MULTI ASSET

HIGHLIGHTS

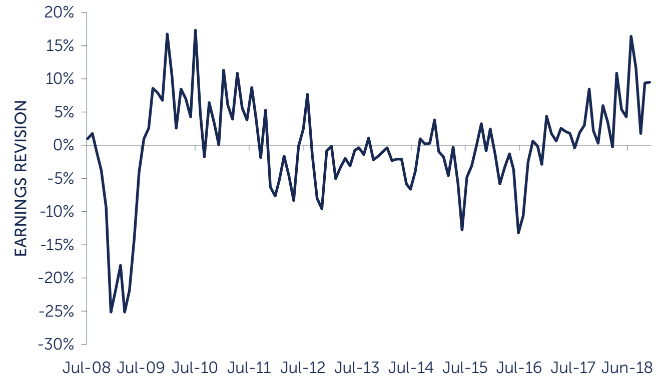
TRADE RHETORIC DOMINATES: While the extreme turbulence of the first quarter has not been repeated, it is fair to say investors could be forgiven for feeling frustrated. The rhetoric of trade wars between the U.S. versus Europe and China continues to unsettle markets. While we continue to view the investment world as half full rather than half empty, an escalation in the trade war rhetoric has the potential to change everything.

CORPORATES ARE IN GOOD HEALTH: The last 12 months have seen a steady progression of analyst upgrades. It is often the case that analysts lose confidence in their figures during stock market sell-offs and start to downgrade, but so far we have not seen this. In fact, analysts have been upgrading every month this year–including through June, leaving expectations that global equities will deliver 12% EPS growth over the next year[1]. Even allowing for some of this growth never to materialize, it still suggests corporates are doing well.

YET ECONOMIC PERFORMANCE IS MORE DISJOINTED: The synchronized global growth and monetary policies that were behind the "goldilocks" conditions of 2017 have become more disjointed. A particularly worrying gap has opened between countries where a range of indicators are showing a mild slowdown in growth–particularly in regions outside the U.S. China in particular is struggling to balance a number of challenges to its economic health with high levels of indebtedness. Emerging Markets debt has been already caught in the crossfire and for equities it is not yet clear how this can be reconciled to the earnings growth being reported in markets.

CONTINUED >

Analysts Have Increased Earnings Expectations Globally

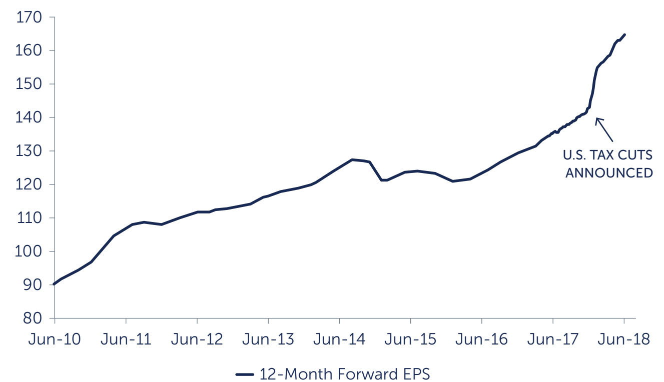


SOURCES: MSCI World; Factset. As of June 2018.

Equity Valuations Have Returned to 2014 Levels

SOURCES: MSCI World; Factset. As of June 2018.

U.S. Market EPS



SOURCES: MSCI; Factset. As of June 2018.

1. Source: FactSet. As of 30 June, 2018.

MULTI ASSET, CONTINUED

OUTLOOK

- The combination of strong earnings growth and underwhelming equity markets has left equity valuations at levels last seen back in late 2014. Still, absolute value is not on offer and 'cheaper though not cheap' is a fair description. There is reasonable value–if one believes in the positive environment. Corporates are showing no signs of fatigue, despite indexes continuing to rise.
- A particular bright spot is the U.S. market. For a long time we had been skeptical of U.S. equities, but the unexpectedly generous tax cuts announced by President Trump in December 2017 had us re-run our analysis. The tax will directly feed into growth of after- tax earnings, which are currently expected to be 16% for next year[1]–the strongest since 2010.
- Italy doesn't worry us, but trade wars certainly do. In recent years, we have been sanguine about many of the fears that have accompanied the regular market set-backs. Brexit, the possible election of Marine Le Pen and even the current Italian situation, where the country struggled to form a government for more than three months after an election. As each fear has hit, we placed these concerns into a "keep calm and carry on" category, based on our view that they had little impact on corporate earnings growth. Nevertheless, the politics around trade remains a concern, as does the often unexpected nature of updates to the disputes.

MARINO VALENSISE, CFA
Head of Multi Asset

CHRISTOPHER MAHON, CFA
Director of Asset Allocation Research

1. Source: FactSet. As of 30 June, 2018.

Barings is a US$306+ billion global financial services firm dedicated to meeting the evolving investment and capital needs of our clients. We build lasting partnerships that leverage our distinctive expertise across traditional and alternative asset classes to deliver innovative solutions and exceptional service. Part of MassMutual, Barings maintains a strong global presence with over 1,800 professionals and offices in 16 countries.*

IMPORTANT INFORMATION

The document is for informational purposes only and is not an offer or solicitation for the purchase or sale of any financial instrument or service. The material herein was prepared without any consideration of the investment objectives, financial situation or particular needs of anyone who may receive it. This document is not, and must not be treated as, investment advice, investment recommendations, or investment research.

In making an investment decision, prospective investors must rely on their own examination of the merits and risks involved and before making any investment decision, it is recommended that prospective investors seek independent investment, legal, tax, accounting or other professional advice as appropriate.

Unless otherwise mentioned, the views contained in this document are those of Barings. These views are made in good faith in relation to the facts known at the time of preparation and are subject to change without notice. Parts of this document may be based on information received from sources we believe to be reliable. Although every effort is taken to ensure that the information contained in this document is accurate, Barings makes no representation or warranty, express or implied, regarding the accuracy, completeness or adequacy of the information.

Any forecasts in this document are based upon Barings opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection or forecast is not necessarily indicative of the future or likely performance. Any investment results, portfolio compositions and/or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The composition, size of, and risks associated with an investment may differ substantially from any examples set forth in this document. No representation is made that an investment will be profitable or will not incur losses. Where appropriate, changes in the currency exchange rates may affect the value of investments.

Investment involves risks. Past performance is not a guide to future performance. Investors should not only base on this document alone to make investment decision.

This document is issued by Baring Asset Management (Asia) Limited. It has not been reviewed by the Securities and Futures Commission of Hong Kong.

LEARN MORE AT BARINGS.COM

*As of June 30, 2018