CITY OF LONDON
Investment Management Company Limited

Global Tactical Asset Allocation Quarterly Outlook

December 2017

Overview

Exiting the Sweet Spot

Asset markets experienced a strong 2017 so far and stand to end the year on a high note. Developed market equities have gained 21.2% to date (as of December 13), emerging market equities 32.3%, developed rates 6.6% and global credit 8.3%. Expectations for 2018 by the analyst community are broadly optimistic, mostly on the back of continued above-trend growth. While these predictions may yet fall flat, what can be said with some degree of certainty is that the coming year will be more challenging than 2017.

Markets were supported by a unique combination of factors throughout 2017 and generally shrugged off any political and geopolitical risks. While the US expansion extended into its ninth year, the European and Japanese economies gained increasing steam, whereas activity in China slowed only marginally. Trade volumes grew strongly as a result and corporate earnings remained robust. At the same time, wage and price inflation remained moderate globally, even as key commodity prices recovered. In turn, this allowed leading central banks to maintain a broadly accommodative stance, in particular with respect to asset purchases. Throughout the year, the aggregate G4 central bank balance sheet kept growing, albeit at a diminishing pace. Finally, this also contributed to extraordinarily low levels of volatility in financial markets.

This simultaneous occurrence of expanding activity, low inflation and low volatility is unlikely to persist. Adding to this the current high levels of equity valuations and rock-bottom bond yields will make for an even more challenging investment environment in 2018. To be sure, the economic outlook is far from dire. Although the US economy is already experiencing the second-longest expansion in its history, the recent acceleration in capex growth has led many analysts to forecast yet another year of above-potential growth in 2018 (at 2.3-2.5%) and a decline in the unemployment rate to below 4%. The Eurozone witnessed an acceleration in activity to 2.5% in 2017 and while growth could moderate in 2018, it is expected to remain at about twice the potential rate of growth of 1%. The Japanese economy is similarly likely to maintain some of the fiscally-induced momentum into 2018, while also benefitting from the preparations for the 2020 Tokyo Olympics.

Despite the negative output gap, wage and price pressures have remained subdued given the reduced bargaining powers of workers, the adaptive nature of inflation expectations and the relative stability of exchange rates. And while central bank policy is shifting gear, it is doing so at a glacial pace. Indeed, the G4 central bank balance sheet is set to continue to expand through 2018 (at a reduced pace) and will begin to contract only in 2019. While the Fed's balance sheet is expected to shrink by approximately $415 bn in 2018, the ECB's and the BoJ's continued asset purchases will more than compensate for this. As a result, monetary conditions will remain broadly supportive for the global economy, but less so than in 2017.

The broad outlines of the outlook thus remain supportive for 2018, but marginally less so than this year, reducing the likelihood of a repeat of outsized returns. While in 2017 buying risk assets was a straightforward and rewarding strategy, greater discrimination will likely be in order in the year to come.

Asset Allocation

	Chg	-3	-2	-1	0	+1	+2	+3
Equities	–					■		
Rates	–		■					
Credit	–					■		
Commodities	–			■				

Allocation Breakdown

	Chg	-3	-2	-1	0	+1	+2	+3
EQUITIES	–					■		
US	↓				■			
Europe	↑					■		
Japan	↑					■		
EM	–				■			
RATES	–		■					
USTs	–		■					
Bunds	–				■			
JGBs	↓		■					
EM Local	–				■			
CREDIT	–					■		
US IG	–				■			
US HY	–					■		
European IG	↓			■				
European HY	–				■			
EM Sov $	–					■		
EM Corp $	↓				■			
COMMODITIES	–			■				
Oil	–			■				
Base Metals	↓				■			
Precious Metals	–				■			
Soft	–				■			
CASH	–				■			

Note: Up/down arrows indicate a positive or negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

Source: City of London Investment Management

What Specific Risks Lie Ahead?

1. Inflation and Rates

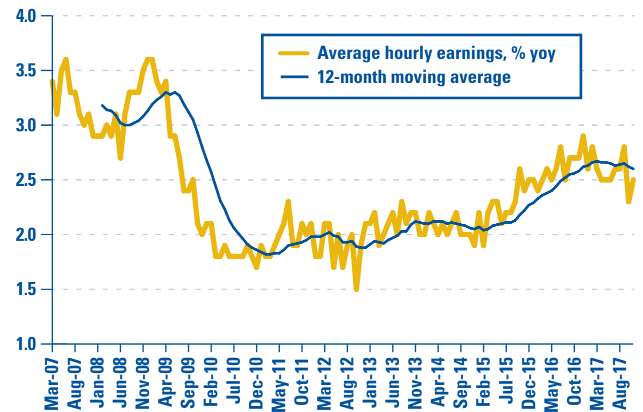
A persistent refrain of US inflation hawks for years has been the fear of runaway inflation as the Fed expanded its balance sheet to unprecedented levels. However, a persistent output gap at first and the low pricing power of workers belatedly returning to the labor force meant that this did not come to pass (plus, the bank balance sheet crisis impaired the monetary transmission mechanism). Wage growth began to accelerate five years after the onset of the financial crisis, but this trend too now appears to be stalling (see chart 1).

Nevertheless, analysts expect the US Core PCE index to rise from the current 1.5% yoy range to 2% by end-2018, primarily on the back of the ongoing strength of the recovery (and consequent above-potential growth). They also pencil in a rise in the 10-year Treasury rate to nearly 3% by year-end. Yet, while the rise from cyclical inflation pressures may be limited, official policies, in particular tax reform, could provide a stimulus to the economy at a time when it is already operating at full capacity and low unemployment. This may turn out to be ill-timed and indeed push the Fed to tighten beyond the three rate hikes it currently projects for 2018 (if implementation of the tax reform is not postponed until 2019 as the Senate proposed). Markets currently price in only two hikes for 2018, despite the three delivered this year. More importantly though, it could call the 'bond vigilantes' back to the fore as a massive and largely unfunded fiscal expansion would add to a fiscal deficit that is already 5% of GDP.

Indeed, heightened expectations for the impending adoption of tax reform may explain the recent flattening of the yield curve which has seen the difference between two- and 10-year yields fall 33bps to just 52bps over the past 30 days (the flattest since 2005). While a flatter yield curve has frequently heralded the onset of a recession, it could also merely signal market expectations of a short-term boost to the economy this time, without providing a trigger for a long-term rise to inflation that would justify higher longer-dated yields.

The prospect of sharply higher market rates would weigh not only on developed market risk assets (if only because of a higher discount rate on future earnings), it could also lead to renewed dollar strength and thereby provide a drag on emerging markets assets.

Chart 1: US Wages



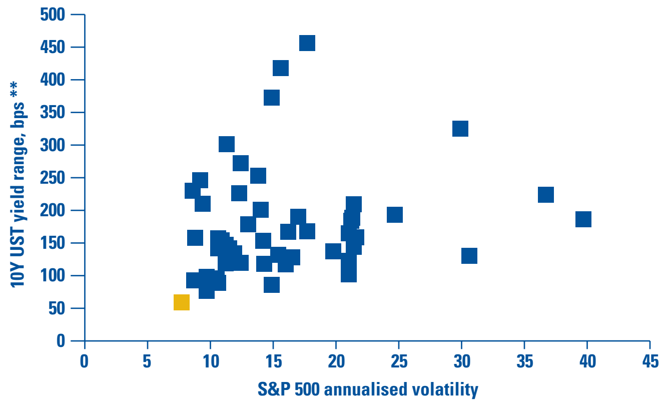
Source: Bloomberg

2. Volatility

To the surprise of many, volatility implied in financial asset prices has remained remarkably subdued despite the various political risks that emerged throughout the year, be it the manifold ructions experienced by the Trump administration, electoral surprises in Germany or the escalating war of words between the US and North Korea (see chart 2). But to be fair, geopolitical frictions or the outbreak of hostilities have always only been reflected in financial markets after the fact. While this may be reasonable, it is also true that volatility gauges like the VIX provided no early warning of the great financial crisis as the "Great Moderation" narrative dominated markets then. The issue is the so-called "volatility paradox", the fact that a prolonged spell of low volatility may ultimately make the financial system more vulnerable to crisis. In a benign risk environment, investors are pushed into highly levered, yield-enhancing strategies, which mostly benefit the least creditworthy.

Low volatility also rewards sellers of financial insurance. For example, sellers of deep out-of-the-money options bet that the value of the underlying asset will not fall below the strike price, pocketing the premium. Low realised volatility encourages both buyers and sellers to increase their positions as their risk management strategies suggest lower value at risk. Not only can these transactions be complex and difficult to monitor for regulators, but once volatility increases, investors in such crowded trades may scramble to sell off assets to bring their portfolio back within risk limits.

Chart 2: US Equity and Bond Volatility, 1966-2017*



*One data point per calendar year. Yellow point is 2017 data point.
**The range is the high minus the low for a given calendar year.

Source: Bloomberg

3. China

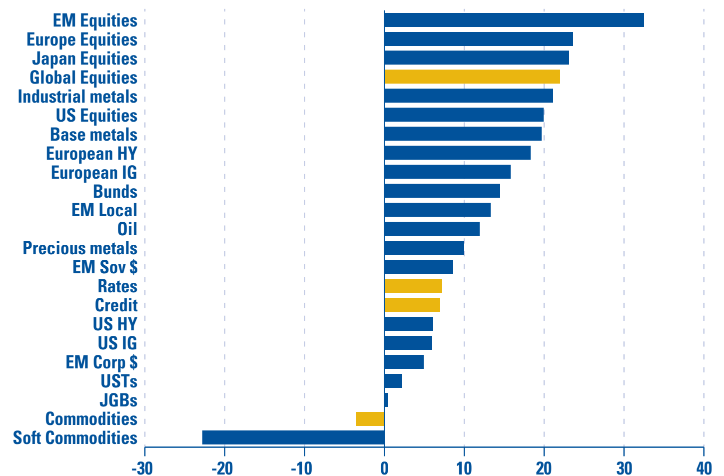
Another key risk in the year ahead lies in a sharper-than-anticipated slowdown in China's economy. Most likely this would originate from a policy mistake (mis-timing fiscal or monetary support) or the wilful or accidental implosion of its excessive debt burden. As it stands, forecasters expect China's GDP growth to moderate to 6.4% in 2018, from the last published quarterly rate of 6.9% yoy (Q2). This mainly reflects current policy tightening, financial deleveraging, an ongoing crackdown on corruption and pollution and new curbs on the overheated housing market. But deeper structural issues such as excessive industrial capacity and continued resource allocation into inefficient state-owned enterprises lie beneath these cyclical swings. Aside from a shock to global risk sentiment, a more pronounced deceleration in China would also hit the global demand for natural resources.

Market Strategy: Moderate Risk Exposure

The still-benign global environment continues to warrant exposure to risk assets, but with an eye towards greater discrimination and a rising allocation to cash as the outlook for the year ahead has become decidedly more challenging.

- We retain an *overweight* to **equities**, but we see a less supportive outlook for earnings in the year ahead. Within equities, we have recently reduced US exposure to *neutral*, while being *overweight* both the Eurozone and Japan.
- We remain *underweight* **rates** as developed market central banks continue policy normalization against economic expansion, despite low core inflation. Long-term government bond yields remain unattractive amidst this normalization process. We downgrade Japanese government bonds to *underweight*.
- We remain *overweight* on **credit** as the asset class is supported by strong economic and corporate earnings growth. Tight spreads across the credit spectrum have been supported by low equity volatility, low interest rate volatility, global synchronised expansion, recovering commodity prices and a weak USD. Yet, we downgrade our view on EM corporate debt to *neutral* and Eurozone investment grade to *underweight* on the back of expensive valuations.
- We stay *underweight* **commodities** amid headwinds for energy. The oil market faces global excess supply, due to rising US shale production and despite production cuts by Russia and OPEC. Demand may also be crimped by the higher price, so we stay *underweight*. We move base metals to *neutral* due to moderating demand from China and rising supply. Finally, we stay *neutral* on precious metals since we view it as a valuable hedge against a spike in volatility.

Chart 3: Asset Class Performance 2017 ytd, %



Source: Bloomberg

Equities

Overweight

We remain overweight equities amidst an increasingly "synchronized" global upturn, benign inflation and supportive monetary policies.

Stock markets have been on a tear this year. They have seen off the political ructions of the Trump administration, the effect of hurricanes, electoral upsets in Europe, increasingly challenging valuations, all while central banks started to engage in the process of policy normalization. But while global growth has been strong, prospects for both activity and earnings have continued to rotate away from the US, towards the Eurozone and Japan.

Indeed, fundamentals in the US have not greatly improved since Donald Trump's election. True, the economy was running at a healthy 3.3% clip in Q3, but current expectations for next year are not significantly different from those a year ago. In fact, the US has trailed its peers as other countries have witnessed greater (upward) forecast revisions. Being in the ninth year of an expansion, the economy is unlikely to deliver a repeat performance of 2017 next year. True, PMIs have scaled new cyclical highs and consumer confidence also posted a high. But with unemployment a mere 4.1%, the economy is unlikely to continue adding 228K jobs per month as in the November payrolls release.

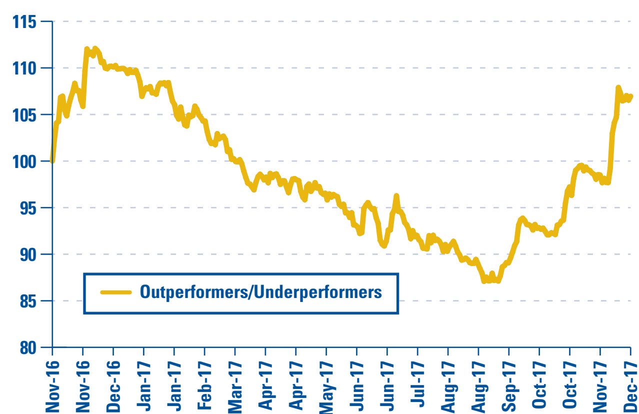
While earnings are expected to still grow a healthy 10% in 2018, estimates have been successively revised downwards. As a result, the US market has lagged other countries, partly a reflection of the 8% decline in the USD over the year. A particular concern is the rise of so-called "zombie companies", firms which have been kept alive through extraordinarily low interest rates, but which do not generate enough earnings (before tax and interest) to cover their interest payments. The proportion of zombies within the US has risen sharply since the crisis, with 12% of companies qualifying, more than double the pre-crisis figure (the share has risen elsewhere too, but to a lesser extent). Some impetus has come from a late and unanticipated agreement on tax reform, although the Senate and House versions have yet to be reconciled. An index based on the companies which pay the highest tax rate and thus stand to benefit most from the changes against those already paying a low rate shows how the latest developments have given the market some renewed momentum.

The Eurozone has witnessed some political setbacks following an earlier apparent retreat of populist forces. But in Germany's election in September, Angela Merkel's CDU/CSU coalition saw its vote slip from 41.5% in 2013 to 33% (and its seats in the Bundestag from 311 to 246). Attempts to form a tripartite "Jamaica" coalition subsequently floundered and talks are now underway to renew the "grand" coalition. However, the outcome is uncertain as the SPD suffered from its embrace by the CDU and saw its support slide to 20.5%. Nevertheless, the economy has continued to gather steam. GDP recorded a 2.5% yoy gain in Q3, a successive increase from the 1.7% yoy pace recorded a year earlier (Q3 2016). The composite Eurozone PMI has given back slightly, but remained at the high level of 55.9 and within the range established since the spring. Eurozone consumer confidence rose to a 16-year high in October while the German IFO jumped to a new all-time high. Output growth was also strong in Spain where industrial production rose to 3.4% yoy in September, the fastest rate since August 2016.

Economic readings in emerging markets have been softer than their DM counterparts during Q4 as the performance of the relative Citi EM Economic Surprise Index attests. But this partly reflects a drag from China as well as a later start of the recovery in EM. Yet, cyclical dynamics (accelerating growth) and improved fundamentals (narrower external deficits and higher surpluses) suggest continued upside for 2018. While USD strength would pose a potential risk if the high US growth/inflation/rate scenario materialized, still attractive valuations provide some downside insulation.

Market Strategy: We maintain an overall *overweight* allocation to equities. Within the asset class, we keep a *neutral* allocation to the US where the planned tax reform appears ill-timed, ill-conceived and could overstimulate the economy, prompting a rise in inflation and yields across the curve (given the unfunded nature of tax cuts). We remain *overweight* the Eurozone, where the recovery is at an earlier stage and is accelerating, while the ECB maintains monetary support. We are also *overweight* Japan on the back of PM Abe's strong political mandate, the gathering economic momentum, ultra-loose monetary conditions and still-attractive valuations. We keep our allocation to emerging markets *neutral*, given the higher valuation and the rising yield environment. However, we do not see any crisis catalyst for EM in the next 12 months.

Chart 4: US Tax-Sensitive Stocks*



**100 = 8 November 2016*

Source: Bloomberg

Rates

Underweight

Developed market central banks continue policy normalization against economic expansion, despite core inflations short of target. Long-term government bond yields remain unattractive amid this process. Flat yield curves imply meagre expected excess return (vs short-term rate).

The yields on 10yr USTs and JGBs have returned to the levels of early 2017, after troughing in September. Ten-year bund yields have markedly increased this year on the back of a strengthening Eurozone economy and the election victories of Merkel, Macron and Rutte.

The US economy continues to power ahead with about 2.2% growth in 2017 despite the challenges facing the Trump administration and the Republicans' difficulties in passing new legislations. Consensus expects the US economy to grow between 2.3-2.5% in 2018 with moderate support from the tax reform bill.

The Fed continues to face the dilemma of simultaneously weak inflation and relatively robust growth. Yet, it appears to take a more "data independent" approach as it is keen to rebuild its ammunition in order to forestall financial instability in the future. The analyst consensus currently expects the Fed to increase interest rates two to three times in 2018, slightly more than what the Fed Fund futures price in. One key uncertainty about the interest rate path stems from the 12-member FOMC's future composition. While Jay Powell is expected to take over from Janet Yellen as the Fed Chairman in January, there will be five additional vacancies to be filled on the Fed's seven-member Board of Governors.

Another uncertainty relates to the economic and market impact of the Fed's planned balance sheet reduction. The Fed has allowed $10bn of UST and MBS to mature each month in Q4 2017, with this cap gradually rising until it reaches $50bn per month in Q4 2018. While the Fed endeavours to provide as much guidance as possible to the market regarding the pace of reduction, such a vast monetary operation is nevertheless unprecedented.

The Eurozone is generating an impressive growth rate of 2.3% in 2017 - significantly higher than its growth potential of around 1% - on the back of robust external and domestic demand. Consensus expects above-trend growth of 1.8-2.3% in 2018, with a further decline in the unemployment rate and only mild inflation.

The ECB maintains a dovish stance despite reducing its QE purchases to €30bn per month until at least September 2018. President Draghi's comments in a press conference implied that the ECB's asset purchases would not end abruptly, e.g. by possibly allowing for a gradual taper to 10-€15bn per month after September. Draghi also signalled the ECB's readiness to extend the program if financial conditions tighten and inflation decelerates. With Eurozone inflation recently stagnating around 1.5%, political uncertainty around Brexit negotiation and the upcoming Italian election, the ECB appears in no hurry to exit its program.

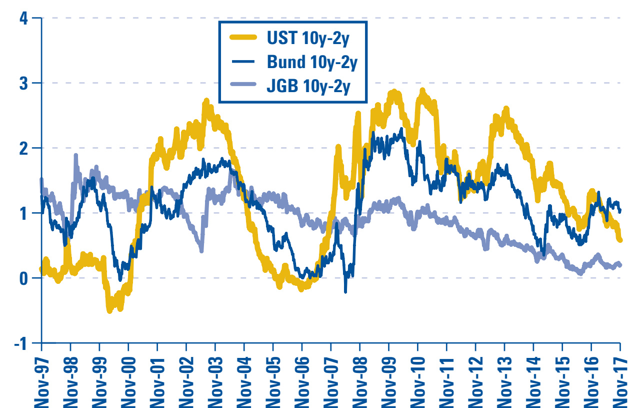
Japan's economy has registered seven consecutive quarters of growth, bringing its growth in 2017 to about 1.5%, significantly above its potential of 0.5-1.0%. We expect the economic expansion to continue in 2018, driven by robust trade and investment outlook as well as political stability following Abe's landslide victory in Q4 2017. Inflation should continue to undershoot the BoJ's target of 2% and remain at a low 1%, as the evidence confirms the adaptive nature of Japanese inflation expectations.

It is likely that BoJ may gradually lift its target for the 10-year JGB yield in 2018 as part of its yield-curve-control policy. There are a few reasons that BoJ may choose to do so. First, economic growth is above potential. Second, other DM government bond yields are rising. Third, a steepening of the yield curve would be positive for bank profits. Fourth, for an aging economy with a high saving rate like Japan, high long-term interest rate drives up the deposit interest rate, potentially boosting depositors' income and private consumption (currently the weakest spot of the economy).

Market Strategy: Long-term government bonds in major DMs remain unattractive with flat yield curves and central bank normalization in process, underpinning our *underweight* view.

- We remain *underweight* on USTs as there is a meaningful risk of the market underpricing the extent of rate hikes over the next 12 months.
- We downgrade Japanese government bonds to *underweight* as the yield curve is historically flat, the trade and economic outlook are positive and the BoJ may change its 10-year yield target.

Chart 5: Government Bond Yields Curve, %



Source: Bloomberg

Credit

Overweight

Tight spreads across the credit spectrum have been supported by low equity volatility, low interest rate volatility, global synchronised expansion, recovered commodity prices, weak USD and investor complacency about political uncertainty. We remain overweight as the asset class is supported by strong economic and corporate earnings growth.

US investment grade and high yield credit are set to deliver high single-digit returns in 2017 as tight spreads are offset by a weak USD, resilient US growth and low equity volatility. Elsewhere, oil prices recovered from the summer trough and are on course to deliver positive returns for the year, supporting the oil sector and high-yield credit.

Looking towards 2018, we remain more positive on US high yield than investment grade. The level and volatility of interest rates may rise as the Fed continues the process of policy normalization. With a higher credit spread, high yield is less vulnerable than investment grade in such environment.

US high yield is further supported by improving US corporate profits on the back of resilient global growth as well as the relatively low probability of a US recession in the next 12 months. Key factors to watch include the progress and size of the tax reform as well as energy prices.

In the Eurozone, investment grade and high yield are set to deliver double-digit USD-denominated returns in 2017 given the EURUSD rally, above-trend growth, low equity volatility, low interest rates and continued ECB asset purchases.

Looking ahead, we are concerned about the expensiveness of Eurozone investment grade, making it unattractive relative to the uncertainties ahead. For one thing, credit spreads appear to fully price in President Draghi's dovish comments on ECB tapering, as they recently reached a new low since the Eurozone crisis. In addition, despite above-trend growth in 2017, the recovery in the Eurozone remains at an early stage with labour market slack in many countries bar Germany. More importantly, political uncertainties – e.g. Brexit negotiations, Italian elections/the rise of Five Star Movements and the AfD's entry into the Bundestag – are hard to quantify. Any spike in political uncertainty could easily derail the recovery and tighten financial conditions, widening an already tight spread.

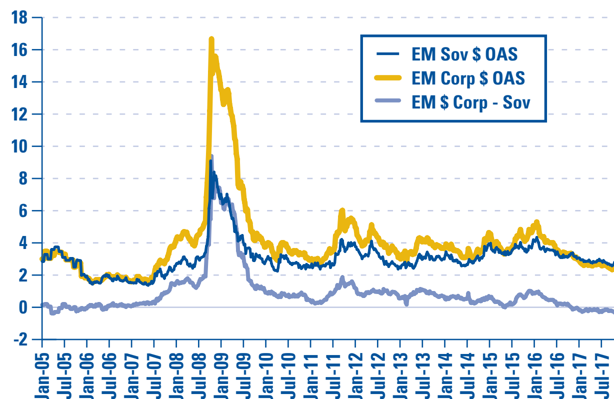
EM sovereign and corporate USD debt are set to deliver high single-digit returns in 2017 with improving external balances. Looking ahead, we think EM $ sovereign debt is the most attractive credit in the spectrum, given a relatively high spread (vs UST) and stronger national balance sheets than a few years ago. Strong DM demand and global trade growth should continue to improve external balances and net foreign assets, a positive for sovereign risk. While there may be localized vulnerabilities (e.g. South Africa and Turkey), we see a low probability of an outbreak of systemic risks in the near term.

The major risks, however, include the uncertainty around the Fed's balance sheet reduction (and its impact on long-term USD borrowing cost), potentially higher domestic inflation and weaker Chinese demand for commodities. Therefore, together with the tight spread (relative to its sovereign counterpart), we downgrade our view on EM USD corporate debt from overweight to neutral.

Market Strategy: A series of benign developments have supported credit instruments and we retain an overweight credit allocation. Ahead, key issues to watch include the progress of US tax reform, political uncertainties across both sides of the Atlantic and the extent of liquidity, credit and regulatory tightening in China.

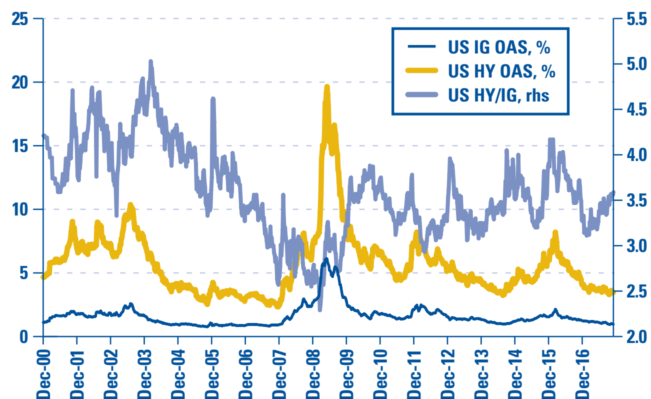
- We remain *overweight* on US high yield and EM USD sovereign debt.
- We downgrade EM USD corporate debt to *neutral* and Eurozone investment grade to *underweight* on the back of expensive valuations.

Chart 6: EM Credit Spreads, %



Source: Bloomberg

Chart 7: US Credit Spreads



Source: Bloomberg

Commodities

Underweight

Headwinds for commodity prices are building, ranging from excess supply to reduced Chinese demand.

Energy: Oil prices have gained substantially (+22% from September to November), moving to a two-year high and above $64/barrel. This was nearly $20 above the 2017 nadir of $44.8 reached in June. The rally was driven by a few factors including: 1) speculation over an extension of OPEC and non-OPEC production cuts beyond March 2018; 2) a lacklustre output response from US shale producers to higher prices and 3) potential for further supply shocks via disruptions in Kurdistan, falling output in Venezuela and rising tensions in the Middle East between Saudi Arabia and Iran.

However, these factors are unlikely to keep the oil price supported beyond the short-term. True, at the OPEC/non-OPEC meeting in November the existing output cuts were extended to end-2018. But assuming that OPEC output is maintained, the International Energy Agency (IEA) projects global excess supply of still 0.6 mn barrels/day in Q1 and 0.2 in Q2. Thus, more aggressive cuts would be needed to push the oil price higher. Even if prices were to rise, there is the issue of compliance from all parties. Second, US shale output is still rising and may only have been held back by weary financiers. The higher oil price should alleviate concerns and the US crude oil rig count has been rising since November. Both developments point towards higher output going into 2018. Third, while geopolitical volatility warrants a premium, this is unlikely to be significant beyond the short-term given that Saudi Arabia and Iran require oil revenues to fund rising budget expenditure.

The demand side is expected to remain robust given the backdrop of synchronised and rising global growth in 2018. This is somewhat counterbalanced by higher prices, which is the reason the IEA reduced its 2018 global oil demand forecast in November. Overall, going into 2018 the oil market is likely to require more geopolitical and supply disruptions to justify a higher oil price. We believe that most of the geopolitical risk premium has been priced in and that continued oversupply keeps downside risks elevated, so we stay *underweight*.

Base metals: Prices of base metals have consolidated recently, with a small loss of 1.0% over the September-to-November period. The complex has still gained 17.3% this year, but has fallen by 6.7% since the October peak. We believe this reflects reduced demand expectations due to slowing growth and a less commodity-intensive expansion in China.

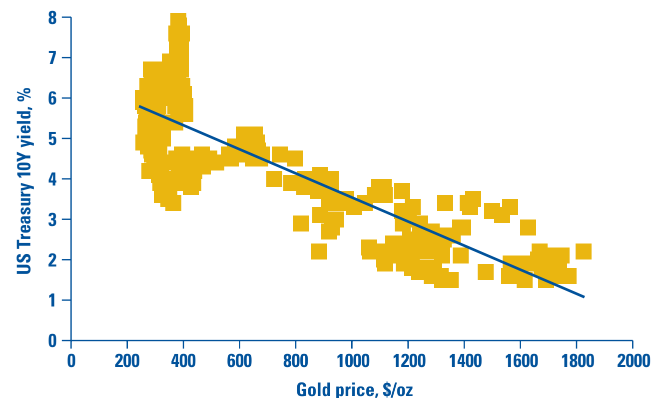
This represents significant downside risks to demand (China accounts for 50-60% of global base metals demand), but stands in contrast to the continued global expansion that should ensure that overall demand remains healthy.

On the supply side, the outlook is mixed as copper and nickel output are set to rise: copper mines are coming online in Panama and Africa, while output in Peru and Chile is set to recover as labour issues recede. Nickel production is expected to rise as exports from the Philippines and Indonesia increase (the latter has already issued 12 export licences in 2017). But aluminium supply is likely to fall as China's environmental policy leads to reduced output. We expect moderating demand and rising supply to weigh on prices and take profits from our *overweight*, reducing our weight to *neutral*.

Precious metals: The rise in UST yields has hampered precious metals prices, which fell by 4.6% in the September to November period. Gold prices vary inversely with 10yr UST yields, as illustrated in the chart below, which uses monthly data points for the past 25 years. The relationship (R^2 = 0.7) suggests that a 25bps rise in the 10yr yield reduces the gold price by $60. Indeed, in a period in September the 10Y yield rose by 26bps and the gold price fell by $63.

However, long-term yields may not rise as much as short-term yields as the Fed's rate path is likely to be shallow and the gold price is less sensitive to shorter than to long-term yields (e.g. when the 2yr yield rose by 50bps between September and December the gold price fell by $80). Thus, the downside risk for gold in a rising short rate environment may be less.

Chart 8: Gold Price vs. 10Y US Treasury Yield, 1992-2017



Source: Bloomberg

At the same time, safe haven demand for gold amid ongoing geopolitical risk, ranging from ructions in the Korean peninsula to Saudi-Iranian tensions, should support prices. On balance, given historically low volatility, we see value in having precious metals as part of the portfolio as a hedge against a spike in volatility, so we stay *neutral*.

KEY ASSET ALLOCATION INDICATORS *(All data shown are as at end-November 2017 unless otherwise stated)*

	ASSET ALLOCATION							PERFORMANCE						BENCHMARK INDEX & WEIGHTS	
	-3	-2	-1	0	+1	+2	+3	5Y	3Y	1Y	2016	Ytd	Sep-Nov		
EQUITIES					■			**68.1**	**26.0**	**24.6**	**7.9**	**22.0**	**6.1**	**MSCI ACWI**	**50%**
US				■				100.6	33.4	22.1	10.9	19.9	7.4	MSCI USA	25%
Europe					■			44.5	14.5	30.1	-0.4	23.6	4.0	MSCI Europe	10%
Japan					■			77.5	36.1	24.3	2.4	23.1	9.9	MSCI Japan	5%
EM				■				25.3	19.6	32.8	11.2	32.5	3.3	MSCI EM	10%
FIXED INCOME			■					**4.7**	**5.4**	**6.4**	**2.2**	**6.7**	**-0.1**	**J.P. Morgan Global Agg Bond Index**	**45%**
Rates		■						**-0.9**	**4.7**	**6.2**	**1.7**	**7.2**	**-0.3**	**Bloomberg Barclays Global Treasury TR Index Value Unhedged**	**30%**
USTs		■						5.7	4.1	1.9	1.0	2.0	-1.1	Bloomberg Barclays US Treasury Total Return Unhedged USD	10%
Bunds				■				15.1	7.4	15.1	3.4	14.5	0.4	J.P. Morgan Euro Bund Futures Tracker	10%
JGBs		■						4.2	2.7	0.2	0.8	0.5	-0.1	10-year JGB Future Contract	5%
EM Local				■				-0.5	2.0	14.5	6.9	13.3	-0.4	Bloomberg Barclays EM Local Currency Liquid Govt TR Index Unhedged USD	5%
Credit					■			**11.8**	**7.3**	**8.5**	**3.7**	**8.2**	**0.3**	**Bloomberg Barclays Global Aggregate Credit TR Index Value Unhedged USD**	**15%**
US IG				■				17.5	11.2	6.2	6.1	5.5	0.1	Bloomberg Barclays US Corporate Statistics Index	5%
US HY					■			34.1	18.2	9.2	17.1	7.2	1.1	Bloomberg Barclays US Corporate High Yield Statistics Index	3%
European IG			■					9.6	2.8	16.0	1.7	15.8	0.8	Bloomberg Barclays EuroAgg Corporate Statistics Index	2%
European HY				■				28.6	12.5	22.3	5.9	20.6	1.5	Bloomberg Barclays Pan-European High Yield (Euro) Index Statistics	2%
EM Sov $					■			20.6	17.7	10.2	10.2	8.6	-0.1	J.P. Morgan EMBI Global Total Return Index	3%
EM Corp $				■				19.4	11.3	5.3	4.9	4.9	0.0	J.P. Morgan CEMBI Broad Div IG	
COMMODITIES			■					**-37.3**	**-24.7**	**-5.2**	**9.3**	**-4.4**	**-4.4**	**Thomson Reuters/CoreCommodity CRB Commodity Index**	**2%**
Oil			■					-42.8	-9.4	26.0	52.4	11.9	21.4	Brent spot	
Base metals				■				-6.2	3.9	14.4	20.9	19.7	-1.0	Bloomberg Base Metals Spot Price Commodity Index	
Precious metals				■				-29.1	8.3	7.7	9.4	10.0	-3.8	S&P GSCI Precious Metals Index	
Soft				■				-22.1	-10.3	-23.3	16.8	-22.8	-4.4	S&P World Commodity Softs Index	
CASH				■				2.7	2.1	1.2	0.7	1.1	1.1	**US Cash Indices LIBOR Total Return 3 month**	**3%**

Source: Bloomberg, City of London Investment Management

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