

Market Insights – How much longer?

June 2017

“Some measures of valuations rose further above historical norms...some participants viewed equity prices as quite high relative to standard valuation measures.” Federal Reserve FOMC Meeting Minutes, April 2017

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How much longer?

Key themes for investors

Global growth momentum eases

- Despite high hopes, not much inflation to be seen
- Europe still has plenty of capacity too
- Why no US inflation? Composition of job growth
- Economic surprise and growth indicators soften
- But momentum is still with corporate earnings

Markets – The Big Disagreement

- Someone's wrong, right?
- Maybe it's equities
- Happy 30th Birthday, Greenspan put!
- Could be a wake, not a party though
- Can European, EM equities thrive without the US?
- TINA ignores Janet, but not easy to 'trade the range'
- Brexit – avoid UK equities until sterling makes sense

Carry me home

- US Treasuries – the outrageous price of 'safety'
- US high yield 'supernova' suggests caution
- Alt-bond sleeve ready for the challenge
- Lower for longer in UST yields = more pain for Alternatives

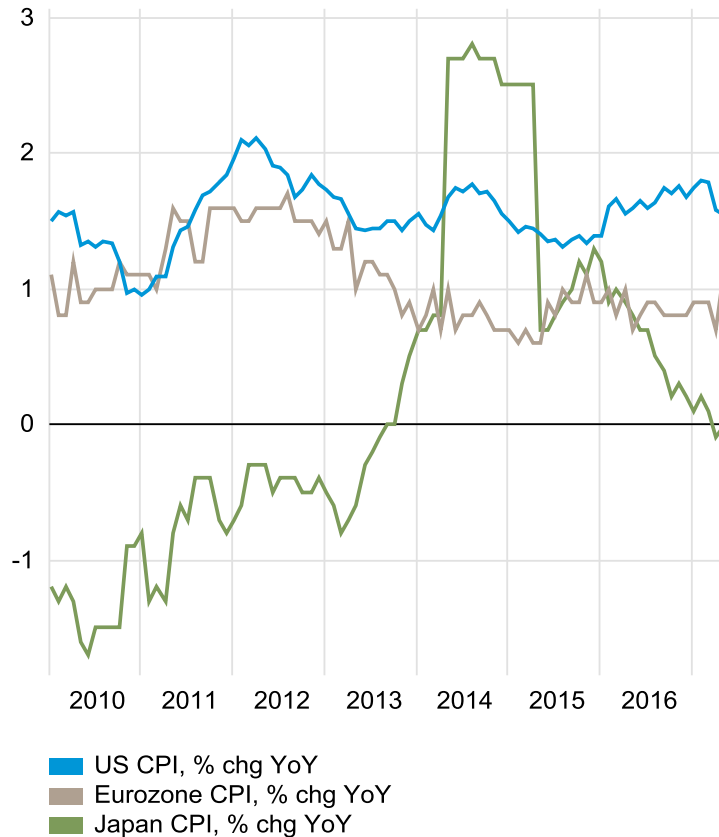
Positioning and Q&A

GLOBAL GROWTH **MOMENTUM EASES**

Despite high hopes, not much inflation to be seen

From 31 Dec 2009 to 26 Jun 2017

Core inflation stagnant in key economies...



...Investors stampede out of inflation-linked ETFs



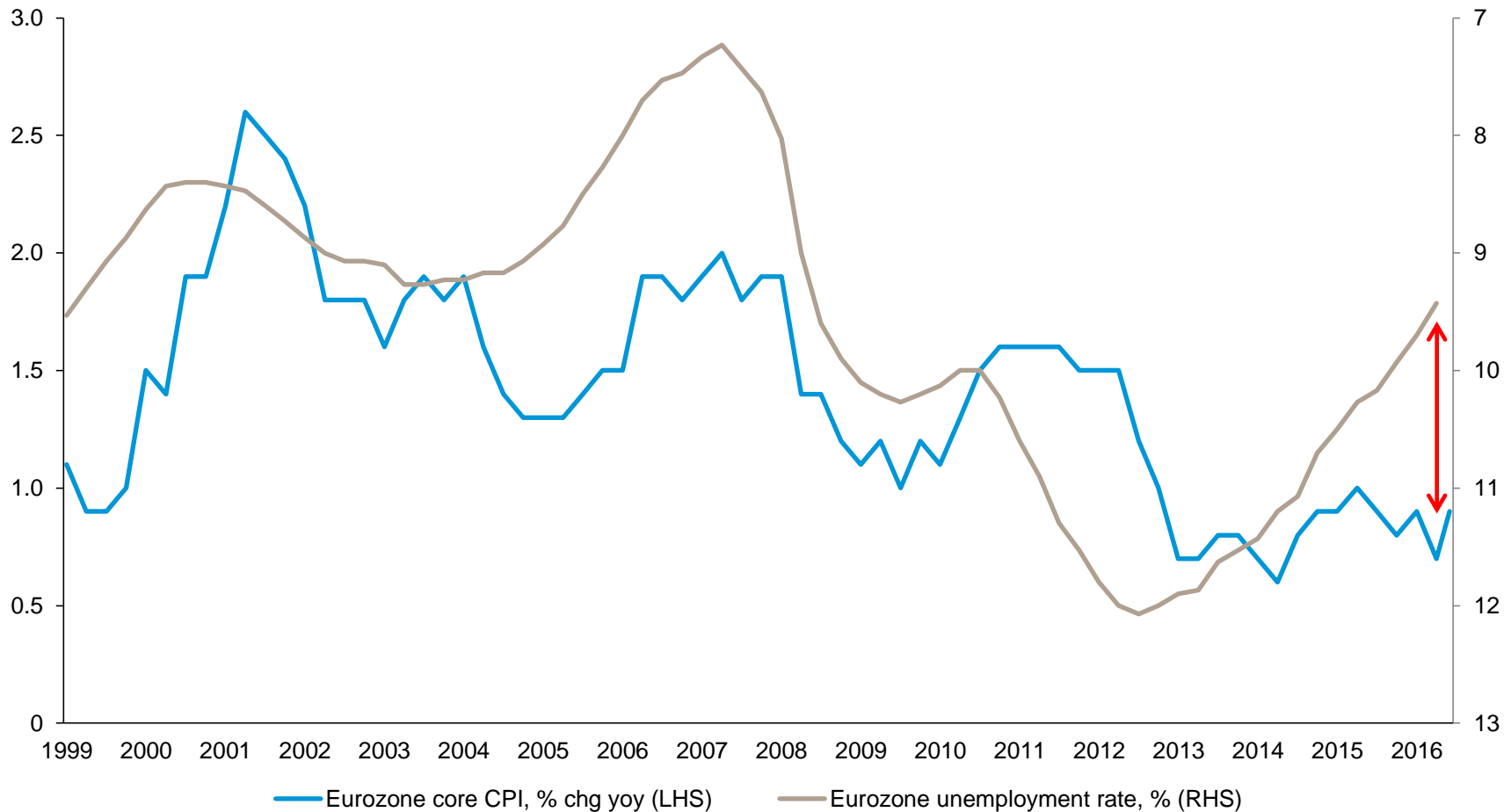
Past performance is not indicative of future performance.

Source: Bloomberg

Europe still has plenty of capacity too

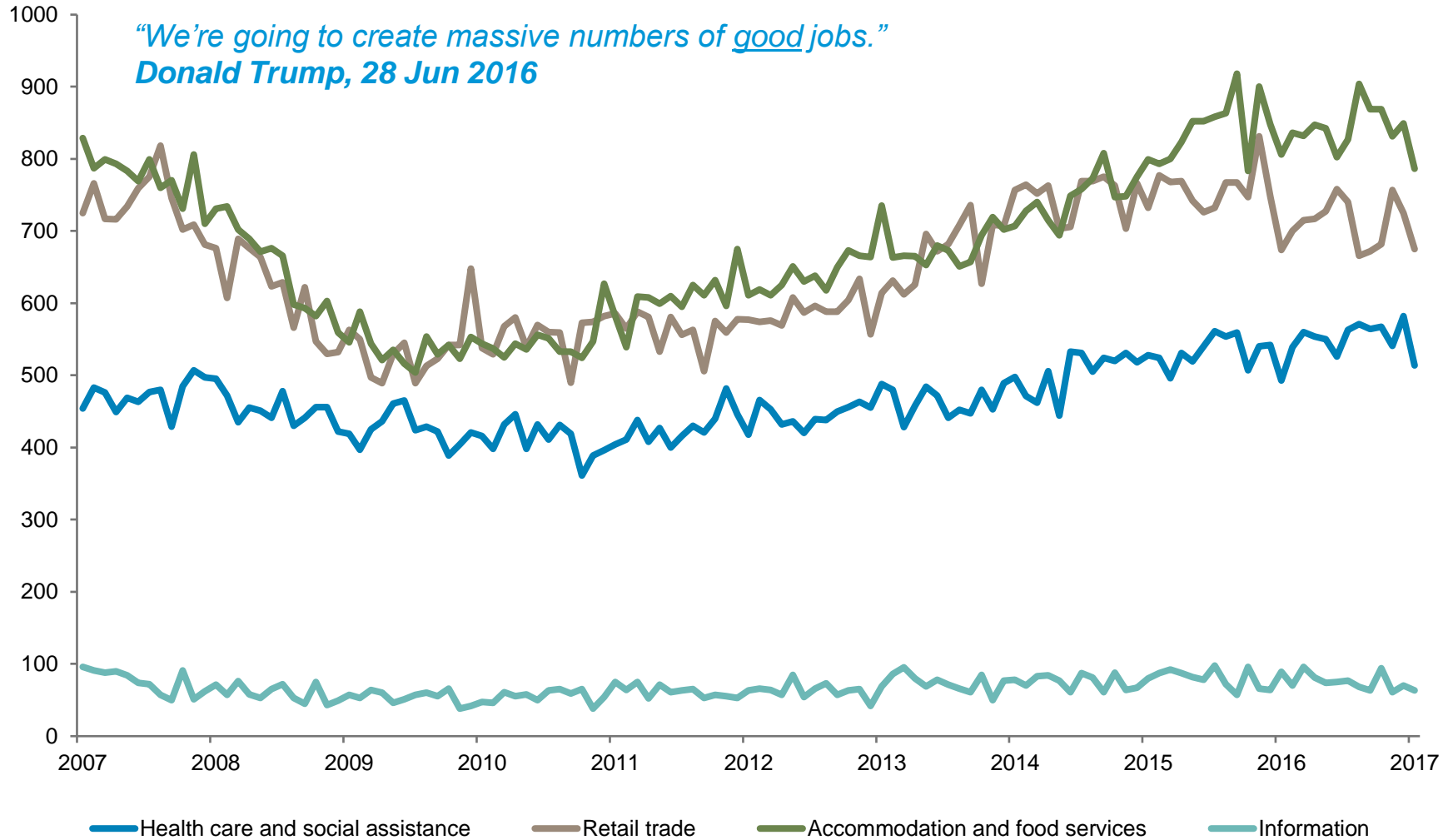
Data from 31 Dec 2009 to 31 May 2017

“The economic expansion has yet to translate into stronger inflation dynamics. So far, measures of underlying inflation continue to remain subdued.” Mario Draghi, President of the ECB, 8 June 2017



Why no US inflation? Composition of job growth

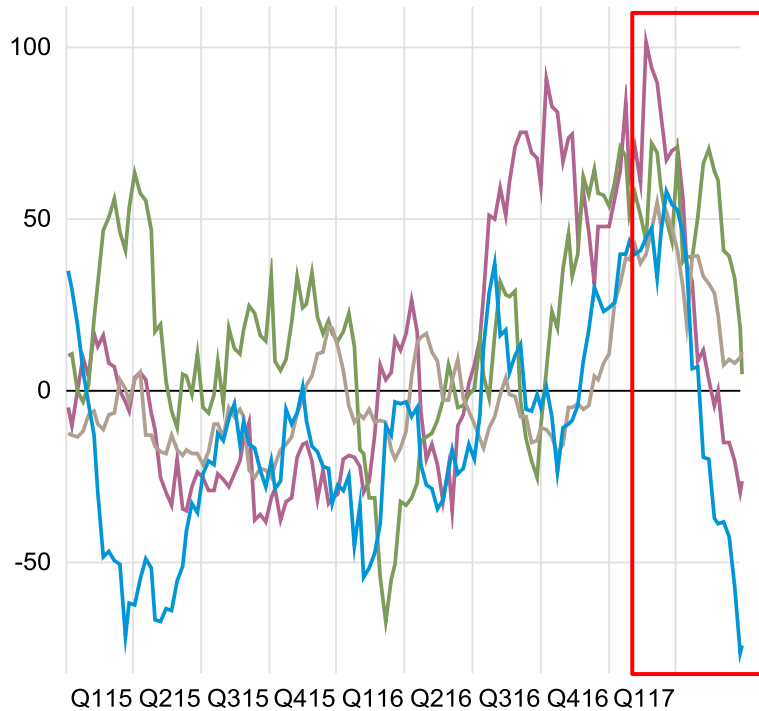
000s job additions from 1 Apr 2007 to 1 Apr 2017



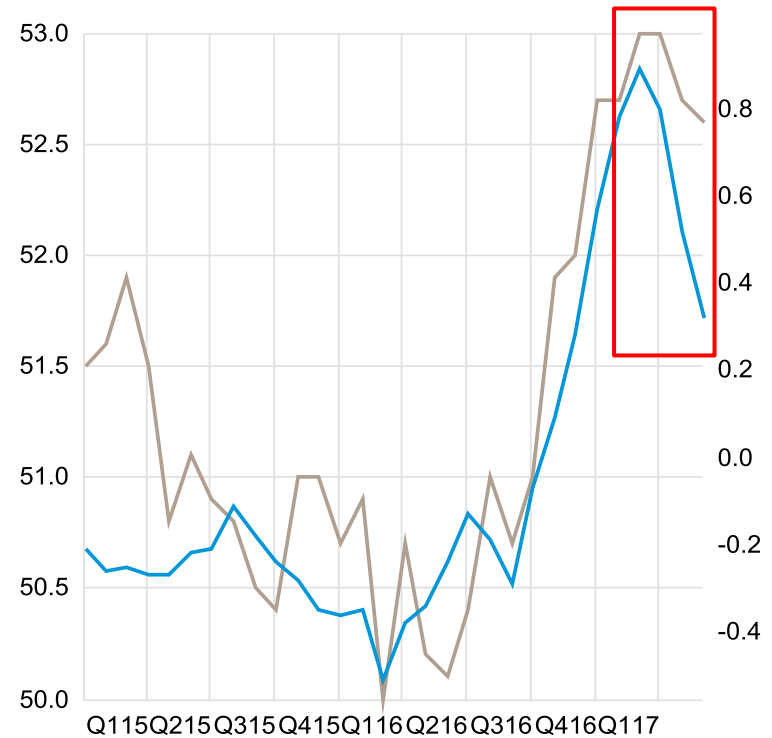
Economic surprise growth indicators soften a touch

From 31 Dec 2014 to 23 Jun 2017

Citi Economic Surprise Index



- United States
- Emerging Markets
- Eurozone
- United Kingdom



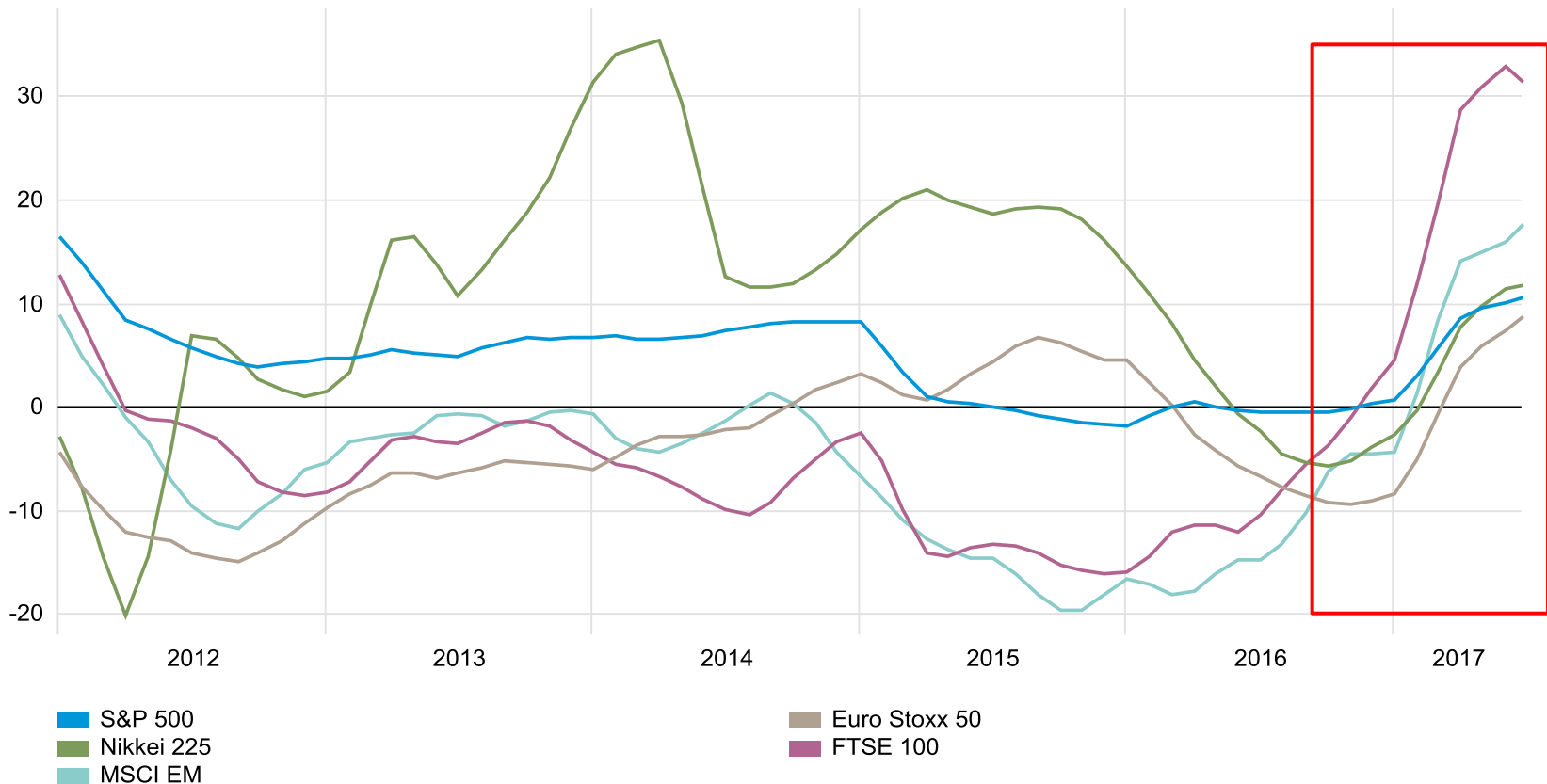
- Morgan Stanley Global Trade Leading Indicator (RHS)
- JPM Global Manufacturing PMI (LHS)

Past performance is not indicative of future performance.

But momentum is still with corporate earnings

From 30 Dec 2011 to 23 Jun 2017

Forward EPS, % change yoy 3mma



Past performance is not indicative of future performance.

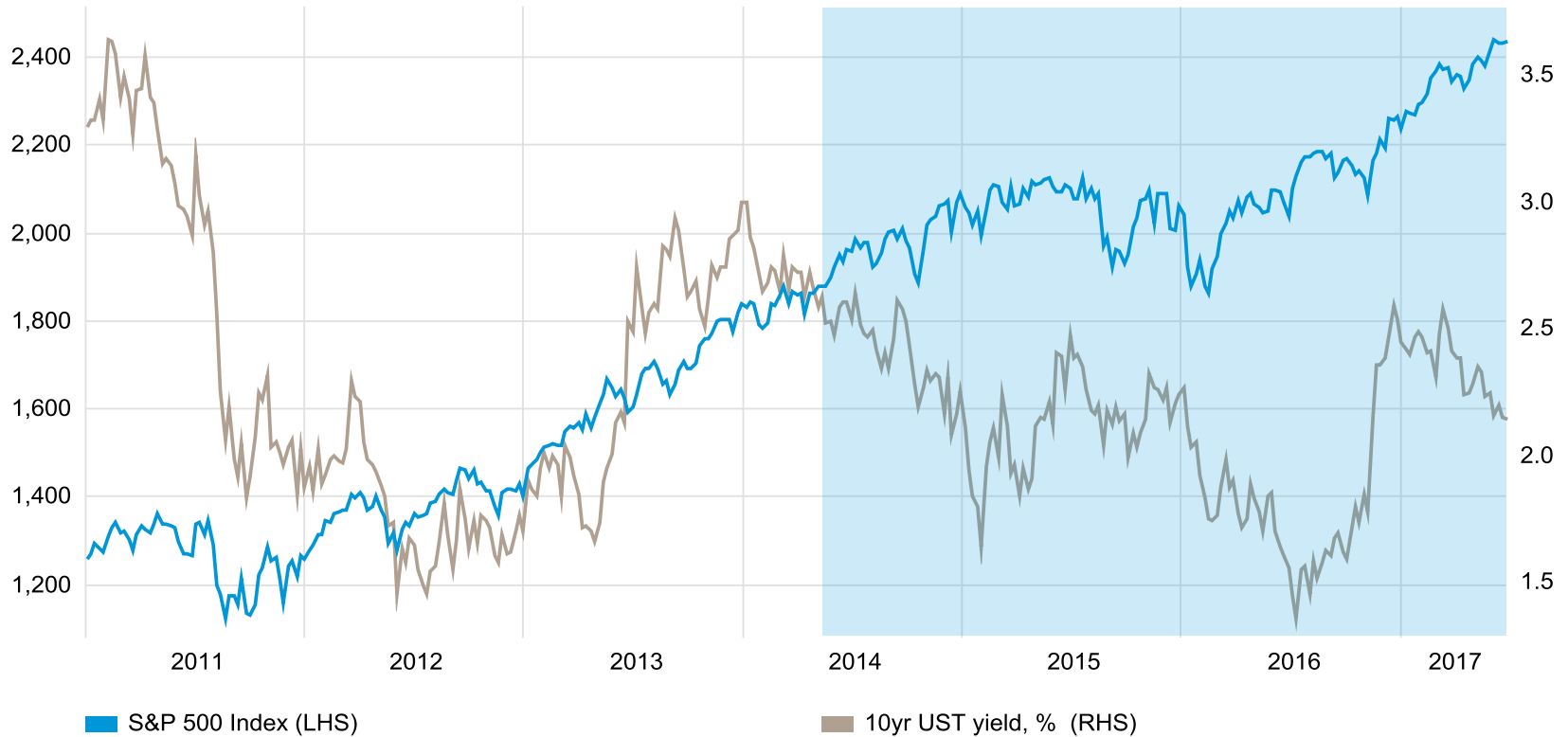
Source: Bloomberg

MARKETS – THE BIG DISAGREEMENT

Someone's wrong, right?

From 31 Dec 2010 to 23 Jun 2017

Equities up, bond yields down...



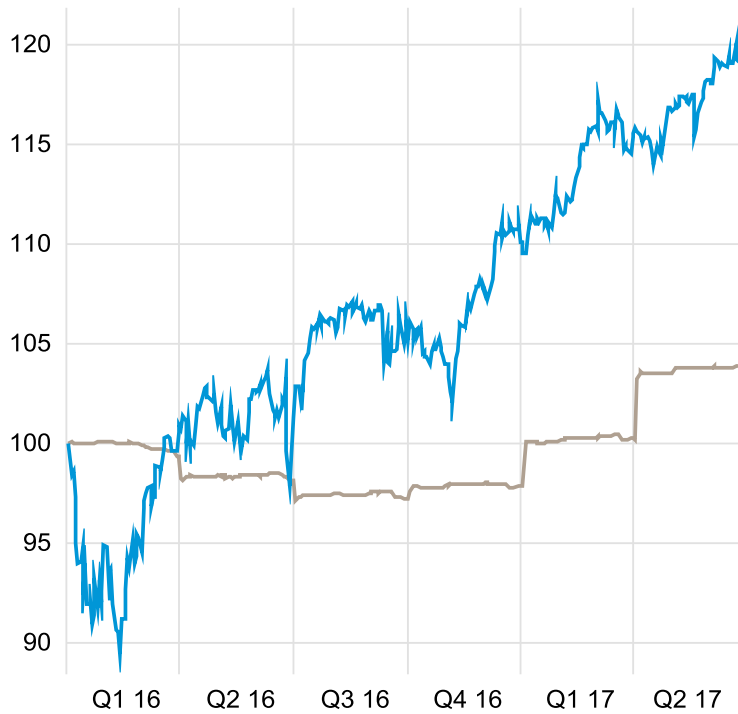
Past performance is not indicative of future performance.

Source: Bloomberg

Maybe it's equities

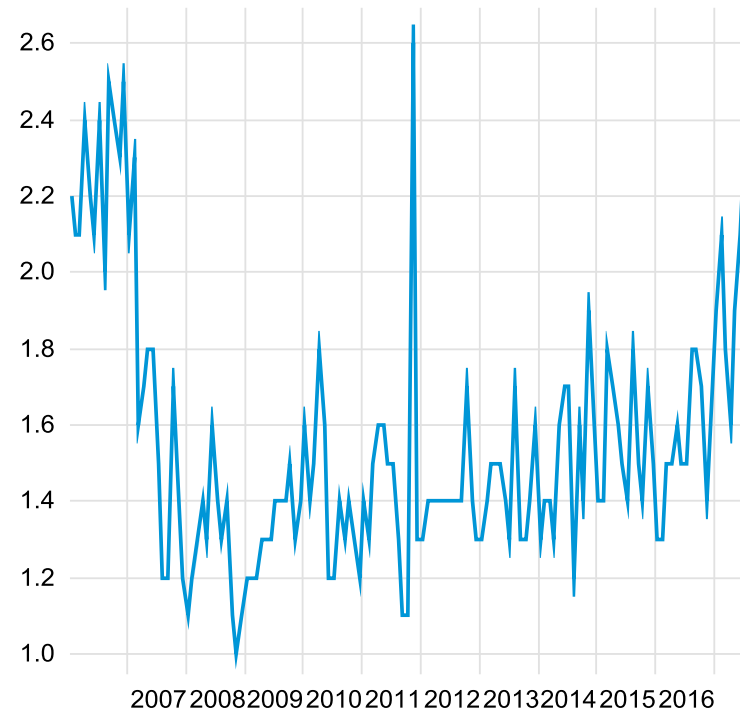
From 31 Dec 2015 to 23 Jun 2017

'P' has soared ahead of 'E'...



■ S&P 500 Price, rebased 100
■ S&P 500 EPS, rebased 100

...hedging semiconductor volatility gets expensive



■ Vectors Semiconductor ETF 3m Implied Vol / S&P 500

Past performance is not indicative of future performance.

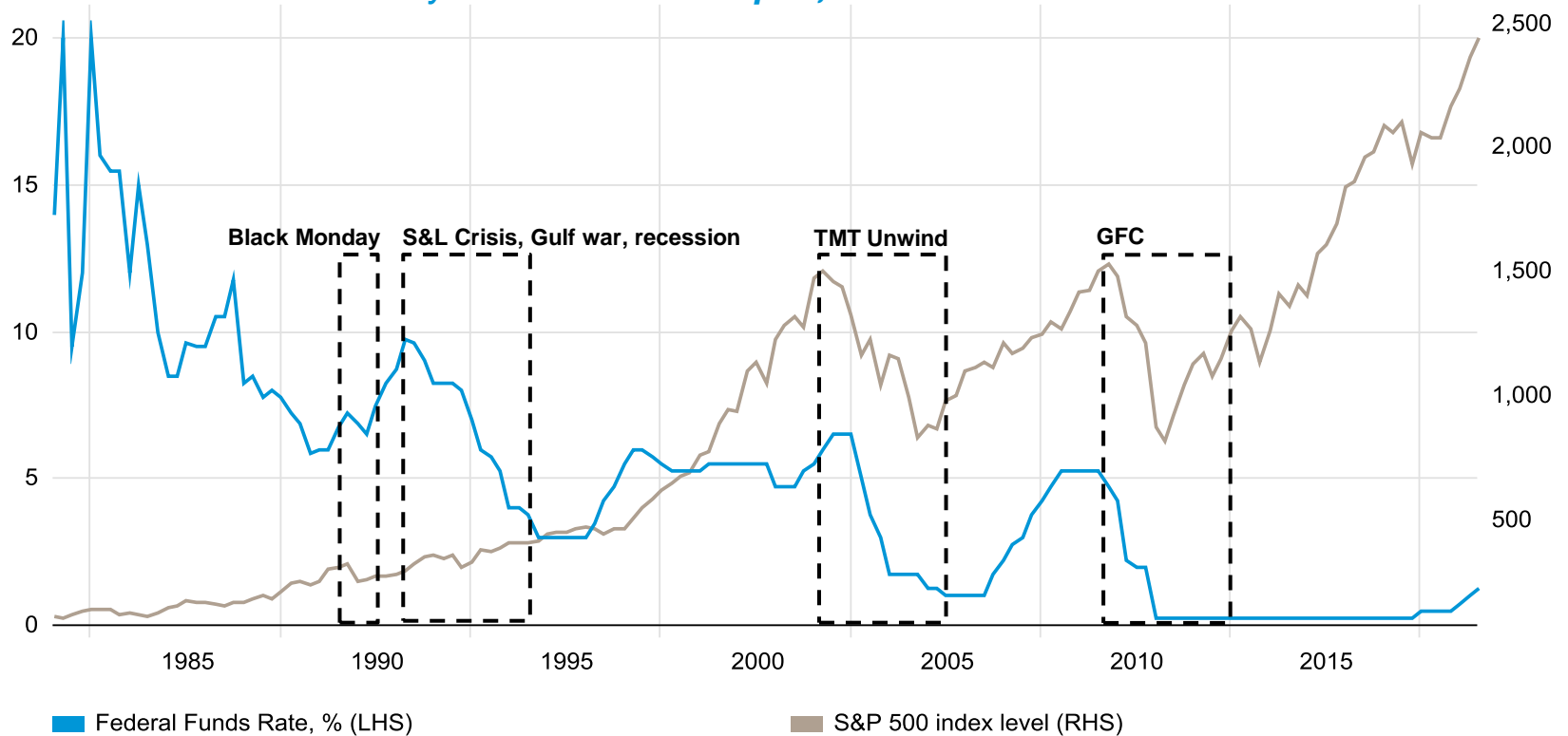
Source: Bloomberg

Happy 30th Birthday, Greenspan put!

From 28 Dec 1979 to 23 Jun 2017



"The Federal Reserve...affirmed today its readiness to serve as a source of liquidity to support the economic and financial system" **Alan Greenspan, 20 Oct 1987**

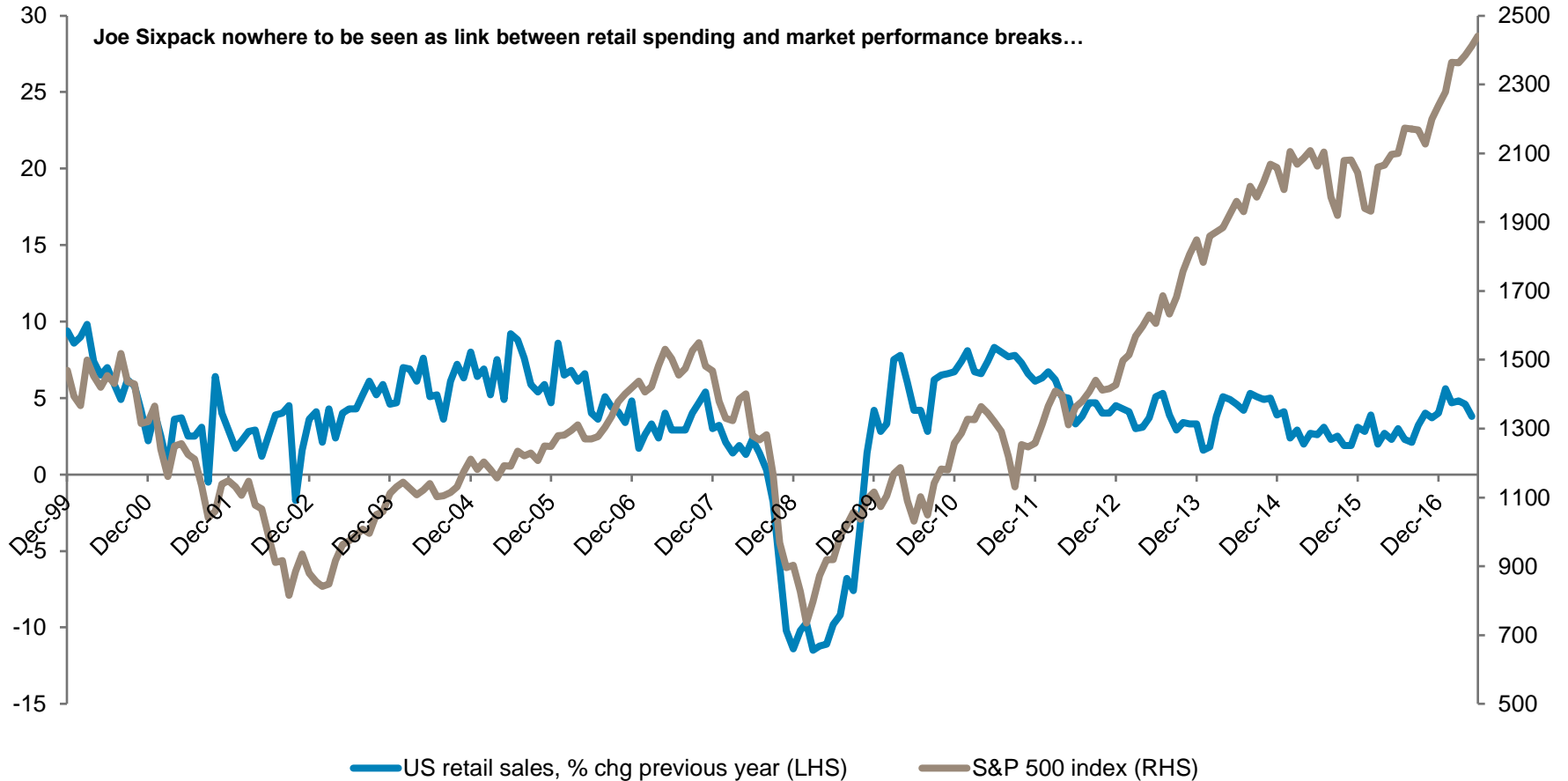


Past performance is not indicative of future performance.

Source: Bloomberg

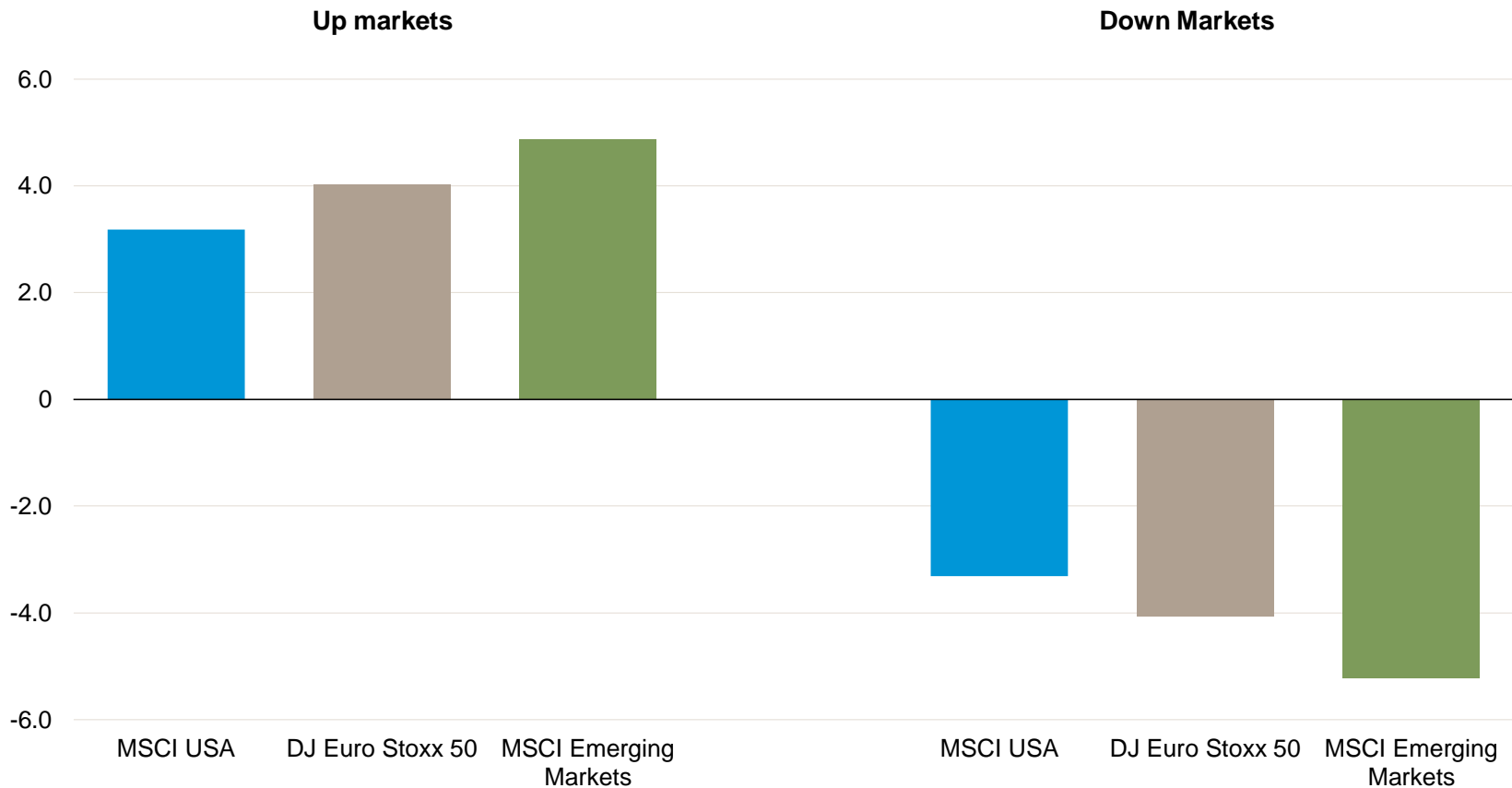
Could be a wake, not a party though

Data from 31 Dec 1999 to 26 Jun 2017



Can European, EM equities thrive without the US?

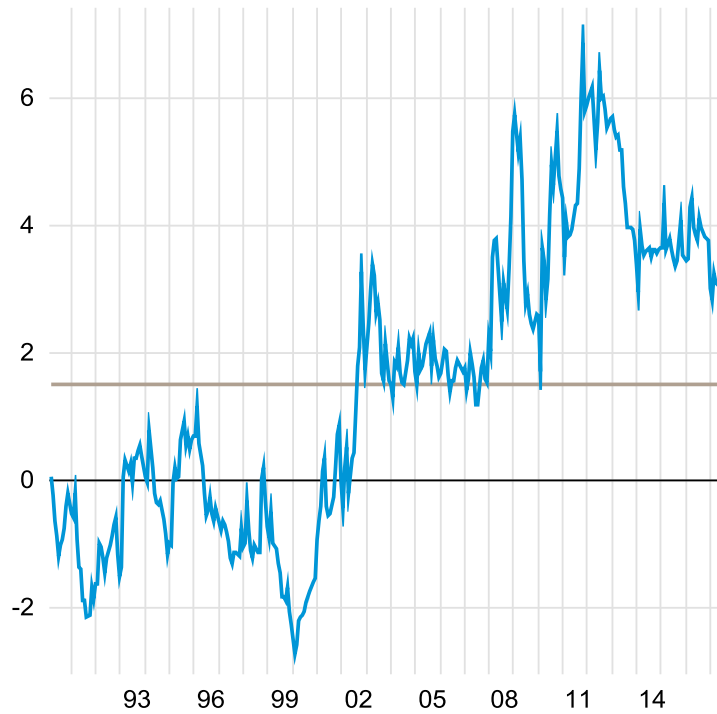
Average monthly % return from 31 Dec 1987 to 26 Jun 2017



TINA ignores Janet, but not easy to 'trade the range'

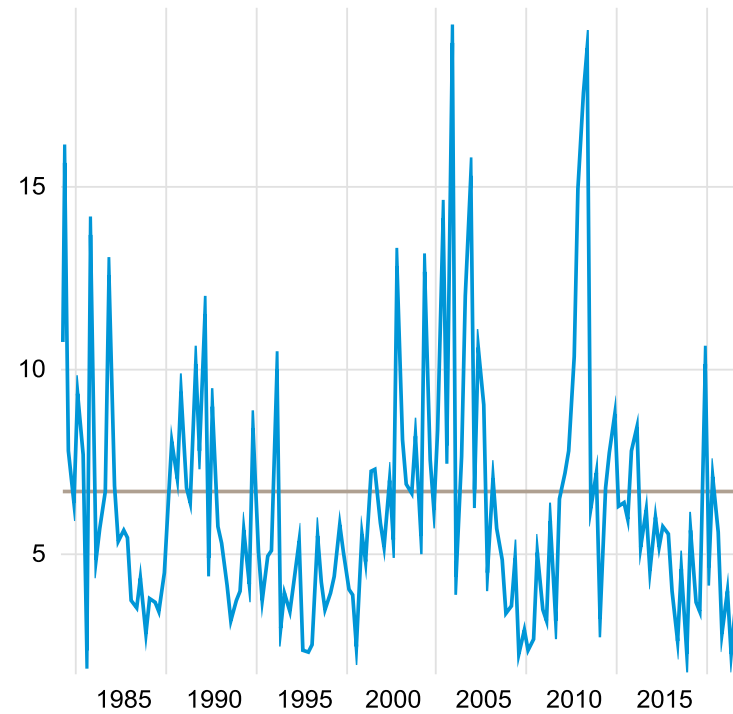
From 31 Jan 1990 to 26 Jun 2017

Equity Risk Premium above long term average...



■ ERP (S&P 500 earnings yield - 10yr UST yield), %
■ ERP long term average, %

...Tight market range tough for opportunists



■ S&P 500 30-day high-low, as % of high
■ Long term average

Past performance is not indicative of future performance.

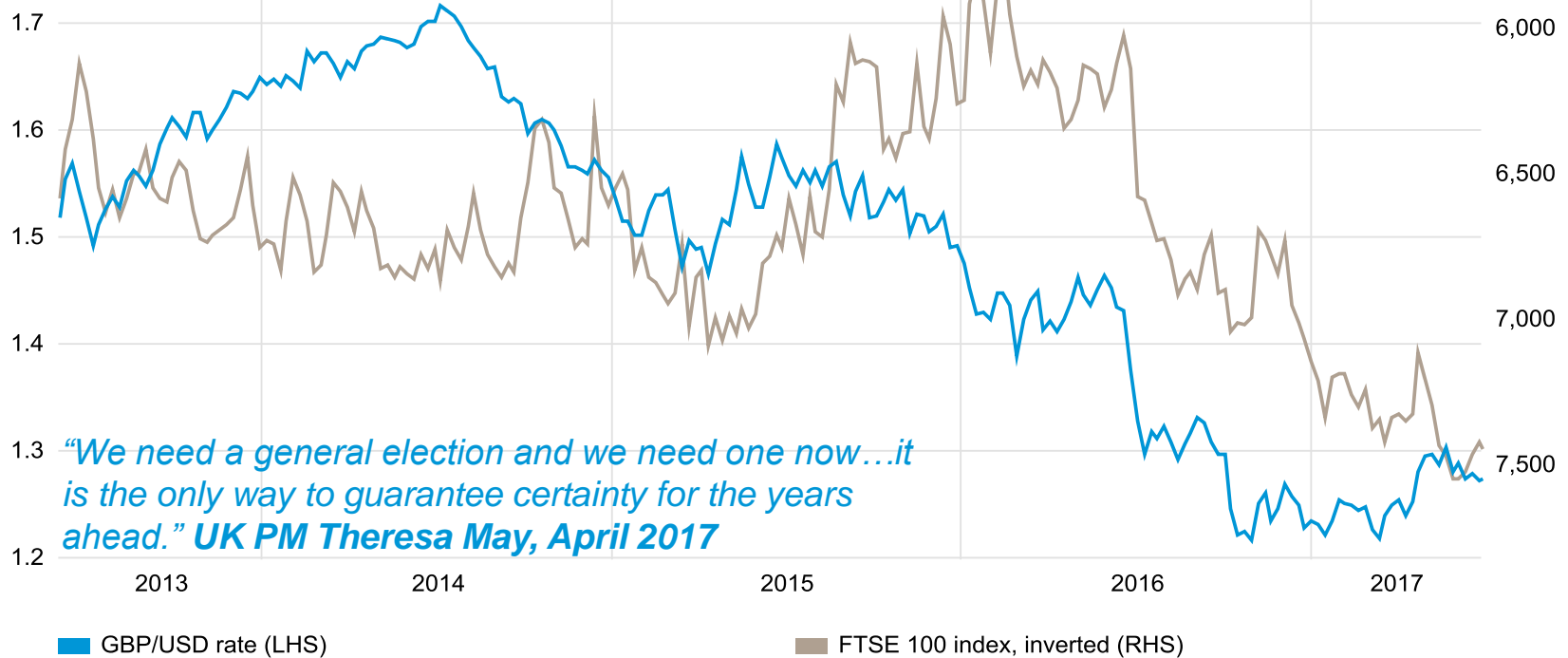
Source: Bloomberg

Brexit - avoid UK equities until sterling makes sense



From 31 May 2013 to 26 Jun 2017

“We are going to be a fully independent, sovereign country...we will decide for ourselves how we control immigration.” UK PM Theresa May, October 2016



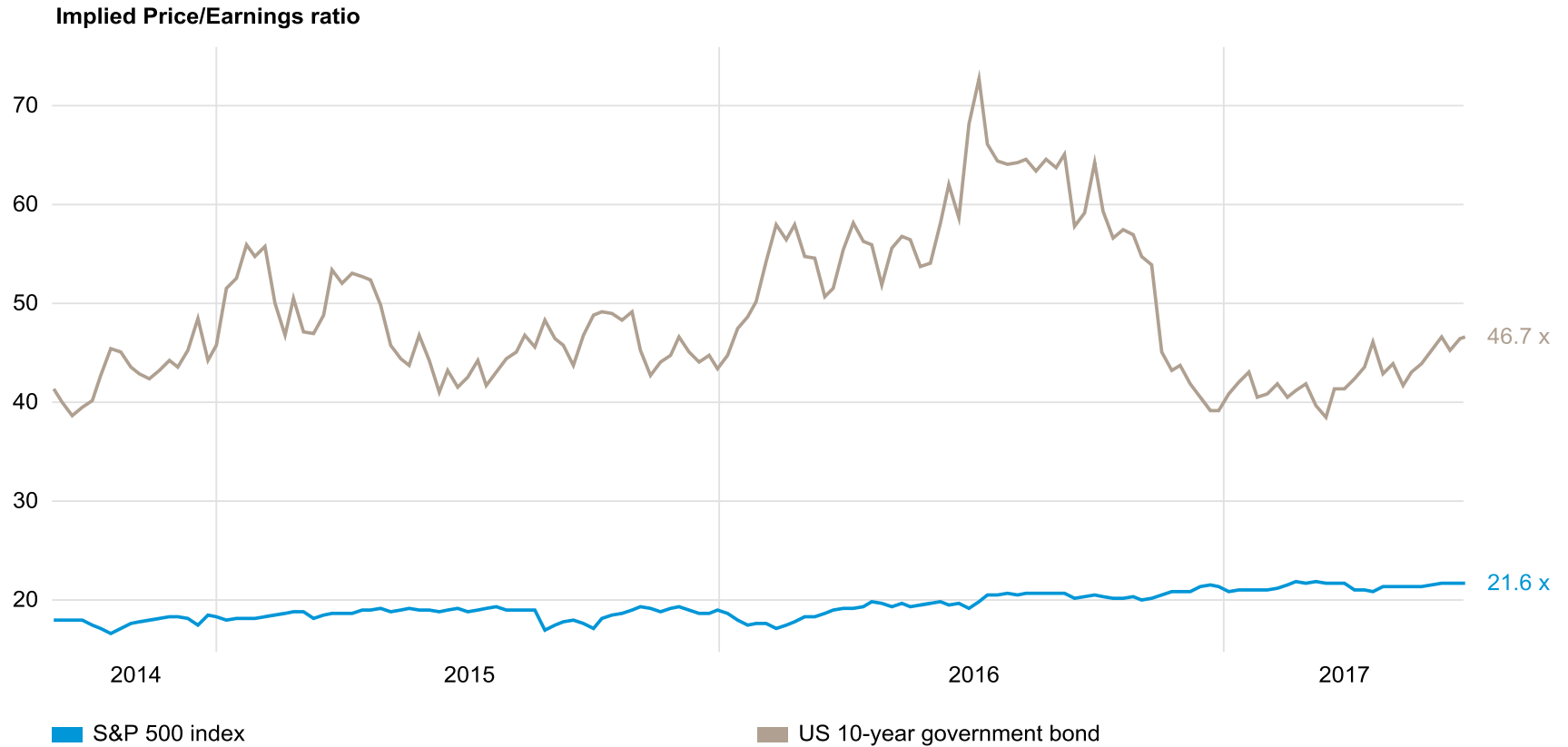
Past performance is not indicative of future performance.

Source: Bloomberg

CARRY ME HOME

US Treasuries - the outrageous price of 'safety'

From 2 Sep 2014 to 23 Jun 2017



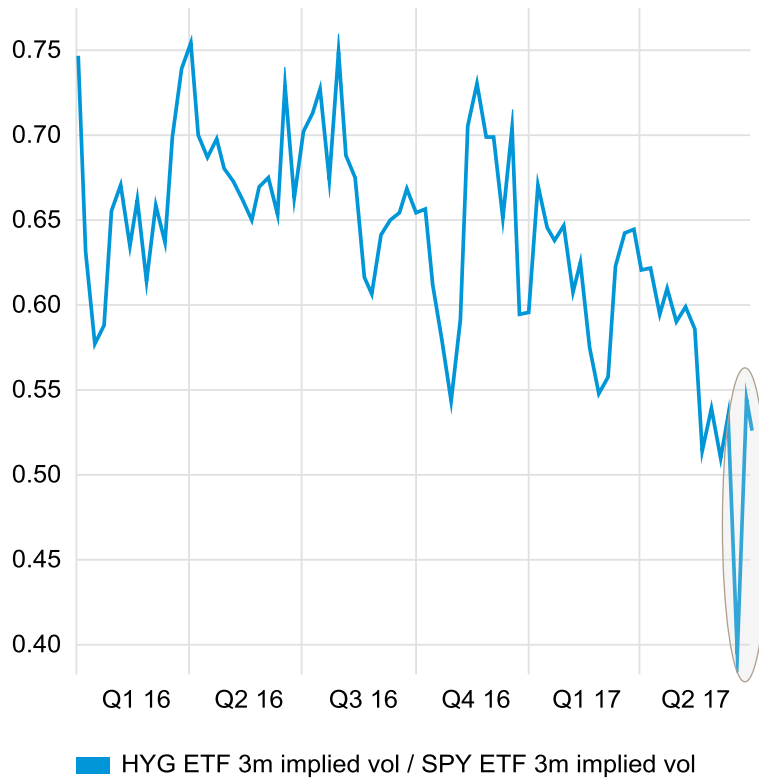
Past performance is not indicative of future performance.

Source: Bloomberg

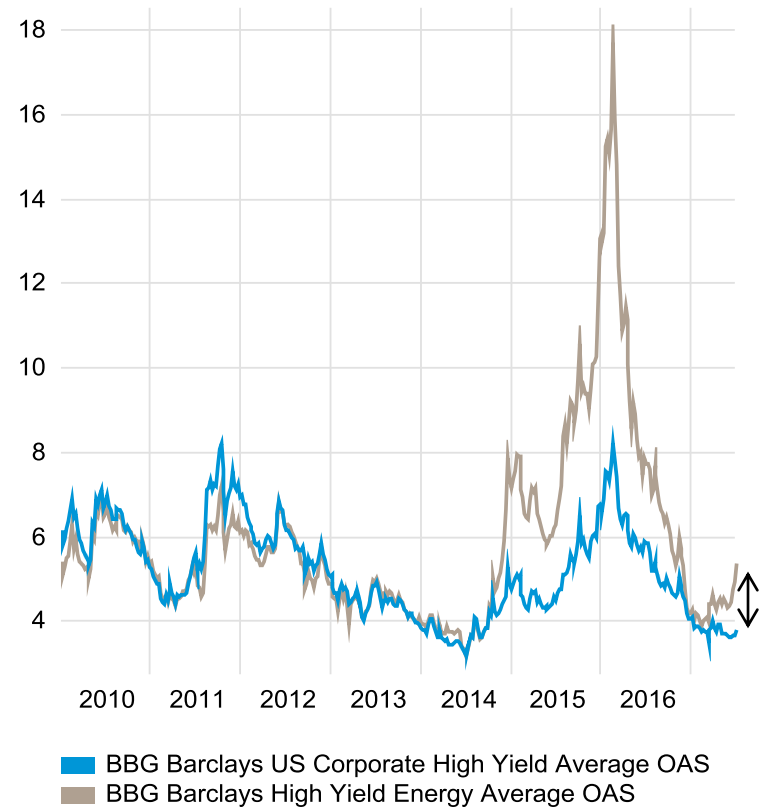
US high yield 'supernova' suggests caution

From 31 Dec 2015 to 26 Jun 2017

Hedging high yield vol becomes relatively cheap...



...HY spreads tight, vulnerable to shale revolution

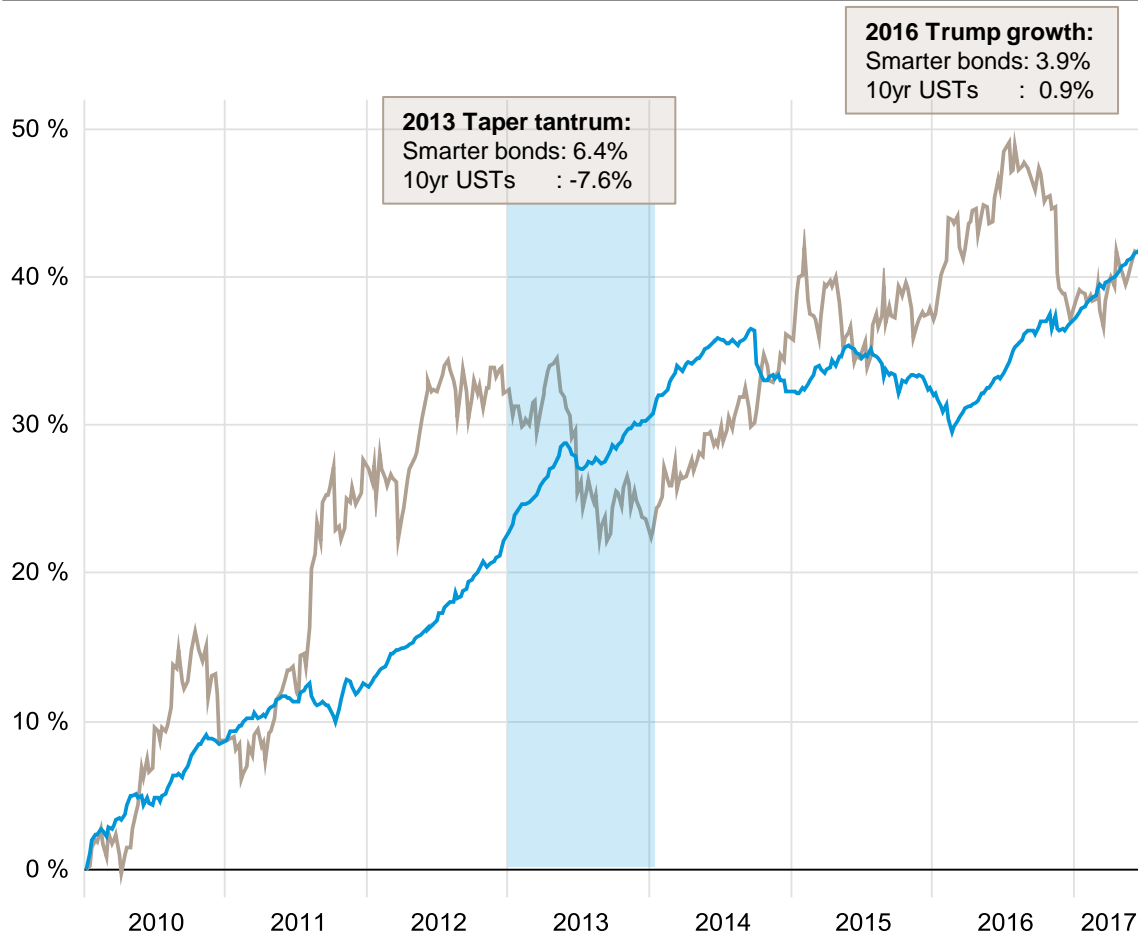


Past performance is not indicative of future performance.

Source: Bloomberg

Alt-bond sleeve ready for the challenges

Performance from 31 Dec 2009 to 19 Jun 2017



	Simple Perf. %	Ann. Perf. %	Ann. Std. Dev.
■ CMPBF	42.1	4.8	2.4
■ US10P	42.0	4.8	6.5

Duration:
Smarter bonds: 1.29
10yr USTs : 2.43

■ GAM Composite AR USD - Fixed Income and Credit
■ 10-year US government bond index USD

Past performance is not indicative of future performance. Performance is provided gross of fees.

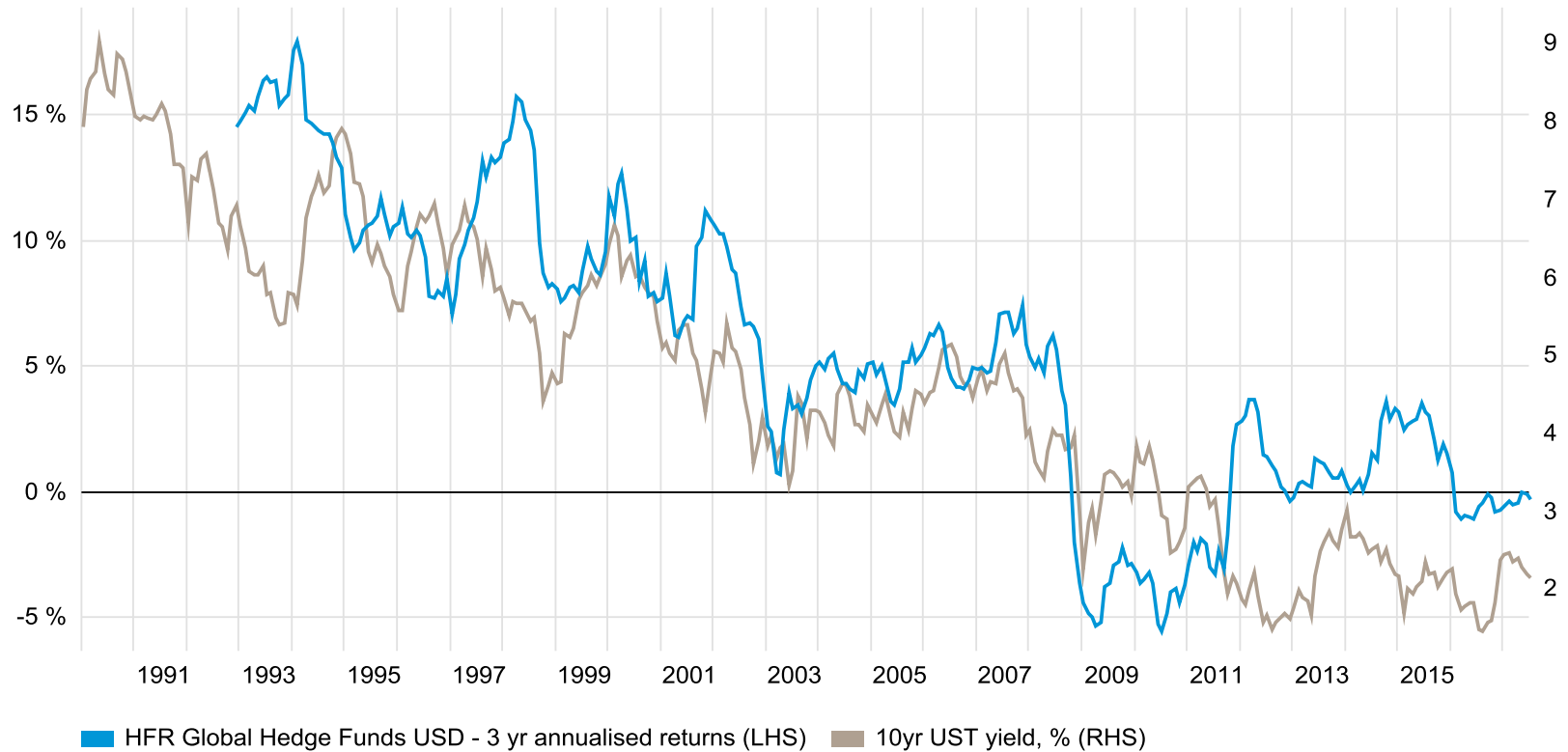
Source: GAM, Thomson Reuters

GAM Composite Absolute Return USD – Fixed Income and Credit is a performance series based on the Fixed Income and Credit portion of the Absolute Return portfolio. It is not in itself a fund or strategy that can be accessed separately and so its performance must always be viewed in the context of the wider Absolute Return portfolio.

Lower for longer in UST yields = more pain for Alts



3 years rolling annualised returns from 29 Dec 1989 to 23 Jun 2017



Past performance is not indicative of future performance.

Source: Hedge Fund Research, Thomson Reuters

POSITIONING AND PERFORMANCE UPDATE

Scenarios for 2017

Data as at 27 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 Market correction 	<ul style="list-style-type: none"> Global GDP 1%-2% Reflation stalls, EM lags Geopolitical tensions Profits growth deteriorates Markets soften 	<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 Markets accelerate
Equities	-20 to -10%	-10 to 0%	2 to 5%	5 to 10%
Allocation	10%	15%	40%	50%
Implied contribution	-1.5%	-0.8%	1.4%	3.8%
Fixed Income & Credit	2 to 5%	1 to 4%	0 to 3%	-2 to 2%
Allocation	55%	50%	30%	25%
Implied contribution	1.9%	1.3%	0.5%	0.0%
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	0.8%	1.1%	2.4%	4.2%
Including alpha	1.6%	2.0%	3.4%	5.1%

Probability-weighted expected return including assumed alpha = 3.1%

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

Data as at 16 Jun 2017

	Low Conviction	Cautious	Neutral	Positive	High Conviction
Equities		UK [sterling recovery, recession risk] US [exhaustion, but marginal underweight]	Japan [underperformed, improving prospects]	Europe [Political risks elevated, but economy improving] Emerging Mkts [sound fundamentals, opportunity]	
Neutral					
Fixed Income		Active aggregate bonds [diversification rather than upside]	Absolute Return approaches [rates opportunities, careful risk control]	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, Sweden]			JPYUSD / Gold / V2X [cheap hedges] Thematic equities [European buybacks, H-Shares calls]	Diverse carry [EM, HY, MBS] Currency themes [EUR, SEK]
Positive					

Q & A

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