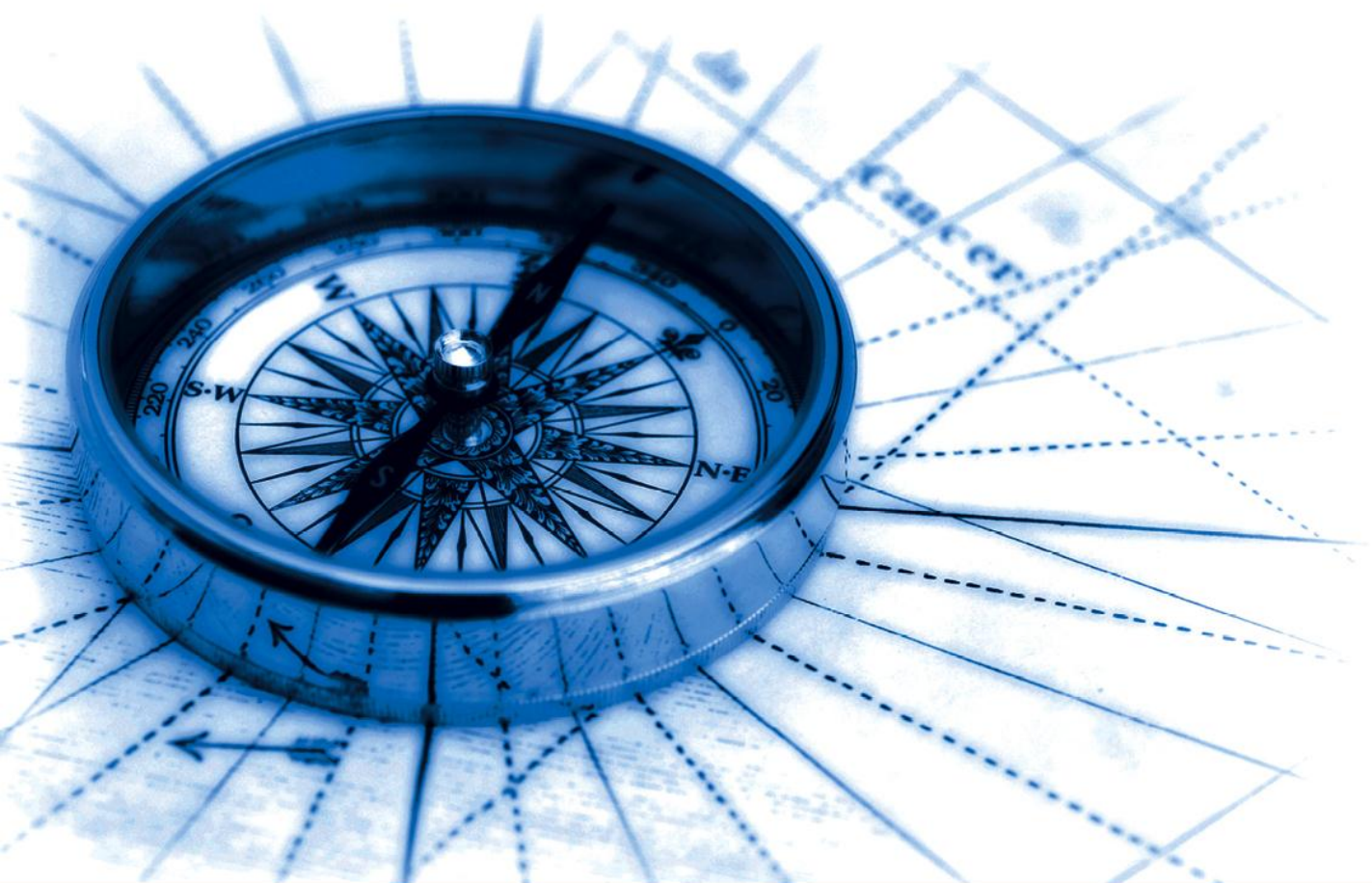


Schroders

Global Market Perspective

Economic and Asset Allocation Views Q3 2014



Schroders

Introduction

After a testing start to the year, risk assets rebounded in the second quarter with the US equity market making new highs. Underpinning this were signs of better economic activity in the US and continuing recovery in Europe, whilst China began to show signs of stability. The sense that central banks were becoming less supportive of economic activity dissipated and then reversed as the European Central Bank (ECB) announced a range of measures to support growth and head off deflation. Meanwhile, Federal Reserve (Fed) chair, Janet Yellen emphasised that US interest rates would remain low well into the future, even as the economy recovered.

Against this backdrop the decision to focus our risk budget on equity markets has proven correct, but we have also seen strength in credit, emerging market debt and peripheral European sovereign bonds. Carry trades are coming back and there has been a rally in the fragile 5 currencies. Encouraged by central bank commitment to easy policy and the low level of volatility, investors have resumed their search for yield.

Going forward we see continued recovery in the world economy and are looking for growth in the developed world to gradually spread to the emerging markets through stronger trade. However, alongside this positive development we also anticipate upward pressure on US rates as the labour market continues to tighten and inflationary pressures build. Corporate profits may then come under pressure as wages pick up. Market reaction will depend on how the Fed responds and we see a strong case for the higher interest rates in the US (see Strategy note). Elsewhere though, monetary policy is expected to remain easy with the ECB and Bank of Japan looking to stimulate growth and head off deflation.

Notwithstanding these challenges, the environment remains positive for markets in the second half of the year. However, as valuations push higher we are examining our stance on risk assets. Equities continue to look attractive, but we see scope for some profit taking and a rotation towards those markets which have lagged the rally.

Keith Wade, Chief Economist and Strategist, Schroders

11 July 2014

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Asset Allocation Views: Multi Asset Group

Global Overview

Economic View

The global economy continues to recover in 2014, as the headwinds which have held back activity last year are expected to abate somewhat and allow demand to lift. The upturn is primarily led by the developed economies, the US and Europe, whilst the emerging economies experience a more modest improvement. The latter face the more significant challenge in adjusting to the post financial crisis world. Against this backdrop, inflation is expected to remain contained given the spare capacity in the world economy.

Despite the softness of the first quarter where US GDP fell at an annual rate of 2.9%, the recent improvement in the data suggests that the US could experience a sharp rebound in the second quarter. Elsewhere, the UK recovery is set to continue driven by the strong momentum in the housing market. However, the growth profile for the Eurozone and Japan is more subdued with activity in Japan likely to be held back by the consumption tax hike.

For emerging markets (EM), the growth outlook faces domestic issues along with the prospective tightening of US monetary policy weighing on the region. Looking ahead, we see stability rather than a massive deterioration, with the global recovery providing support against weaker domestic fundamentals. However, we need to become more confident on activity in the large economies like China and Brazil before the emerging markets can return to a stronger growth path.

In terms of risks, three out of our seven macro scenarios are biased towards the deflationary side, such as “Eurozone deflation” and “China hard landing.” The former would assume weak economic activity weighs on Eurozone prices with the region slipping into deflation. The latter focuses on the risk of a systematic implosion in the shadow financing market in China. We have kept a “G7 boom” scenario to highlight the risk of growth surprising on the upside globally. On the stagflationary scenarios, we have retained “trade war” and added two new scenarios, “Russian rumble” and “capacity constraints bite.”

Central Bank Policy

For the rest of the year, the major developed central banks are expected to keep interest rates pinned to the floor but policy de-synchronisation sets in motion next year. The US Federal Reserve (Fed) is expected to complete tapering of asset purchases by October this year with the first rate rise forecast in June next year. The Bank of England (BoE) is assumed to start increasing rates in February 2015. However, the Bank of Japan (BoJ) is expected to step up asset purchases later in the year. In the Eurozone, monetary conditions are set to remain loose with the ECB providing targeted long-term financing operations (TLTROs) with the prospect of asset-backed security (ABS) purchases. For emerging central banks, particularly the BRICs (Brazil, Russia, India and China), the picture remains more mixed with further rate hikes expected for Brazil, but a likelihood of monetary easing in Russia, China and India in 2015.

Implications for Markets

Equities remain our preferred asset class despite valuations generally looking less compelling following a period of strong performance. We still believe that equities remain well-supported in the medium-term particularly as earnings growth comes through on the back of the global recovery. Although in the near-term, there is limited room for re-rating given the market has priced in a benign environment. Hence, we recognise that there is the risk of greater volatility driven by the normalisation of the macro environment and the impact on rate expectations.

Within equities, we continue to favour the US as we are confident that the domestic recovery will continue, helping companies to deliver further earnings growth and maintain high profit margins. By contrast, we have turned more negative on our assessment on UK equities due to the strength of the currency as a meaningful proportion of UK corporate revenues are generated overseas.

Asset Allocation Views: Multi-Asset Group

Global Overview (continued)

Implications for Markets (continued)

Meanwhile, we downgraded European equities to neutral now that the market is pricing in a robust earnings recovery although ECB policy remains supportive. Similarly, we are neutral on Pacific ex Japan. For Japan, we have switched to positive due to the prospect of greater flows towards this market triggered by the reform of the government pension investment fund (GPIF). We also expect further support from the BoJ. On EM equities, we have become positive as valuations are more attractive and there are tentative signs that exports are improving led by demand from the developed world. In addition, the recent “mini” policy stimulus by the authorities in China appears to be feeding through into activity measures, which is positive for the demand picture in the rest of EM.

We have retained our neutral view on global government bonds given the on-going monetary support provided by certain central banks such as the ECB and BoJ. However, we anticipate a move back to negative duration at some stage as the momentum behind the recovery in the global economy gathers pace. Within the universe, we have downgraded US Treasuries to negative prompted by the strengthening in the data and the prospect of policy normalisation by the Fed. On the other sovereign debt markets, we are neutral on UK Gilts, German Bunds and Japanese government bonds.

For emerging market debt (EMD), we have turned more constructive. Despite structural headwinds and low growth prospects amongst the key countries in the universe, EMD offers attractive carry and there are signs that investors are returning to this asset class. Meanwhile, we have downgraded high yield credit as spreads are approaching historically tight levels and we see a deterioration in the quality of issuance. In addition, we are overall neutral on investment grade but negative on the US relative to the European market.

On commodities, we have maintained our overall neutral stance. This partly reflects the continued uncertainty concerning both agricultural prices resulting from unpredictable weather patterns, and Chinese policy, which could improve sentiment towards industrial metals in the short term. On the energy complex, due to the attractive carry on oil and gas futures, we upgraded energy from negative to positive. In comparison, we remain neutral on precious metals with the gold price stabilising, but a stronger US dollar and a re-assessment of geopolitical risks could weigh on the price.

Table 1: Asset allocation grid – summary

Equity	+(++)	Bonds		Alternatives	0	Cash	-
Region		Region	Sector	Sector			
US	+	US Treasury	- (0) Government	0	UK property EU property	++ +	
Europe ex UK	0 (+)	UK Gilts	0	Index-Linked	+	Commodities	0
UK	-- (-)	Eurozone Bunds	0	Investment Grade Corporate	0	Industrial metals	0
Pacific ex Japan	0	JGBs	0	High yield	- (0)	Precious metals	0
Japan	+ (0)	Emerging market debt (USD)	0 (-)		Energy	+ (-)	
Emerging Markets	+ (0)				Agriculture	- (0)	

Key: +/- market expected to outperform/ underperform (maximum +++ minimum ---) 0 indicates a neutral position. The above asset allocation is for illustrative purposes only. Actual client portfolios will vary according to mandate, benchmark, risk profile and the availability and riskiness of individual asset classes in different regions. For alternatives, due to the illiquid nature of the asset class, there will be limitations in implementing these views in client portfolios. Last quarter's positioning in brackets. Source: Schroders.

Regional Equity Views

Key Points

+ Equities	
+ US	<p>The US remains the favoured market but we recognised that the superior growth opportunities offered by the economy are becoming discounted in relative valuations.</p> <p>Rebound in growth should support earnings, but margins likely to come under pressure as wages pick-up.</p> <p>Share repurchases are slowing, but we see greater likelihood of additional corporate activity as strong cash flows held by companies are deployed for mergers and acquisition activity.</p>
-- UK	<p>The UK growth outlook has continued to be upgraded due to strong momentum in domestic demand supported by the housing sector and the tightening in the labour market. However, the positive domestic growth story does not have the same potential for UK earnings growth as other regions.</p> <p>Recent comments from the BoE have been more hawkish with the central bank preparing the markets for the first rate rise to occur next year. There is the risk that further strength in sterling puts pressure on UK equities as a meaningful proportion of UK corporate revenues are generated overseas.</p>
0 Europe ex UK	<p>We have moved to neutral on European equities as the strong re-rating in the market has not been followed through with the recovery in earnings. In turn, the rally in the market has resulted in valuations becoming less compelling relative to history.</p> <p>While economic activity in the Eurozone continues to recover, growth remains subdued as illustrated by the recent softening in the business surveys. In addition, deflationary concerns within the region have prompted the ECB to provide additional monetary stimulus through rate cuts, targeted long-term financing operations as much as €1 trillion and the prospect of asset-back security purchases. Hence, the monetary policy backdrop remains supportive for the market.</p>
+ Japan	<p>“Abenomics” appears to be making headway in stimulating growth, and there have been positive steps in tackling structural reforms such as improving corporate governance. Although, we are mindful that the reforms required for sustainable growth in the long term could take time to bear fruit.</p> <p>For Japan equities, we have switched to positive due to the prospect of greater flows towards this market triggered by the reform of the government pension investment fund (GPIF), which is expected to increase allocation to equities.</p> <p>There is also the likelihood that BoJ could embark on further monetary stimulus later in the year if growth disappoints and their inflation target fails to stay on track.</p>
0 Pacific ex Japan (Australia, New Zealand, Hong Kong and Singapore)	<p>Weak commodity prices and more competitive Japanese exporters could hamper the performance prospects of this region. Australia’s economy remains vulnerable to a further reduction in demand for commodities and a slowdown in the property sector. Nonetheless, there are positive spill-over effects from improved sentiment towards China which is a large export trading partner for these markets.</p> <p>Valuations and momentum behind this region are also unconvincing relative to elsewhere.</p>
+ Emerging markets	<p>On EM equities, we have become positive as valuations are more attractive and there are some signs that export growth in the region particularly in EM Asia is improving led by demand from the developed world.</p> <p>Growth momentum in these economies is expected to remain sluggish. However, the recent “mini” policy stimulus by the authorities in China appears to be feeding through into activity measures, which is positive for the demand picture in the rest of EM.</p>

Key: +/- market expected to outperform/ underperform (maximum +++ minimum ---) 0 indicates a neutral position.

Fixed Income Views

Key Points

Bonds		
0	Government	<p>We have retained our neutral view on global government bonds given the on-going monetary support provided by certain central banks such as the ECB and BoJ. However, we anticipate a move back to negative duration at some stage as the momentum behind the recovery in the global economy gathers pace.</p> <p>Amongst the sovereign bond markets, we have downgraded US Treasuries to negative prompted by the strengthening in the data and the prospect of policy normalisation by the Fed. So far, the Fed appears in no hurry to change their dovish language by implying rates could be maintained low for an extended period. Although the continued tightening in the labour market will put pressure on wages and eventually inflation. In this environment, the US central bank is compelled to start managing market expectations of rate rises.</p> <p>Despite hawkish rhetoric from the BoE, potential softening in the growth data and continued falls in the inflation trajectory due to the currency could temper market expectations of a more aggressive rate profile. At the same time, we have maintained our neutral stance on German Bunds in reflection of the recent announcement by the ECB in implementing a significant amount of monetary stimulus, which could keep rates particularly at the short-end of the curve well underpinned.</p> <p>We still believe that Japanese government bonds are unattractive over the long term given the ultra-low running yield. However, we are neutral on JGBs given the continued support from BoJ, as they remain the majority holder of Japanese government bonds.</p>
0	Investment Grade (IG) Corporate	<p>We are overall neutral on investment grade but negative on the US relative to the European market. Valuations for both markets are at historical tight levels but the US is ahead of Europe in the credit cycle. At the same time, the central bank in the US is closer to normalising monetary policy than their European peer.</p> <p>For the US, corporate leverage ratios have recently stabilised but have been moving closer to pre-financial crisis levels. Moreover, merger and acquisition activity has intensified which could have a negative impact as investment grade companies tend to be the acquirers. In comparison, many European companies are still adopting a safety first attitude and continue to de-lever their balance sheets particularly in the run up to the asset quality review and stress tests later in the year.</p>
-	High yield (HY)	<p>We have downgraded US high yield credit as spreads are approaching historically tight levels and we see a deterioration in the quality of issuance. Even if the environment remains positive, such as corporate profitability, we believe there will be better opportunities outside this sector.</p> <p>Across the Atlantic, although fundamentals are starting to deteriorate for European corporates we remain neutral. The euro area is exposed to anaemic credit growth and exceptionally low inflation. The ECB has implemented further monetary stimulus and is expected to keep policy accommodative for longer.</p>
0	USD-denominated Emerging market debt (EMD)	<p>We have turned more constructive towards USD-denominated EMD compared to the previous quarter. Despite structural headwinds and low growth prospects amongst the key countries in the universe, EMD offers attractive carry and there are signs that investors are returning to this asset class via stronger fund flows.</p> <p>From a valuation perspective, EMD remains reasonable even though spreads have continued to tighten over recent months.</p>
+	Index-Linked	<p>Valuations remain uninspiring but the drivers of inflation are starting to increase. Wages and payrolls are rising in the US labour market, food prices and rents are also trending upwards. Although a spike in inflation is not imminent, we prefer inflation-linkers to nominal bonds as the latter are under-pricing inflation risk.</p>

Key: +/- market expected to outperform/ underperform (maximum +++ minimum ---) 0 indicates a neutral position.

Alternatives Views

Key Points

Alternatives	
0	<p>Commodities</p> <p>We have maintained our overall neutral stance towards commodities. This partly reflects the continued uncertainty concerning both agricultural prices resulting from unpredictable weather patterns, and Chinese policy, which could improve sentiment towards industrial metals in the short term. On the latter, the shift in Chinese policy from tightening to easing may provide support to domestic growth and hence metals demand. Over the medium-term, however, industrial metals are still held back by the structural shifts away from investment led growth in China. In addition, the large ramp up in production over the past decade has led to ample supply across most base metals, particularly copper. On balance, we therefore retained our neutral view on this sector.</p> <p>Meanwhile, our positioning in the energy segment has been upgraded from negative to positive. Both the crude oil and gas futures markets are offering an attractive carry given that the curves are in backwardation. Against this backdrop, spare capacity remains well managed as Saudi Arabia continues to exert control over the crude oil market, meaning we do not anticipate a dramatic fall in prices despite the risk of Libya or Iran increasing production.</p> <p>For precious metals, we have kept our neutral view with the gold price stabilising and the tension between the structural case and short-term sentiment continuing. On the former, physical demand of gold particularly from Asia has remained resilient. However, a stronger US dollar and a re-assessment of geopolitical risks such as in the Ukraine and Iraq could weigh on the price.</p> <p>On agriculture, we have downgraded to negative on the basis that supply appears to be ample and there remains a substantial weather premium already built in, particularly in soybeans. The outlook for prices of corn, another sector with a heavy weight in the agriculture complex, is also on the downside given that global production is expected to hit new records and inventories are the highest in over a decade.</p>
++	<p>UK Property</p> <p>The UK commercial property market is now entering the stage where capital values are being supported by rising rental values. We are forecasting total returns of between 7% and 9% per annum driven mainly by the income return of around 5%. At the same time, rental growth of between 2% and 5% should compensate for any rise in interest rates as we move into next year. In the short-term, the risk to this view is that if the market moves too quickly this year, performance may become more front loaded than expected and returns could subsequently moderate. However, the 5% to 5.5% income return from property will continue to be attractive.</p>
+	<p>European Property</p> <p>Over the next 12 months, we expect positive total returns on average investment grade European property to average 7 to 9% led mainly be capital values benefitting from yield compression. Further out, steady rental growth should also be a driver of returns. The main upside risk in the short-term is that the inflow of capital from Asia and the US could trigger a widespread fall in prime and secondary property yields, boosting capital values for a limited period. On the other side, the main downside risk is that the sovereign debt crisis could re-ignite, if governments fail to meet targets to cut their budget deficits.</p>

Note: Property views based on comments from the Schroders Property Research team.

Key: +/- market expected to outperform/ underperform (maximum +++ minimum ---) 0 indicates a neutral position.

Economic View

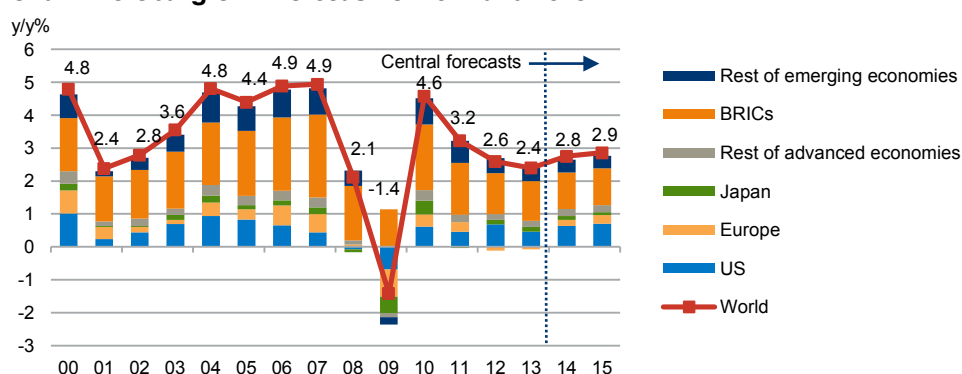
Central View

Recovery trimmed, but on track

Global recovery continues, but our growth forecast has been trimmed as a result of downgrades to both the advanced and emerging economies. The latter face the more significant challenge in adjusting to the post financial crisis world, whilst the former should bounce back with the US in the second quarter.

Overall, the world economy is expected to strengthen in 2014 with global growth forecast to reach 2.8%, the best performance since 2011 (chart 1). An easing in fiscal austerity and monetary stimulus should support activity in the developed world this year. The exception is Japan where the consumption tax increase in April is expected to slow growth in 2014. Meanwhile, inflation is expected to remain contained at 3% this year reflecting spare capacity in the world economy.

Chart 1: Global growth forecast for 2014 and 2015



Source: Thomson Datastream, Schroders.

For the US, the economy should benefit from a weaker fiscal headwind this year and be able to build momentum, although the US is not expected to regain all the output lost in the first quarter and the housing market is no longer forecast to strengthen as rapidly as before.

Elsewhere, we have revised up our growth forecasts for the UK driven by strong momentum in the housing market but also the pick up in business investment. Across the channel, the Eurozone is also improving, although growth remains skewed toward Germany with only modest signs of improvement in the periphery.

Stronger US demand should help global trade and the emerging markets, however several EM economies face inflation and rebalancing pressures such that growth remains sub-trend. Amongst the BRIC economies (Brazil, Russia, India and China), our China forecast for 2014 remains at 7.1%, but has been revised down to 6.8% in 2015. With most monetary tightening cycles concluded, except from some countries such as Brazil, our inflation outlook is also relatively unchanged.

On the monetary policy front, divergence remains a key theme with the Fed and BoE expected to raise rates in 2015 while the ECB, BoJ and PBoC are likely to remain on an easing tack. On the former, the Fed has already started to trim asset purchases which could be over by October this year, with the first rate rise forecast in June 2015. In the Eurozone, monetary conditions are set to remain loose with the ECB providing targeted long-term financing operations with the prospect of asset-backed security purchases. Moreover, the BoJ is expected to step up asset purchases later in the year in order to reach their inflation target and cushion the impact from the consumption tax rise.

In addition to our central view, we consider seven alternative scenarios where we aim to capture the risks to the world economy.

Economic View (continued)

Macro risks: Scenario analysis

Full details of the scenarios can be found on page 10. The distribution of global risks is still skewed toward the downside for growth and inflation. Top of the list on the downside is the “China hard landing” where the financial system unravels thus resulting in a collapse in fixed investment and growth. As we have argued before this primarily impacts the emerging market economies, particularly the commodity producers. Growth in the US and Europe is also weaker, but there is some offset from the fall in oil prices and inflation.

Our other deflationary risk scenarios include **Eurozone deflation** whereby the Eurozone experiences a Japan-style slump with prices falling persistently and the region experiencing debt deflation. Global monetary policy therefore would be looser than in the baseline particularly with the ECB embarking on sovereign debt QE.

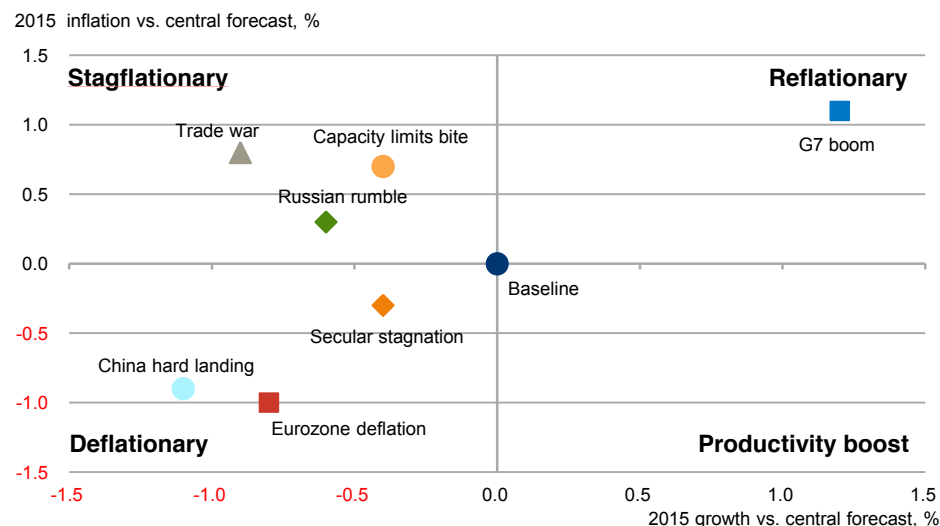
Our final downside scenario is a new addition – **Secular stagnation** – where capital spending remains sluggish as despite interest rates being at record lows, the cost of capital remains above the expected rate of return. Household expenditure is constrained by weak real income growth, a consequence of sluggish productivity and deteriorating demographics. Clearly, interest rates and monetary policy would be looser in this scenario.

On the stagflationary scenarios, we have retained “**trade war**” and added two new scenarios, “**Russian rumble**” and “**capacity constraints bite**.” For “trade war,” we still attach some risk to an escalation of the dispute between China and Japan over the Diaoyu or Senkaku islands. Alternatively, this could originate from an escalation of the current dispute between China and Vietnam. In this scenario, political event risk pushes the world economy in a more stagflationary direction through its impact on trade and commodity prices.

On the “Russian rumble” scenario, Russia ramps up military action in East Ukraine following the annexation of the Crimea. In response, the US and EU step up trade sanctions and Russia cuts gas and oil supplies to Europe. In turn, higher oil prices hit global inflation. For “capacity constraints bite,” the amount of spare capacity proves to be considerably less than anticipated by policymakers. Once the mistake has been realised central banks then have to tighten aggressively to bring the economy back to trend.

On the upside, we see a **G7 boom** which is the sole reflationary outcome whereby we see a return of animal spirits and a much stronger pick up in business spending than in the baseline.

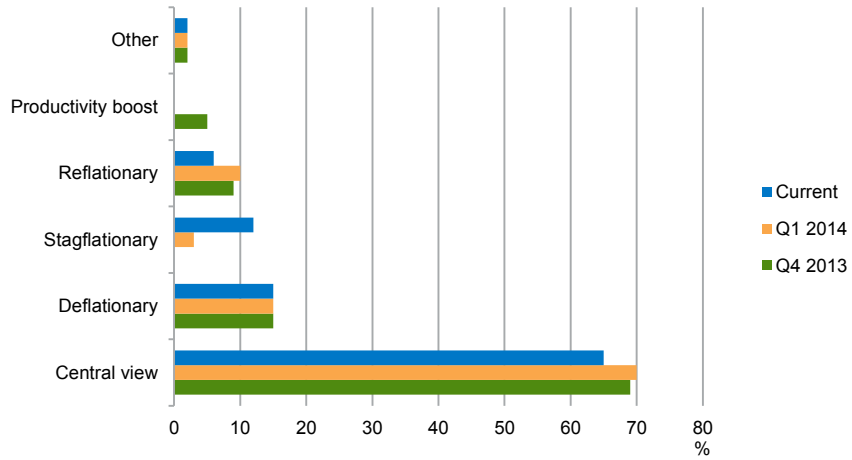
Chart 2: Scenario analysis – global growth and inflation impact



Source: Schroders.

Economic View (continued)

Chart 3: Scenario probabilities compared to previous quarters

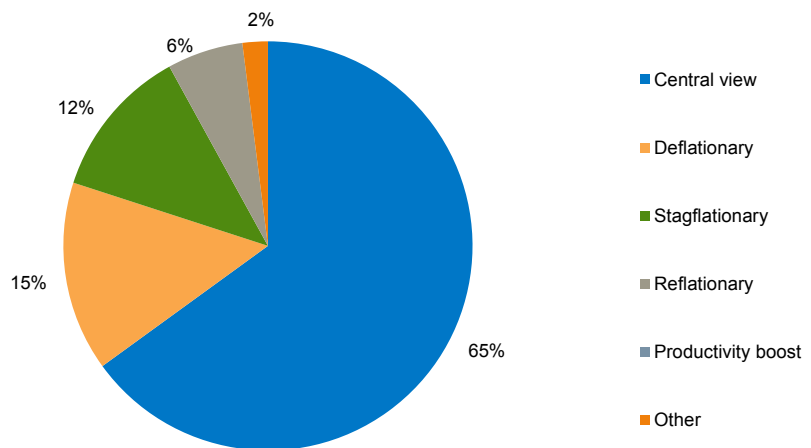


Source: Schroders.

In terms of macro impact, we have run the risk scenarios through our models and aggregated to show the impact on global growth and inflation. As can be seen in chart 2 on the previous page, three of our seven are deflationary, such that both growth and inflation are lower than in the central scenario.

Overall, there has been no change to the probability of deflation at 15% whilst there has been an increase in the weight put on the stagflationary scenario. As a result of introducing the capacity limits bite and Russian rouble scenarios, the probability of a stagflationary outcome has risen sharply to 12% from 3% previously. The probability on the reflationary boost has fallen from 10% to 6% this quarter reflecting less upside risk on capex. Nonetheless, the balance of risks on growth and inflation remains biased toward lower rather than higher outcomes.

Chart 4: Scenario probabilities (mutually exclusive)



Source: Schroders.

Economic View (continued)

Table 2: Scenario summary

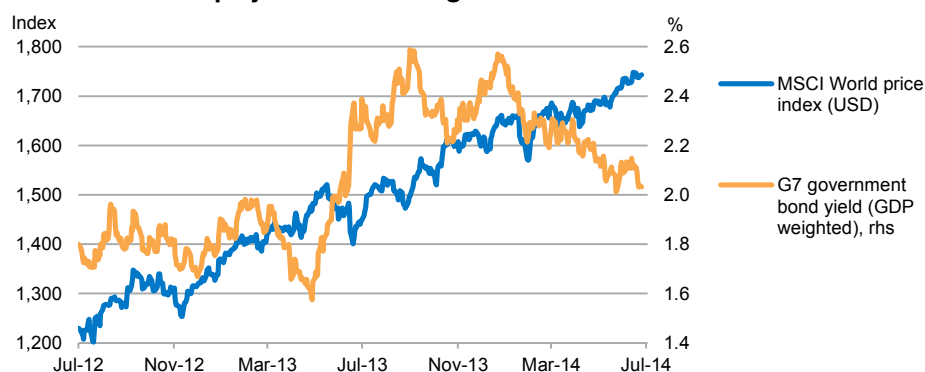
Scenario	Summary	Macro impact
1. Eurozone deflation	Weak economic activity weighs on Eurozone prices with the region slipping into deflation. Households and companies lower their inflation expectations and start to delay spending with the expectations that prices will fall further. The rise in savings rates deepens the downturn in demand and prices, thus reinforcing the fall in inflation expectations. Falling nominal GDP makes debt reduction more difficult, further depressing activity.	Deflationary: weaker growth and lower inflation, which persists throughout the forecast. As a significant part of the world economy, Eurozone weakness drags on activity elsewhere, while some of the deflationary impact is imported by trade partners. ECB reacts by undertaking QE, but the policy response is too small and slow to avert the outcome.
2. G7 boom	Developed market growth picks up more rapidly than in the baseline as the corporate sector increases capex and consumers spend more rapidly in response to the recovery in house prices. Banks increase lending, reducing their excess reserves and asset prices boom. The Fed begins to withdraw stimulus: rapidly tapering bond purchases in 2014. Interest rates rise and the Fed begins to contract its balance sheet in 2015. However, the withdrawal of stimulus is not sufficient to prevent a more rapid tightening of the labour market and a pick-up in inflation.	Reflationary: stronger growth and inflation vs. baseline. Stronger US demand supports activity around the world. Commodity prices and US Treasury yields rise and the USD strengthens as inflation picks up and Fed unwinds QE and raises rates.
3. Trade war	The dispute between China and Japan over the Senkaku islands escalates to a trade war which then spreads as nations take sides and cut their trade with each other.	Stagflationary: global growth weakens as a large part of world trade shuts down. However, inflation is likely to be higher as firms hoard commodities pushing up energy, metals and food prices.
4. Capacity limits bite	Central banks overestimate the amount of spare capacity in the economy believing there is significant slack in the labour market and a substantial output gap. However, weaker trend growth and the permanent loss of some capacity in the post financial crisis environment mean that the world economy is closer to the inflationary threshold than realised. Consequently, as demand increases, inflation starts to accelerate prompting a re-appraisal of monetary policy and higher interest rates.	Stagflationary: tighter monetary policy slows growth, but inflation continues to rise until the economy has returned to trend. Primarily driven by the US and to a lesser extent the UK, both in turn impact global trade and activity.
5. China hard landing	An implosion in the wealth management products area results in a major cut in Total Social Financing depriving Chinese industry of funds. The resulting downturn in capex spending and the adverse impact on consumer confidence results in a sharp slowdown in Chinese growth.	Deflationary: Global growth slows as China demand weakens with commodity producers hit hardest. However, the fall in commodity prices will push down inflation to the benefit of consumers. Monetary policy is likely to ease/ stay on hold while the deflationary shock works through the world economy.
6. Russian rumble	Russia invades East Ukraine. The west retaliates by significantly increasing sanctions and Russia cuts gas and oil supplies to Europe.	Stagflationary. Europe is hit by the disruption to energy supply resulting in a fall in output as alternative sources are put in place. Higher oil prices hit global inflation and the breakdown of relations between Russia and the west creates significant volatility in financial markets.
7. Secular stagnation	Capital expenditure fails to revive as businesses remain cautious on the outlook believing real returns are below the cost of capital, whilst income becomes increasingly concentrated in the hands of the rich with low propensity to consume.	Deflationary: weaker growth and lower inflation as demand remains sluggish. Softer commodity prices also weigh on inflation. Fed still expected to end QE as scheduled but does not raise rates during the forecast period. The opposite of the G7 boom scenario.
8. Others		

Source: Schroders, May 2014.

Strategy View: Macro hurdles for the bull market

After a difficult first quarter, investors saw better returns in the second with US and MSCI world equity index breaking new highs (chart 5). Government bond yields which had declined in the first three months of the year have now stabilised, although we saw further strength in credit and peripheral sovereign debt in Europe where spreads narrowed further. Spanish 10-year government bond yields are now close to their counterparts in the US Treasury market and have gone below UK gilt yields. The Euro crisis now seems a distant memory.

Chart 5: Global equity and G7 sovereign bond markets

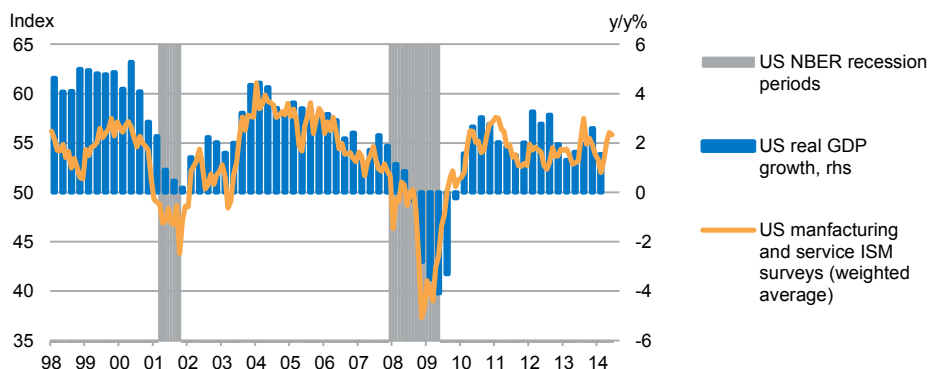


Source: Thomson Datastream, Schroders, 30 June 2014.

Global growth is picking up, led by the developed economies

Underpinning the return of risk appetite has been a rebound in the US economy after a torrid first quarter which saw GDP contract by 2.9% annualised, one of the worst outcomes experienced outside a recession. Although we are still waiting for second quarter GDP figures, monthly indicators signal a healthy rebound after the weather induced weakness of Q1. We would point to the pick up in business surveys (chart 6), auto sales and employment as signs that the US has shrugged off the earlier drag.

Chart 6: ISM survey signals uptick in US GDP



Source: National Bureau of Economic Research (NBER), Thomson Datastream, Schroders, 30 June 2014.

Continued growth in the rest of the developed world also played a part in the return of risk appetite with the Eurozone continuing to recover led by Germany with encouraging signs that Spain has now turned a corner. Meanwhile, the UK appears to be in the grip of a boom with the economy joining Japan as the fastest growing in the G7 over the year to Q1. Nonetheless it is a mixed picture in Europe with France and Italy continuing to struggle, thus preventing the recovery from gathering momentum and making inroads into the very high rate of unemployment in the region. Inflation across the Eurozone has been very low and there have been fears that the single currency area will slip into deflation with prices persistently falling, drawing unwelcome comparisons with Japan's experience prior to "Abenomics".

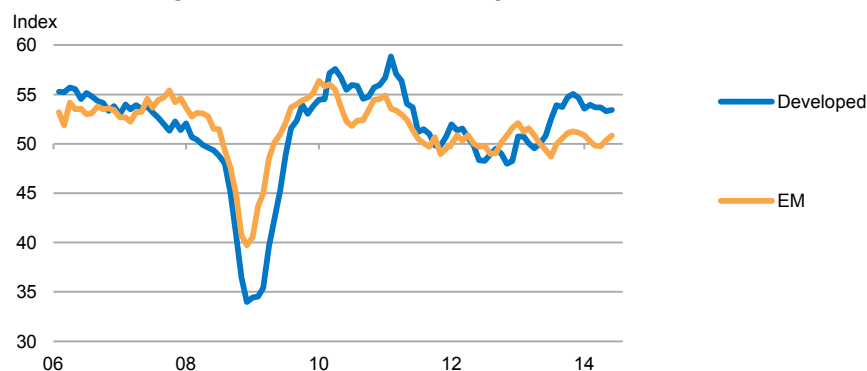
Strategy View (continued)

Emerging markets continue to lag

In Asia, the picture has also been mixed with Japan enjoying a boom in Q1 as households brought forward expenditure to beat the consumption tax. However, this has been followed by the inevitable slowdown in Q2 and the debate is whether the economy will stabilise in Q3. Meanwhile, growth in China appears to be ticking up after a sluggish Q1. Government action would seem to lie behind this following a series of targeted stimulus measures.

For the Emerging markets more generally the picture is one of adjustment and stability following the turmoil of last year. Growth is generally lacklustre as central banks have focussed on reducing inflation and/ or improving their current account positions. Progress is being made, but the net result is a continued divergence between the growth indicators for the developed and emerging markets (chart 7).

Chart 7: Divergence between DM and EM persists



Source: Markit, Schroders, 30 June 2014.

Central banks remain supportive

In addition to a better, albeit mixed, global growth picture, risk appetite has also benefitted from the action of the central banks. Despite the evidence of a rebounding economy and tighter labour market, the US Federal Reserve continues to offer a dovish interpretation of current economic developments. Asset purchases are being tapered, but the Fed has been in little hurry to signal rate increases. Meanwhile the ECB has eased policy further with a string of measures announced in June including taking the deposit rate at the central bank into negative territory. There is talk of a “Draghi put” in the market to reassure investors that stimulus will be provided should the economy falter. Meanwhile, the Bank of Japan continues to make large scale asset purchases and there has been evidence of bond buying by a number of emerging market central banks looking to bolster their foreign exchange reserves.

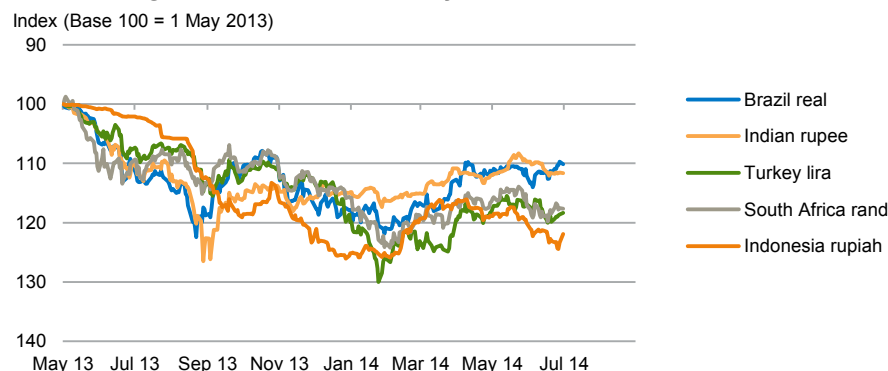
The combination of economic recovery and robust liquidity supports the revival in risk appetite. The search for yield remains strong with investors continuing to show a healthy interest in credit markets despite the fall in yields and narrowing of spreads to pre-crisis levels. Investors have also seen a fall off in volatility with the VIX index at low levels and comparable volatility indices for the bond and foreign exchange markets also becalmed.

Some argue that investors have become complacent and are ignoring the wider risks in the world economy and/ or have too much faith in the ability of the authorities to keep growth on track. The markets’ relaxed reaction to developments such as the recent crisis in the Ukraine, or Iraq tends to support such concerns. Meanwhile, low volatility in financial markets is encouraging investors to return to riskier carry trades, for example returning to some of the riskier emerging market currencies such as India and Brazil (chart 8 on next page).

Strategy View (continued)

Is low volatility another symptom of the search for yield?

Chart 8: Fragile 5 currencies – stability returns



Source: Thomson Datastream, Schroders, 30 June 2014.

One new concern is that low financial market volatility may be a direct function of low interest rates, creating a self feeding increase in risk appetite which may be vulnerable to a tightening of monetary policy. For example, a number of asset managers are now enhancing the yield on their funds by selling volatility, effectively offering insurance against market falls to other market participants. Whilst this represents a positive innovation it does not rule out a mispricing of risk as the supply of insurance is pushed up. The danger is that as interest rates rise and the pressure to enhance yield eases, this supply is cut, resulting in an upward shift in volatility causing investors to unwind carry trades and risk more generally. Such an outcome could result in a self-reinforcing downward spiral.

Macro hurdles

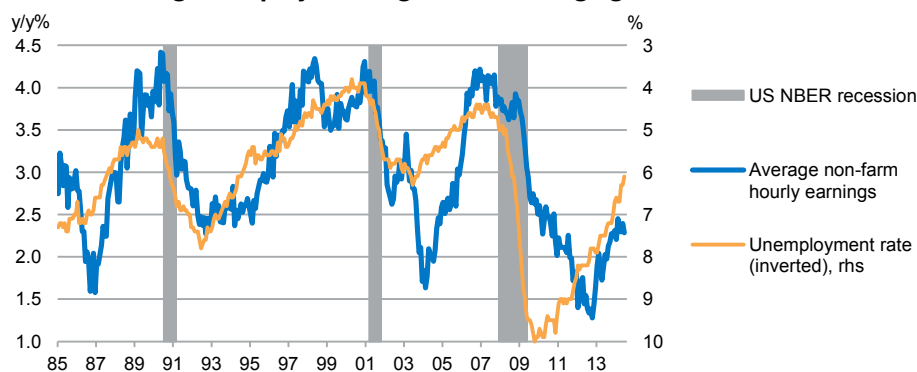
1. Higher US interest rates

The Fed is on track to raise rates, a move which will check the search for yield

Our baseline view is generally supportive of a pro-risk stance with global growth continuing to recover and feeding through into the Emerging markets through stronger exports of manufactures to the US and to a lesser extent Europe. However, there are several macro challenges to the continuation of the bull market. Note that these are factors within the baseline rather than part of our risk scenarios (detailed on page 10).

The first of these is that the US Fed tightens more rapidly than currently expected by the markets. We continue to believe that the unemployment rate will fall faster than the Fed anticipates judging from the quarterly projections released following their June meeting. We see a continuing decline in the participation rate, being driven by demographics rather than cyclical factors. Such a fall in the number of people available for work should result in an acceleration in wage growth and, whilst this would be good for the consumer side of the recovery it will also bring greater inflationary pressure (chart 9).

Chart 9: Falling unemployment signals faster wage growth in the US



Source: National Bureau of Economic Research (NBER), Thomson Datastream, Schroders, 30 June 2014.

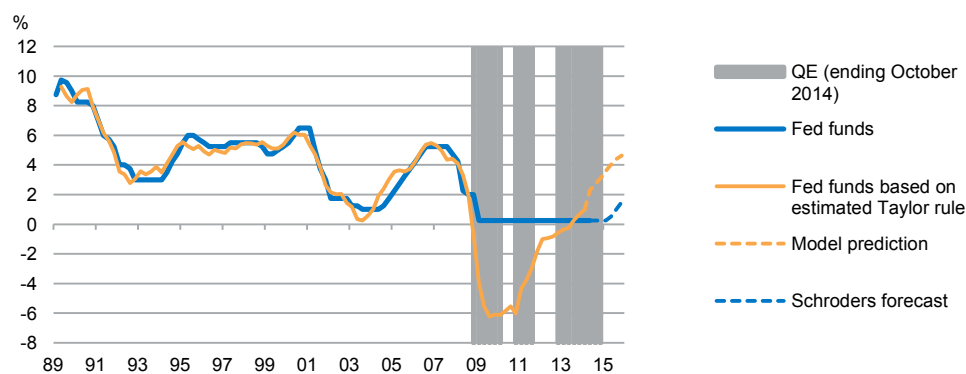
Strategy View (continued)

We would expect the Fed to respond to this by ending QE in October and then raising interest rates from June next year with the Fed funds target ending 2015 at 1.5%. Further tightening would then follow in 2016 taking the Fed Fund's target to 2.5%. Such a view is ahead of the market which is pricing in around 0.75% by end 2015 and 1.75% by end 2016. If correct we would see this as causing a flattening of the US Treasury yield curve with 2-year yields rising relative to the 10-year. Clearly, this will challenge the liquidity argument for risk assets. Although we would not expect a repeat of the 2013 "taper tantrum," anticipation of higher US rates is likely to check the search for yield and increase market volatility. We say "check" rather than "stop" as in real terms US rates will still be low and monetary policy elsewhere will remain easy.

Of course, as Fed chair Janet Yellen has clearly articulated, this cycle is different with continuing headwinds acting on activity from the stock of outstanding debt (both public and private) and the more cautious banking sector which faces greater regulatory oversight since the crisis. Nonetheless, there is still the question as to how loose policy needs to be to compensate for these drags.

Our interest rate model (based on the Taylor rule, chart 10) suggests rates should already be rising and although this is based on the pre-crisis reaction function of the fed, its message is still valid - i.e. US policy is very loose given where we are in the economic cycle. Note that our rate forecast is still well below that implied by the model as at 1.5% by the end of next year interest rates are still low and negative in real terms.

Chart 10: US rate model and Fed funds



Source: Thomson Datastream, Schroders, 30 June 2014.

2. Weaker profits growth

If wages are set to accelerate as we expect then we need to watch for pressure on corporate profits. This is the second challenge to the bull market in equities. Productivity growth has helped offset cost pressures, but we now see employment accelerating and expect output per head to slow. When combined with rising wages, unit labour costs pick up thus squeezing margins. We would see this as consistent with a fall back in profits as a share of GDP.

Our model predicts a rise in operating earnings for the S&P500 of just under 7% this year with EPS expected to bounce in Q2 alongside the broader economy (see table 1 on next page). Thereafter though as margins get squeezed, we expect growth to decelerate to 4% in 2015. Reported earnings rise 6% this year and next reflecting a further decline in write-offs. These forecasts are weaker than in the last Global Market Perspective and since the market has risen, the implied forward PE ratio for calendar 2015 has now increased to 17.5 (from 15.3).

Strategy View (continued)

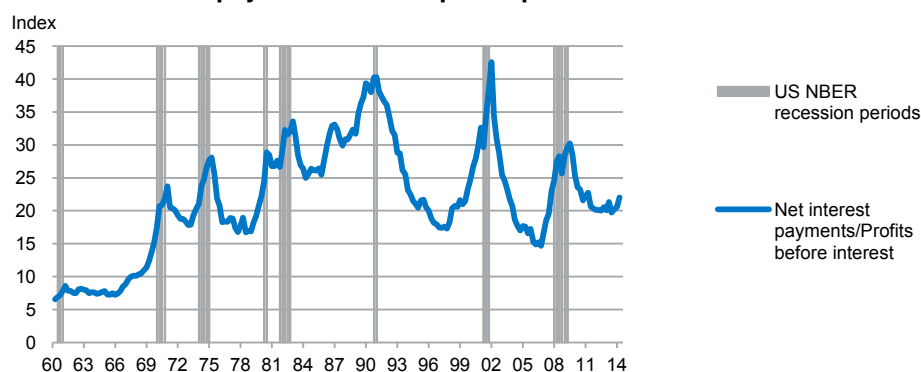
Table 1: US profits and corporate earnings outlook

US	2011	2012	2013	2014F	2015F
Economic profits					
y/y%	-0.7	26.0	3.2	8.4	2.0
Non.fin. share % GDP	7.7	9.3	9.2	9.6	9.3
S&P 500 EPS					
Operating USD	\$96	\$97	\$107	\$115	\$119
y/y%	15.1	0.4	10.8	6.8	4.1
Reported USD	\$87	\$87	\$100	\$107	\$113
y/y%	12.4	-0.5	15.8	6.3	6.1
S&P 500 PE based on market at:					
<i>Based on operating EPS</i>	13.0	14.7	17.2	17.2	16.6
<i>Based on reported EPS</i>	14.5	16.5	18.4	18.6	17.5

Source: S&P, Schroders, 8 July 2014.

Although weaker, these earnings forecasts are unlikely to deter many investors. We would note though that with the turn in the interest rate cycle we are likely to see higher interest payments which will hit profits. The fall in interest rates has been a tail wind behind the corporate sector during the recovery adding around 10 percentage points to corporate profits (chart 11).

Chart 11: Interest payments as % corporate profits



Note: Calculated by dividing non-financial net interest payments by non-financial corporate profits before interest. Source: US Bureau of Economic Analysis, Schroders, 30 June 2014.

Companies have slowed buy-backs, increased issuance

In addition we would note that companies are less keen on buying back their shares. As the Financial Times recently noted “There has been a clear-cut change in corporate behavior during the past few months. Companies are deciding, in numbers, not to buy back their own stock. TrimTabs, the US research group, shows that money spent on buying back stock in each of the last two months has been the lowest since January 2013¹”. Such a change in behavior can be seen as a signal by companies that they no longer believe their stock is cheap. An attractive move for company CFO’s in recent years has been to issue debt and buy back equity, an indicator to investors that equity offers better value than credit. In addition to this move there has been a pick up in new issuance and increase in M&A activity, both signs of a market which is close to a peak. The latter has been increasingly funded with share issuance rather than cash.

¹ “Tide turning against buybacks ahead of market top” Financial Times June 29, 2014.

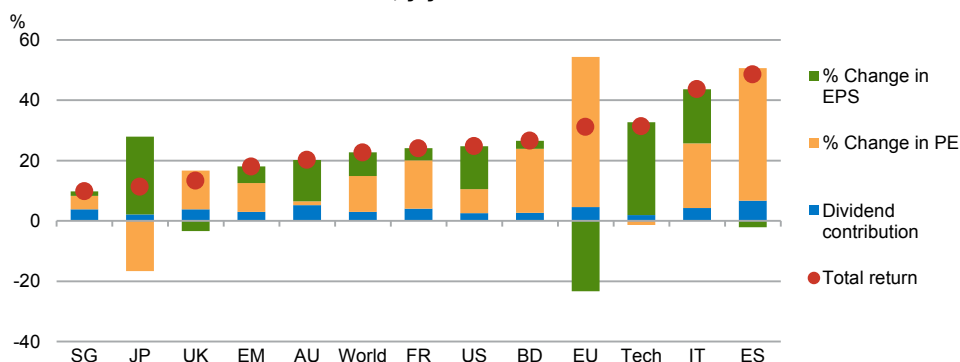
Strategy View (continued)

Strategy conclusions

So markets face pressures from higher US interest rates and weaker profits growth. When combined with some of the behavioural factors mentioned above this would warrant a slightly more cautious stance on equities and supports trimming our overweight positioning. The caveat is that whilst the US is the driver of global equity markets, others have lagged some way behind. In particular, Japan, the UK and emerging markets have trailed the US, whilst the markets which have outperformed have been in the Eurozone led by the periphery. However, much of the latter has been driven by a re-rating rather than earnings growth (chart 12).

There is scope for a rotation within equity markets

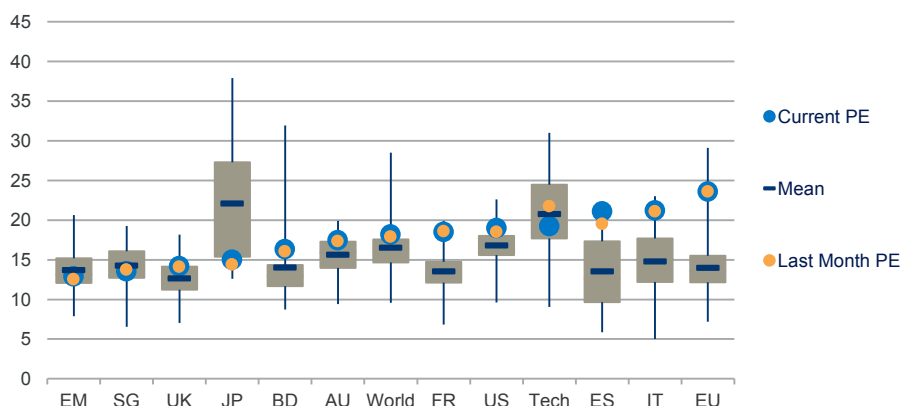
Chart 12: Total return breakdown, y/y%



Note: SG: MSCI Singapore, EM: MSCI EM (local currency), UK: FTSE 100, AU: S&P/ASX 200, JP: TOPIX, World: MSCI World (local currency), US: S&P 500, FR: CAC 40, BD: DAX 30, EU: Euro Stoxx 50, Tech: NASDAQ, ES: IBEX 35, IT: Italy Datastream Composite. Source: Thomson Datastream, Schroders, 3 July 2014.

On the valuation front this means that the Eurostoxx has become the most overvalued market in terms of PE whilst the cheapest markets are Emerging, the UK and Japan. The US (S&P 500) is trading toward the upper end of its valuation, although is not significantly stretched. When combined with our view on central banks (the ECB and BoJ are likely to be more supportive than the Fed), this suggests the scope for some rotation towards Japan and emerging markets. More cautious investors would probably prefer the Asian EM who are most likely to benefit most from the increase in US import demand and suffer least from the financial impact of tighter Fed policy.

Chart 11: Developed market trailing price-earnings ratio (versus 10-year history)



Note: SG: MSCI Singapore, UK: FTSE 100, AU: S&P/ASX 200, JP: TOPIX, World: MSCI World (local currency), US: S&P 500, FR: CAC 40, BD: DAX 30, EU: Euro Stoxx 50, Tech: NASDAQ, ES: IBEX 35, IT: Italy Datastream Composite. Box and whisker plot based on 10 years of data. The vertical line shows the highest to the lowest value while the top and bottom of the rectangular box shows the lower and upper quartiles. Source: Thomson Datastream, Schroders, 31 March 2014.

Keith Wade, Chief Economist and Strategist, 11 July 2014

Market focus: Bridging the gap – the US to the global cycle

Introduction

In last quarter’s market focus piece, we revisited the US output gap in the context of defining the economic cycle and the implications for investing across the asset classes. The conclusion from the analysis is that as we move into the expansion phase next year, assets that sit further up the risk spectrum and the more-cyclically exposed areas, particularly commodities, could stand to benefit from the stronger growth and inflation backdrop.

For commodities, the “super-cycle” over the past decade has been primarily driven by growing demand from the emerging economies, particular the ramping up of investment spending by China. Here we broaden the assessment to the global cycle to get a more complete picture on the investment implications for commodities.

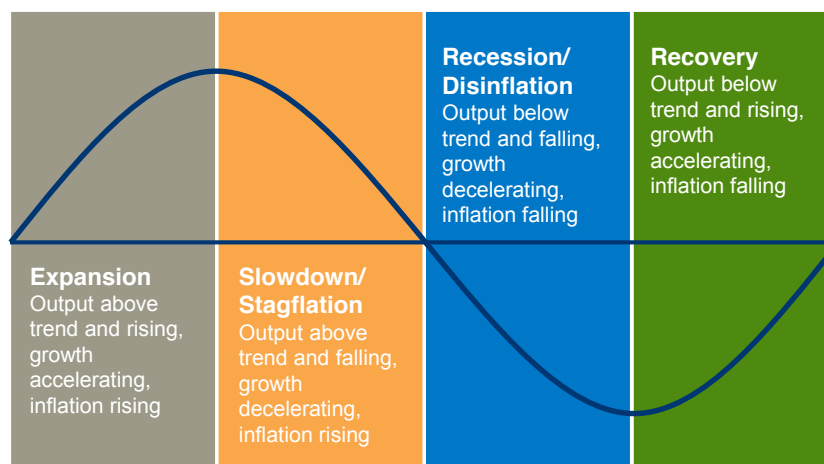
Despite the healing in the world economy post financial crisis, there still appears to be considerable spare capacity in the system. In particular, the emerging markets and developed world are out of sync with increasing slack in the former but a shrinking output gap in the latter. Against this backdrop, inflationary pressures should be well-contained and central banks have more scope to keep monetary policy accommodative.

Looking further out, as we move into the expansion phase of the US cycle next year, the picture for commodities could be more mixed. According to our calculations using estimates from Oxford Economics, sourced from Thomson Datastream, the global cycle is vulnerable to a move back into the recession phase, which could be a headwind to the commodity class. Instead, this phase of the cycle would point to a monetary setting that is looser for longer, which could keep liquidity conditions well-underpinned for risk assets.

Measuring the output gap and defining the economic cycle

There are a variety of ways of defining the economic cycle, but the output gap neatly encapsulates the behaviour of inflation, activity and monetary policy. The standard textbook definition of the output gap is the difference between the actual and the potential output or GDP. Potential is the maximum level of output which the economy can produce without generating excessive inflation. In defining the economic cycle, we specified four distinct phases depending on the position of the economy in relation to the output gap and whether growth is above or below its long run trend (chart 12).

Chart 12: Stylised economic cycle



Source: Schroders

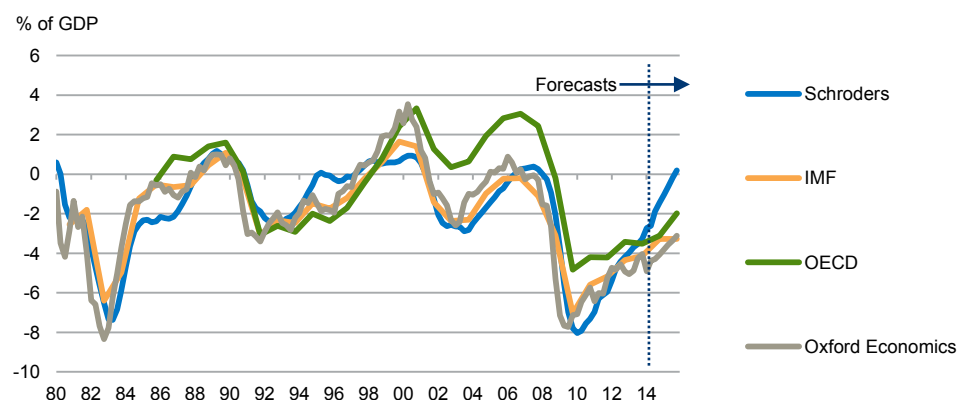
Market focus (continued)

Negative but narrowing output gap in the US

US cycle and investment implications

As highlighted in the previous note, based on our measure, the US output gap has narrowed to 2.2% in Q2 this year, which suggests that the US is still in the recovery phase of the cycle. This is also reinforced by the external estimates of the amount of spare capacity in the US, ranging from 3.1 to 4% of GDP at the end of 2013, which have been broadly tightening post financial crisis (chart 13). Looking further out, we are assuming that the output gap closes by October next year, which is faster than other estimates. This view is underscored by the expectation that the unemployment rate will fall faster and further as a result of healthy output growth and a continued decline in the participation rate.

Chart 13: Comparing US output gaps



Source: Thomson Datastream, Schroders, 30 June 2014.

Commodities tend to do well in the US expansion phase...

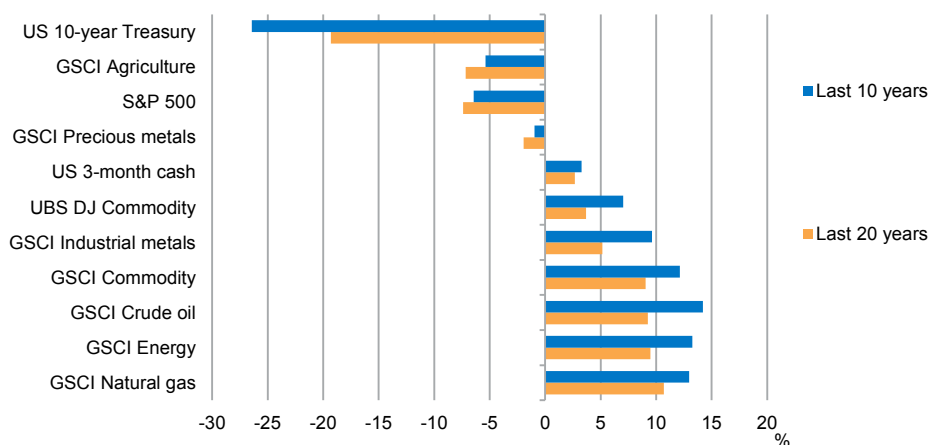
During the recovery phase, interest rates tend to be low and monetary policy remains accommodative given that inflation is muted and growth is rising. Corporate bonds and equities typically do the best in this phase on a risk-adjusted basis. For commodities, the rotation to the expansion stage of the US cycle is likely to bring stronger return prospects for this segment of the market. In expansion, the economy is operating above trend, inflationary pressure and interest rates are rising. Against this backdrop, there is typically stronger demand for commodities with prices also impacted by supply being relatively inelastic in the short-run. Moreover, commodities benefit from investors looking to hedge their portfolio with the perceived inflation-hedging properties of this asset class (chart 14 on next page). Energy commodities appear to show the strongest relationship with US inflation, which is unsurprising given that they feed into the headline print.

...but we need to consider the global stage given the increasing importance of the emerging markets

For commodities, the “super-cycle” over the past decade has been primarily driven by growing demand from the emerging economies, particular the ramping up of investment spending by China. For instance, the country composition of global copper imports attributed to China have nearly doubled over the last 10 years from 17.6% to 34.6% and the sector accounts for 47% of the S&P GSCI industrial metals index. Although the US cycle is still important in driving the performance of commodities, we must also consider the global stage to get a more complete picture on the asset class as we rotate into the expansion phase in the US next year.

Market focus (continued)

Chart 14: Asset correlations with US headline inflation rate



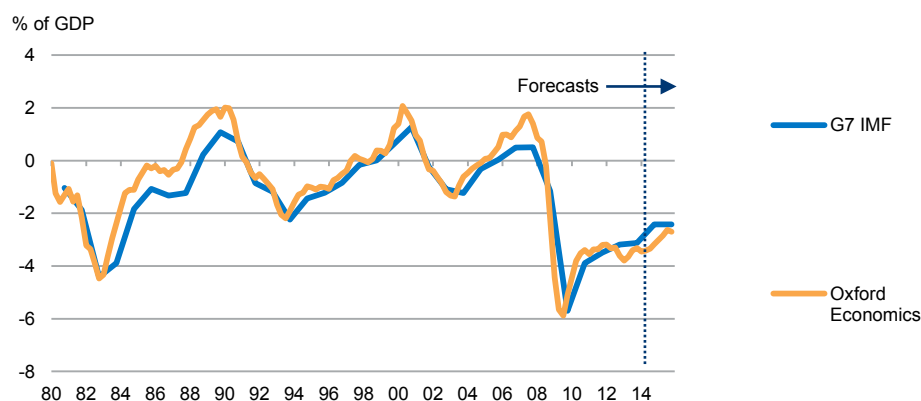
Source: Thomson Datastream, Schroders, 30 May 2014. Correlations based on monthly asset returns and the 1-month actual change in the headline CPI rate.

Turning to the global output gap

Slack remains in the developed world

Clearly, there are challenges in measuring the US output gap and the global estimate is subjected to even greater uncertainty such as the estimation for the EM universe where there are data-quality issues and also the aggregation of the individual gaps. Here we focus on the results from output gap measures calculated by Oxford Economics, sourced from Thomson Datastream, in gauging the spare capacity in the world economy.

Chart 15: Output gaps in the developed world



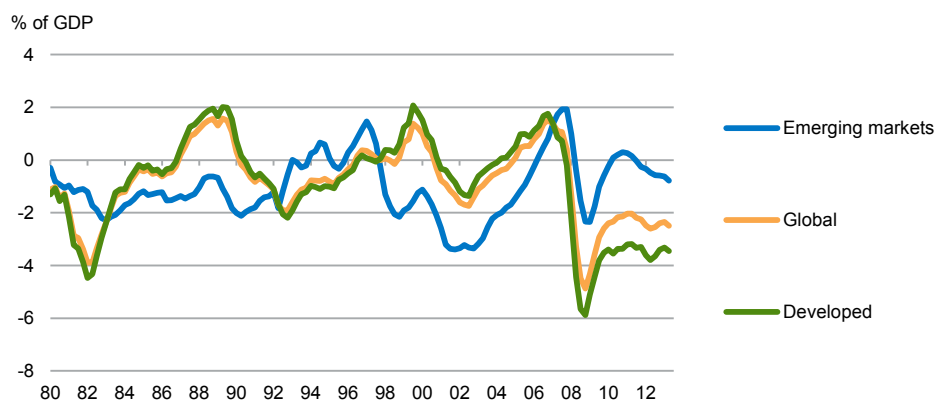
Source: Thomson Datastream, Oxford Economics, Schroders, 30 June 2014. Note: Oxford Economics developed output gap calculated from the individual output gap and aggregated used nominal GDP in USD.

Unsurprisingly, the amount of slack in the advanced economies is of similar magnitude to the spare capacity in the US as the latter has a large weighting in the developed universe. Based on IMF estimates and our calculations using the individual output gap measures produced by Oxford Economics, the gap for the developed region is around 3.5% of GDP at the end last year (chart 15). In terms of the developed market cycle, the positioning is broadly in-line with the US recovery phase in that the output gap is negative but on a narrowing trend.

Amongst the markets, a large proportion of the spare capacity in the developed world is attributed to the Eurozone, particularly the periphery. Meanwhile, commodity producers such as Australia have a smaller output gap given that they tend to be more geared towards the emerging market cycle where there is less spare capacity.

Market focus (continued)

Chart 16: Spare capacity in the global economy



Source: Thomson Datastream, Oxford Economics, Schroders, 30 June 2014. Note: Oxford Economics emerging markets, global and developed output gaps calculated from the individual output gaps and aggregated using nominal GDP in USD.

Less spare capacity in EM but the output gap has been widening

For the emerging markets, the slack in this part of the world is smaller at less than 1% of GDP. However, the output gap has been widening since 2012 driven largely by China, which accounts for over a third of the EM universe. After the fiscal stimulus binge in 2008/09, the amount of spare capacity in the Chinese economy has been increasing due to the slowdown in activity. Looking ahead, Oxford Economics is expecting the amount of spare capacity in China to increase further with GDP expected to slow to 6.9% in 2015.

On China, we forecast growth slowing to 6.8% next year from 7.1% in 2014. The latest set of mini-stimulus packages appear to be feeding through to growth. However, the measures taken are also not sustainable on a long-term; credit growth must slow further, and maintaining a reliance on investment for growth directly conflicts with the goal of rebalancing.

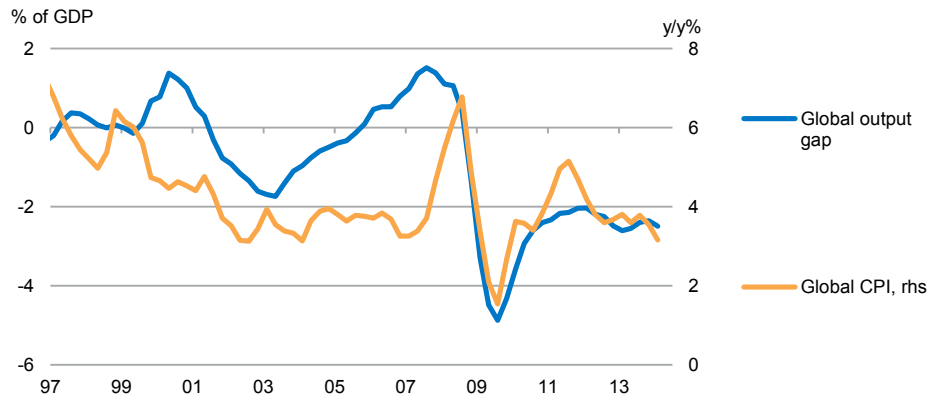
Overall, the economic cycle in the emerging bloc appears to be in the recession/disinflation phase given that the output gap has been moving further into negative territory. The slowdown in global trade means that the emerging world faces greater challenges in adjusting to the post financial crisis world. Meanwhile, spare capacity in the global economy is estimated to be around 2.3% of GDP in Q1 this year and has been relatively stable as the narrowing gap in the developed world is balanced against the increasing slack in the emerging region.

Implications from the global cycle

Despite the healing in the world economy post the financial crisis, there still appears to be considerable spare capacity in the system. Against this backdrop, inflationary pressures should be well-contained and central banks have more scope to keep monetary policy accommodative (chart 17 on next page).

Market focus (continued)

Chart 17: Inflation remains well-contained in the world economy

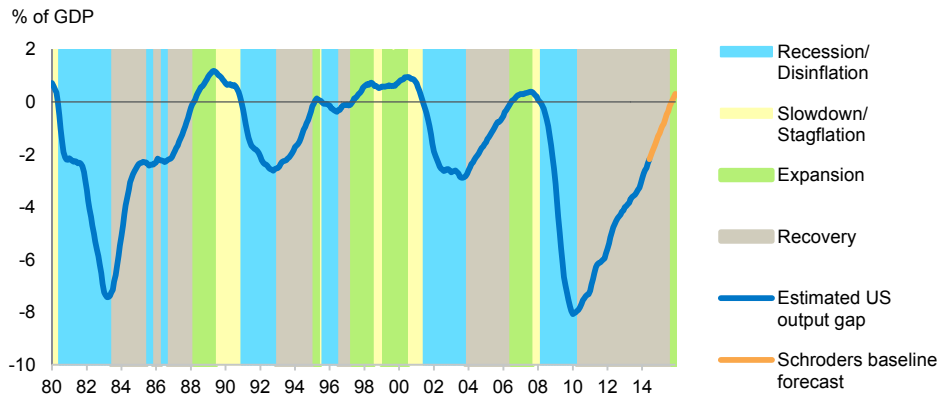


Source: Thomson Datastream, Oxford Economics, Schroders, 30 June 2014. Note: Oxford Economics global output gap calculated from the individual output gaps and aggregated using nominal GDP in USD.

The global cycle has generally moved in a similar fashion to the US cycle

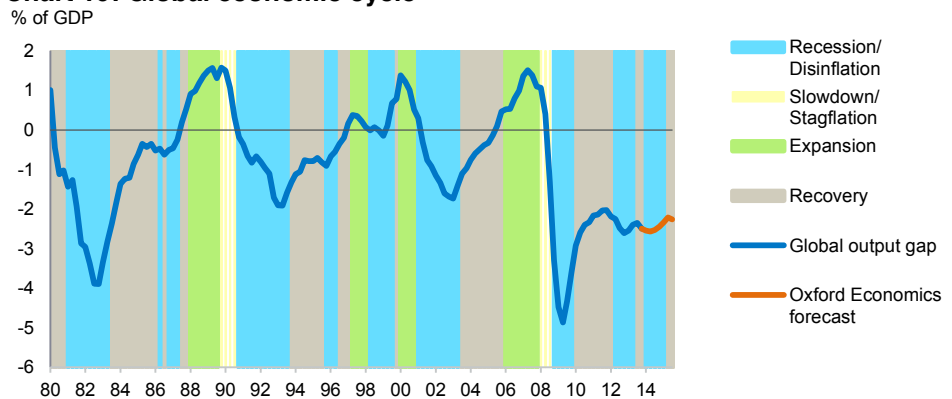
Since the 1980s, the global cycle has generally moved in a similar fashion to the US cycle (chart 18 and 19). Although there have been periods when the global output gap has been singing to a different tune compared to the US in the expansion phase. For instance, the boom in commodity prices during 2007/08 occurred when the world economy led by the emerging markets was operating at a higher capacity than the US. By contrast, the positive output gap at the end of the 1980s was mainly attributed to the developed economies such as the US and Japan which led to the surge in commodity prices.

Chart 18: Schroders US economic cycle



Source: Schroders, 30 June 2014

Chart 19: Global economic cycle



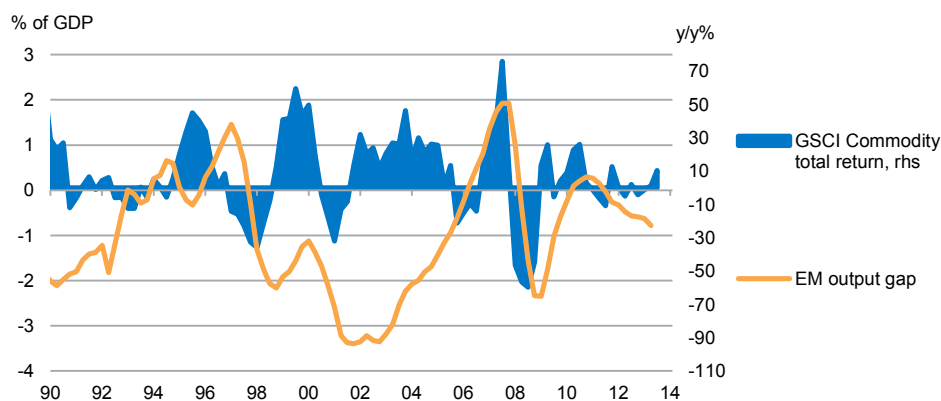
Source: Thomson Datastream, Oxford Economics, Schroders, 30 June 2014. Note: Oxford Economics developed output calculated from the individual output gaps and aggregated using nominal GDP in USD.

Market focus (continued)

Global cycle could be a headwind to the commodity class

In more recent times, during 2011 to the start of 2012, the EM cycle progressed into the expansion phase while the rest of the world was still in recovery (chart 20). This performance of commodities over this period was relatively flat as stronger demand from the emerging markets at the start of 2011 was eclipsed by geopolitical concerns towards the second half of the year such as the sovereign debt crisis in Europe.

Chart 20: EM output gap and the commodity performance



Source: Thomson Datastream, Oxford Economics, Schroders, 30 June 2014. Note: Oxford Economics EM output gap calculated from the individual output gaps and aggregated using nominal GDP in USD.

Meanwhile, the US cycle has remained in the recovery phase for almost 4 and half years. For the global cycle, however, the recovery path took a pause and dipped back into the recession phase towards the second-half of 2012. This was mainly due to the slowdown in China as the economy rebalances away from investment-led growth.

As we move into the expansion phase of the US cycle next year, the picture for commodities could be more mixed. According to our calculations using estimates from Oxford Economics, sourced from Thomson Datastream, the global output gap is assumed to widen over this period. In turn, the increase in slack in the world economy suggests that the global cycle is vulnerable to a move back into the recession phase, which could be a headwind to the commodity class. Instead, this phase of the cycle would point to a monetary setting that is looser for longer, which could keep liquidity conditions well-underpinned for risk assets.

Note that the above analysis is work in progress and in the next instalment of the global market perspective, we will be looking at asset class performance in the context of the global cycle.

Tina Fong, CFA

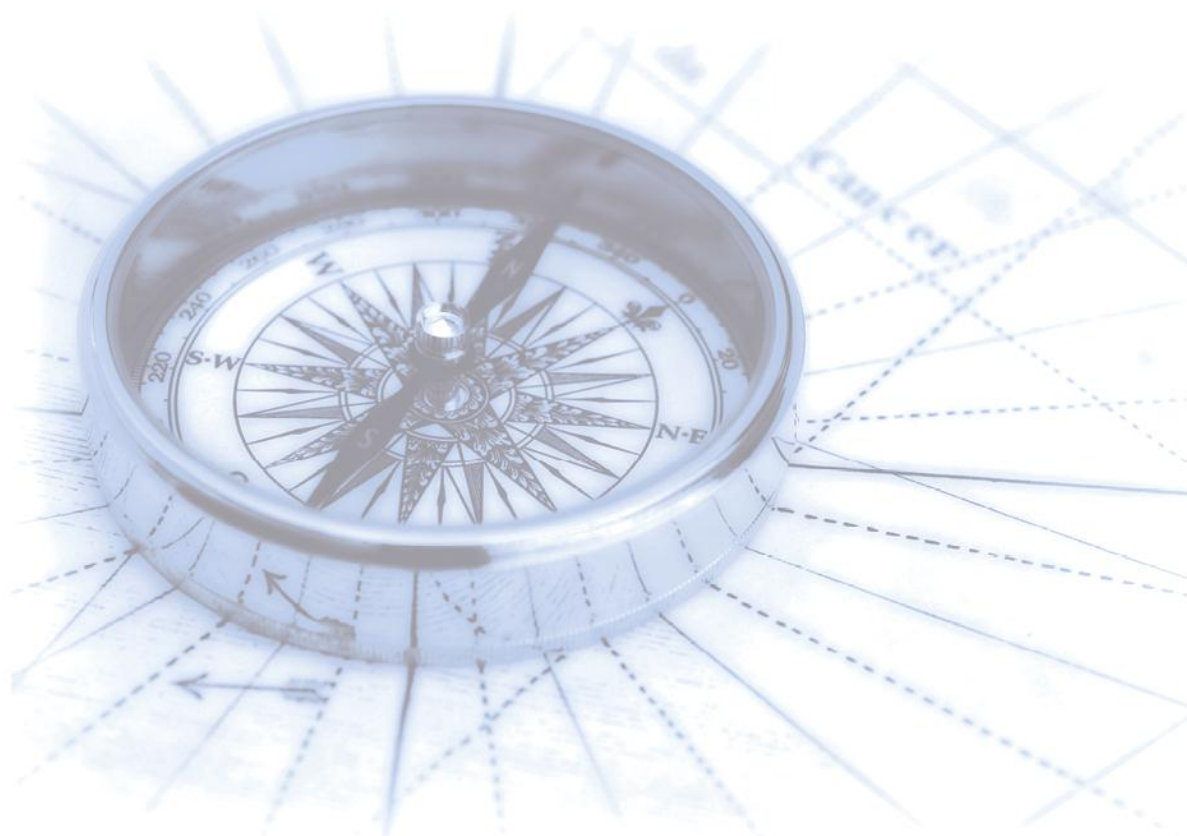
Analyst, 11 July 2014

Market Returns

	Total returns	Currency	June	Q2	YTD
Equity	US S&P 500	USD	2.1	5.2	7.1
	UK FTSE 100	GBP	-1.2	3.2	1.9
	EURO STOXX 50	EUR	-0.2	4.6	6.8
	German DAX	EUR	-1.1	2.9	2.9
	Spain IBEX	EUR	1.4	6.9	12.6
	Italy FTSE MIB	EUR	-1.2	0.1	14.5
	Japan TOPIX	JPY	5.3	5.1	-1.9
	Australia S&P/ ASX 200	AUD	-1.5	0.9	3.0
	HK HANG SENG	HKD	1.3	6.9	2.0
	EM equity	MSCI EM	LOCAL	2.4	5.2
MSCI China		CNY	3.3	5.6	-0.5
MSCI Russia		RUB	3.6	8.1	-2.4
MSCI India		INR	5.8	13.5	18.5
MSCI Brazil		BRL	3.6	5.2	3.5
Governments (10-year)	US Treasuries	USD	-0.3	2.7	6.1
	UK Gilts	GBP	-0.6	1.2	4.5
	German Bunds	EUR	1.1	3.7	8.5
	Japan JGBs	JPY	0.3	1.1	2.3
	Australia bonds	AUD	1.3	5.8	8.7
	Canada bonds	CAD	0.3	2.6	6.9
Commodity	GSCI Commodity	USD	2.1	2.7	5.7
	GSCI Precious metals	USD	6.9	3.4	9.7
	GSCI Industrial metals	USD	2.5	7.0	1.3
	GSCI Agriculture	USD	-7.1	-12.3	1.7
	GSCI Energy	USD	3.2	5.1	5.6
	Oil (Brent)	USD	2.0	5.1	1.3
	Gold	USD	5.8	2.1	9.0
Credit	Bank of America/ Merrill Lynch US high yield master	USD	0.9	2.6	5.6
	Bank of America/ Merrill Lynch US corporate master	USD	0.2	2.9	5.9
EMD	JP Morgan Global EMBI	USD	0.6	5.4	9.1
	JP Morgan EMBI+	USD	0.8	5.8	9.5
	JP Morgan ELMI+	LOCAL	0.3	1.0	2.1
Currencies	EUR/ USD		0.4	-0.6	-0.4
	EUR/JPY		0.0	-2.3	-4.0
	JPY/ USD		0.4	1.8	3.8
	GBP/USD		2.1	2.7	3.5
	AUD/USD		1.5	2.5	7.1
	CAD/USD		1.7	3.8	0.0

Source: Thomson Datastream, Bloomberg, 30 June 2014.

Note: Blue to red shading represents highest to lowest performance in each time period.



Schroders

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