

Market Insights – Benign Exhaustion

31 March 2017

“[we’ve had] more than seven years of economic expansion, inflation near 2 percent, and a new normal for unemployment which thankfully looks a lot like the old, pre-recession normal” **John Williams, President and CEO, Federal Reserve Bank of San Francisco, 29 Mar 2017**

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GAM Investment Solutions

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Benign Exhaustion

Key questions for investors

Did the Ryancare fail kill Reflation?

- Market scepticism of the Trump trade easily found
- Expectations remain high, trading range is tight
- Why? TINA is a crude, powerful force

Can other markets outperform the US?

- Yes! While US employment picture improves
- Gap between 'soft' and 'hard' data is disquieting
- European equity opportunity more compelling
- Removal of political storm clouds will uncoil the spring
- Emerging market prospects are also sound
- Technology could provide independence

What other asset classes can work if markets track sideways?

- Alt-bonds
- But danger lurks in popular alternative assets

Tactical asset allocation – what are the opportunities?

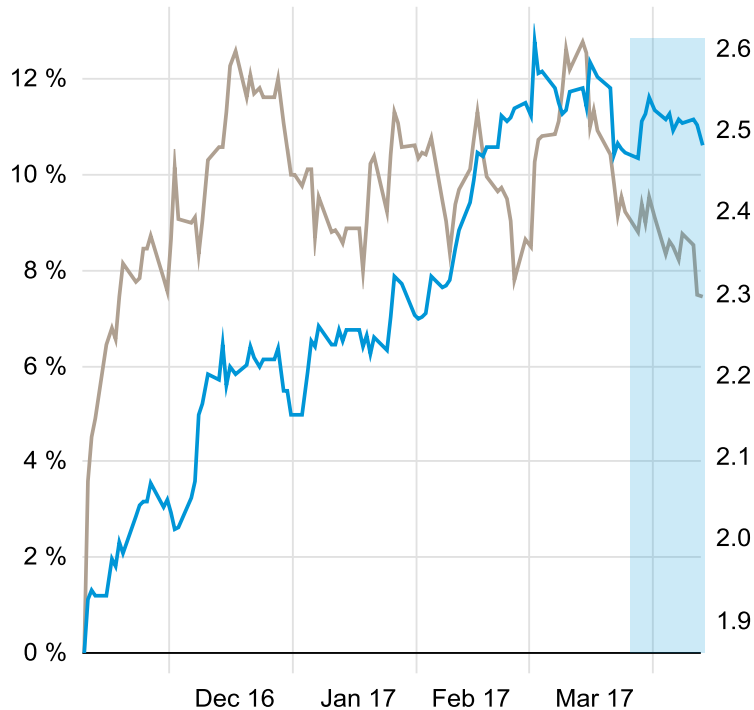
- A big unwind that overshoots fair fundamentals
- Short duration still the play in the meantime

DID THE RYAN CARE
FAIL KILL
REFLATION?

Market scepticism of the Trump trade easily found

From 8 Nov 2016 to 18 Apr 2017. Rebased to 100.

Equities stall, bond yields fall...



■ S&P 500 index USD (LHS)
■ 10yr UST yield, % (RHS)

...Tax cut hopes collapse



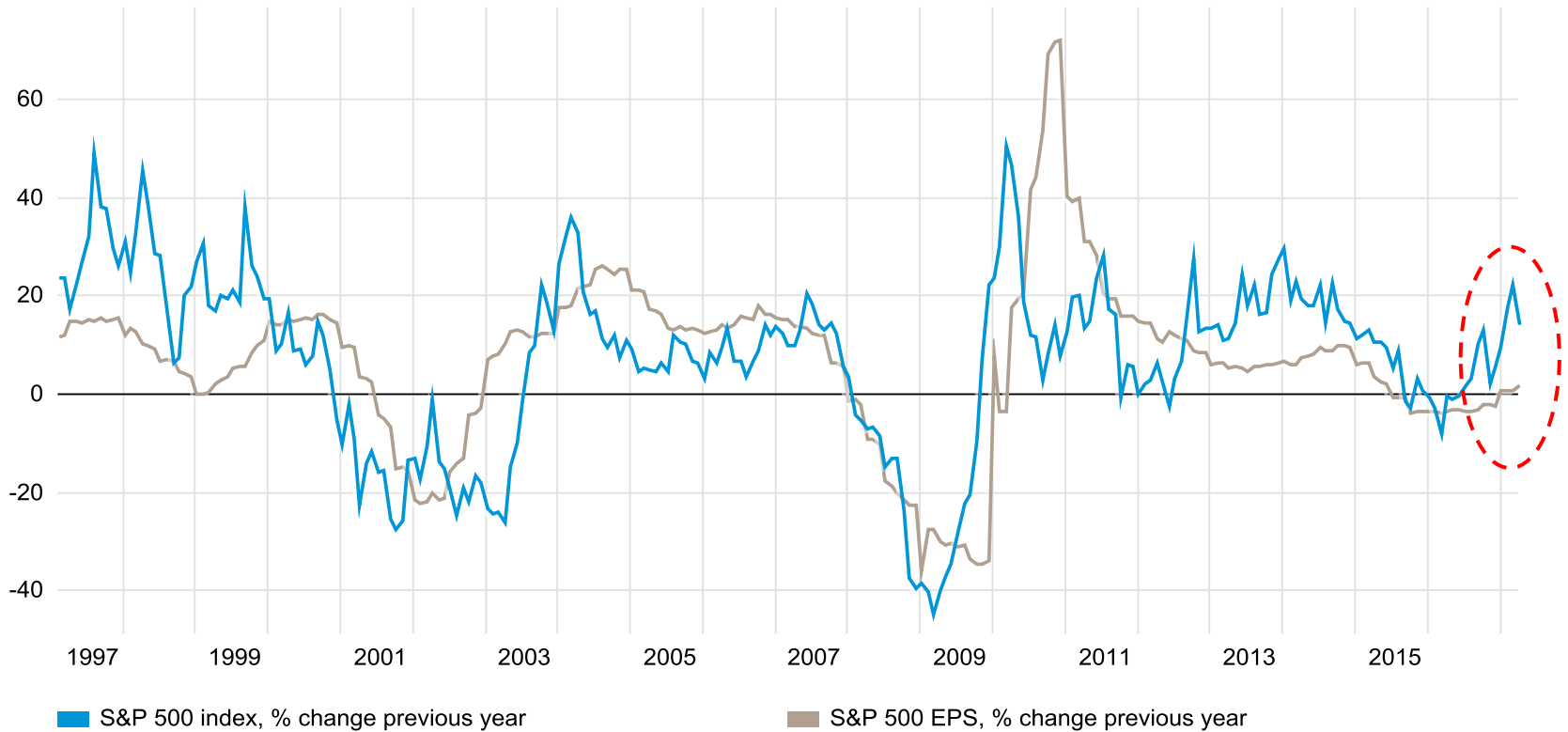
■ JPMorgan high tax basket / S&P 500
■ Goldman Sachs high tax basket / S&P 500

Past performance is not indicative of future performance.

Source: Standard & Poor's, Thomson Reuters, Bloomberg

US equity market expectations relatively high

From 31 Jan 1997 to 28 Mar 2017

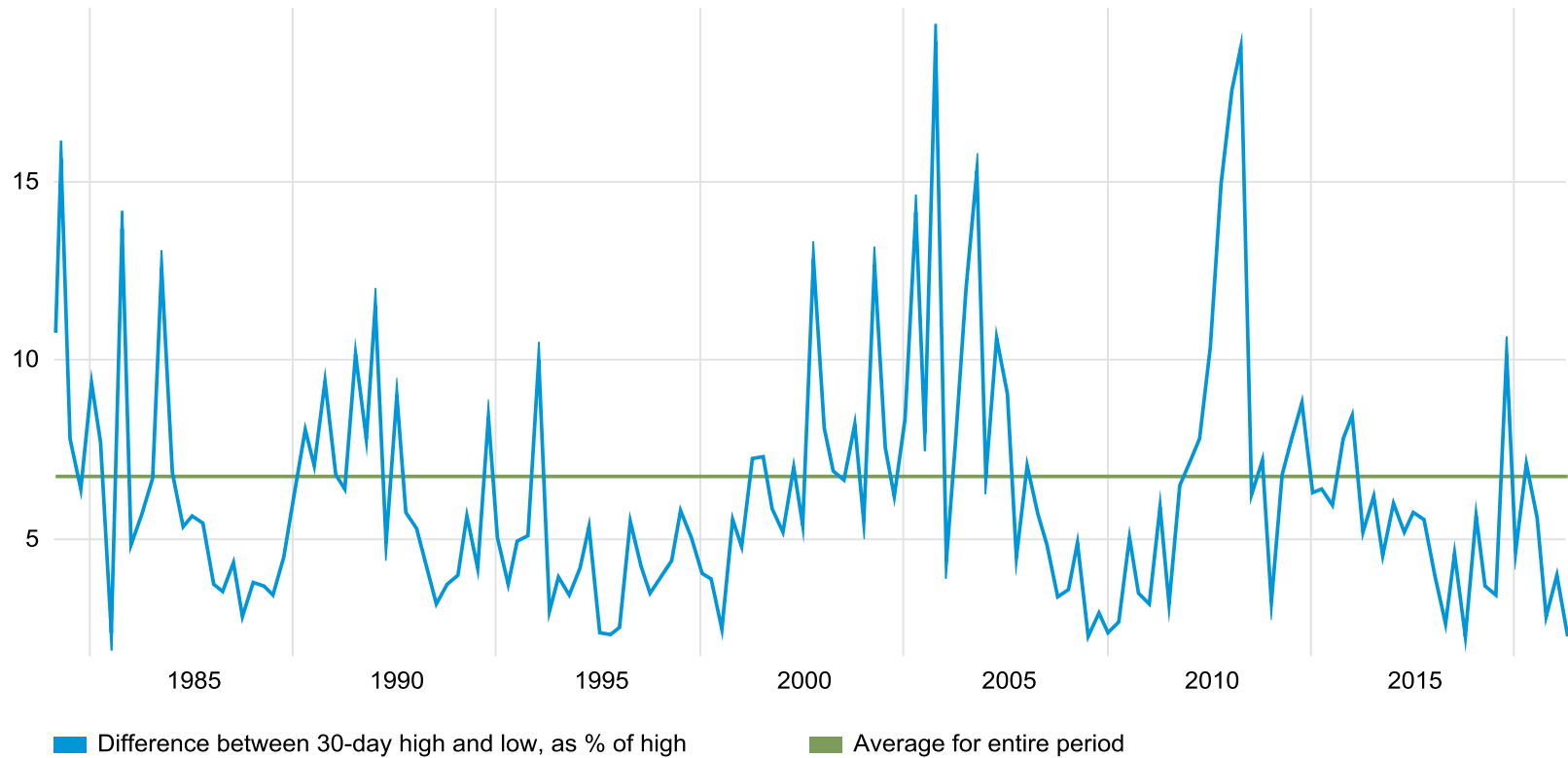


Past performance is not indicative of future performance.

Source: Bloomberg

But market is in an ever-tighter trading range

S&P 500 from 11 Feb 1980 to 30 Mar 2017

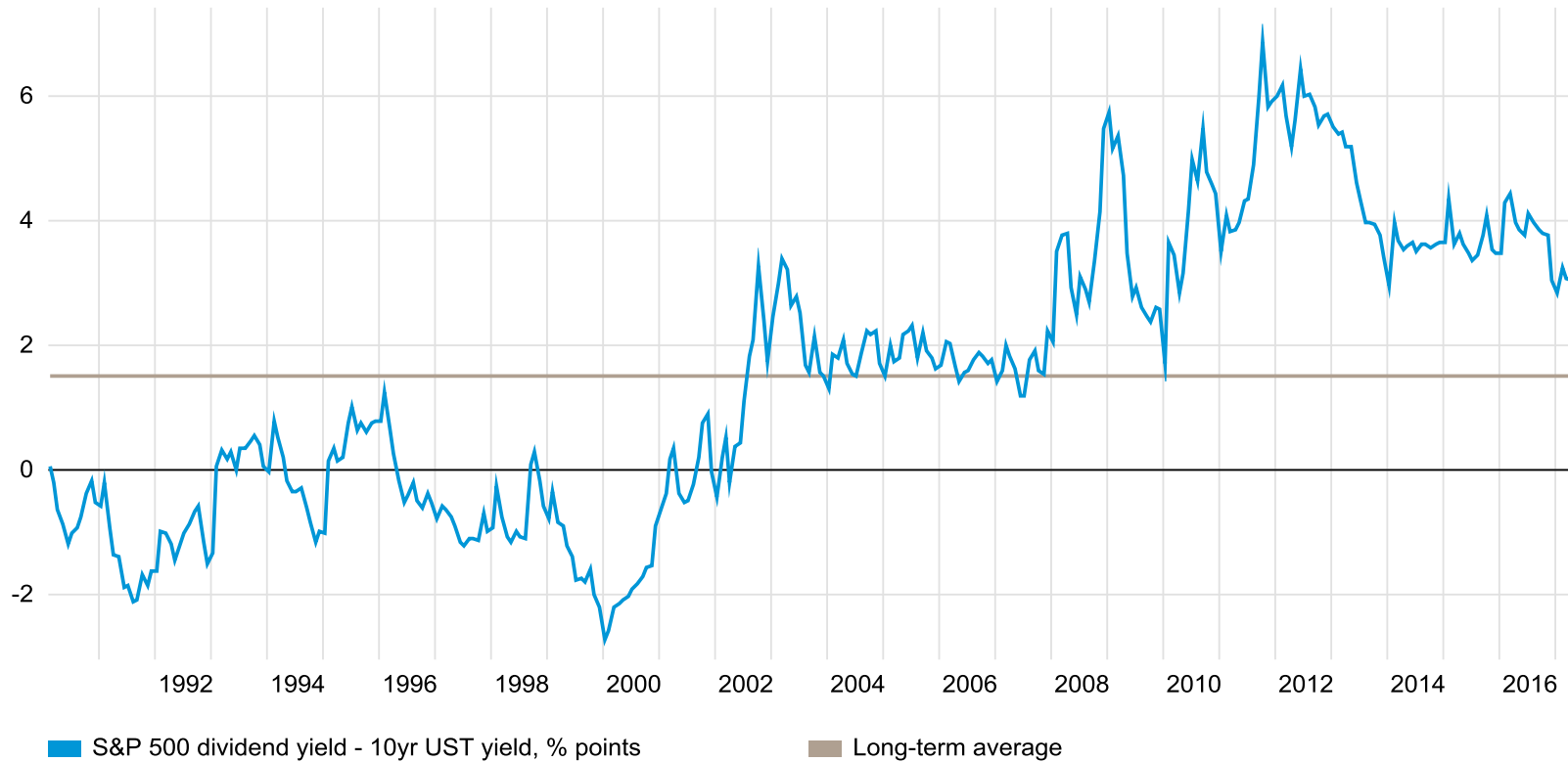


Past performance is not indicative of future performance.

Source: Bloomberg, GAM

Why? TINA is a crude, powerful force

From 31 Jan 1990 to 30 Mar 2017

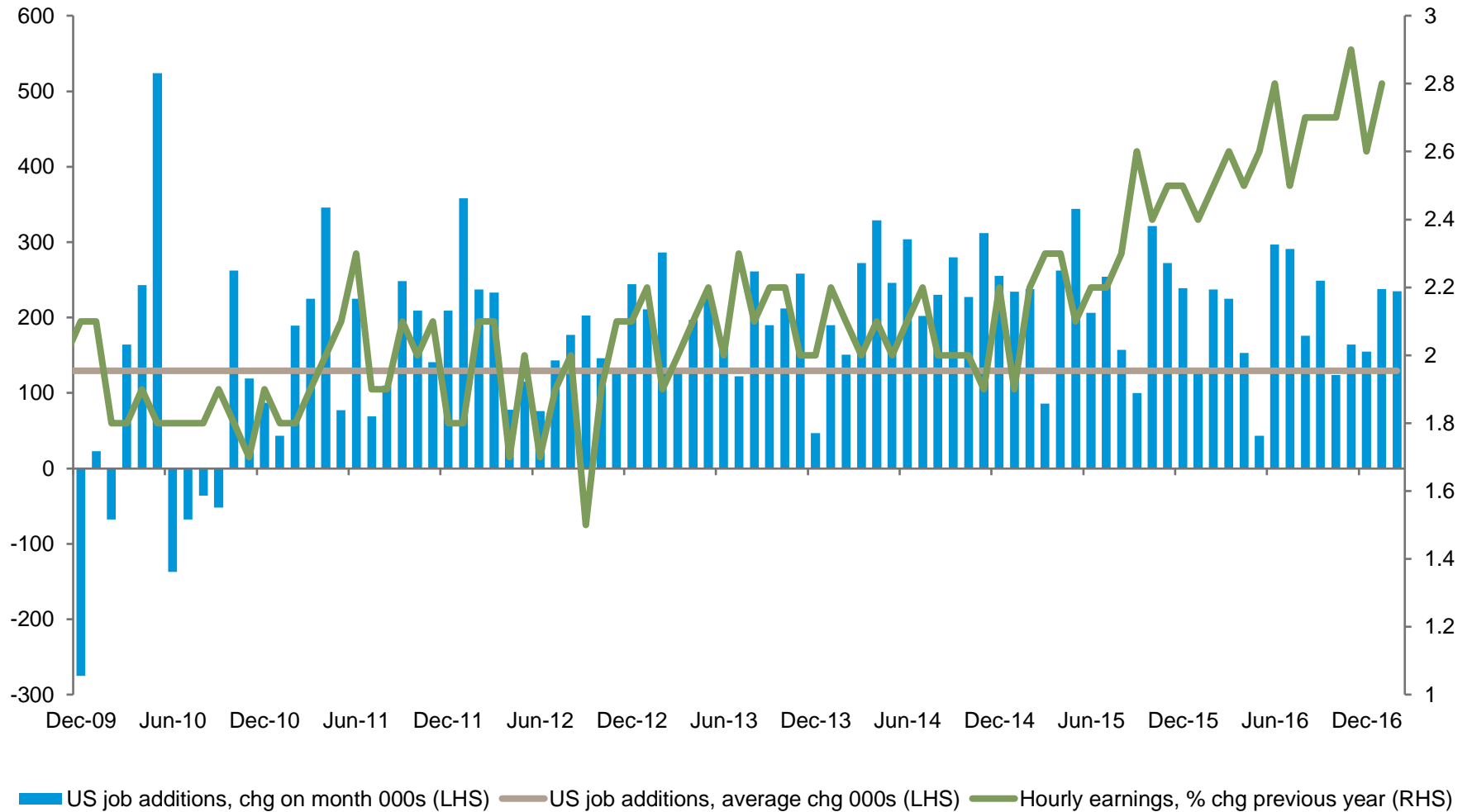


Past performance is not indicative of future performance.

CAN OTHER MARKETS OUTPERFORM THE US?

Yes! While the employment picture improves...

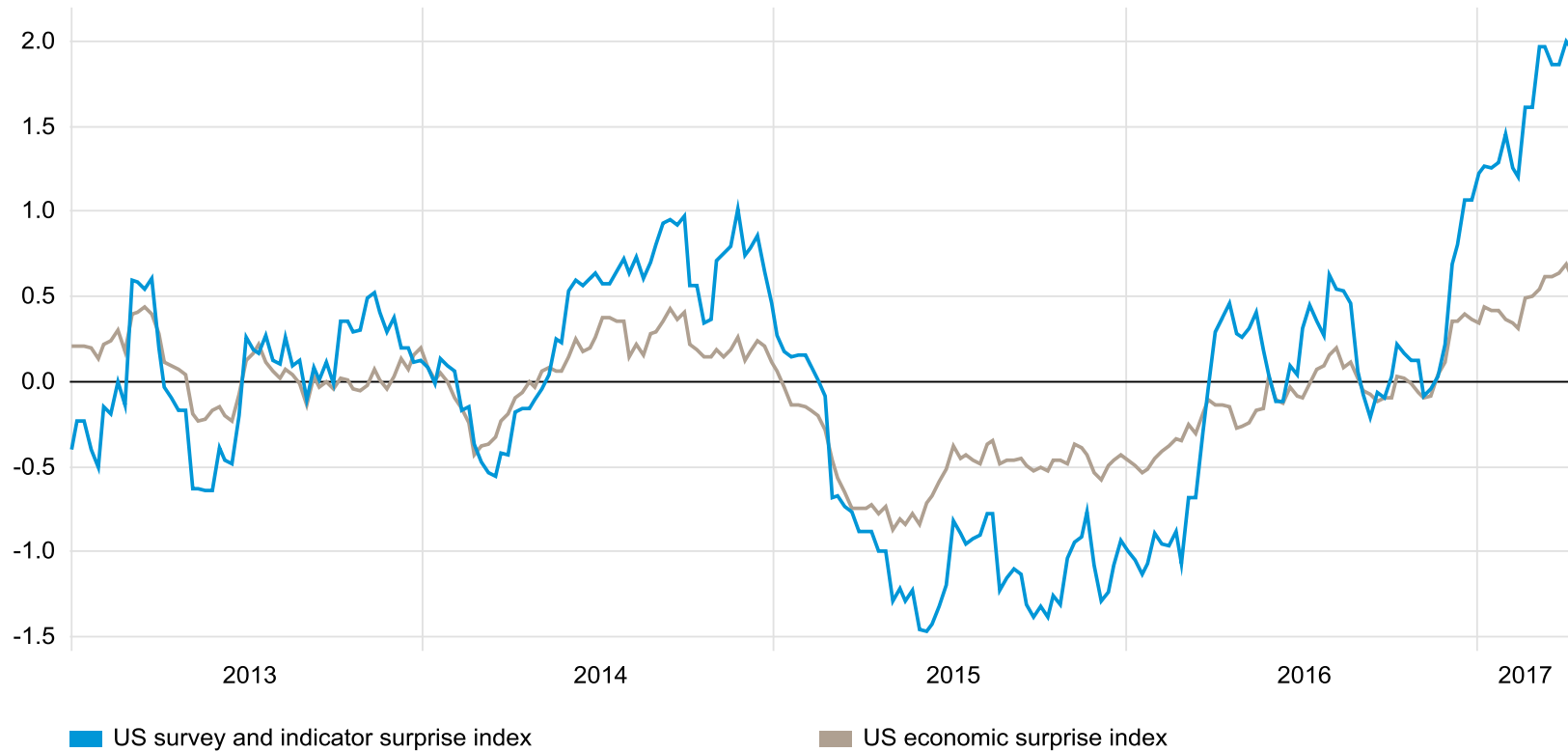
Data from 31 Dec 2009 to 15 Mar 2017



...Broader gap between 'hard' and 'soft' data disquieting



From 28 Dec 2012 to 5 Apr 2017



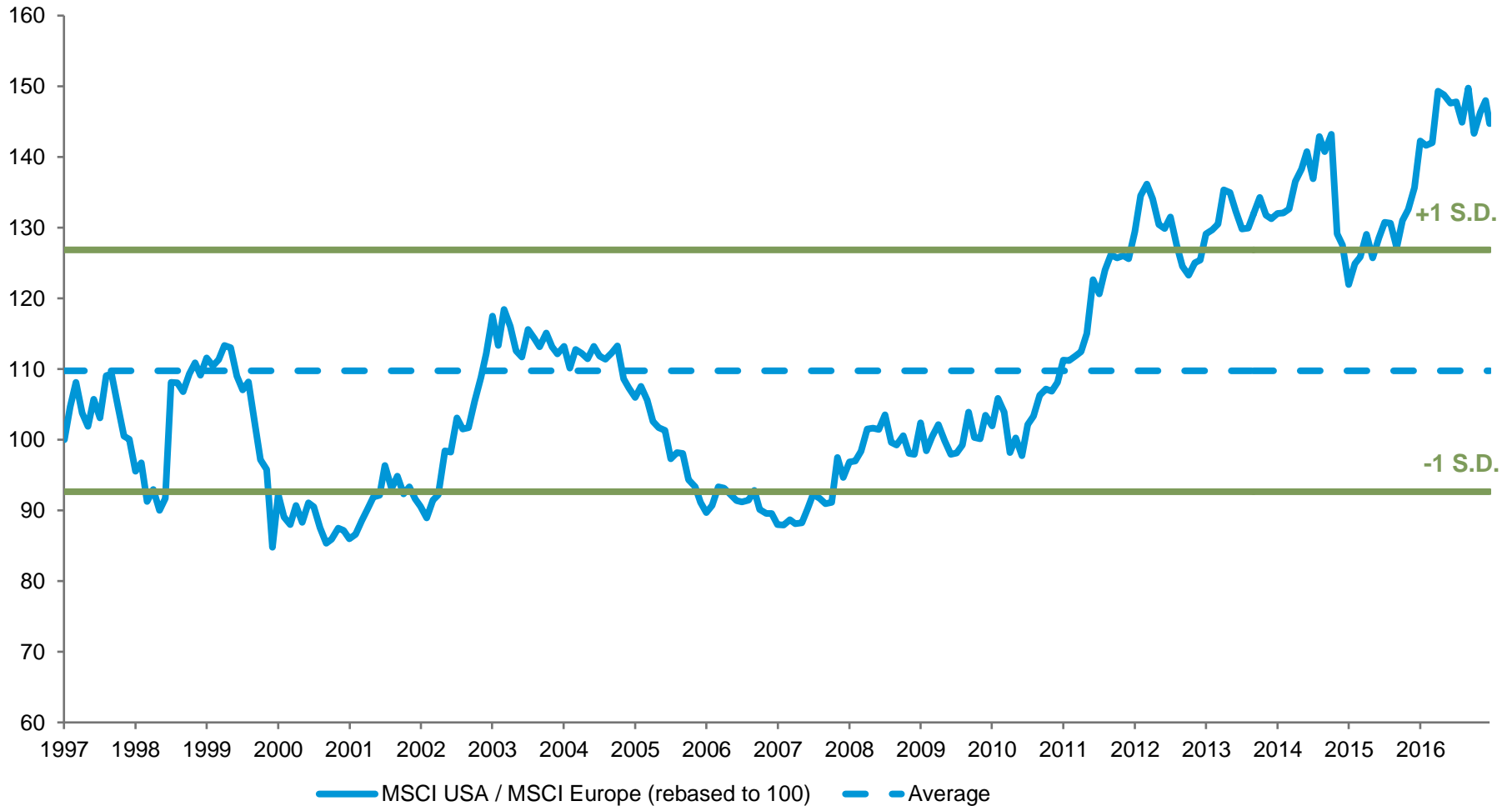
Past performance is not indicative of future performance.

Source: Bloomberg

European equities – years of underperformance v. US



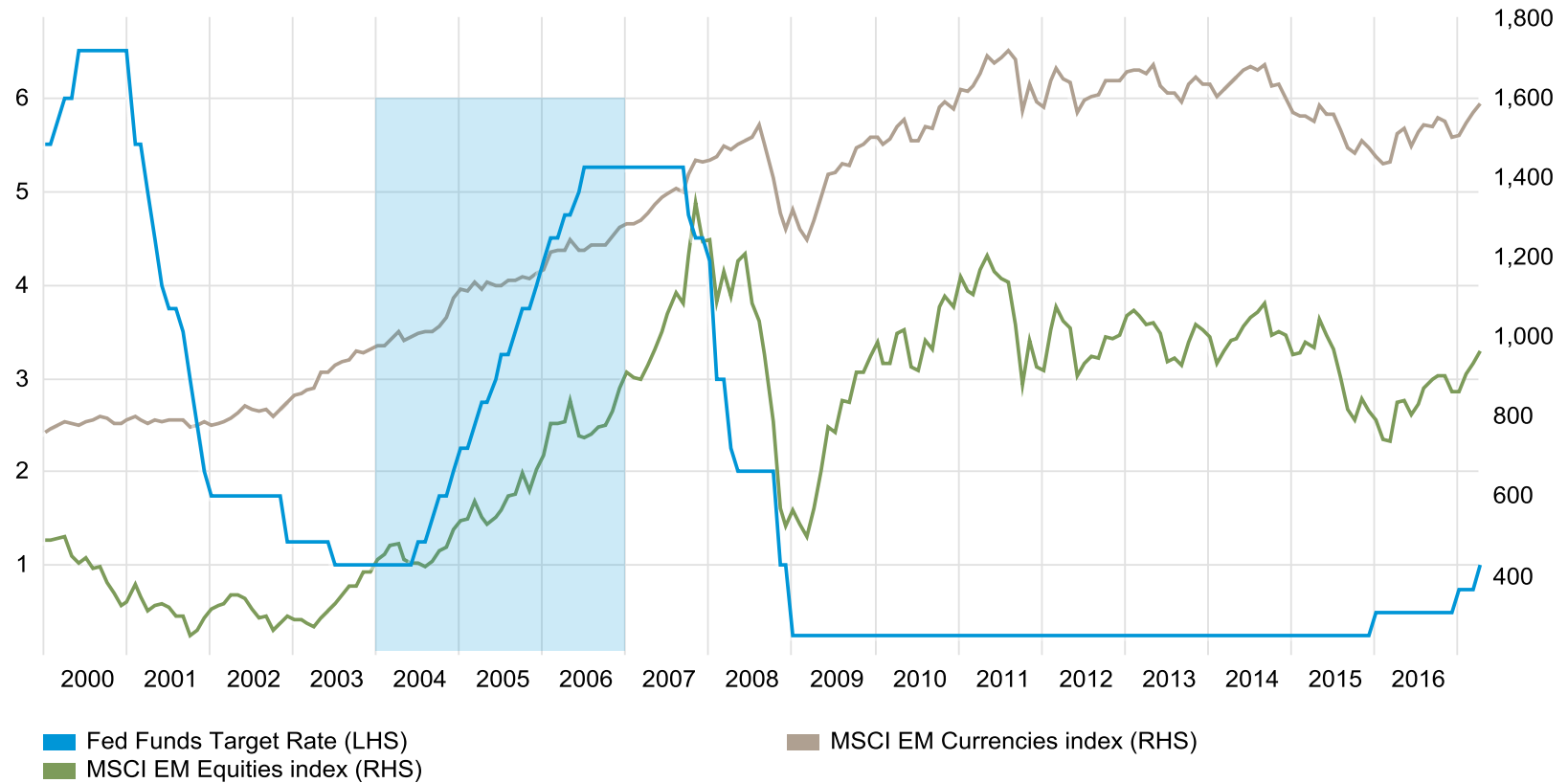
Data from 31 Mar 1997 to 27 Mar 2017



EM equities can handle higher Fed Funds rates



From 31 Dec 1999 to 28 Mar 2017

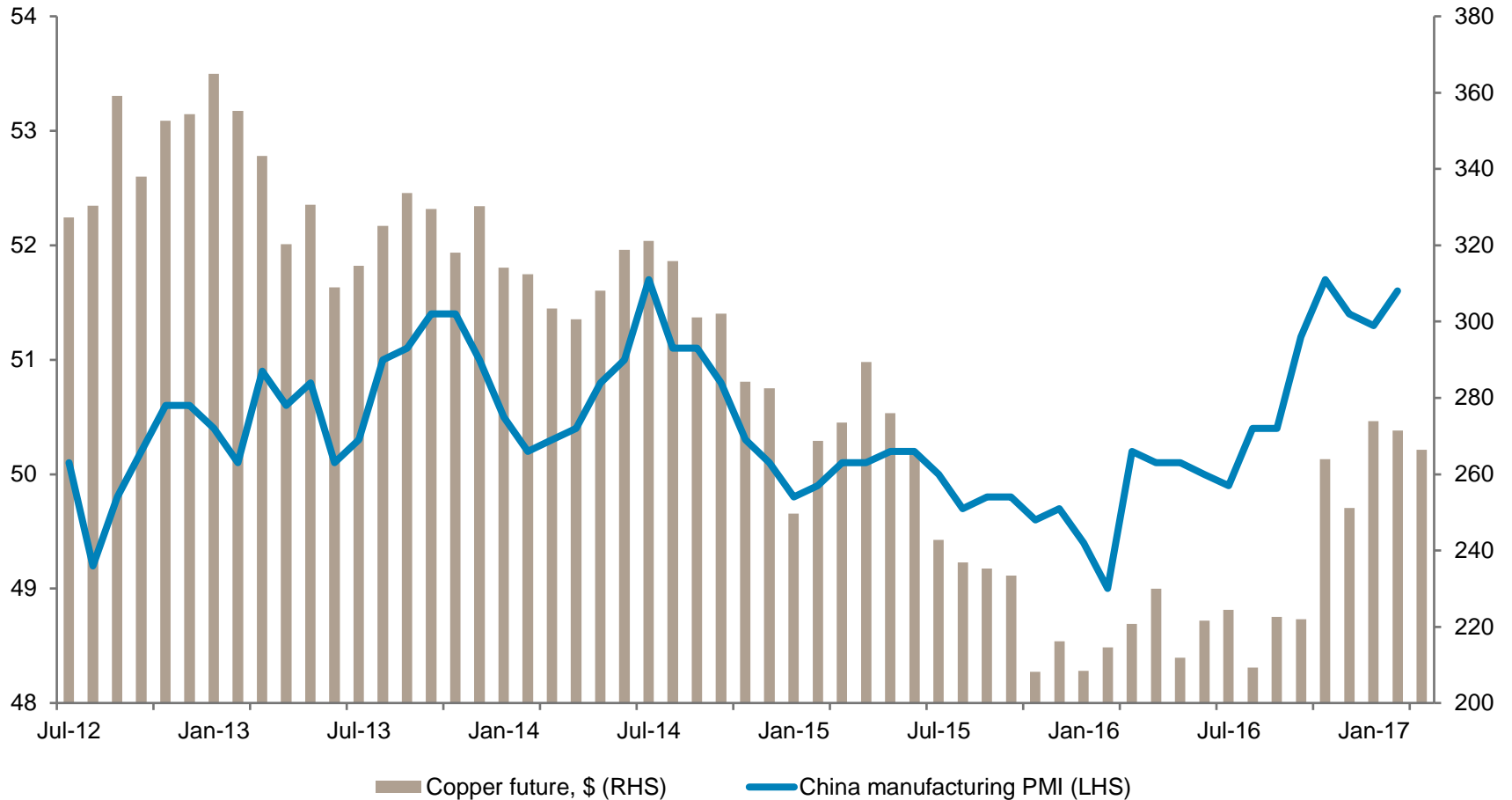


Past performance is not indicative of future performance.

Source: Bloomberg

China manufacturing upswing provides EM support

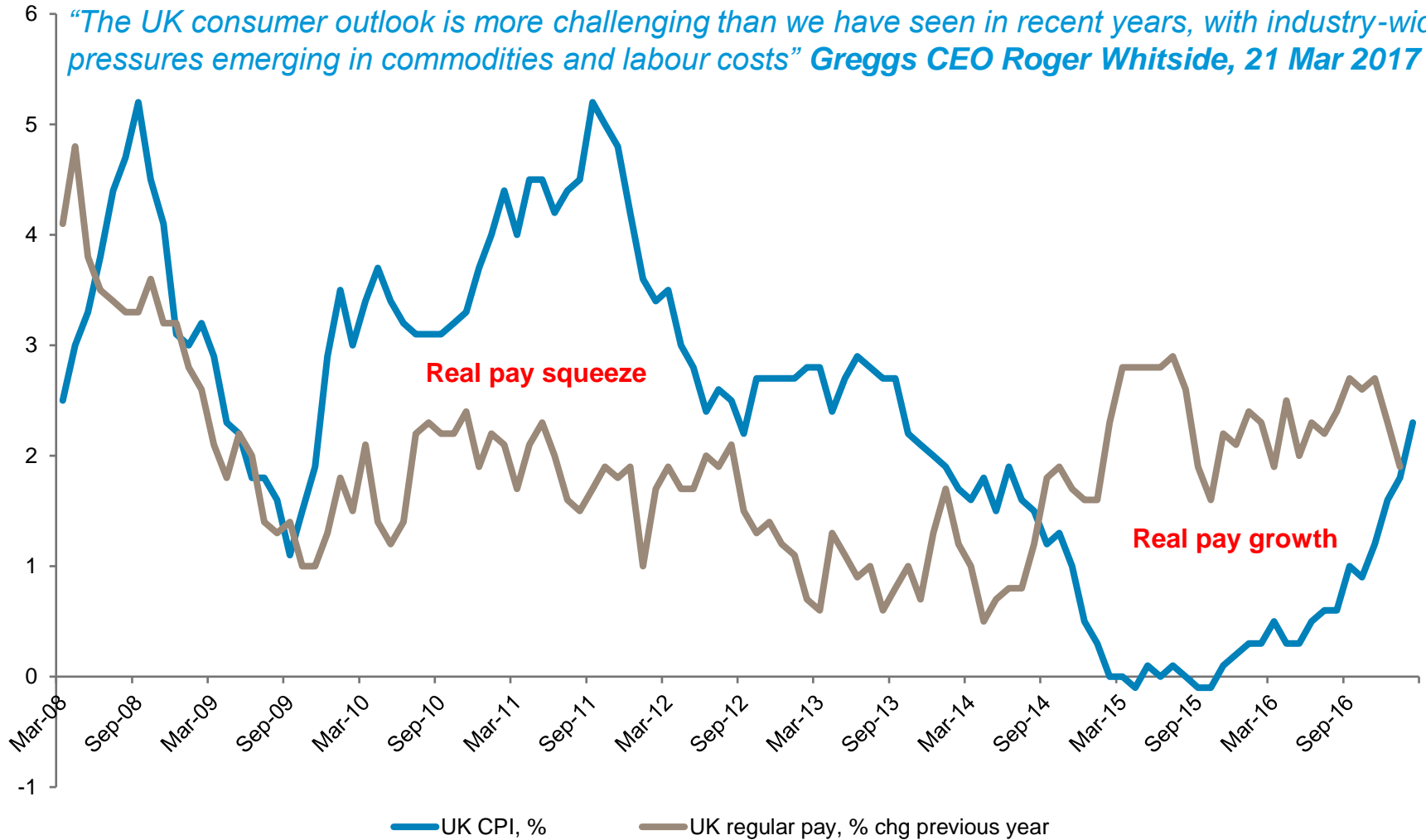
Data from 30 Jun 2012 to 28 Mar 2017



UK complex interplay of sterling, inflation, wages, BoE

Data from 31 Mar 2008 to 28 Feb 2017

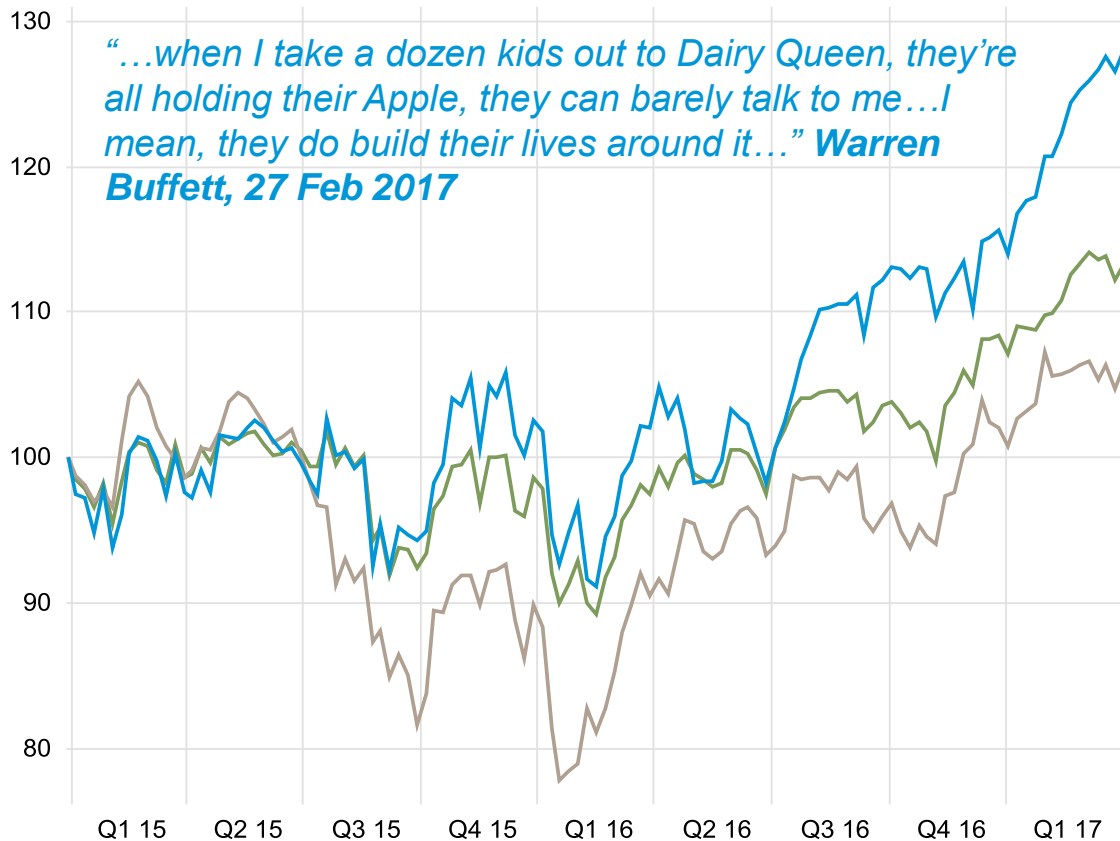
“The UK consumer outlook is more challenging than we have seen in recent years, with industry-wide pressures emerging in commodities and labour costs” Greggs CEO Roger Whitside, 21 Mar 2017



Technology stocks could offer durability, independence

From 26 Dec 2014 to 30 Mar 2017

Tech outperformance began pre-Trump



	Simple Performance for Period %
S&P 500 IT sector	28.0
S&P 500 Materials sector	6.4
S&P 500	13.4

■ S&P 500 IT sector
■ S&P 500 Materials sector
■ S&P 500

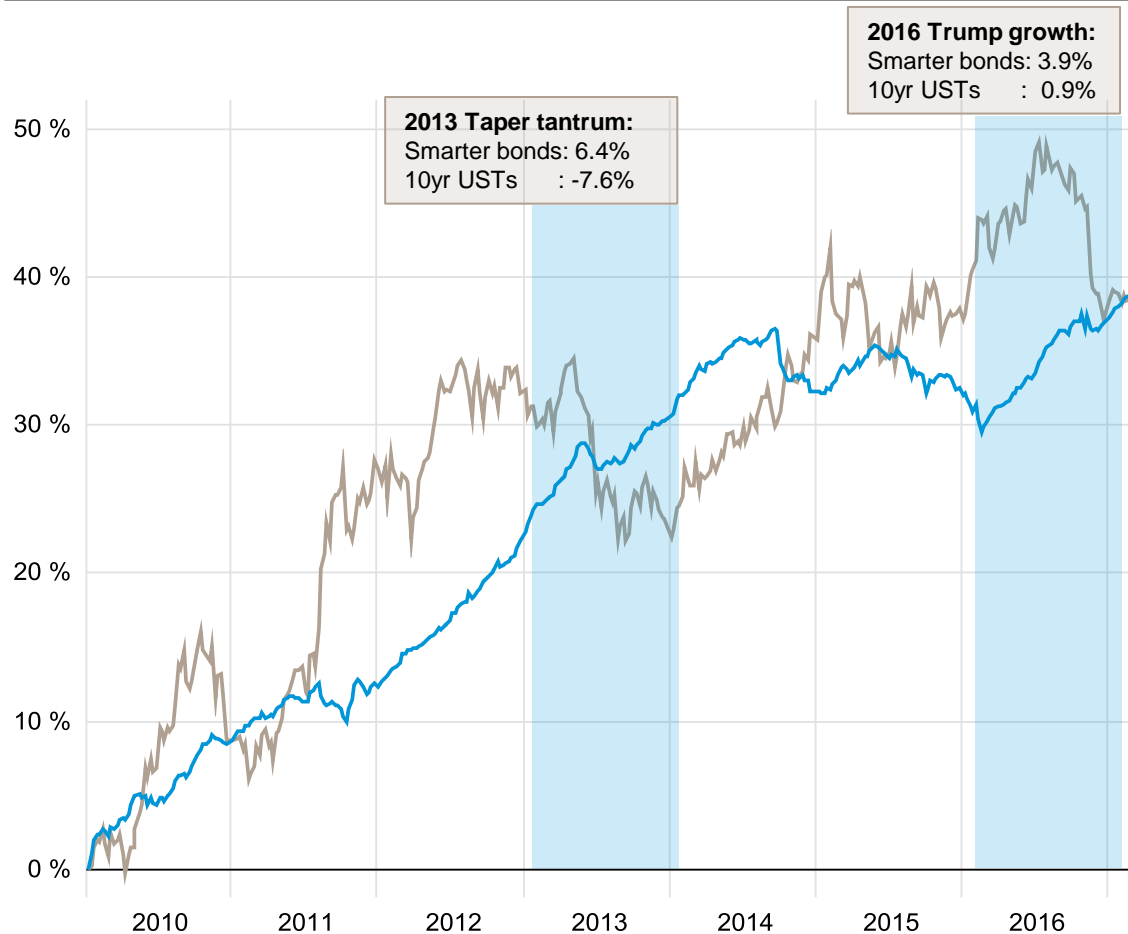
Past performance is not indicative of future performance.

Source: Bloomberg

WHAT OTHER ASSETS CAN WORK?

Outside equities, what else works?

Performance from 31 Dec 2009 to 27 Mar 2017



	Simple Perf. %	Ann. Perf. %	Ann. Std. Dev.
■ CMPBF	39.7	4.7	2.4
■ US10P	39.6	4.7	6.6

■ 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.

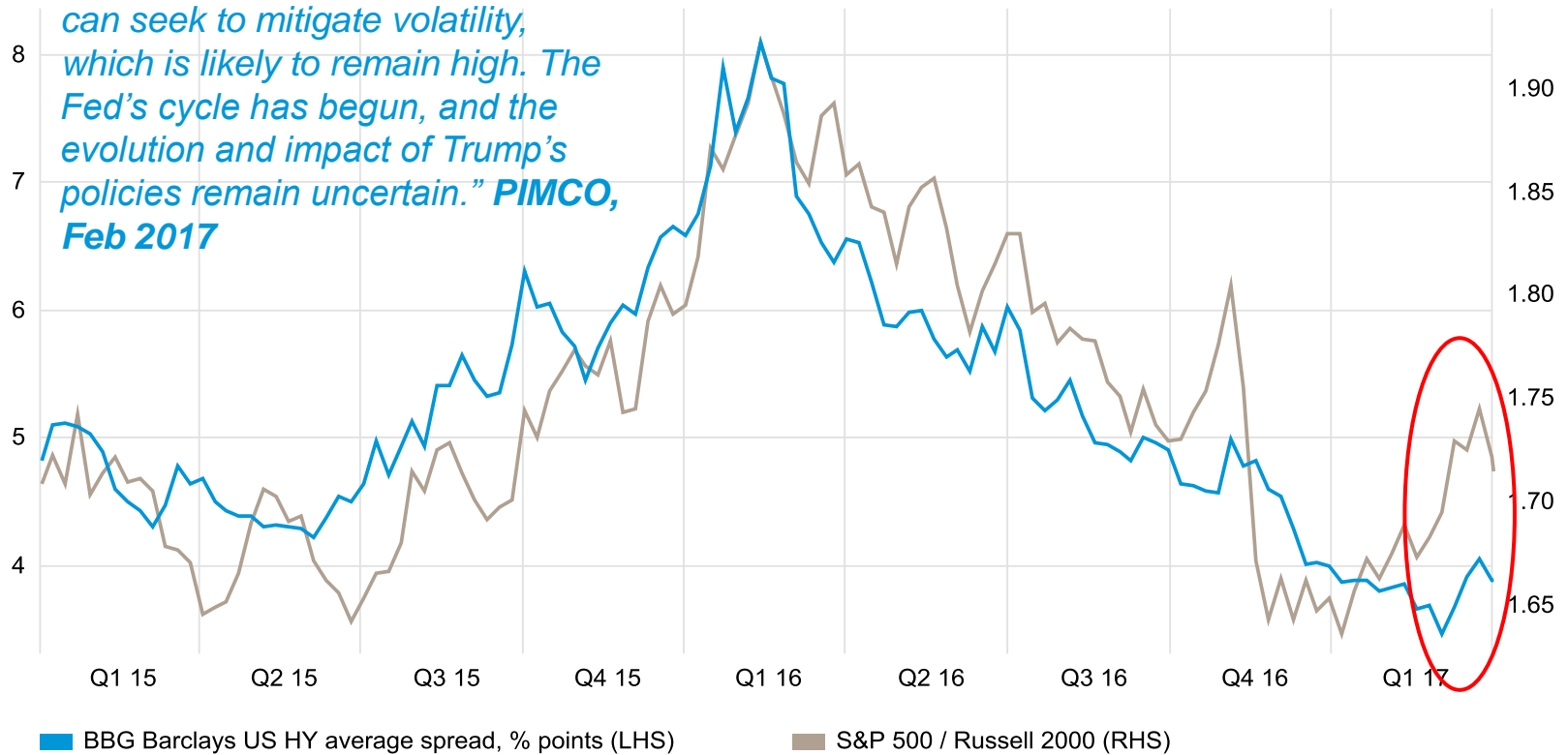
Source: GAM, Thomson Reuters

Allocations and holdings are subject to change. 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.

But danger lurks in popular alternative assets

From 31 Dec 2014 to 30 Mar 2017

“Importantly, active bond managers can seek to mitigate volatility, which is likely to remain high. The Fed’s cycle has begun, and the evolution and impact of Trump’s policies remain uncertain.” PIMCO, Feb 2017



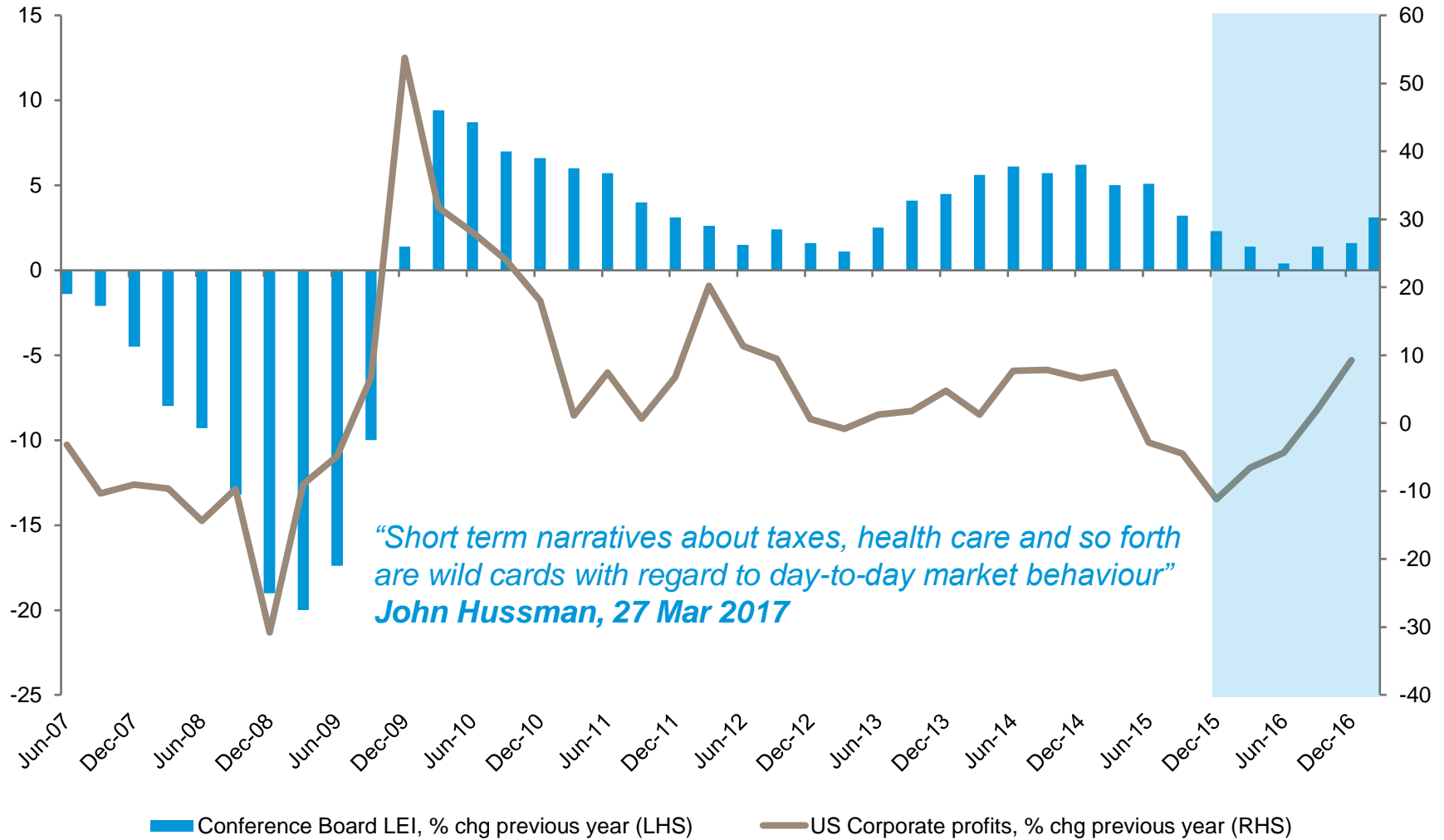
Past performance is not indicative of future performance.

Source: Bloomberg

TAA – WHAT ARE THE OPPORTUNITIES?

Tactical opportunity – if disappointment overshoots

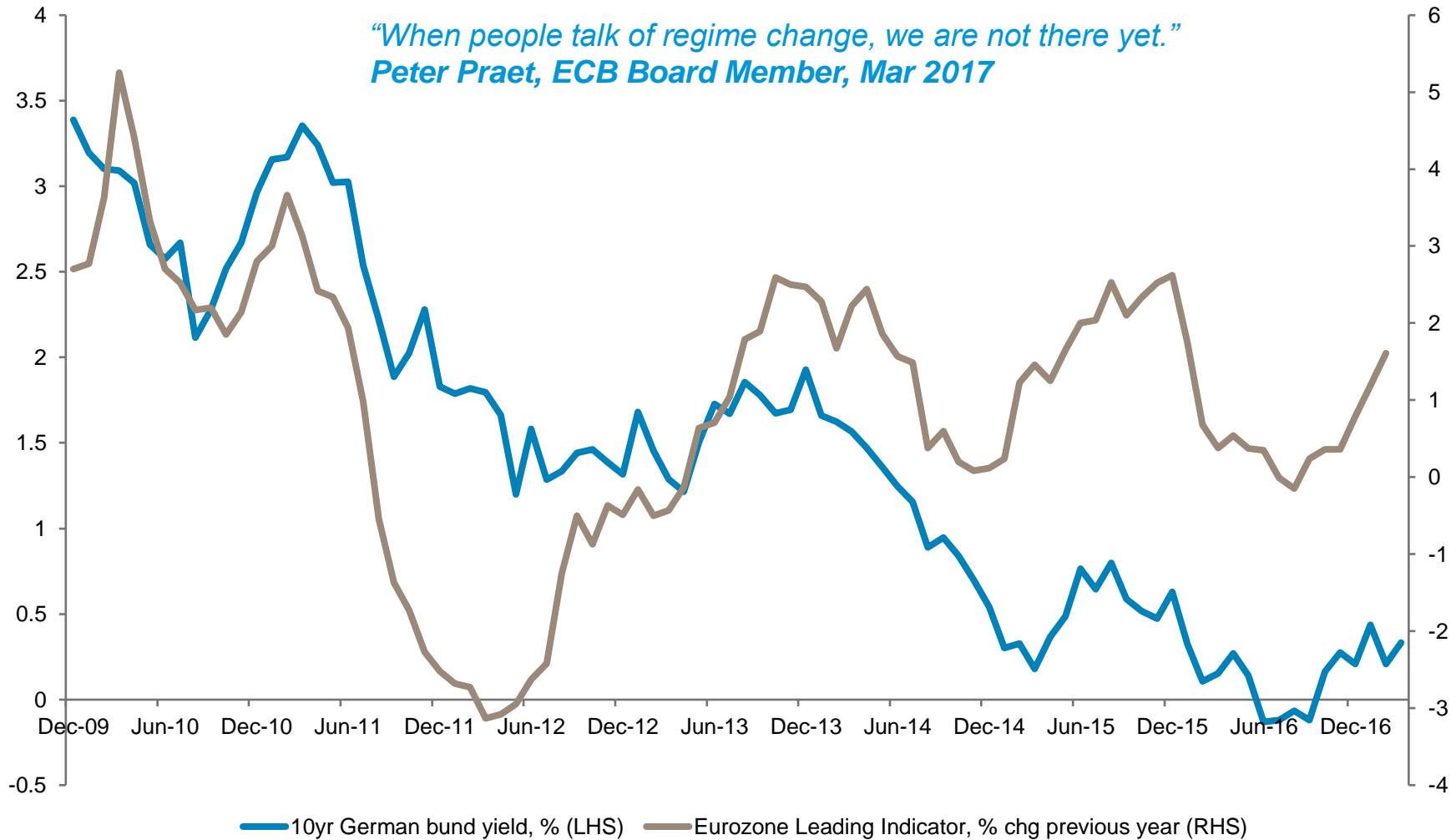
Data from 30 Jun 2007 to 28 Feb 2017



ECB bond suppression at odds with improving realities

Data from 31 Dec 2009 to 30 Mar 2017

*“When people talk of regime change, we are not there yet.”
Peter Praet, ECB Board Member, Mar 2017*



Scenarios for 2017

Data as at 04 Jan 2017

Probability: %	Crisis: 10%	Stagnation: 20%	Reflation: 60%	Boom: 10%
	<ul style="list-style-type: none"> Global GDP <2% DM slows, EM follows Geopol. / systemic crisis Profits relapse Markets tumble 	<ul style="list-style-type: none"> Global GDP <3% Reflation stalls, EM lags Geopolitical tensions Profits go sideways Markets correct 	<ul style="list-style-type: none"> Global GDP >3.5% DM, EM growth Geopolitics contained Profit recovery continues Gradual market progress 	<ul style="list-style-type: none"> Global GDP >4% DM recovers, EM takeoff Geopolitics benign Profits smash forecasts Bull market
Equities	-20 to -10%	-10 to 0%	2 to 7%	7 to 15%
Allocation	10%	15%	40%	50%
Implied contribution	-1.5%	-0.8%	1.4%	5.5%
Fixed Income & Credit	2 to 5%	1 to 4%	0 to 3%	-3 to 1%
Allocation	55%	50%	30%	25%
Implied contribution	1.9%	1.3%	0.5%	0.1%
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%	2.8%	5.7%
Including alpha	1.6%	2.0%	3.8%	6.6%

Probability-weighted expected return including assumed alpha = 3.3%

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

Allocations, asset class ranges and holdings are subject to change. The views expressed are those of the manager at the time and are subject to change. There is no guarantee that forecasts of strategies or objectives will be achieved.

Strategic and tactical views – summary

Data as at 29 Mar 2017

	Low Conviction	Cautious	Neutral	Positive	High Conviction
Equities		UK [sterling recovery, recession risk] Japan [currency risk, economic doldrums]	US [growth is back but valuations high]	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]			EURUSD [ECB tapering, USD exhaustion] SEKNZD [rising inflation in Sweden unnoticed]	Thematic equities [Value, Europe, China]
Positive					

Q & A

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