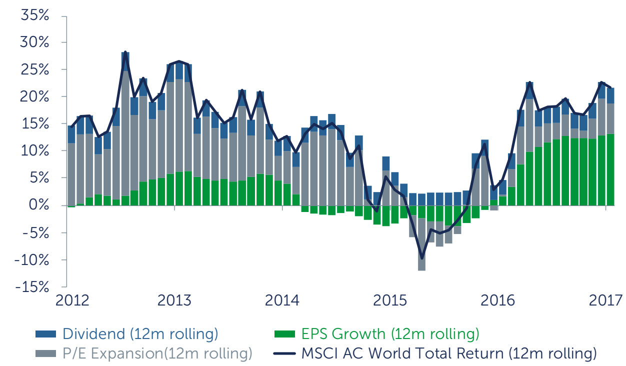
MULTI ASSET

HIGHLIGHTS

CORPORATE EARNINGS TO REMAIN ROBUST: Our economic analysis suggests that the global economic picture remains strong, with most regions likely to exhibit reasonable growth into 2018. This should provide corporate earnings with the base they need to continue to grow, which should continue to drive equity market performance. However, we have to be conscious of the fact that global growth is no longer so heavily influenced by decisions made on government desks in Tokyo, Brussels or even Washington. Policies emanating from Beijing are an increasingly important determinant of global growth, with China being a very large and ever more significant contributor. This year, the Chinese authorities' abilities to navigate the narrow path between tempering the excessive levels of debt and maintaining acceptable growth will be tested. Valuation Support Less Compelling Going Forward: Market valuations have been supported by the quantitative easing programs we have seen over the past decade. 2018 marks a turning point in these trends. The U.S. Fed has announced that it will engage reverse gear, and start a program of quantitative tightening. The European Central Bank will reduce its asset purchases, and the Bank of England has made all of its post-Brexit purchases. Only the Bank of Japan is left as a big buyer, which leaves the markets vulnerable to a correction in valuations.

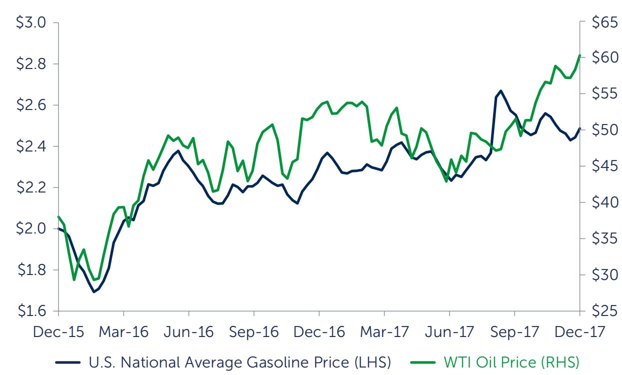
INFLATION PRESSURES EMERGING: Labor markets around the world are tight. In the U.S. and the U.K., unemployment rates are around 4%, in Japan they are below 3% and even in Europe unemployment rates are fast approaching the lows seen in the last cycle[1]. At some point, we would expect competition for talent in the workforce to intensify, and employers to be forced to raise wages. At the same time, oil prices are 15% higher than they were this time last year – this has already begun to feed into gasoline prices, and will also feed into broader energy prices too[1]. While central banks are tightening monetary policy, it may not be enough to quell this upward pressure on inflation.

Earnings Growth Drives MSCI World Performance in 2017



SOURCE: MSCI, IBES, FactSet, Barings. As of November 30, 2017.

Oil Price Has Steadily Risen, Driving U.S. Gasoline Prices Up (U.S. dollars)



SOURCE: Bloomberg. As of December 31, 2017.

OUTLOOK

- The economic picture remains good and corporate earnings are likely to continue to grow.
- Against a background of less compelling valuations, we remain engaged with those equity markets and risk assets that are supported by earnings growth, but continue to be very selective.
- In our view, G7 government bonds face multiple headwinds and do not feature in our portfolios.
- We favor gold and other precious metals as diversifiers.

1. Source: Bloomberg. As of December 31, 2017.

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*As of December 31, 2017