MARKET OUTLOOK

Q2 2017

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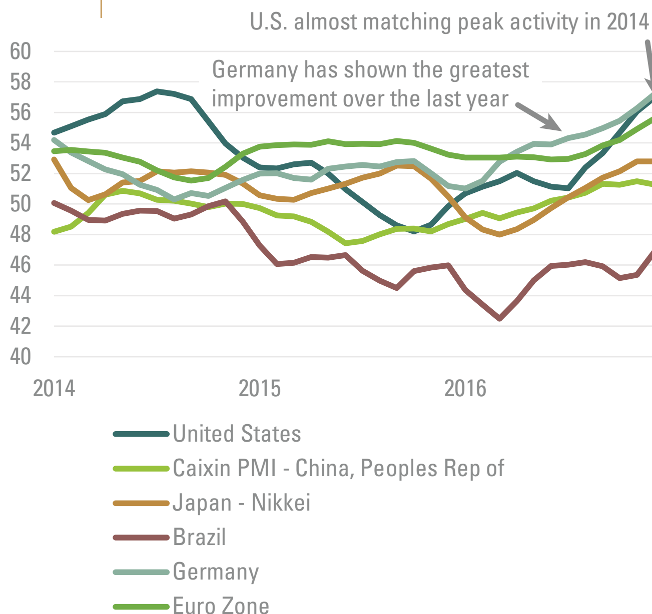
Reality "Trumps" the Reflation Trade

Risk assets continued their relentless post-election march during the first two months of 2017. Buoyed by the selloff in the US dollar, emerging markets bested global markets in both US dollar and local currency terms. The Eurozone was a close second outperforming both the U.S. and the MSCI All-Country World Index (ACWI) in local currency terms. Japanese equities, however, halted their Q4 2016 gallop with a negative absolute return. On the sector front, tech came out on top consistently across regions while reports of elevated inventories as well as an unwinding of extreme net long positioning among both commercial and non-commercial traders led to negative energy sector performance. Health care, consumer discretionary and consumer staples outperformed the broad market, while financials, materials and telecom services trailed the MSCI ACWI.

Our Q1 Outlook entitled *"Who Knows? Known Unknowns and Unknown Unknowns"* pinpointed risks to the seemingly unbridled bullish consensus undergirded by hopes that the Trump Administration would roll back Obamacare, financial and energy regulation and re-open fiscal spigots through a combination of tax reform and infrastructure spending. Indeed, since early March, some of the risks discussed in the paper began to challenge this consensus. Accordingly, the S&P 500 has fallen by 1.8% after hitting a record high on March 1st. Treasury yields have also backed off their highs and credit spreads have widened modestly. As shown in TABLE 1 on the next page, many of the assumed post-election winners, such as higher tax bracket small cap stocks and financials (that would be expected to benefit from a roll-back of Dodd Frank) underperformed after the new President was inaugurated. Healthcare facilities rebounded, suggesting that many investors see failure of Obamacare replacement legislation as threatening the broader Republican agenda.

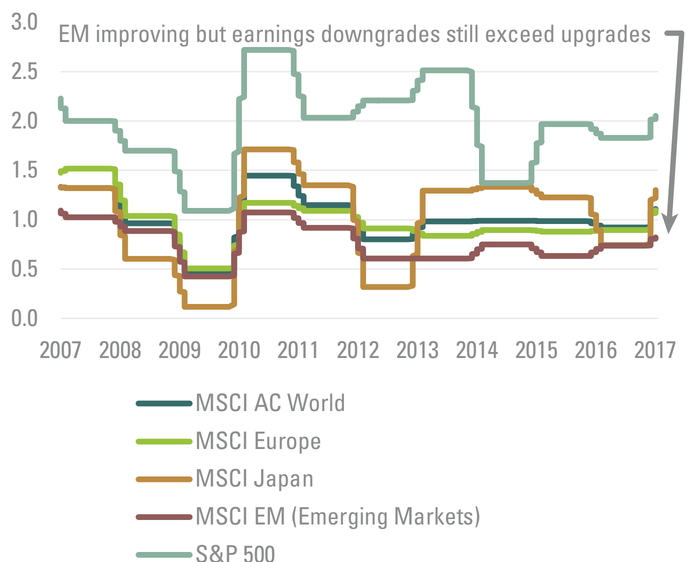
While this recent retreat in risk assets has led some investors to question the sustainability of the reflation trade, we simply view it as a pause which right-sets the overly ambitious expectations around both the scope, pace and effectiveness of the new administration's market friendly policies. The real story is that global equities are being supported by strengthening economic data. (See CHART 1). This improving macro-economic backdrop is leading to more positive earnings revisions across the board. Indeed, only in the Emerging Markets do negative earnings revisions exceed positive revisions and even there, the ratio has been improving. (See CHART 2). For Q2, we continue to overweight European and Japanese equities at the expense of U.S. equities; while we are neutral to EM equities. Within the U.S. portfolio we are overweight value and smaller names in

CHART 1 | Global Economic Activity Still Robust
(MOV 1Q); As of January 31, 2012



Source: FIS Group Professional Estimates and Factset

CHART 2 | Global Earnings Recovering
Net Earnings Revision Ratio (MOV 1Q); As of April 7, 2017



Source: FIS Group Professional Estimates and Factset

light of better entry points presented by their Q1 slide. Our sector positioning remains pro-cyclical, with the largest overweight in the Financial sector. However, our tactical models also call for an overweight to the more defensive Healthcare and Telecomm sectors. (Please refer to TABLE 2 and TABLE 3 on PAGES 3-5 for our sector and regional positioning). A scorecard on our Q1 positions is provided on TABLE 4 on PAGE 5. While we believe that, particularly against the Japanese Yen and commodity exposed EM currencies, the dollar bull run has more legs to go, we are reducing our hedge against the Euro which as discussed in the special section analyzing the likely path of the U.S. dollar (PAGES 8-9), is the most likely candidate to stabilize against the greenback. In recognition of China's growing importance within the Capital markets, we briefly discuss the impact of the inclusion of some China A shares in the MSCI Emerging Markets Index on PAGE 10.

TABLE 1 Trump Dream vs. Reality Barometer *As of 4/7/2017*

			The Dream: Election to Inauguration (11/8/16 to 1/19/17)	The Reality: Inauguration to Present (1/19/17 to 4/7/17)	
Large vs. Small Cap					
SPX	S&P 500 Index	2357.49	5.80	4.14	
RIY	Russell 1000 Index	1306.85	6.10	4.00	
RTY	Russell 2000 Index	1364.43	12.60	1.39	
Growth vs. Value					
RLG	Russell 1000 Growth Index	1139.49	5.03	5.56	
RLV	Russell 1000 Value Index	1129.75	7.17	2.47	
RUO	Russell 2000 Growth Index	806.19	10.16	3.08	
RUJ	Russell 2000 Value Index	1745.77	14.94	-0.16	
Sectors					Performance: Rank Chg.
S15COND	CONS DISCRETIONARY	647.39	6.65	4.43	MOVED UP 2
S15ENRS	ENERGY	534.73	7.45	-5.21	MOVED DOWN -6
S15FINL	FINANCIALS	433.94	15.60	2.22	MOVED DOWN -7
S15HLTH	HEALTHCARE	896.36	3.04	6.02	MOVED UP 6
S14INDU	INDUSTRIALS	595.80	9.64	1.96	MOVED DOWN -5
S15MATR	MATERIALS	358.24	8.36	3.58	MOVED DOWN -1
DJUSRE	REITS	313.57	2.43	2.80	MOVED UP 3
S15CONS	STAPLES	592.70	-0.65	4.57	MOVED UP 8
S15INFT	TECH	929.57	4.48	8.04	MOVED UP 7
S15TELS	TELECOMM	165.14	10.26	-4.12	MOVED DOWN -8
S15TRANS	TRANSPORTATION	647.48	13.26	-1.43	MOVED DOWN -8
S15UTILS	UTILITIES	302.10	-0.49	6.27	MOVED UP 9
Rates					
USGG10YT	US 10 YEAR YIELD	2.32	33.38	-6.24	
USYC2Y10	YIELD CURVE (2Y-10YR)	108.29	25.24	-13.69	
Commodity					
CL1	CRUDE (WTI)	52.50	14.21	1.89	
GC1	GOLD	1262.80	-5.73	5.1	
HG1	COPPER	263.25	9.68	0.82	
Currency					
DXY	US DOLLAR INDEX	100.76	3.36	-0.36	
EURUSD	EURO	1.06	-3.28	-0.31	
USDJPY	YEN	110.64	9.22	-3.66	
CNYUSD	YUAN	0.14	-1.43	-0.22	

Source: Turning Point Analytics

TABLE 2

Global Country and Sector Positioning

Risk / Environment	-		N		+	
Global Equity Risk Environment			● (Strategic)			**Neutral after strong quarter led by high beta growth stocks and emerging markets. Despite strong performance and easing of European political risks, our Systematic Risk Indicator has continued to move towards "Risk Off". This is primarily due to currency movements and the relative performance of Chinese H shares.** Our propietary Equity Sentiment indicator also signalled caution for the first time in over a year. We are taking a neutral view on equity risk in the short term, while closely evaluating economic drivers and ever changing political risks.
U.S. Dollar			● (Tactical)	● (Strategic)		**Strategically overweight, but tactically neutral.** The US Dollar weakened in the 1st quarter. A techincally move from an overbought position was expected given the strong consensus towards strength. The move was bouyed (vs the Euro) by the easing of political risks in Europe, coupled with the relatively dovish rhetoric of the Fed. We see continued dollar strength against most currencies. We are taking a neutral position relative to the Euro, given our expectation of easing political risks and normalizing monetary policy. We remain bullish against the Yen and EM currencies in general.

Regions / Countries	-		N		+	
United States		● (Tactical)	● (Strategic)			**Tactically underweight;/Neutral over the next 6 to 12 months.** The impact of favorable tax, regulatory and fiscal policy is less certain given the failure to replace Obamacare. This highlights some vulnerability within the US market. US stocks are more expensive than the rest of the world and earnings appear vulnerable without a major pick up in pricing power or substantial regulatory / tax savings. We have taken a tactical position in a basket of high quality small cap stocks with significant leverage to tax cuts. While we do not view this as certain, the market has predictably underweighted the possibility after treating it as a certainty in the 4Q.
United Kingdom			● (Strategic)			**Neutral.** Large UK companies generate 70% of their revenue abroad, making a slowdown related to Article 50 less of a concern. Our tactical model is calling for outperformance of UK equities, which we will be analyzing further as we gain clarity on Brexit progress.
EU (core)			● (Tactical)	● (Strategic)		**Short term Neutral but we project outperformance over the next 6 to 12 months.** We have added to a basket of European Defense stocks and Telecom sector to bring our exposure back to Neutral. We have removed much of the currency hedge on European stocks due to our view of falling politican risk and monetary policy normalization.
EU (periphery)			● (Tactical)	● (Strategic)		**Short term Neutral but we project outperformance over the next 6 to 12 months.** Falling political risks and stable inflation should cause relative valuations to return to historic levels.
Japan				● (Strategic)		**Outperformance over the next 6 to 12 months.** Our tactical models forecast a rebound in Japanese stocks, albeit with low conviction. With the high correlation between Yen and stock performance we have taken some of our currency hedge off of this position. We maintained some hedge due to the "flight to quality" characteristics of the Yen relative to EM currencies and the Euro. We have an overweight to Japanese Financials, which we think will continue to benefit from the BOJ's effort to steepen the yield curve. Corporate governance codes are increasingly taking hold, benefiting equity investors through shareholder friendly practices.
Australia			● (Strategic)			Removed underweight due to the tactical models favoring Australia. The market will remain sensitive to the slowing of Chinese credit growth.
Canada		● (Tactical)	● (Strategic)			**Expect short term consolidation, hence a tactical underweight.** However, ongoing rebalancing of supply/ demand conditions in oil prices over the next year will support Canadian equities. Our tactical models forecast outperformance, albeit with low conviction.
Emerging Markets (Pacific Rim)		● (Tactical)		● (Strategic)		**Underweight to Chinese and Korean equities, overweight Tawain.** We anticipate Chinese policy makers will continue to tighten liquidity/credit conditions to battle China's growing credit bubble. The government will still focus on stability leading into the Party Congress this fall, but the bulk of the reflationary measures are likely behind us. MSCI's slow move toward inclusion of China A-shares should act as a long term tail-wind, but high premiums and concentration in Financials will temper enthusiasm in the near term.

- ● Strategic (6-12 months+)
- ● Tactical (3 months)
- ● Variance for Non-U.S. Portfolios

Regions / Countries	-		N		+	
Emerging Markets (South Asia)			Tactical	Strategic		**Tactically Neurtal; Strategic overweight in the context on an EM portfolio.** The strong demographic and structural trends within India must be tempered due to relatively rich valuations and political growing pains. We have added to high quality Indian equities, and expect relative outperformance vs more Chinese and US Dollar tied EM countries.
Emerging Markets (Europe)			Tactical	Strategic		**Outperform.** Russia has potential to rebound on the back of improved prospects for oil price stabilization, moderating inflation and improving governance. The geopolitical tail winds have faded based on investigations within the US governement and developments in Syria. Polish and Czech economies are showing signs of strength with currencies which we expect to strengthen relative to the Euro.
Emerging Markets (Africa)		Strategic		Tactical		**South Africa presents a tactical outperformance opportunity.** Our tactical models are forecasting a rebound in globally focused and commodity intensive South Africa. However, for U.S. dollar based investors, we strongly suggest a currency hedged position.
Emerging Markets (LatAm)		Strategic, Tactical				**Neutral on Brazil and Argentina;** Brazilian Real and equities benefitted from Chinese reflationary policies and improving market sentiment in response to the impeachment of Dilma Rousseff. With Chinese policy tightening and the potential for falling dollar liquidity, we are less positive on Brazilian equities. We are also taking profits from an overweight to Argentina.

TABLE 3

Sector Positioning

Sector / Style / Capitalization	-		N		+	
Consumer Discretionary		Strategic		Tactical, Variance		**Tactical overweight/strategic underweight in the U.S; overweight in Europe and Japan.** Our tactical models continue to forecast this sector's outperformance; which is somewhat surprising because this sector tends to underperform at the beginning of interest rate tightening cycles. That said, a healthy U.S. consumer and a strong labor market should continue to provide solid support to the sector's earnings, but rising interest rates are a growing headwind. Provided inflation and interest rates remain low by historical standards., downside risks to relative earnings will be limited.
Consumer Staples			Strategic			**Tactical and strategic underweight in the U.S;** Our tactical models shifted from over to underweight this month. Staples will suffer with the rise of inflation, fed tightening and a strong dollar.
Energy			Strategic	Tactical		**Tactically overweight but neutral strategic weight.** Our tactical models predict relative strength for the sector. Dollar strength and declining Chinese demand will act as headwinds in the intermediate term.
Financials			Variance	Strategic		**After recent consolidation our tactical models are calling for outperformance to coincide with our strategic overweight.** We continue to believe in the positive correlation to a steepening yield curve and more robust growth early in the tightening cycle. Tellingly, as loan and investment opportunities increase, short term cash reserves at U.S. financial institutions have dropped. Although less certain, U.S. financial companies would benefit from promised regulatory relief by the new administration and congress. We have focused our investment in the US and Japan, as we see more room for growth.
REITS		Strategic	Tactical	Variance		**We are neutral on REITS in the U.S.for now; but they face the crosswinds of an improving wage backdrop and an accommodative but gradually increasing interest rates. We are highly bullish on REITS in Europe and Japan as a result of the extremely favorable policy backdrop.**
Health Care					Strategic	**Outperform.** Our tactical models now forecast underperformance. This sector has been a strategic overweight. Trump's inability to repeal of the ACA has hurt sector performance, but not the long term value proposition of the sector.
Industrials		Tactical	Strategic	Variance		**Short term underweight but neutral strategic position for U.S. Industrials; overweight European and Japanese peers.** This sector should benefit from accelerating growth and infrastructure related fiscal expanion, which continues to become less certain. However expected dollar appreciation is a headwind for U.S. companies relative to their European and Japanese peers. Our tactical models have shifted towards underperformance this month.

- Strategic (6-12 months+)
- Tactical (3 months)
- Variance for Non-U.S. Portfolios

Sector / Style / Capitalization	-		N		+	
Information Technology			Tactical	Strategic		**Tactical Neutral, Strategic Overweight.** Technology stocks have been strong performers year to date, outpacing strong fundamentals. We expect the sector to benefit from strengthening global growth, while many companies will feel some pressure from strengthening dollar.
Materials			Strategic			**Neutral strategic and Tactical weight.** Chinese reflation has supported this sector which typically outperforms early in the interest rate tightening cylce. We see this benefit waining in the coming months.
Telecommunications		Strategic		Tactical		**Tactical overweight/strategic underweight.** Cheap and provides defensive haven. Could also be boosted by M&A activity. Our tactical models are forecasting outperformance with moderate conviction.
Utilities		Strategic				**Tactical and strategic underweight.** Rising bond yields and range-bound oil prices imply relative headwinds for utility stocks. These dynamics are behind our strategic underweight. The tactical model is projecting underperformance with moderate confidence.
Style (Value at Left / Growth at Right)		Tactical	Strategic			**Neutral - Focus on sector and industry exposures.** Our tactical value tilt reflects a much greater focus on sector exposures. Our high conviction tactical calls tend to be overweight Value factors (Financials, Energy), while our high conviction tactical underweight in Tech will put a ceiling on growth exposure.
Capitalization (Small at Left / Large at Right)		Tactical, Variance	Strategic			The market rapidly priced in many of the planned policy of the Trump Administration with respect to small cap stocks (protectionism, regulatory reform, and corporate tax cuts). Since the struggle to quickly pass Health Care reform and other missteps, the market reversed much of the relative outperformance. Similiar to our view of pricing political uncertainty last quarter, we are begining to see opportunity in small cap US stocks with high sensitivity to policy changes. We will continue to add to positions like this as the opportunity arises.

- Strategic (6-12 months+)
- Tactical (3 months)
- Variance for Non-U.S. Portfolios

TABLE 4

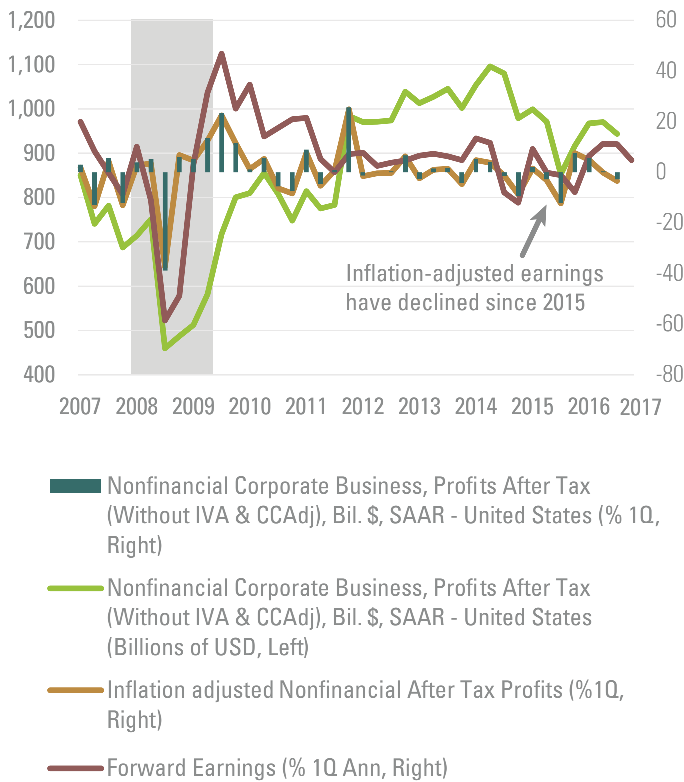
Sector	Q1 Outlook Call	Excess Returns (%)	Impact
Consumer Discretionary	Overweight	0.9	↑
Consumer Staples	Overweight	0.2	↓
Energy	Underweight	-10.8	↑
Financials	Overweight	-1.5	↓
Health Care	Max Overweight	1.5	↑
Industrials	Underweight	0.3	↓
Info. Tech	Max Overweight	6.1	↑
Materials	Underweight	0.8	↓
Real Estate	Neutral	-2.1	-
Telecomm	Max Overweight	-4.8	↓
Utilities	Neutral	-0.1	-

Regional	Q1 Outlook Call	Excess Returns (%)	Impact
U.S	Underweight	-0.8	↑
U.K	Neutral	-1.9	-
EU core	Underweight	1.4	↓
EU periphary	Underweight	4.3	↓
Japan	Underweight	-2.4	↑
Australia	Underweight	4.1	↓
Canada	Underweight	-4.4	↑
EM (Pacific Rim)	Underweight	6.0	↓
EM (South Asia)	Underweight	10.2	↓
EM (Europe)	Max Overweight	-5.3	↓
EM (Africa)	Max Overweight	-2.6	↓
EM (LatAm)	Underweight	5.2	↓

Policy expectations and synchronized global growth will continue to be the biggest themes in the market this year. In addition to being more expensive than the rest of the world, U.S. company earnings also appear vulnerable, absent a major pick-up in pricing power or a favorable policy outcome (such as corporate tax reduction). For example, CHART 3 suggests that almost all the earnings improvement last year reflected a pick-up in inflation; as profits adjusted for inflation have declined since 2015.

CHART 3 | Expectations vs. Reality: Earnings Need of Either Policy or Inflation Boost to Meet Expectations

As of March 31, 2017



Gray areas indicate U.S. Recession
Source: FIS Group Professional Estimates and Factset

A recent article by the Wall Street Journal noted that while the U.S. equity market is not yet repeating the 2000 equity bubble or 2007 debt bubble, it has some of the worst features of both. For one, U.S. companies have loaded up on debt on the assumption that economic growth will continue to be slow and steady. Therefore, rather than expanding overall profit, companies have been boosting return to shareholders by replacing equity with debt. Consequently, the ratio of debt to operating cash flow of highest-quality US companies is just slightly down from a record reached last year. Secondly, while valuations are not yet at nose-bleed levels there are pockets of incredulity. The article pointed to TSLA, which is trading at a sky-high valuation justified by the hope that an untested product (in this case, mass-market electric cars) will generate big profits.

Moreover, while late cycle pricing power can lift corporate sales and margins, the corollary increase in wage pressures and interest rates can also threaten earnings, particularly considering the Trump Administration's rhetorical pressures to dissuade American corporations from outsourcing labor to cheaper locations. As previously discussed, corporate tax reform and legislative relief would structurally support earnings. In theory, the legislative obstacles for such policies should be easier to overcome than with the controversial health care bill; but the fissures within the Republican Party suggest another protracted display of legislative wrangling and raise the probability of a less ambitious policy outcome.

The path of the U.S. dollar will also be critical in determining the year's winners and losers. For one, currency trends will dictate how global growth is redistributed. For two, the feedback loop between the dollar and inflation could once again modify the pace at which the Fed tightens. A strong U.S. dollar, supported by perceived shifts in Fed policy, will import deflationary pressures into the U.S., undermining global-exposed sectors, such as Consumer Staples and Technology. (See CHART 4). A strong U.S. dollar is also typically negatively correlated to commodity prices and EM risk assets. For this reason, the balance of our Outlook is devoted to the U.S. dollar and its relationship with other major countries.

CHART 4 | Globally Exposed U.S. Equities Have Lost Their Luster Relative to Domestically Exposed Equities

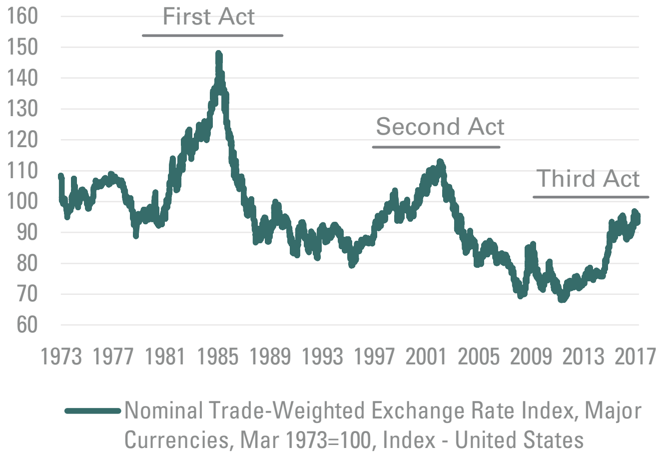
30 Day Moving Average, Since April 8, 2008

Source: FIS Group Professional Estimates and Factset

As discussed in our Q1 Outlook, there is substantial consensus that monetary policy divergence will continue to support the U.S. dollar; particularly considering that Fed continued to hike interest rates this year. We are sympathetic to this view and believe that the U.S. dollar is midway through a third secular appreciation (see CHART 5) period, supported by stronger growth in the U.S. than the rest of the world which leads to an advanced monetary policy cycle. In this context, the recent reversal partially represents a technical correction from oversold levels. As shown in CHART 6, the greenback shot well above its 200-day trend line in late 2016/early 2017 and the recent reversal has almost fully unwound this divergence.

CHART 5 | U.S. Dollar In The Midst of Third Structural Bull Market

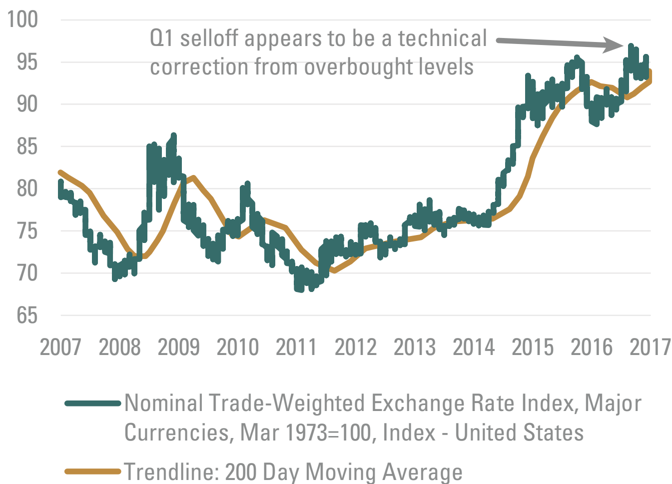
As of April 4, 2017



Source: FIS Group Professional Estimates and Factset

CHART 6 | U.S. Dollar Approaching An Important Technical Juncture

As of April 7, 2017

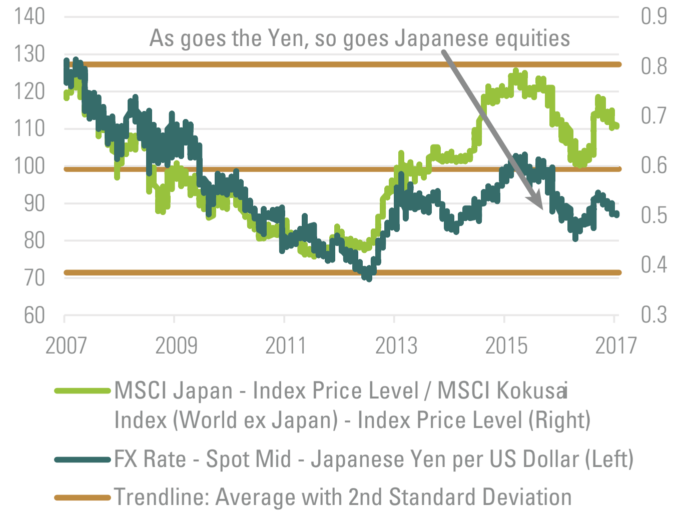


Source: FIS Group Professional Estimates and Factset

With respect to the **Japanese Yen**, we believe that, absent periods of political or economic stress, the yen will continue to be challenged by policy divergence between the Fed and the BoJ. (See CHART 7).

CHART 7 | Yen Volatility Forming A Post 2012 Floor

As of April 4, 2017



Source: FIS Group Professional Estimates and Factset

The clear possible risk to this view is yen appreciation during periods of economic or market stress. As shown in TABLE 5, both the yen and the U.S. dollar are positively correlated with the Global Index of Economic Uncertainty; whereas the more pro-cyclical Euro is negatively correlated with this index.

TABLE 5 | Correlation between the Global Economic Policy Uncertainty Index and the Yen, U.S. Dollar and Euro

From 4/4/2007 to 4/5/2017

	A	B	C	D
A	1.00	0.30	0.42	-0.51
B	0.30	1.00	-0.44	-0.04
C	0.42	-0.44	1.00	-0.69
D	-0.51	-0.04	-0.69	1.00

A. Economic Policy Uncertainty, PPP adjusted GDP Weights, Index - World

B. Exchange Rate Index, Japanese Yen

C. Trade-Weighted Exchange Rate Index, Major Currencies - United States

D. Effective Exchange Rates, Euro Area 19

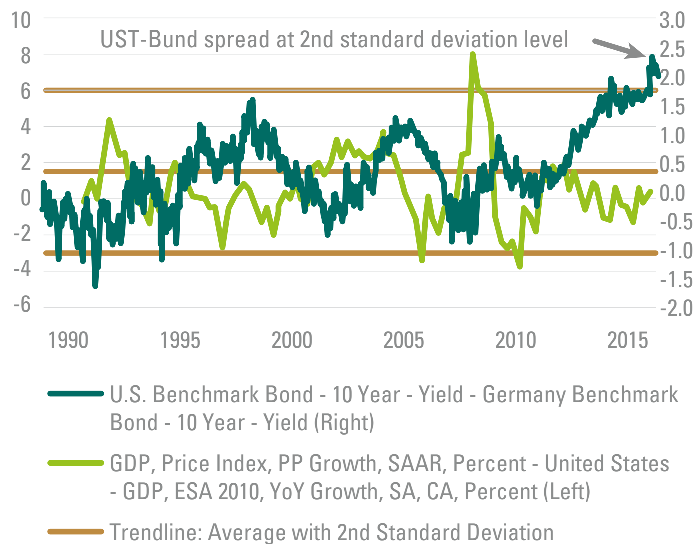
Source: FIS Group Professional Estimates and Factset

With respect to the **Euro**, however, we believe that monetary policy divergence underpinning its current levels will begin to close towards the end of the year. Since inflation expectations between the U.S. and the Eurozone have remained intact since last summer, the steep divergence between bond yields and their respective currencies must therefore reflect an expectation of higher growth, at the margin, in the U.S. Alternatively, some have stated that the Euro's depressed levels could also reflect political uncertainty emanating from the upcoming French and German elections. On both counts, we do not believe that current levels of divergence are warranted. For this reason, we are overweight European equities and have removed our U.S. dollar hedge.

To illustrate, the spread between the U.S. Treasury bond and the German Bund is currently 2 standard deviations above its over 15-year trend. (See CHART 8). Historically, this type of deviation pushes capital flows onto U.S. shores to the point where the dollar overshoots, thus draining global liquidity until a tipping point occurs. This tipping point typically catalyzes a tactical pullback in bond prices (as well as global equity prices). The weak link this time could be emerging markets, as a sustained and unchecked dollar bull market risks uncovering the hard currency debt excesses in the region.

CHART 8 | Extreme UST-Bund Spread Does Not Reflect Growth Differences

As of March 31, 2017



Source: FIS Group Professional Estimates and Factset

CHART 8 also shows that the growth differential between the U.S. and Germany is narrowing; and does not warrant the steep divergence between U.S. bond yields and German bunds. The ECB signaled at its March meeting that the Eurozone is past peak monetary policy easing with the latest 4-year TLTRO II bank take up coming in at €233bn fixed at 0%. As soon as the ECB starts to remove extraordinary monetary policy accommodation (or rather, that the markets anticipate that tapering in imminent), the UST-Bund spread should normalize and Euro will begin to stabilize. Indeed, the Euro's appreciation last quarter was driven by market expectations of ECB tapering by the end of the year. (See CHART 9).

CHART 9 | The Reason Behind the Euro's Resilience

Months to Hike, As of March 28, 2017

Source: BCA Research

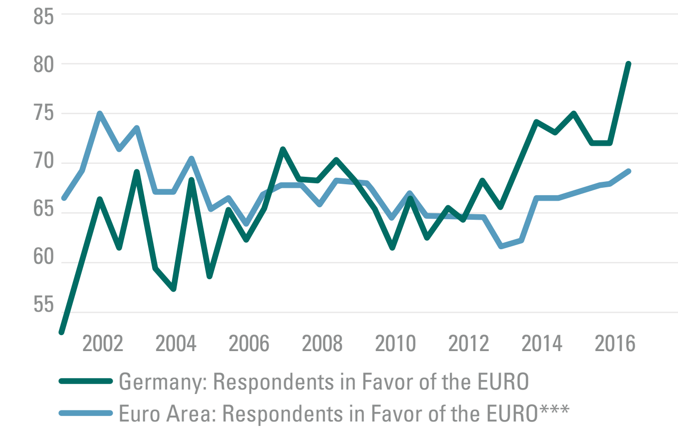
In the interim however, the ECB will likely exercise considerable caution considering imminent elections in France and Germany. Indeed, after the ECB's chief economist Praet ignited market speculation that tapering was imminent by suggesting that changes in communication could lift long-term rates and tighten financial conditions, both ECB President Draghi and Praet more recently went to great lengths recently to assure markets that now was not the time to alter its policy stance. While they did not exclude a further reduction in the bond buying program this year, they emphasized the importance of seeing a pick-up in hard data. Since our baseline belief is that the establishment parties will prevail in both the German and French elections, (see CHART 10 on next page), we expect the Eurozone's current economic momentum to continue. Therefore, we would not be surprised to see ECB tapering to begin in earnest in late 2017/ early 2018.

EM CURRENCIES

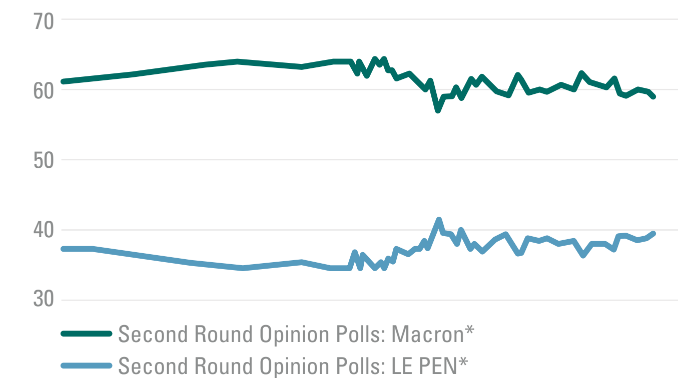
EM currencies and equity prices continued to rally in Q1 2017, aided primarily by the retracement in the U.S. dollar as well as an apparent toning down of the protectionist rhetoric which was a staple of candidate Trump. While as exhibited in Charts One and Two above, EM growth and earnings are improving, we do not believe that the greenback's appreciation is over; nor are we convinced that some form of protectionist measures will not be implemented by a Trump Administration anxious to assuage its base. Additionally, as shown in CHART 11 (on the next page), EM currencies such as the Brazilian Real were boosted by rising commodity prices as a result of China's reflation in late 2015 and 2016. In order to reign in excess credit as well as housing prices, China has been taking gradual measures to reign in credit growth. Consequently, both the number and value of newly started capital spending projects in China has waned. Over the course of 2017, this will stymie support for commodity-exposed EM curriences such as the South African Rand and the Brazilian Real.

CHART 10 | France and Germany: Populists Held at Bay For Now

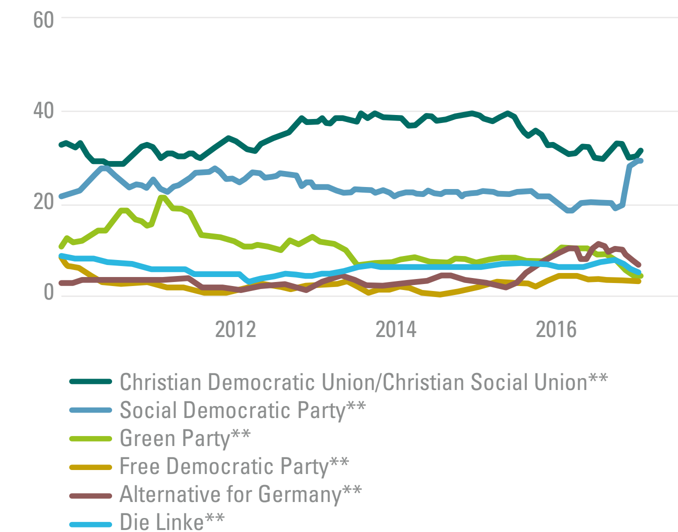
Percent; As of March 31, 2017



France: Presidential Election



Germany: Election Polls



Source: BCA Research

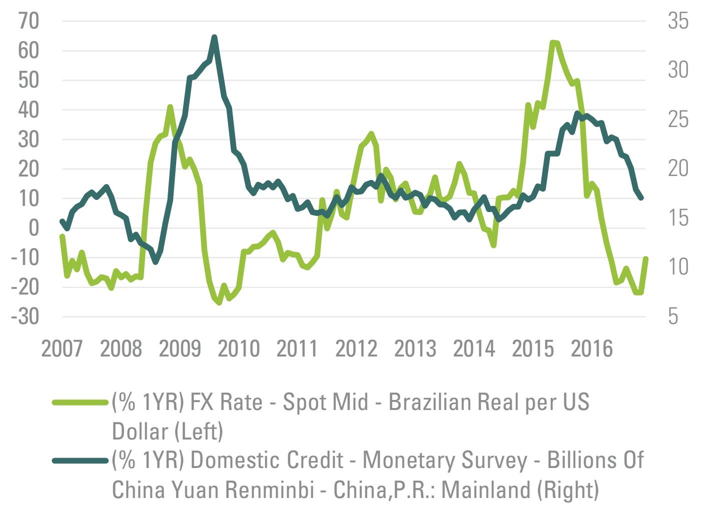
**Source: IFOP OXADA, Harris Interactive, IPSOS, Kantar Sofres, and Elabe.*

***Source: Aggregate of Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest Polls*

****Equally-weighted Average of Greece, Germany, Spain, France, Italy, Portugal, Belgium,Netherlands, and Austria. Source: Eurobarometer.*

CHART 11 | Perfect Together: The Brazilian Real and Chinese Credit Growth

As of March 31, 2017



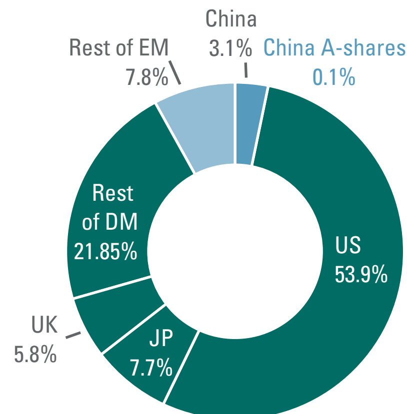
Source: FIS Group Professional Estimates and Factset

A-share Inclusion Tiptoes Forward

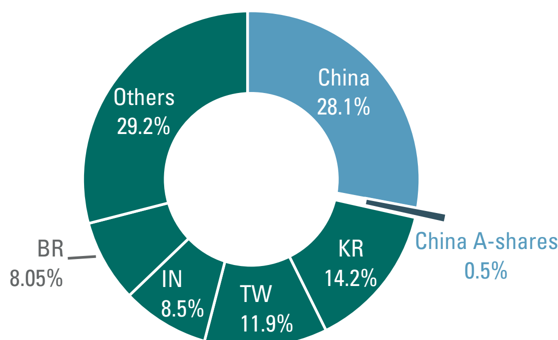
On March 24, MSCI set forth a new, and much more implementable strategy for the incremental inclusion of China A-shares into global indices. If adopted, it would result in a mere 0.5% change in the MSCI Emerging Markets index and a 0.1% change in the MSCI ACWI index (see CHART 12 on the next page). As constructed, this proposal would thus not create a significant disruption in the near-term to managers and index watchers alike and so may go little noticed by the markets, especially the China A-share market where investors' timelines are rarely measured in anything beyond months. But this proposal is critical, as it would finally put the A-shares on the long anticipated path to global index inclusion, which at full weight (which would take years) would have far-reaching ramifications for the structure of asset management in emerging markets. MSCI is presently in "consultation" about these proposed changes through June, which mostly means they are giving large investors and their other primary customers a few months to veto the idea before moving ahead. But the immensely tepid nature of this proposal seems specially designed to cater to the needs of MSCI's principle customers, and thus gain their accession, while also balancing the urgent desires of Chinese policymakers to bring more foreign capital into their stock markets (albeit on their own terms). As such, we can envision a potential future in emerging markets equities where GEM managers as we know them today may cease to exist in a new GEM world overwhelmingly dominated by a single market. We will profile this new world in substantially more detail in a future special report this summer.

CHART 12 | ACWI

Percent; As of March 24, 2017



Emerging Markets



Source: MSCI

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