

Market Insights – “Isolated Storms”

September 2017

“What has so often excited wonder is the great rapidity with which countries recover from a state of devastation; the disappearance of all traces of the mischiefs done by earthquakes, floods, hurricanes and the ravages of war.”
John Stuart Mill, Principles of Political Economy, 1848

Julian Howard, Head of Multi-Asset Solutions

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Isolated Storms

Key themes for investors

Global economic outlook diverges

- Global leading indicators mostly positive
- But US economic picture inconsistent
- Storms' effects tend to be transient
- UK – Brexit's winners and losers
- European revival more clear-cut
- Distribution of global growth evolving dramatically

Equities extended, but opportunities remain

- Corporations in the ascendancy over labour
- If bond yields are speaking, equities aren't listening
- Tax reform – keeping half an eye open
- But the US stockmarket feels rich
- Europe - strong euro not always bad for equities
- Japan - Abenomics' positive effect on the market
- EM - Structural oil decline unlikely to hurt

Ripples in Capital Preservation world

- Cat bonds - panic rewards buy-and-hold
- Storms' effects on broad MBS are negligible
- Govt. bonds' diversification properties worsen
- High yield bonds don't buy into growth pessimism
- Short bunds a frustrating wait, but should reward

Positioning

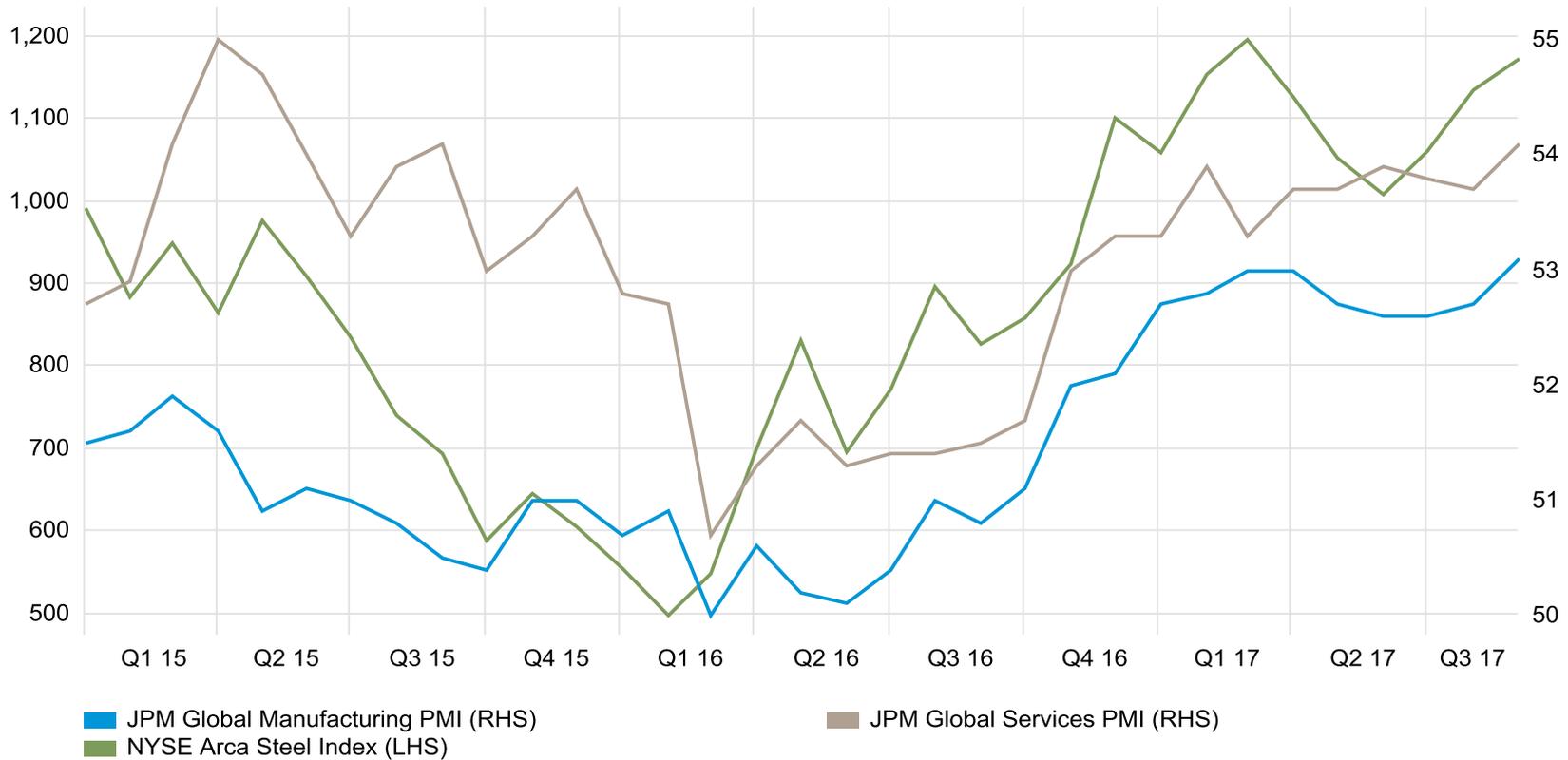
- Scenario analysis
- Positioning

Q&A

GLOBAL ECONOMIC OUTLOOK DIVERGES

Global leading indicators mostly positive

From 31 Dec 2014 to 31 Aug 2017

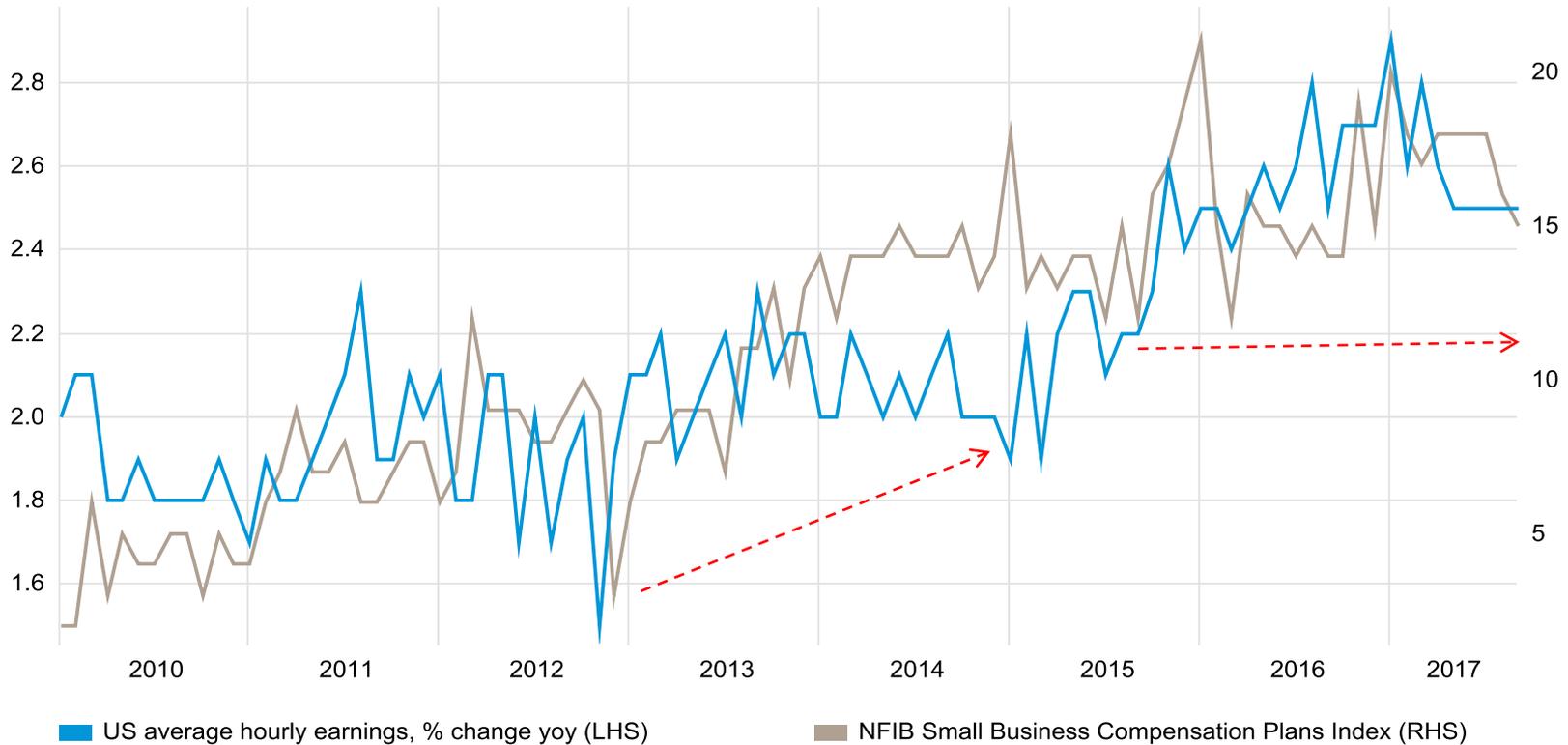


Past performance is not indicative of future performance.

But US economic picture inconsistent

From 31 Dec 2009 to 31 Aug 2017

Compensation has stalled...

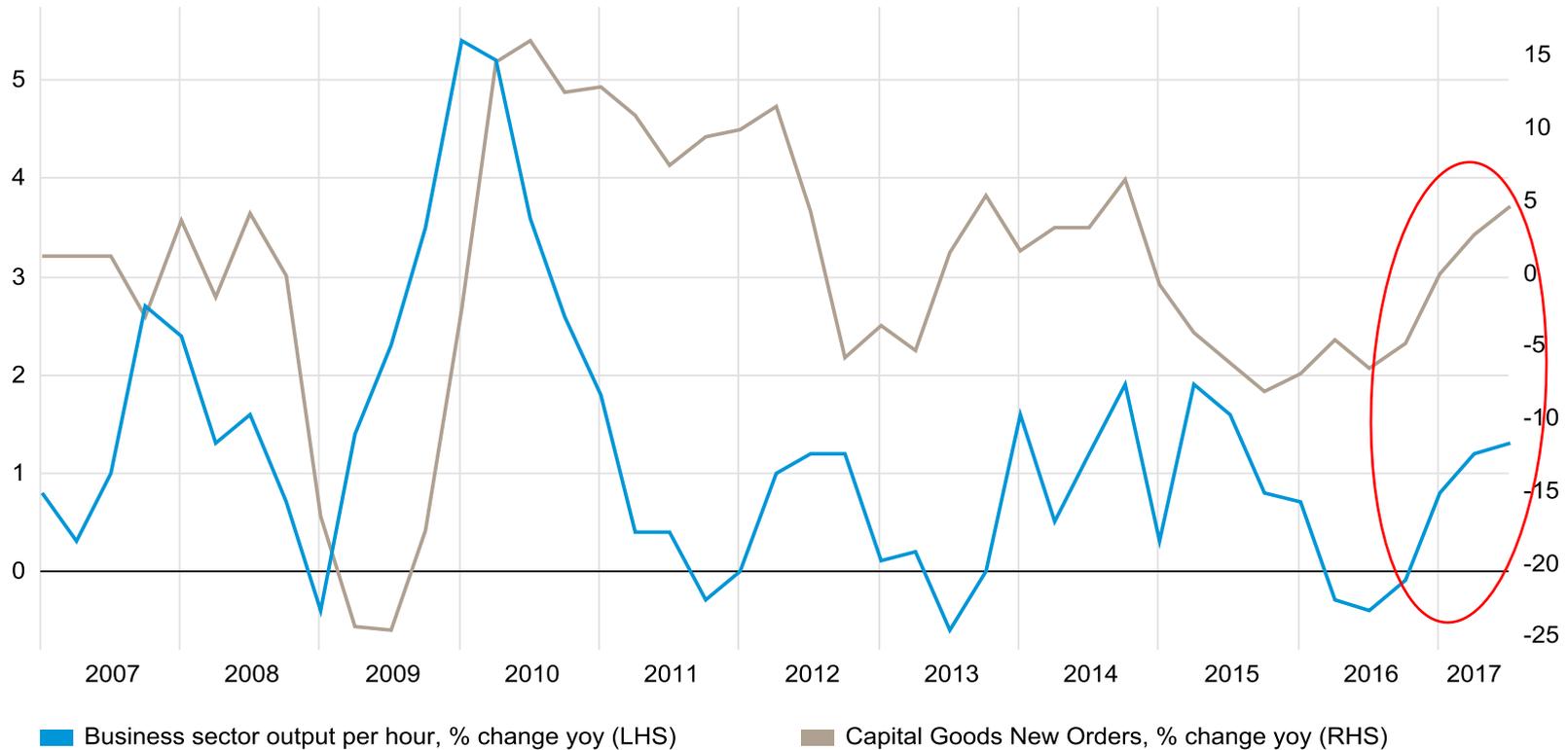


Past performance is not indicative of future performance.

But US economic picture inconsistent

From 31 Dec 2006 to 30 Jun 2017

...But productivity and investment have perked up

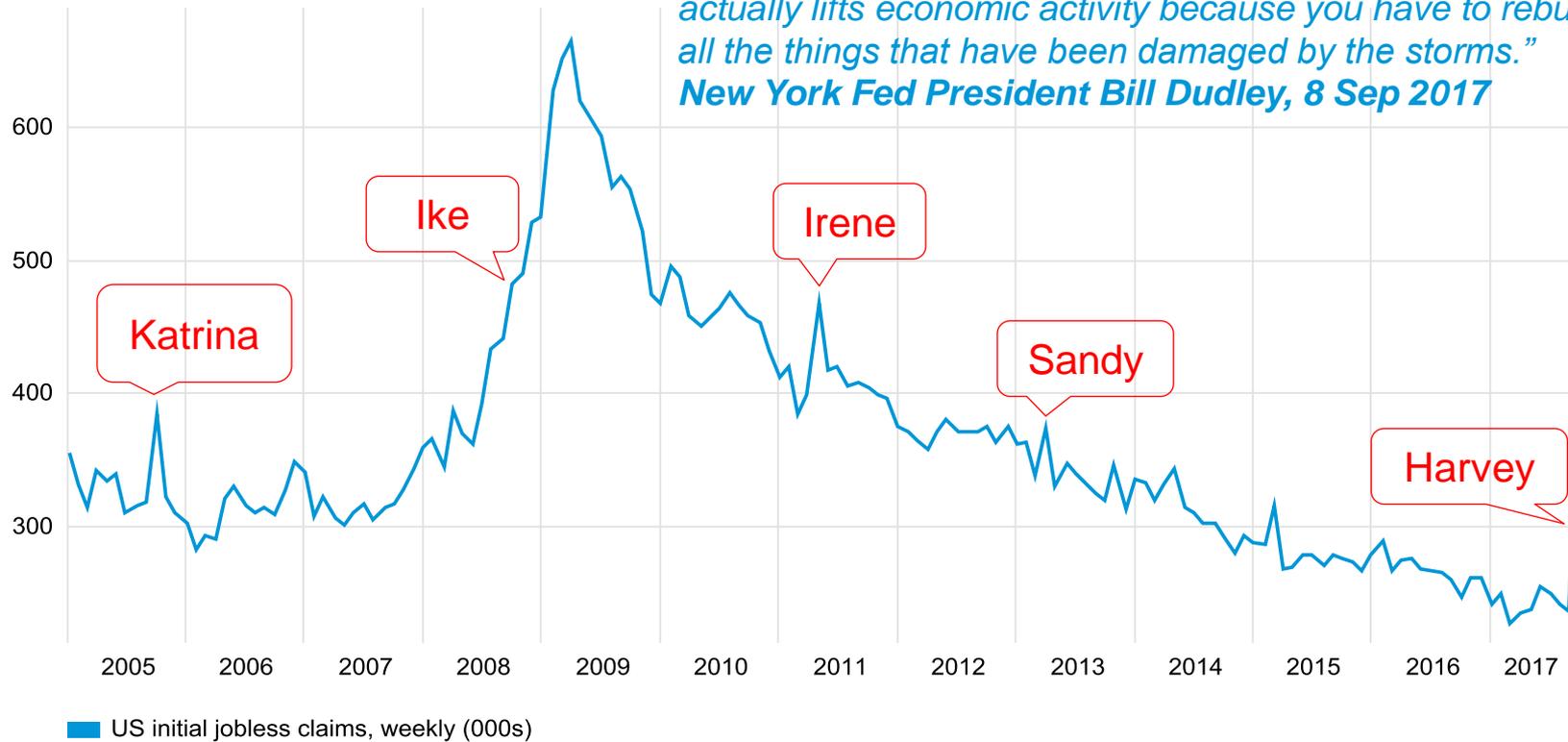


Past performance is not indicative of future performance.

Storms' effects tend to be transient

From 31 Dec 2004 to 1 Sep 2017

*"The long-run effect of these disasters unfortunately is it actually lifts economic activity because you have to rebuild all the things that have been damaged by the storms."
New York Fed President Bill Dudley, 8 Sep 2017*



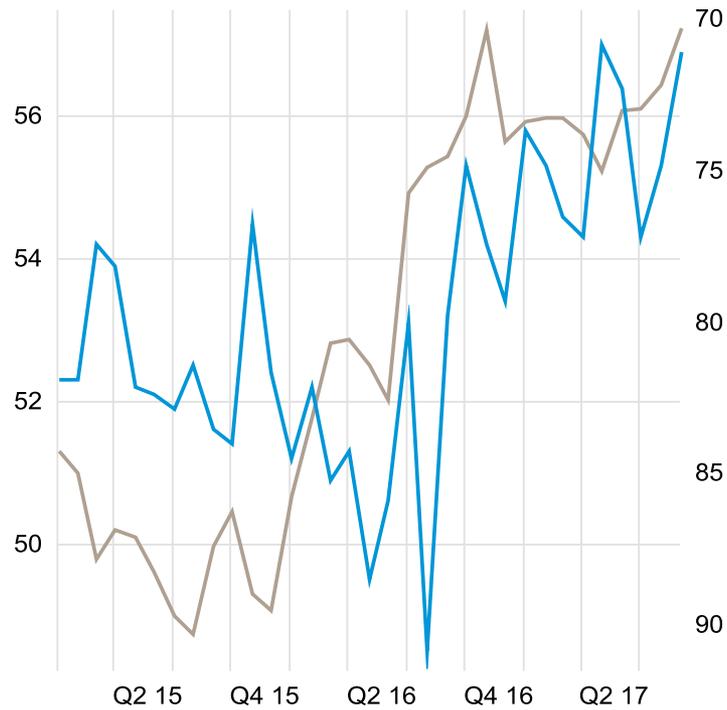
Past performance is not indicative of future performance.

Source: Bloomberg

UK - Brexit's winners and losers

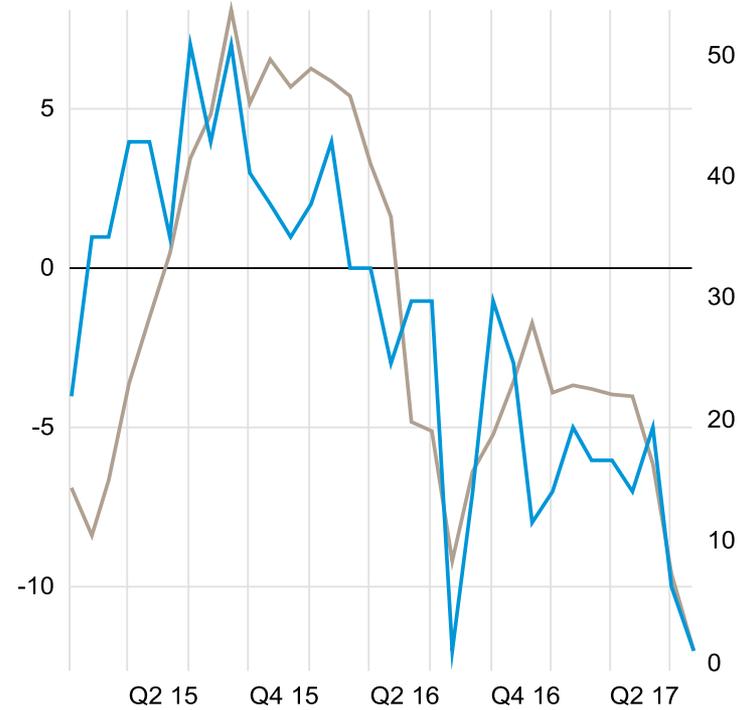
From 31 Dec 2014 to 31 Aug 2017

Manufacturing (10% of the economy) doing well...



■ UK manufacturing PMI (LHS)
■ GBP trade-weighted index (RHS, inverted)

...Consumers (60% of the economy) suffering

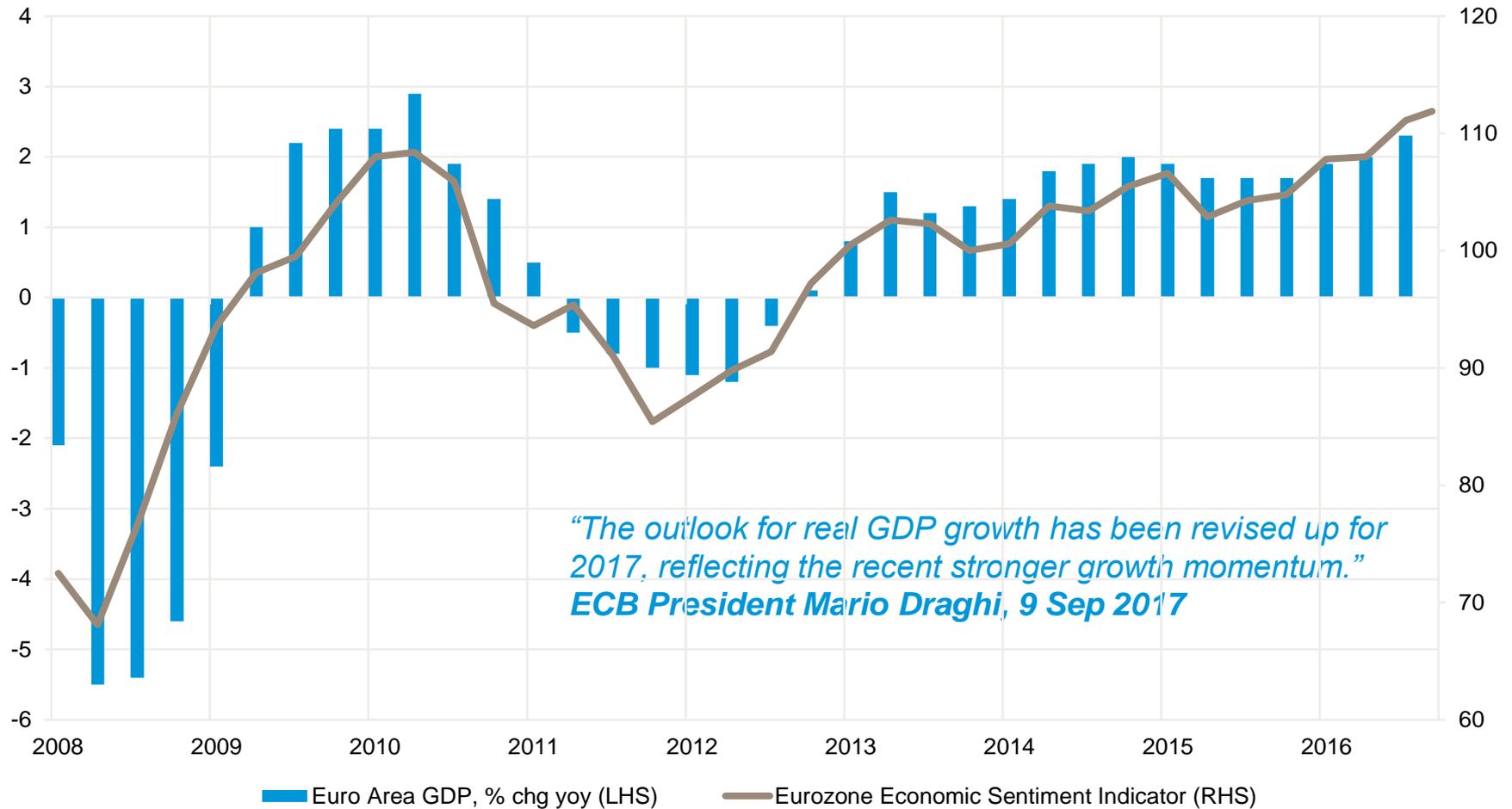


■ UK consumer confidence index (LHS)
■ RICS Housing Market Survey Price Balance (RHS)

Past performance is not indicative of future performance.

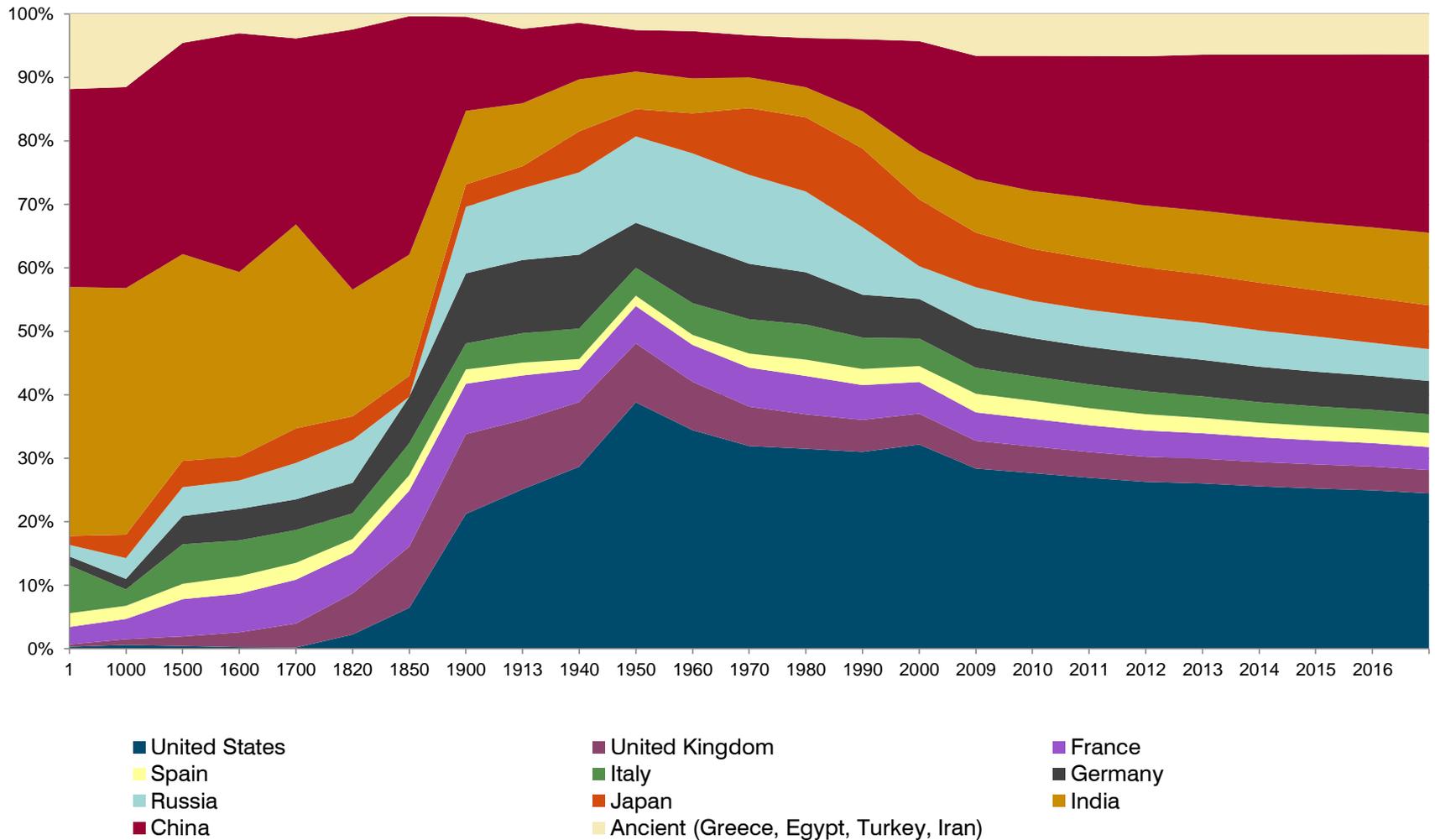
European revival more clear-cut

Data from 31 Dec 2008 to 31 Aug 2017



Distribution of global GDP evolving dramatically

Data from 1 to 2017 CE



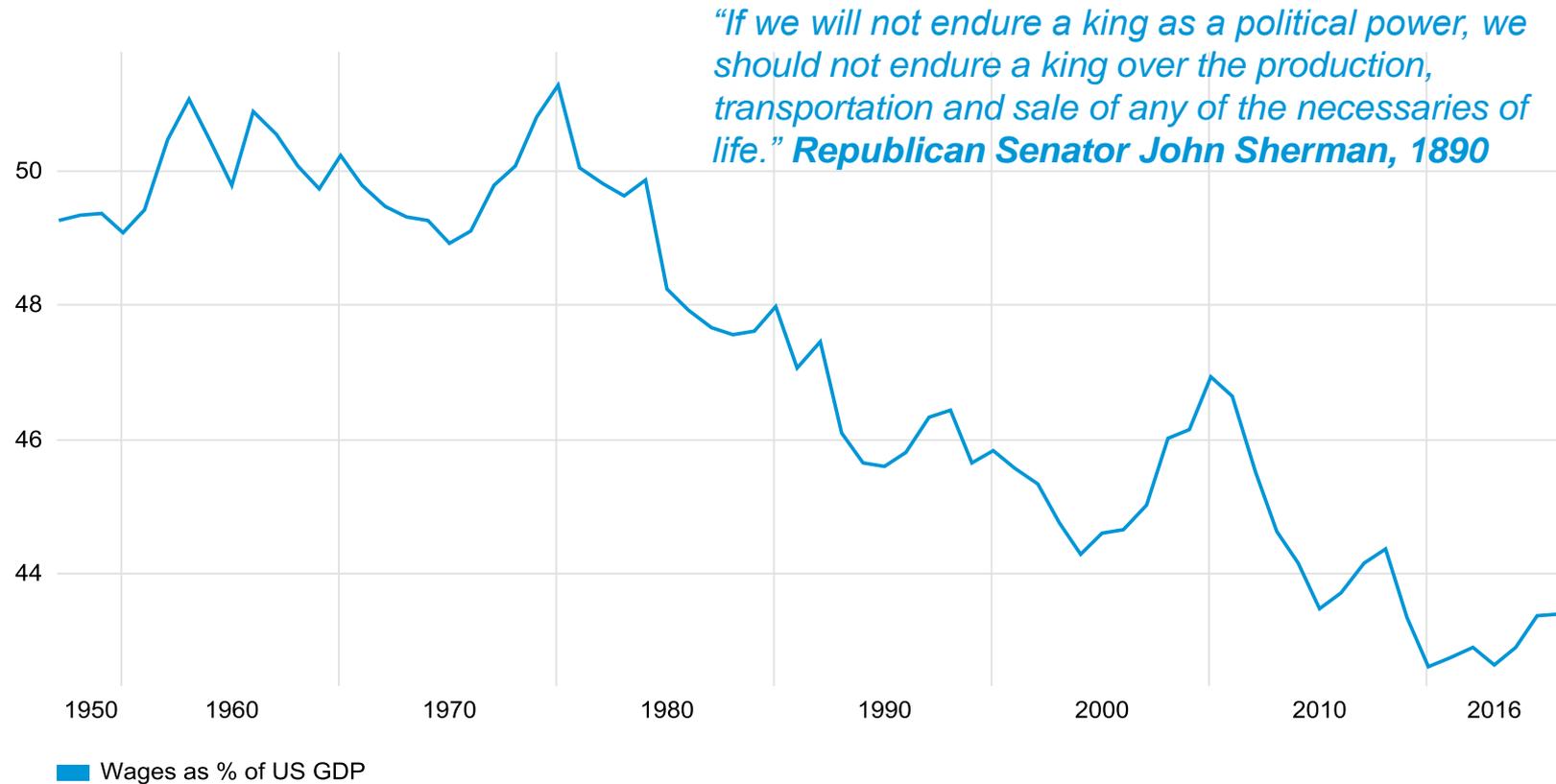
Source: IMF, GAM

Past performance is not indicative of future performance.

EQUITIES EXTENDED
BUT OPPORTUNITIES
REMAIN

Corporations in the ascendancy over labour

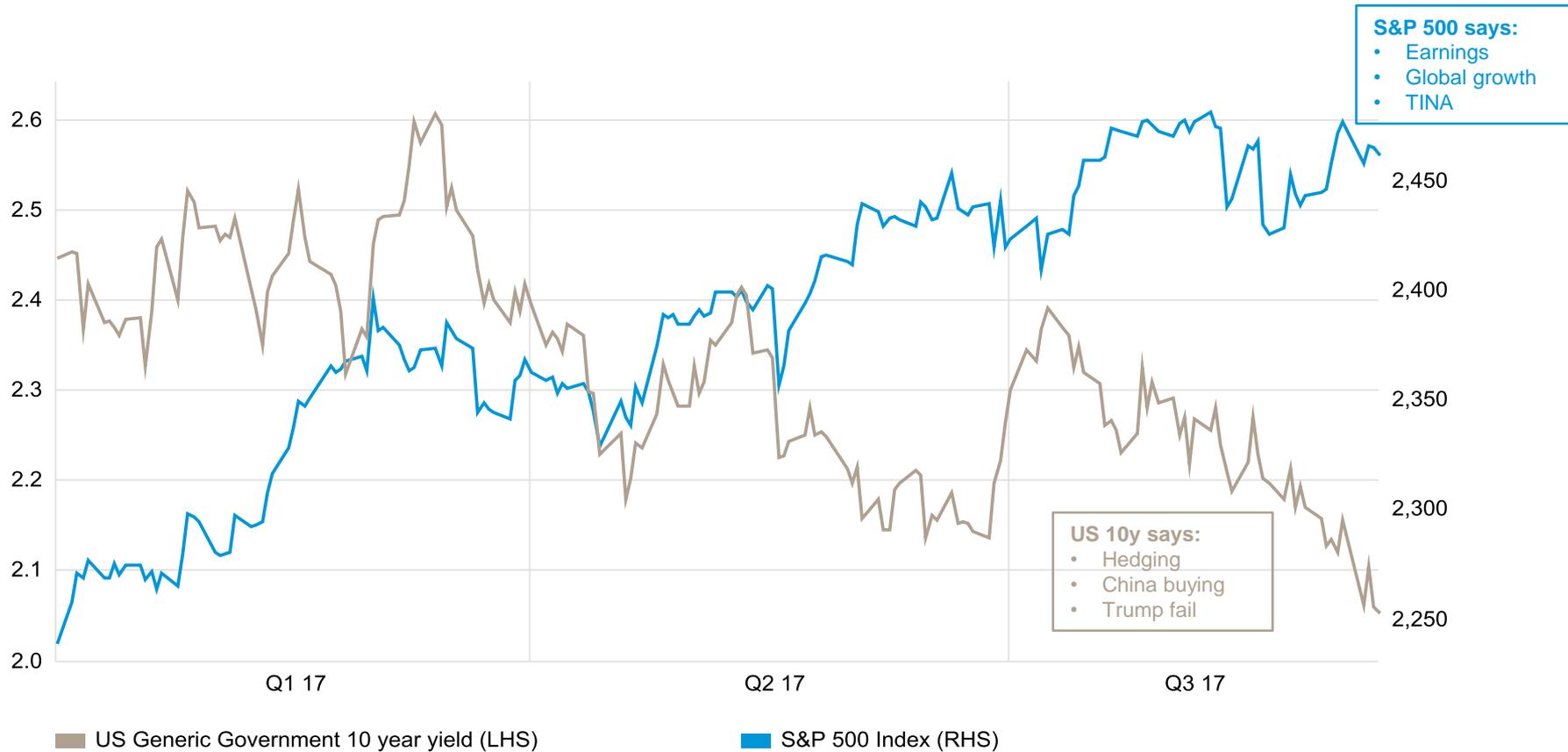
From 31 Dec 1947 to 31 Dec 2016



Past performance is not indicative of future performance.

If bond yields are speaking, equities aren't listening

From 31 Dec 2016 to 8 Sep 2017



Past performance is not indicative of future performance.

Tax reform - keeping half an eye open

From 13 Sep 2016 to 12 Sep 2017

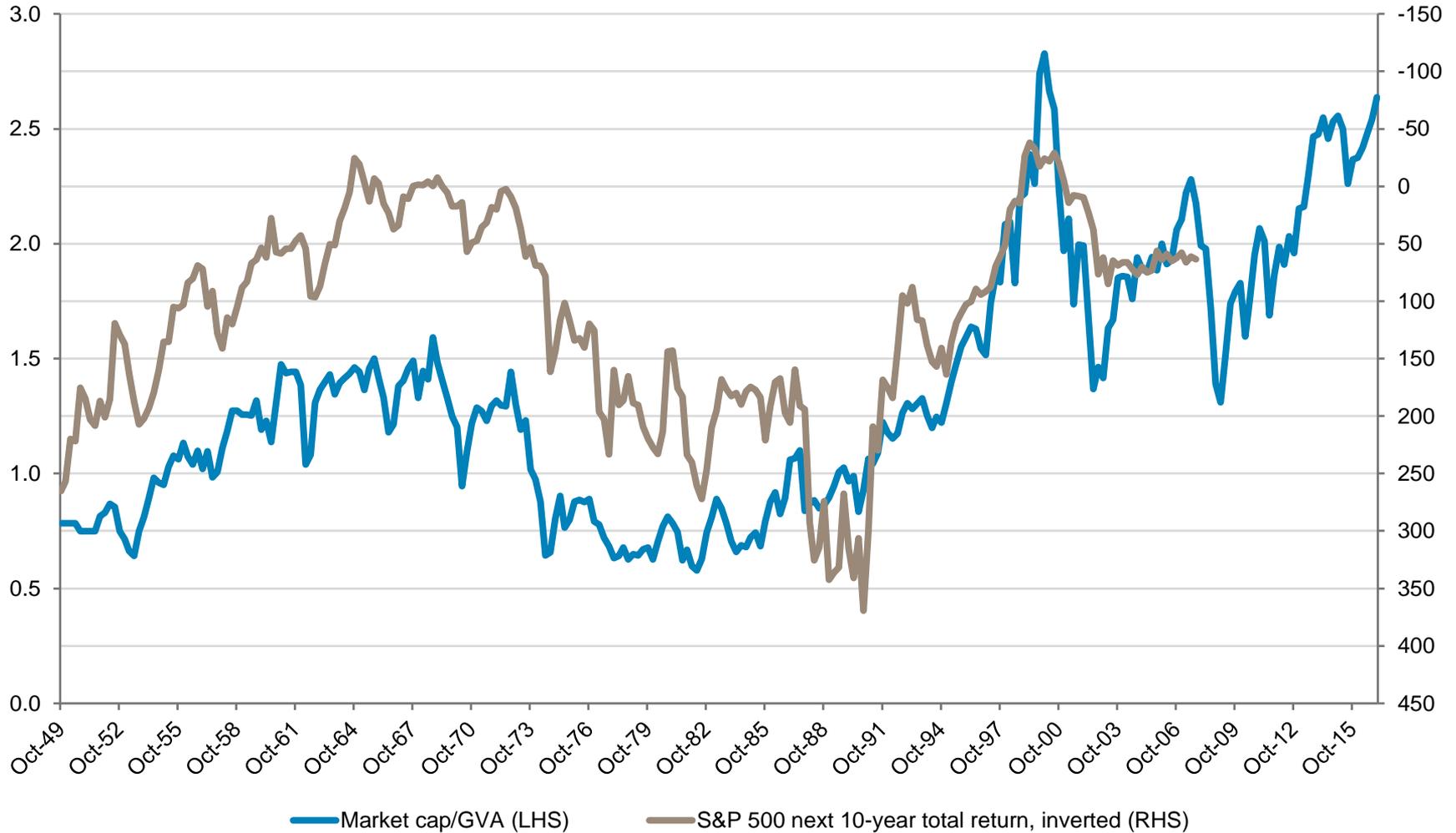
“We agreed to a three-month extension on debt ceiling, which they [Chuck Schumer and Nancy Pelosi] consider to be sacred.” **President Donald Trump, 6 Sep 2017**



Past performance is not indicative of future performance.

But US stockmarket still feels rich

From 30 Sep 1949 to 12 Sep 2017

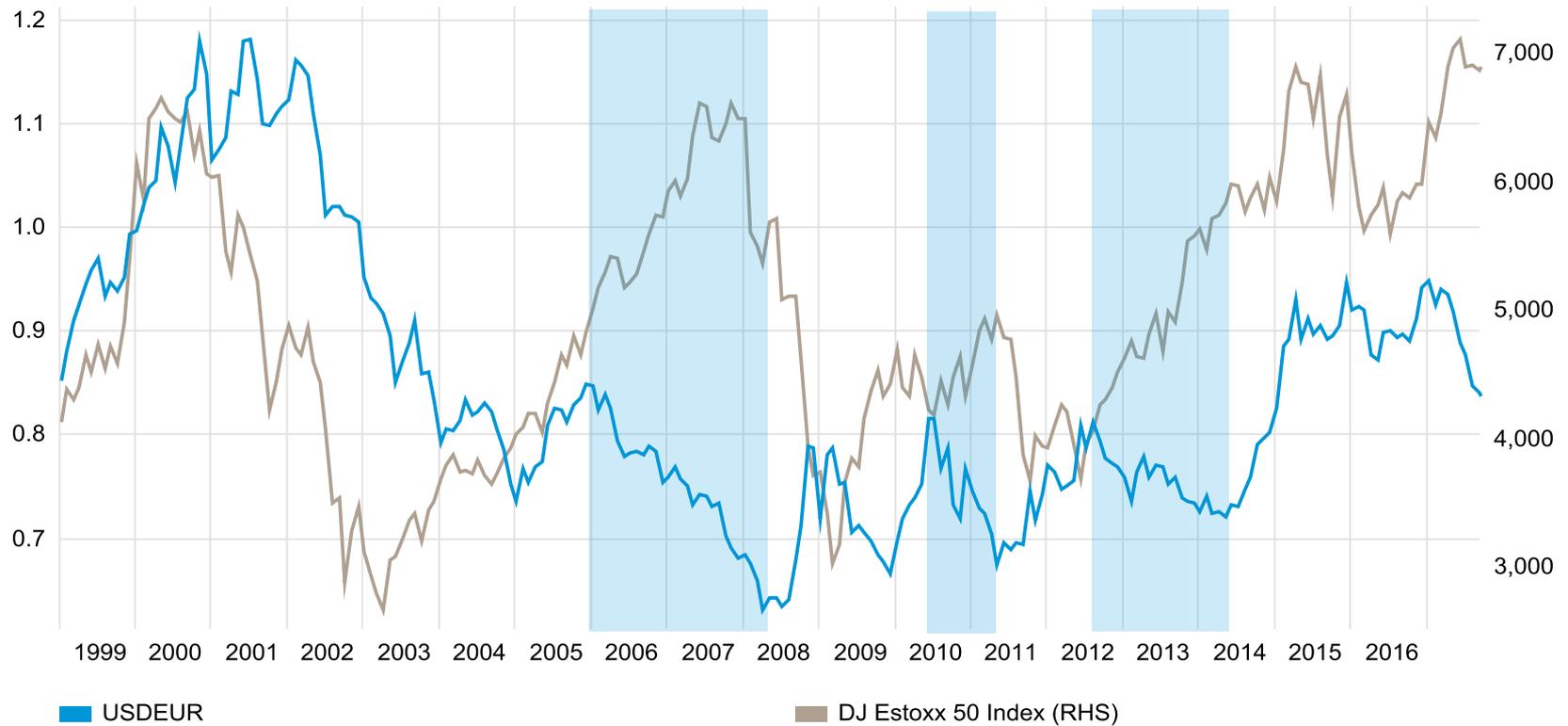


Source: FRED, GAM

Past performance is not indicative of future performance.

Europe - strong euro not always bad for equities

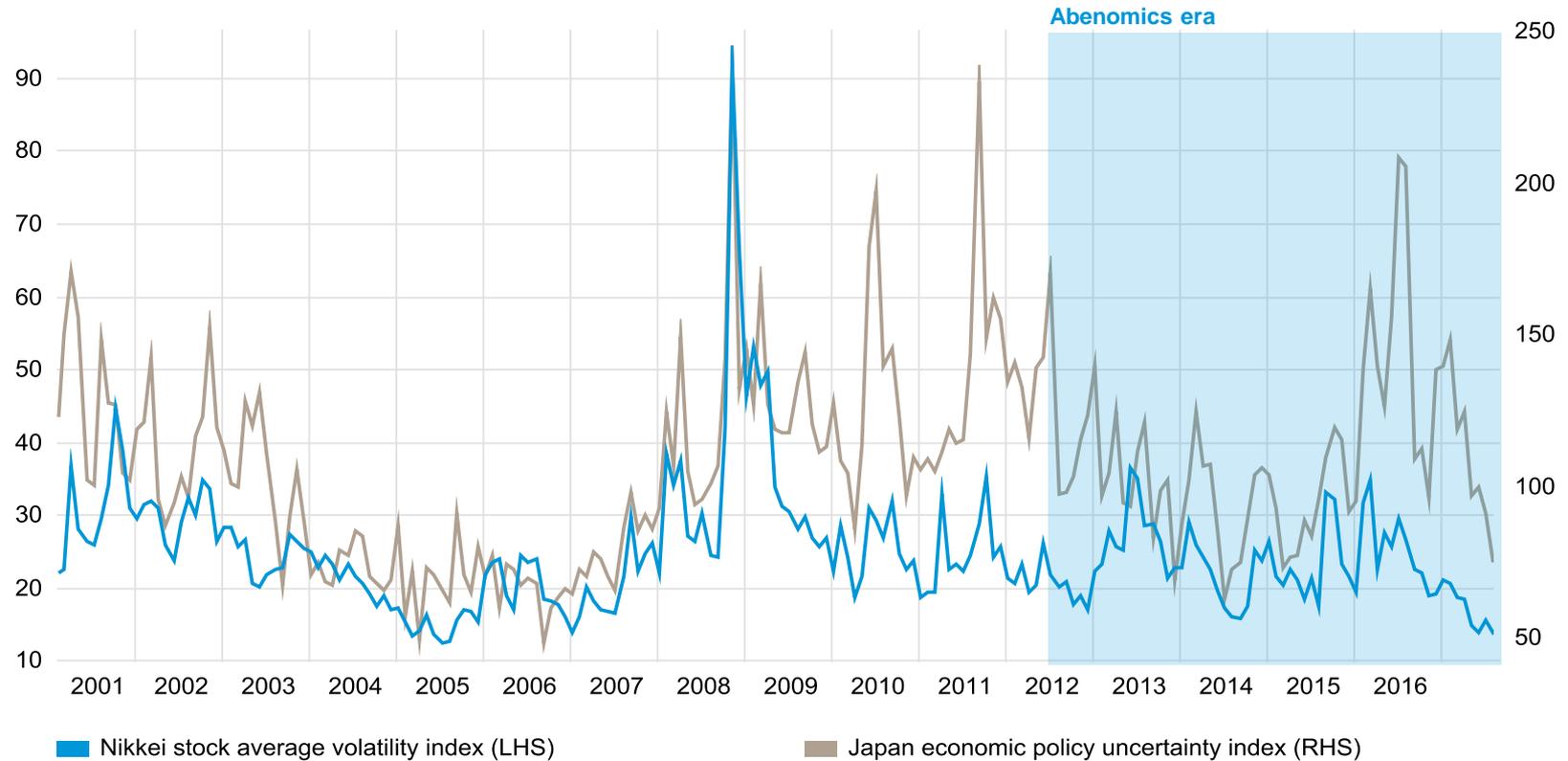
From 31 Dec 1998 to 6 Sep 2017



Past performance is not indicative of future performance.

Japan - Abenomics' positive effect on the market

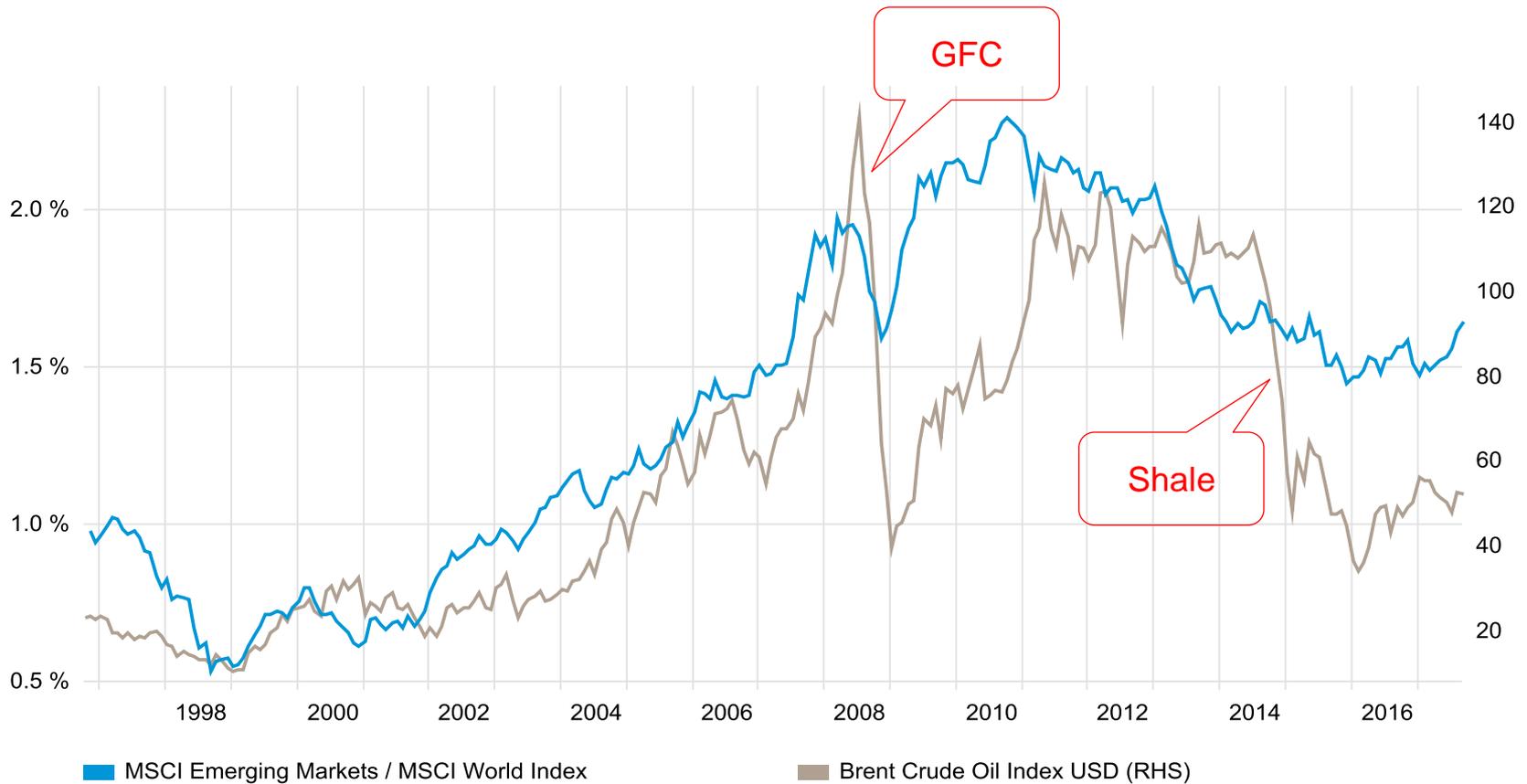
From 31 Jan 2001 to 31 Aug 2017



Past performance is not indicative of future performance.

EM - structural oil decline unlikely to hurt

Relative performance from 30 Sep 1996 to 31 Aug 2017

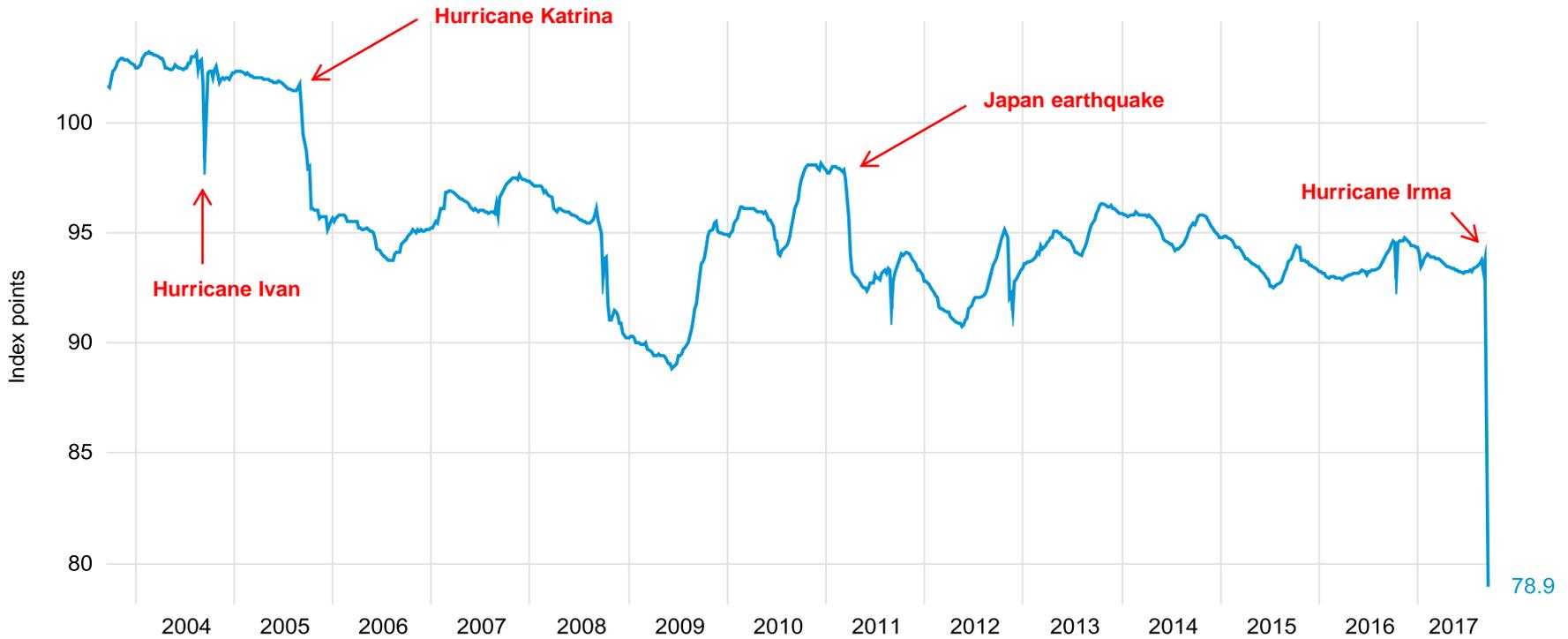


Past performance is not indicative of future performance.

RIPPLES IN CAPITAL PRESERVATION WORLD

Cat bonds - panic rewards buy-and-hold

From 12 Sep 2003 to 8 Sep 2017



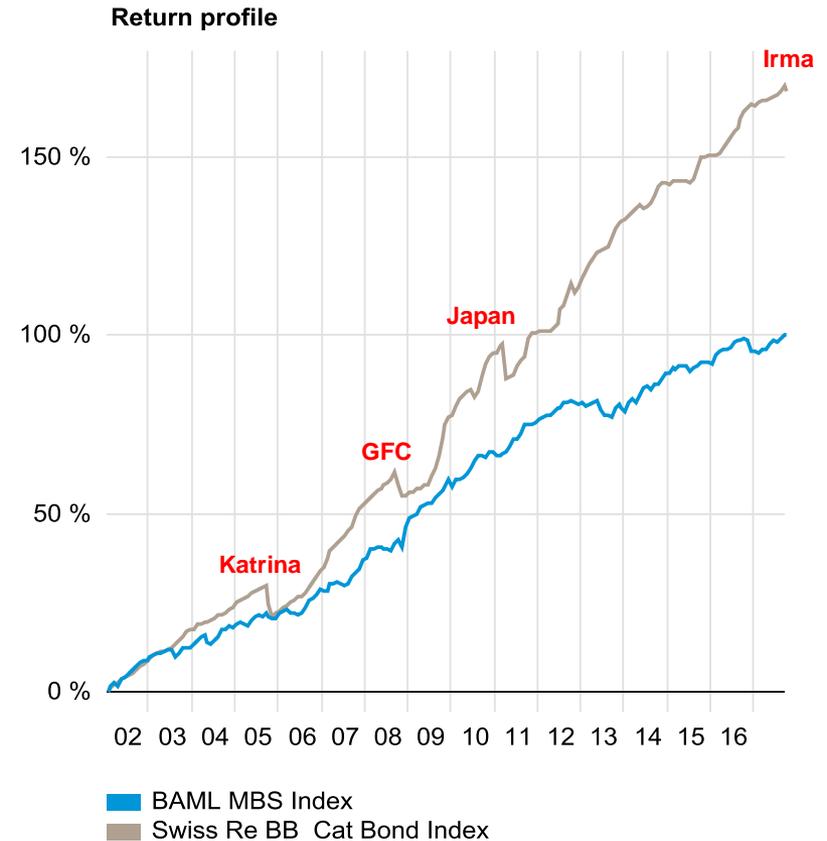
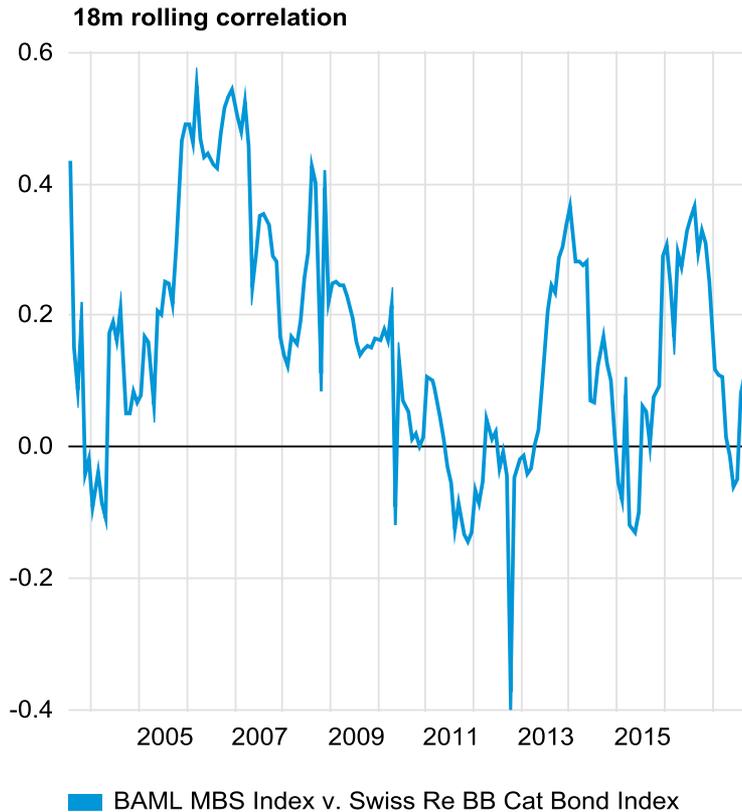
Swiss Re Cat Bond Price Return Index

*“What is unknown is who precisely holds the cat bonds. Are they concentrated in one or two institutions or spread around like cluster bombs ready to explode in the most unexpected ways?” **Daily Mail ‘Money’ section, 11 Sep 2017***

Past performance is not indicative of future performance.

Natural disasters' effects on broad MBS negligible

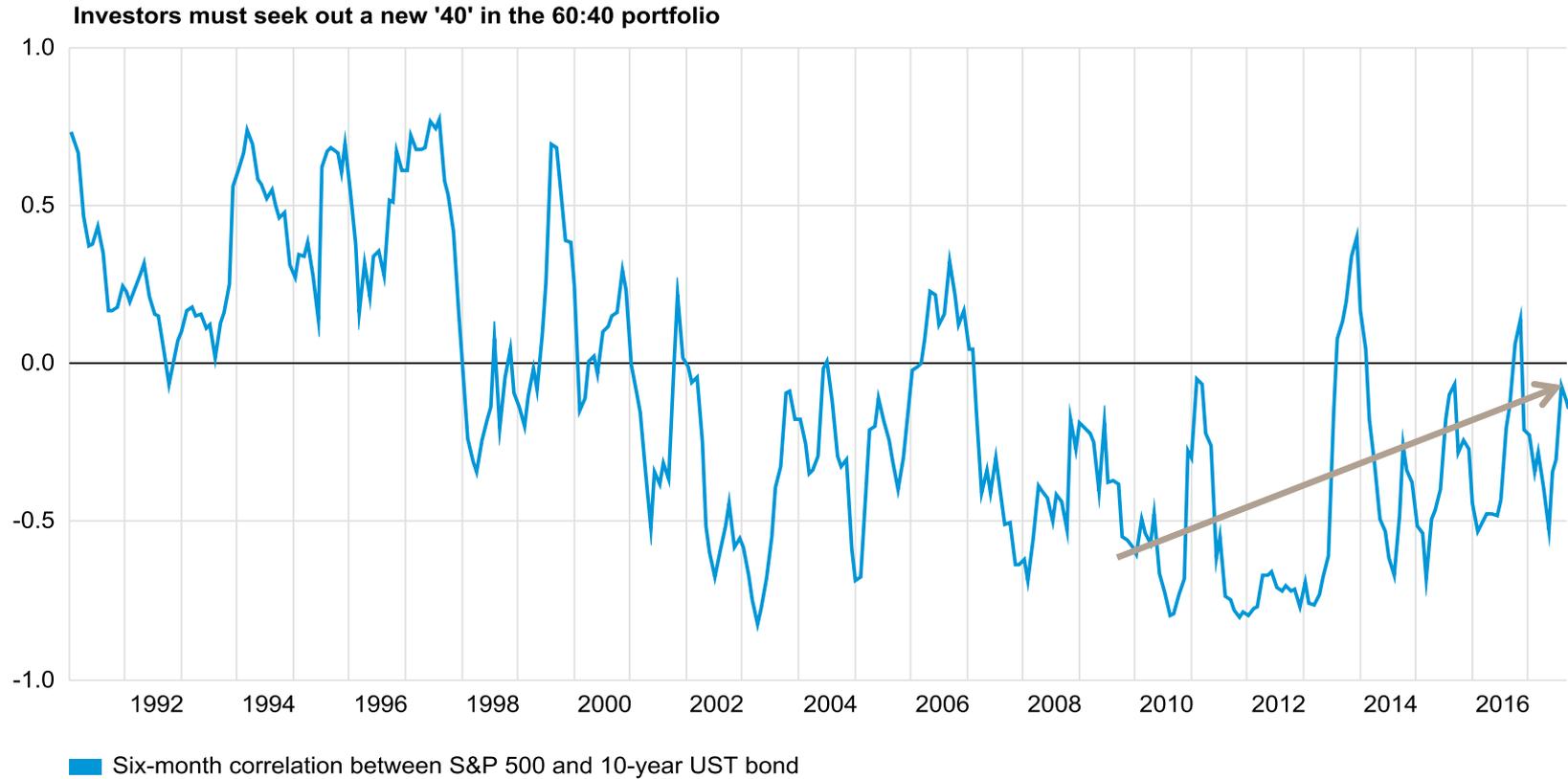
Data from 4 Jan 2002 to 12 Sep 2017



Past performance is not indicative of future performance.

Government bonds' diversification properties worsen

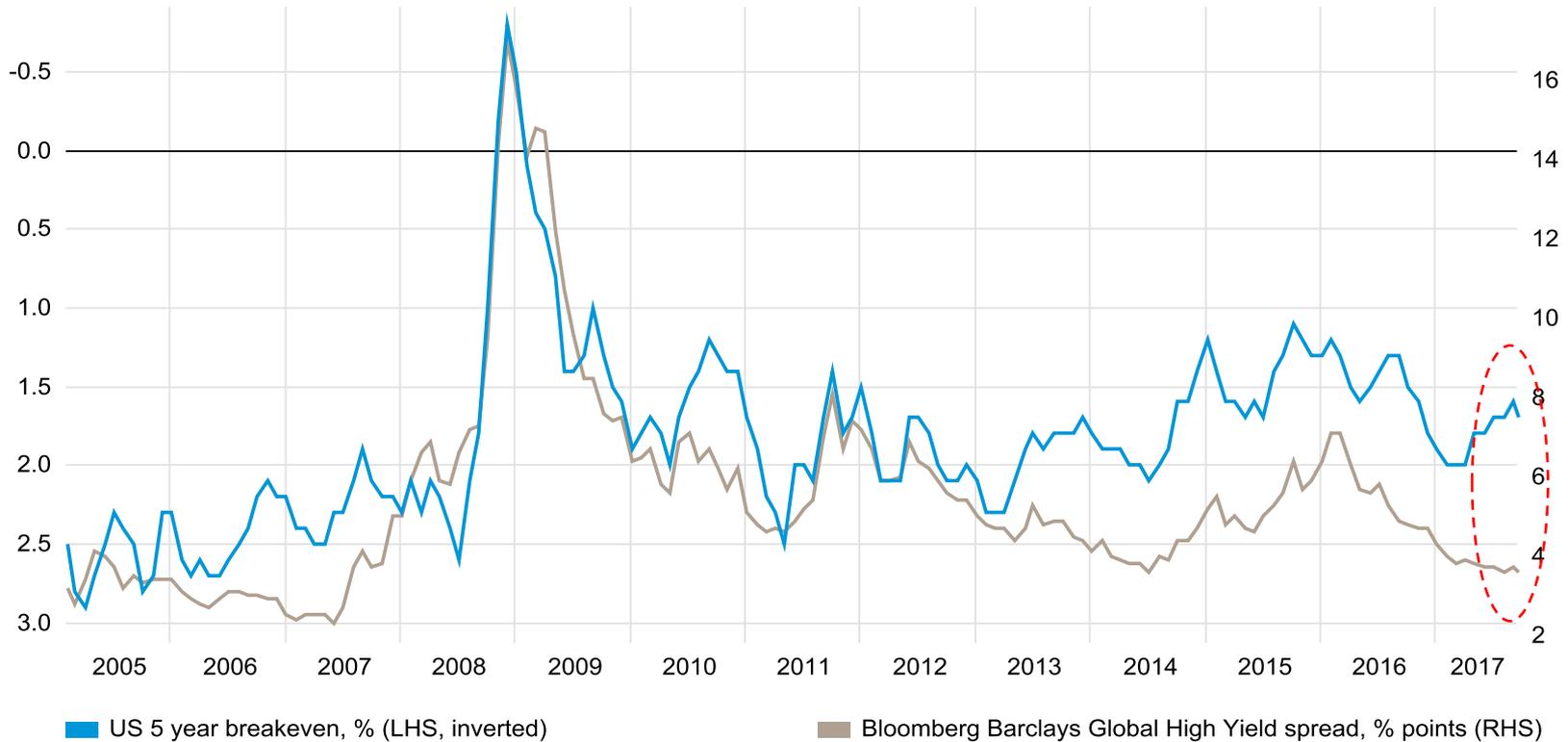
From 29 Dec 1990 to 2 Sep 2017



Past performance is not indicative of future performance.

High yield bonds don't buy into growth pessimism

From 31 Jan 2005 to 13 Sep 2017

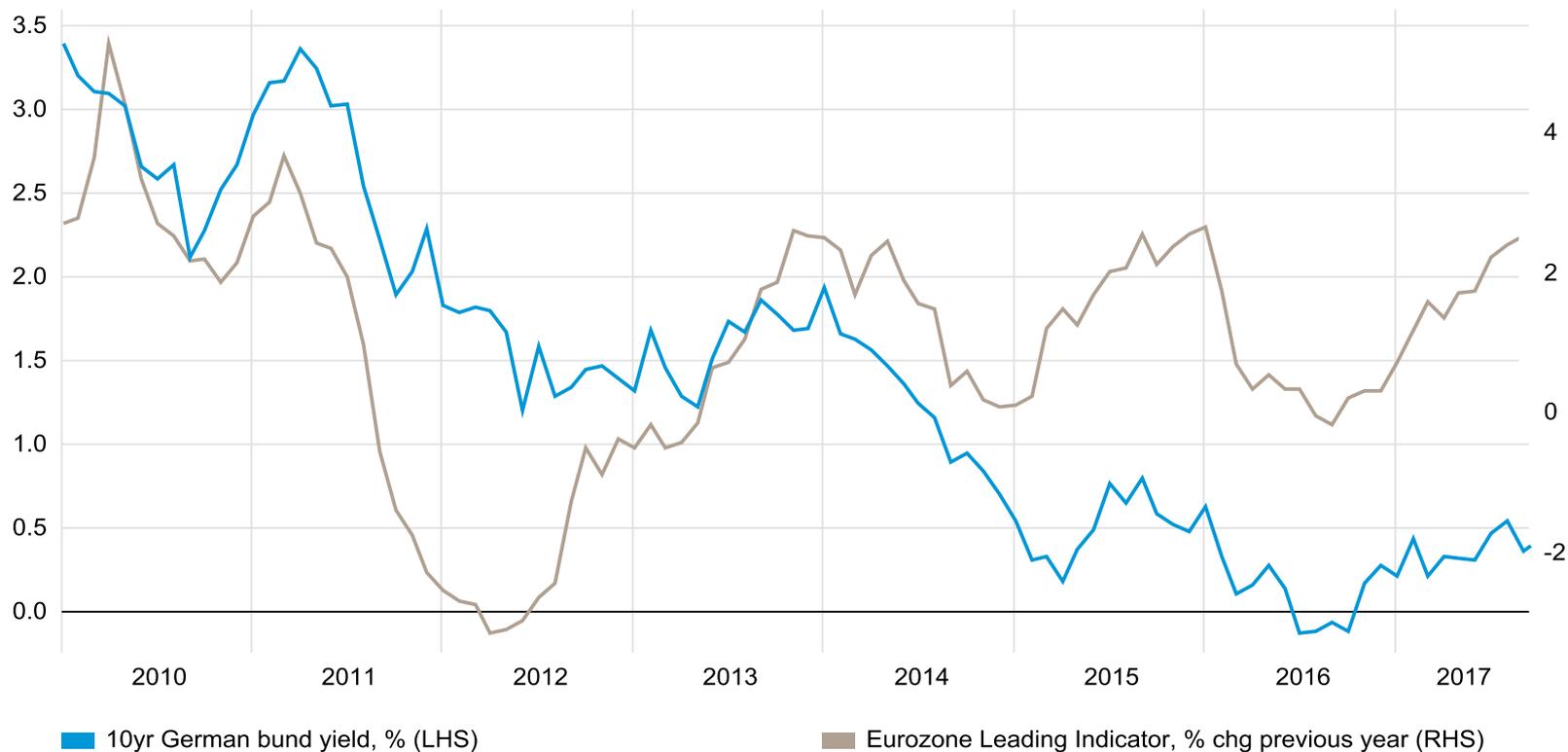


Past performance is not indicative of future performance.

Short bonds not reflecting eurozone improvements (yet)



From 31 Dec 2009 to 13 Sep 2017



Past performance is not indicative of future performance.

POSITIONING AND PERFORMANCE UPDATE

Latest 12-month scenario analysis

Data as at 30 Jun 2017

Probability: %	Crisis: 10%	Slowdown: 25%	Sideways: 50%	Acceleration: 15%
	<ul style="list-style-type: none"> Global GDP <0% DM slows, EM follows Geopol./systemic crisis Profits relapse Markets tumble 	<ul style="list-style-type: none"> Global GDP 1%-2% Reflation stalls, EM lags Geopolitical tensions Profits growth deteriorates Markets correct 	<ul style="list-style-type: none"> Global GDP 2%-3% Moderate DM, EM growth Geopolitics contained Profit recovery stalls Modest market progress 	<ul style="list-style-type: none"> Global GDP >3% DM thrives, EM takeoff Geopolitics benign Profits beat forecasts Late-cycle bull market
Equities	-20 to -10%	-10 to 0%	2 to 5%	5 to 10%
Allocation	10%	15%	30%	50%
Implied contribution	-1.5%	-0.8%	1.1%	3.8%
Fixed Income & Credit	-3 to 0%	-1 to 2%	2 to 4%	3 to 5%
Allocation	55%	50%	40%	25%
Implied contribution	-0.8%	0.3%	1.2%	1.0%
Alternatives	-2 to 5%	-1 to 5%	-1 to 5%	-2 to 5%
Allocation	20%	25%	25%	20%
Implied contribution	0.3%	0.5%	0.5%	0.3%
Liquidity	0% to 0.5%	0% to 1%	0.5% to 1.5%	2% to 3%
Allocation	15%	10%	5%	5%
Implied contribution	0.0%	0.1%	0.1%	0.1%
Expected return	-2.0%	0.1%	2.8%	5.2%
Including alpha	-1.1%	1.0%	3.8%	6.1%

Source: GAM. For reference, OECD full year 2017 forecast for world GDP growth is 3.3%.

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Strategic and tactical views – summary

As at 15 Sep 2017



	Low Conviction	Cautious	Neutral	Positive	High Conviction
Equities		UK [recession risk, unclear Brexit path] US [exhaustion, marginal underweight]	Japan [underperformed, improving prospects]	Emerging Mkts [sound fundamentals, ex-US growth rotation]	Europe [Political risks easing, economy improving]
Neutral					
Fixed Income			AR approaches [global opportunities] Active aggregate bonds [diversification with a total return mindset]	Financial credit [regulatory trend, steady underlying cashflows] Liquid high yield [safer return extraction]	MBS [steady return profile] Insurance-linked [low correlation to major indices]
Positive					
Alternatives			Macro trading [potentially rich opportunity set for managers to exploit]	Market neutral Equity L/S [innovative non-directional approaches]	Merger Arbitrage [spread extraction with diversification can provide steady return profile]
Cautious					
Flexibility	Government bonds [shorts in USTs, bunds]	Oil [short amid secular changes] US retail stocks [bricks and mortar internet deniers]		Gold [risk-off hedge] Thematic equities [European buybacks, Technology, Homebuilders]	Diverse carry [EM, HY, MBS]
Positive					

Q & A

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