	Japan	0	A weaker US dollar is supporting the yen and negatively affecting the earnings outlook.
	Pacific ex-Japan	- ▽	Downgraded Australia where softer economic data and a correction in industrial metal prices are major headwinds.
	Emerging Markets	+	With an attractive relative valuation, emerging market (EM) will continue to benefit from strong economic growth leading to better earnings.

	Category	View	Comments
GOVERNMENT BONDS	US	0 △	Turned more cautious as a June Federal Reserve (Fed) hike is priced in and growth and inflation momentum have failed to accelerate.
	UK	0 △	Upgrade to neutral as the Bank of England is expected to remain on hold this year.
	Germany	- △	Despite more positive political news out of the eurozone, we are expecting the European Central Bank (ECB) to stick with ultra-loose monetary policy.
	Japan	0	Remain neutral as the Bank of Japan's stance is expected to stay loose.

	US inflation linked	0	With inflation short-term stabilising and some disappointments about Trump policy, 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, offering limited support against interest rate volatility and potential disappointment in future fiscal measures.
	Europe	-	Political risks have diminished, but the combination of the tight spreads and uncertainty of future central bank actions continue to support our cautious view.
HY CREDIT	US	0	Although valuations remain expensive, high yield spreads were resilient during the recent energy selloff, suggesting a strong global bid for carry.
	Europe	0	European high yield remains expensive but is offset by continued strong economic momentum. Therefore, we maintain our neutral score, with a downside bias.
COMMODITIES	Energy	+	US supply growth has delayed rebalancing of inventories to normal levels. OPEC is committed to managing this transition and we expect a recovery in prices.
	Gold	0	We remain neutral while real rates remain range-bound and the Fed's reaction remains balanced.
	Industrial metals	0	Chinese financial tightening is having a direct impact on industrial commodity prices. How much is speculative and how much will impact growth remains unknown.
	Agriculture	+	Major grains are in abundant supply, increasing pressure on farmers due to low prices which may impact future reserves.
CURRENCIES	US \$	0	Remain neutral, given that the Fed's resolute rate-hiking path offsets US growth and is likely to remain underwhelming compared to other developed markets.
	UK £	0	Despite positive forward-looking momentum, there still remains underlying political from Brexit fallout.
	EU €	+	Upgraded due to fading political risk following French election results and the likelihood of the ECB being pressured to change its dovish tone after positive macro data.
	JPY ¥	0	The pickup in economic activity is offset by central bank intervention to keep the 10 year rate at 0%.
	Swiss ₣	0	We await more evidence of a change in tone from the Swiss National Bank or of slower FX intervention before moving away from neutral.

Source: Schroders, May 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.

Important Information: These are the views of the Schroders' Multi-Asset Team and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds. These views are subject to change rapidly as economic and market conditions change. Strategies mentioned are for illustrative purposes only and should not be viewed as a recommendation to buy/sell. This newsletter is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The material is not intended to provide, and should not be relied on for accounting, legal or tax advice, or investment recommendations. Information herein has been obtained from sources we believe to be reliable but Schroder Investment Management North America Inc. (SIMNA) does not warrant its completeness or accuracy. No responsibility can be accepted for errors of facts obtained from third parties. Reliance should not be placed on the views and information in the document when taking individual investment and/or strategic decisions. The opinions stated in document include some forecasted views. We believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee that any forecasts or opinions will be realized. Schroders has expressed its own views and opinions in this document and these may change. Past performance is no guarantee of future results. Portfolio holdings may change at any time. Schroder Investment Management North America Inc. ("SIMNA Inc.") is registered as an investment adviser with the U.S. Securities and Exchange Commission and as a Portfolio Manager with the securities regulatory authorities in Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec and Saskatchewan. It provides asset management products and services to clients in the United States and Canada. Schroder Fund Advisors, LLC ("SFA") is a wholly-owned subsidiary of Schroder Investment Management North America Inc. and is registered as a limited purpose broker-dealer with the Financial Industry Regulatory Authority and as an Exempt Market Dealer with the securities regulatory authorities of Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Quebec, and Saskatchewan. SFA markets certain investment vehicles for which SIMNA Inc. is an investment adviser. SIMNA Inc. and SFA are indirect, wholly-owned subsidiaries of Schroders plc, a UK public company with shares listed on the London Stock Exchange. This document does not purport to provide investment advice and the information contained in this newsletter is for informational purposes and not to engage in a trading activities. It does not purport to describe the business or affairs of any issuer and is not being provided for delivery to or review by any prospective purchaser so as to assist the prospective purchaser to make an investment decision in respect of securities being sold in a distribution. Further information about Schroders can be found at www.schroders.com/us or by calling (212) 641-3800. Schroder Investment Management North America Inc.