CITY OF LONDON
Investment Management Company Limited

Cross-Asset Quarterly Outlook

March 2019*

Overview

External Risks & Pervasive Headwinds

Following a savage equity sell-off in December, markets turned around during the last week of 2018 and have achieved impressive double-digit gains since. The rally was initially driven by an improvement in the economic data flow but later received an important impetus from a moderation in the Fed's stance at the January meeting. At the meeting, the FOMC appeared to ratify well-entrenched market expectations and announced a pause in its rate hiking cycle (despite three rate hikes being pencilled in for 2019), while allowing for a reconsideration of the run-off rate of its balance sheet (previously considered to be on "auto-pilot"). However, these developments have also created a conundrum: activity data have continued to weaken whereas asset prices have continued to rise, eliminating any valuation gaps that may have appeared in the wake of the previous sell-offs.

Further gains in cyclical assets will thus critically depend on the outlook for both activity and inflation, not just in the US but globally. The change in the Fed's stance, while widely anticipated, certainly acts as a support for growth and asset prices for the remainder of the year. However, the outlook in Europe and China is of similar importance and, indeed, the two are partly intertwined. What is more, central banks universally face persistent undershoots of inflation relative to their targets and have had to reconsider their policy stance against this fact. The Eurozone economy has disappointed ever since its short-lived fillip in late 2017 and has continued to do so throughout 2018. Indeed, it has witnessed a continued downdraft in industrial production throughout 2018 and its largest economy, Germany, only narrowly escaped a technical recession thanks to a flat GDP outcome in Q4. Various PMI measures across the Eurozone have registered a bounce in February (as well as the aggregate index), but it remains too early for this to serve as a definite signal for the resumption of faster growth. At the same time, inflation remains significantly below target (of "below 2%") and the outlook has continued to be revised downwards by the ECB (even 2021 HICP is now seen at only 1.6% yoy). The ECB belatedly reacted to this persistent undershoot by moving any rate hike into 2020 (which the market had already priced) and instituting a new liquidity measure in the form of the TLTRO-III (seven separate two-year operations beginning in September 2019). The ECB also assured market participants that it intended to fully reinvest maturing bonds for an "extended period" after its first rate hike. But while these actions are certainly a boon to the financial sector and serve to narrow Italian bond spreads, they are unlikely to move the needle much in terms of the inflation outlook. It thus remains to be seen what other tools the ECB could eventually resort to and President Draghi's reference to "pervasive uncertainty" seemed to express his concern in this regard. It echoed the Federal Reserve's earlier comments about "external risks" and their perceived impact on domestic policy.

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	↓					■		

**Regional allocation relative to other asset classes*
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

**The publication reflects asset performance up to February 28, 2019, and macro events and data releases up to March 12, 2019, unless indicated otherwise.*

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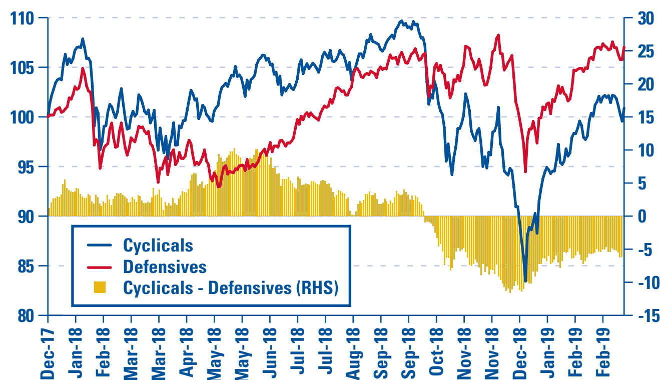
While the ECB may also have had an eye on a potentially disorderly "Brexit" in March and the European elections in May (not to speak of the threat of a renewed trade dispute with the US), the broader concern for central banks in advanced economies is the loss of momentum in China. Indeed, GDP growth there has slowed from 6.8% yoy in Q1 to 6.4% yoy in Q4 and the government targets just a 6.0-6.5% gain this year. Private forecasters put true growth some 2% points lower. Indeed, the economy faces headwinds from several angles: 1) a structural transformation from investment-led to consumption-led growth, 2) a shift in monetary policy towards deleveraging and 3) a shock to confidence from trade war fears with the US. While the authorities have duly responded to these threats with several policy measures, they are quantitatively and qualitatively different from previous instances. Monetary policy easing is more measured and no longer relies on wholesale increases in credit extension. At the same time, fiscal policy has shifted from providing stimulus through vast capital expenditures in infrastructure projects to tax cuts. The multiplier effect of such a policy is much more uncertain. The question thus remains whether these measures will suffice to promote economic recovery.

Chart 1: S&P 500 - Cyclicals vs. Defensives*



**Lines are rebased to 100 as at end-2017*

Source: Bloomberg

Strategy

The backdrop of disappointing inflation and activity readings, increased investor positioning towards risk assets (see Chart 1), low volatility and rising asset prices increase the vulnerability of cyclical trades. We thus remain wary of staying too long in the reflation trade, but on the other hand, we do not see a recession as being imminent (in the US). The extended pause the Fed has signalled, continued monetary accommodation by the ECB and the BoJ, upward revisions to earnings expectations and the prospect of a defusion (though not a resolution) of the worst fears about trade disputes suggest that risk assets can continue to perform well in 2019.

One way to accommodate the above concerns though is to reduce our US rate *underweight*, while also dialling back the Eurozone equity *overweight*. We thus have the following allocation:

- We remain *overweight* **equities** relative to rates, but have moved several of the sector's components to *neutral*. Our *overweight* is thus equally spread across all countries as we expect the combination of slowing growth and a dovish policy response to keep cyclical trades intact.
- We remain *underweight* **rates**. In the Eurozone and Japan, central banks remain in accommodative mode, but government bond yields have little room to fall. That said, we upgrade US Treasury to *neutral* given weaker growth and the announcement of the Fed rate pause.
- We remain *underweight* **credit** given the narrowing of spreads and deteriorating sector fundamentals. Within the asset class, we have downgraded Euro High Yield to *neutral*.
- We maintain our *overweight* allocation to **commodities** on the back of a favourable supply-demand backdrop. Given heightened global uncertainty, we stay *overweight* precious metals.

Global Economic Consensus Forecasts

	GDP, % qoq*	GDP, % yoy			CPI, % yoy			
	Latest	2018	2019	2020	Latest	2018	2019	2020
Global	-	**3.7**	**3.4**	**3.3**	-	**3.3**	**3.2**	**3.2**
DM	-	**2.3**	**1.9**	**1.7**	-	**2.3**	**1.9**	**2.1**
US	2.6	2.9	2.5	1.9	1.5	2.4	1.9	2.2
Eurozone	0.8	1.8	1.3	1.4	1.5	1.7	1.4	1.5
Japan	1.9	0.7	0.8	0.5	0.2	1.0	0.9	1.3
EM	-	**5.0**	**4.9**	**4.9**	-	**3.5**	**3.6**	**3.4**
China	6.0	6.6	6.2	6.0	1.5	2.1	2.1	2.3

**Annualized*

Source: Bloomberg

Equities

Overweight

Despite a rollercoaster ride, equities retain upside for 2019 in an environment of supportive central bank policy.

After a sharp sell-off in late 2018, equities moved sharply higher from late December, for a total return of 18.9% for the S&P500 between the trough on December 24 and end-February 2019. Emerging markets (EM) recovered too, but to a lesser extent, recording a mere 10.7% gain over the same period. European stocks rose by a similar amount over the period, whereas Japan lagged with only half the gain.

Intriguingly, the data flow across the majority of countries has not improved during this period: activity data are both undershooting expectations and deteriorating. The Fed's Q1 Nowcasts even plunged to 0.5% and 0.9% saar for the Atlanta and NY Fed, respectively. The equity rally also stands in stark contrast to the continued drift lower in US Treasury yields, which had eased to 2.72% by end-February. The combination of a worsening data flow and rising equity prices has eliminated any risk premium the previous sell-off may have created. This implies that either activity will have to improve to support rising asset prices or prices will have to come in line with continued economic weakening. What then could cause equities to rise further?

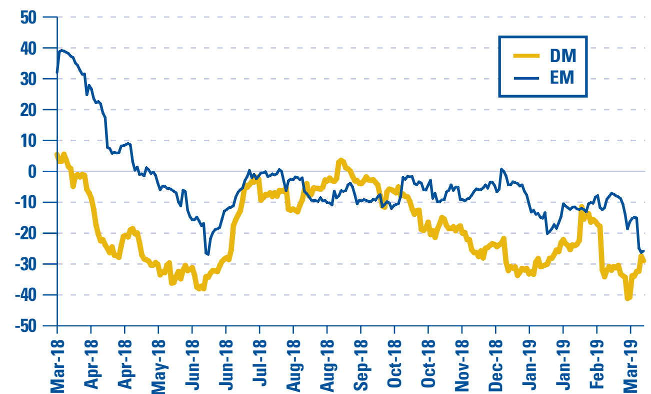
An extended pause in the Fed's tightening cycle is certainly helpful in this respect. It keeps the cost of funding contained, the relative attractiveness of risk assets elevated, eases financial conditions and can thereby support the continuation of the current economic expansion. Indeed, earnings expectations have again improved as of late and now stand at 9.7% for full 2019. This is of critical importance as the stock market rally has successively narrowed and the share of stocks trading above their 200 day moving average has declined to below 60%, from around 80% in 2017 and participation in the rally remains light according to mutual fund flows. Of course, should asset prices rise too fast or should the economy resume an above-trend pace, the Fed would be quick to end its pause as it is keen to move deeper into neutral rate territory, avoid financial bubbles and create room for manoeuvre ahead of the next recession - the persistent non-attainment of the inflation target notwithstanding. As a result, we have reassessed our previous outlook for the US market and upgraded our allocation from *underweight* to *neutral*.

In Europe, recent activity data have largely disappointed even though the Spanish economy runs hot and the German economy escaped a technical recession (while Italy is undergoing one). The ECB remains in accommodative stance as a result (see Rates section), but whereas this would normally be positive for stocks, the low level of rates weighs on the financial sector, which constitutes a larger component of the overall index than elsewhere. We thus downgrade the Eurozone equities to *neutral* relative to other global equities.

EM equities have lagged the US recently due to ongoing concerns about the loss of momentum in Chinese activity, the Sino-American trade spat and the broader deceleration in world trade. However, in line with their G10 counterparts, EM central banks are also either backing off their hawkish stance or continue to ease. Valuations relative to DM are neutral and we thus moved our allocation from *underweight* to *neutral*.

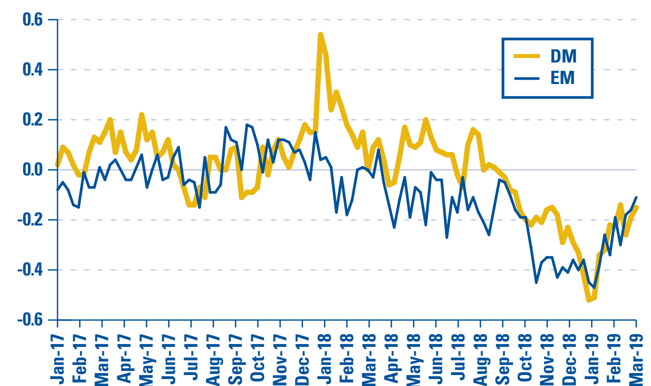
Overall, we remain *overweight* the asset class both because central bank dovishness renders further gains more attainable and because return prospects exceed the dim outlook for fixed income assets.

Chart 2: Citigroup Economic Surprise Indices



Source: Bloomberg

Chart 3: Citigroup Earnings Revision Indices*



**Measures the number of equity analyst revisions upgrades (positive) and downgrades (negative).*

Source: Citigroup, Bloomberg

Rates

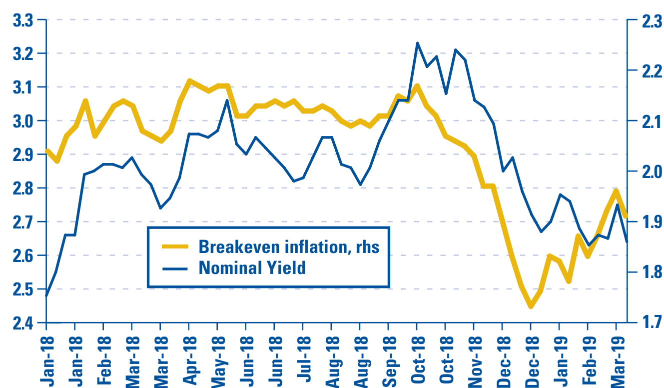
Underweight

We trim the underweight in government bonds and upgrade US Treasuries and EM local government bonds on the back of a Fed pause and an improved EM outlook.

Global government bonds returned 3.0% in the three months to end-February. They underperformed credit and commodities while performing in line with global equities. Within rates, EM local-currency government bonds returned more than 5% and outperformed DM government bonds over that period on the back of EM currency strength and a relatively high yield of 5%. Japanese government bonds (JGBs) outperformed other DM rates due to negative economic surprises recently.

We were *underweight* US Treasuries in 2018 due to several assumptions, one of them being that the money market was significantly underestimating the pace of Fed rate hikes. However, recent development in the US and global economy seem to have changed the US monetary policy outlook and made US Treasuries look more attractive in a global portfolio.

Chart 4: 10-Year US Treasury, %



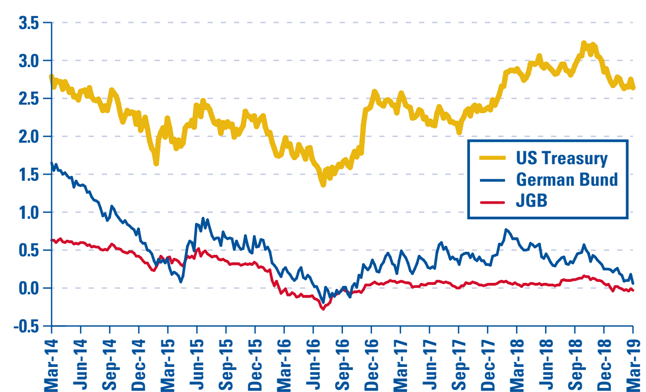
Source: Bloomberg

We move US Treasuries from *underweight* to *neutral* for a number of reasons. First, we no longer think that the money market significantly underestimates the extent of any Fed rate hikes over the next 12 months. The federal funds futures market prices in zero hikes for 2019, which makes sense from an economic standpoint. Inflation looks benign: having touched 2% yoy in only one month (July) last year, core PCE inflation has struggled to move above the Fed's inflation target. 10-year breakeven inflation, a forward-looking measure, remains low at 1.9%, despite a recovery so far this year (Chart 4). The rate is meaningfully lower than the 2.1-2.2% level observed for the first nine months of 2018 when the Fed was hiking the Fed Funds rate by 25bps per quarter. In addition, several FOMC members have implied recently that inflationary pressures should not become a serious concern until core inflation goes to and stays above 2% for a sustained period. In other words, the Fed seems more "patient" about inflation and more tolerant of a target overshoot, strengthening the case for a Fed pause.

Second, quantitative tightening (QT) is no longer on "auto-pilot". For most of 2018, the Fed was sticking to the balance sheet normalisation plan it proposed in June 2017 and gradually unloaded its US Treasury holdings. There was merit in sticking to the QT plan, while keeping the Fed Funds rate as the Fed's preferred policy tool, given that the economic impact of rate hikes is much better understood than that of QT. That said, the Fed probably did not expect the 2017 tax cut as well as the Sino-US trade war when they proposed the balance sheet plan. Yet, the former increased US Treasury supply and put upward pressure on Treasury yields whereas the latter contributed to negative demand shocks in China and Europe in late 2018, suggesting that less tightening is required than otherwise. In other words, President Trump's unexpected policy moves suggest a need to end QT sooner. Indeed, the January FOMC meeting minutes imply that the Fed may stop the balance sheet reduction late this year, about two quarters earlier than previously expected. Ending QT early or leaving the size of balance sheet larger than expected also supports a more benign view on US Treasuries.

Third, US Treasuries provide a valuable hedge given our more constructive view on EM assets. As the Fed cited external headwinds (e.g. weaker Chinese and European growth) as a reason to be "patient", we think there is further upside in Treasury prices in case of further disappointment in global growth.

Chart 5: 10-Year Bond Yields, %



Source: Bloomberg

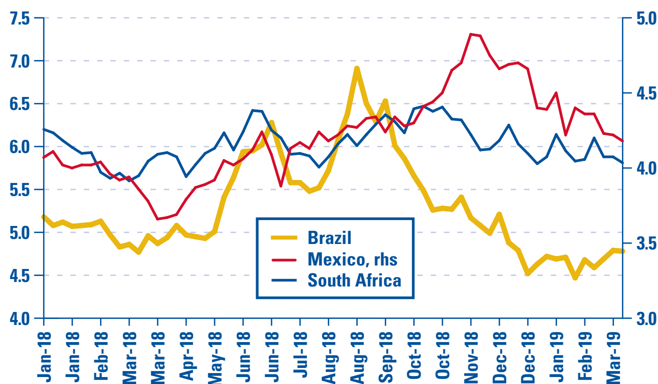
Meanwhile, German Bunds and JGBs lagged other DM government bonds in USD terms over the past 12 months despite disappointing growth in Germany and Japan. 10-year bund and JGB yields are very close to zero (Chart 5). We do not think they will fall below zero for sustained periods, as in 2016. For example, oil prices were up 10% over the past 18 months, in contrast to a 50% fall between December 2014 and June 2016. In addition, while Brexit negotiations remain shrouded in uncertainty, the worst-case scenario of a "No-deal Brexit" is likely to be averted as the British parliament gets more say in the negotiation process. Therefore, the hedging value of holding German Bunds and JGBs

has significantly diminished given the limited room for yield compression. We remain significantly *underweight* Bunds and JGBs.

We upgrade EM local-currency government bonds from *neutral* to *overweight*, while maintaining our preference of EM bonds over their DM counterparts. EM rates significantly outperformed DM ex-US rates in the past 12 months given the former's yield cushion but underperformed US Treasuries. Some of the headwinds facing EMs are receding. For instance, inflation expectations are shifting lower in EMs (Chart 6) on the back of stabilising currencies and weaker DM inflation, supporting real interest rates. While the Chinese stimulus may lead to higher goods inflation in H2, Chinese CPI and PPI are currently drifting lower, contributing to a benign inflation environment.

EM valuations also look more attractive as fewer Fed rate hikes are expected for this year (if any) than in 2018. A more dovish Fed gives EM central banks more room to manoeuver. On the one hand, they could continue to maintain a relatively hawkish stance (e.g. Mexico, Indonesia, Turkey) and positive real interest rates, supporting currency outperformance. On the other, they may ease monetary policy (e.g. China, India), which results in higher local bond prices. Both scenarios are positive for EM bond investors. Finally, our positive view on commodities also supports the upgrade in EM local-currency bonds. Commodity prices positively correlated with EM currencies since commodity-exporting countries make up a large percentage of the EM local bond index.

Chart 6: EM 10-Year Breakeven Inflation, %



Source: Bloomberg

Credit

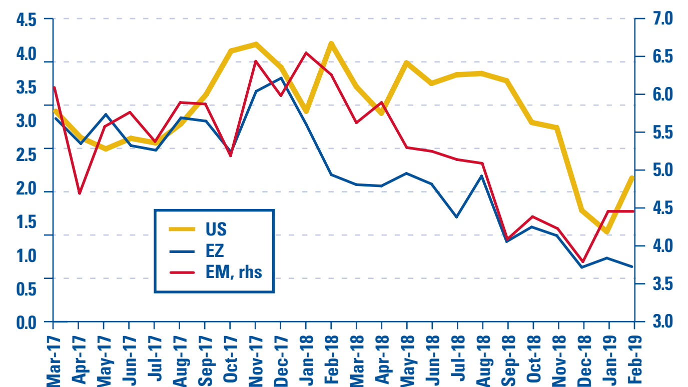
Underweight

We remain cautious on credit due to the US slowdown and weak European growth.

Credit as an asset class has had an extraordinary turnaround in the three months to end-February. The asset class returned 3.6%, outperforming both equities and rates. The rally since mid-December reversed most of its loss in 2018 and was driven by a more dovish Fed and receding fear of a US recession. EM credit and DM high yield (HY) outperformed DM investment grade (IG) over the same period on the back of higher yields and faster spread compression.

The Fed's monetary stance seems mostly priced in (and we are neutral on US Treasuries), and the fear of a US recession has also receded. Hence, the market has moved its attention to the strength of growth and how much support it receives from monetary and fiscal policies. In that regard, we maintain a cautious view on DM growth as the impact of the 2017 tax cut is fading and the Fed's four rate hikes in 2018 have tightened financial conditions. Even though a recession is not imminent, the US economy slowed from 4.2% and 3.4% in Q2 and Q3 2018 to a trend-like 2.6% qoq saar in Q4. GDP Nowcasts by the Atlanta Fed and the New York Fed suggest that Q1 2019 growth could dip below 1%. Consensus expects the US to slow to 2.5% in 2019 from 2.9% in 2018.

Chart 7: Goldman Sachs Current Activity Indicator, %



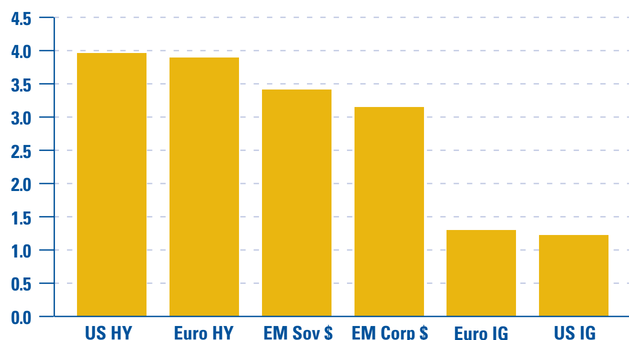
Source: Goldman Sachs, Bloomberg

Eurozone growth continues to disappoint. The economy grew by 0.2% qoq in Q4, narrowly escaping recession in Germany and a formal recession in Italy. The February Composite PMI posted 51.9, suggesting that Q1 growth has not yet improved from Q4. Goldman Sachs Current Activity Indicators suggest a similar level of growth (Chart 7), as a resilient service sector is more than offset by declining manufacturing activity. Indeed, the ECB just substantially revised down its growth forecast for this year from 1.7% to 1.1%. While the Chinese stimulus and progress in Sino-US trade talks may provide some support to Eurozone manufacturers

and exporters, the current level of growth does not warrant a positive view on Eurozone credit. Therefore, we downgrade Euro HY from *overweight* to *neutral*, while remaining *neutral* on US HY.

We are concerned about credit spreads being too tight for DM IG. First, the ECB ended its asset purchase last year, continuing to weigh on Euro IG. A new LTRO program (TLTRO-III) will start in September - with each operation having a maturity of two years. That said, the ECB's objective seems more about addressing regulatory concerns (e.g. banks' Net Stable Funding Ratio could deteriorate after June when the residual maturity of the first tranche of the TLTRO II falls below one year without a new program) than about taking a significantly more dovish turn from its already accommodative stance. Second, rising BBB issuance relative to higher-grade issuance implies higher downgrade risks for DM IG and a higher sensitivity to growth disappointments than otherwise. Indeed, the share of BBB debt in US IG non-financial issuers has steadily risen from 49% in 2011 to 61% in 2018 on the back of increased M&A activities and relatively cheap funding costs. Third, the Fed's rate hikes and higher mortgage rates have already led to contracting US residential investment, arguably the most interest-rate sensitive part of the economy. US IG spreads are set to widen as more sectors are feeling the impact of higher interest rates. Therefore, IG spreads of 120-130bps look too tight, and we remain *underweight* US and Euro IG.

Chart 8: Option-Adjusted Spreads, %



Source: Bloomberg

The EM-DM growth gap has stopped shrinking as we have seen more serious growth disappointment in the Eurozone and Japan than in EMs. For instance, manufacturing PMIs in Brazil, Mexico and India improved in January-February while DM ex-US continued to slide. That supports our general preference of EM credit over DM credit. Among EM USD bonds, we prefer sovereign bonds on the back of attractive spreads and orthodox fiscal policies in countries like Brazil, Indonesia, Mexico and South Africa. We are *underweight* EM corporate bonds due to the tight spreads versus their sovereign counterparts (Chart 8).

Commodities

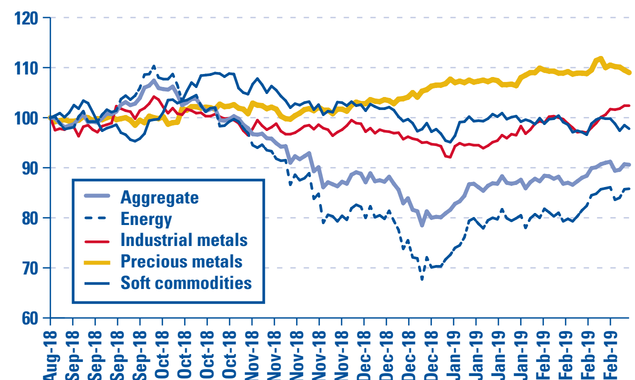
Overweight

> *Supply-demand dynamics remain favourable for commodity prices, with a demand boost from Chinese stimulus likely.*

Commodity prices continued to fall in December after the S&P GSCI total return index fell by 5.8% in October and 11.3% in November, its worst monthly fall since July 2015. The asset class dropped as much as 26% between October and December, amid broad declines in global risk assets over the period. Some of this was due to expected further central bank tightening, particularly from the US Federal Reserve, despite slowing economic growth and ongoing uncertainty around US-China trade tensions.

Commodity prices have since recovered. The S&P GSCI fell 10% within the December to February quarter but ended up by 4.5% eventually. The rebound has been driven by a partial reversal of the aforementioned factors including: 1) the Fed dialling back its tightening rhetoric, with the market pricing in no rate cuts for 2019, and suggesting an earlier than expected end to quantitative tightening; 2) the Chinese authorities decisively moving towards an easing bias and 3) a détente in US-China trade relations after the two presidents met in December, and the scheduled rise in tariffs in March subsequently being postponed.

Chart 9: Commodities Performance



Source: S&P GSCI, Bloomberg

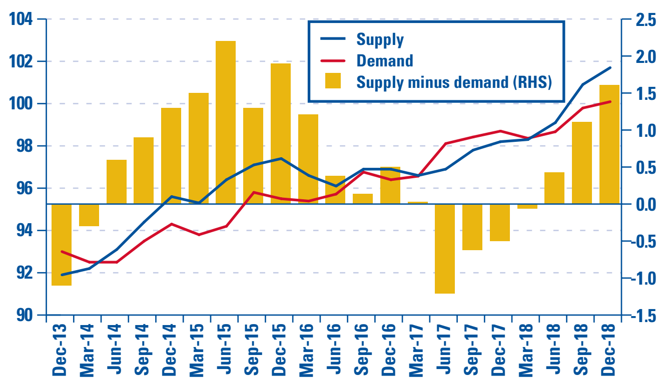
Oil: The oil price was volatile during the past three months as external factors dominated sentiment. Brent crude fell as much as 14.0% during the latest quarter, but recovered strongly to end the period up by a similar magnitude (12.5%). At the same time, limited supply has acted as a continued support. Going forward, both demand and supply factors could prove supportive.

Demand is likely to pick up despite the growth slowdown expected in Q1. Stimulus measures in China and a less hawkish

stance from the Fed are likely to keep economic activity healthy. Meanwhile, improving US-China trade relations are likely to reduce uncertainty, as the two countries account for around a third of global oil demand.

Supply dynamics are mixed, but point towards reduced output. The International Energy Agency (IEA) estimates that excess supply in Q4 was at its highest in three years (see Chart 10). However, there are a number of factors that are likely to keep supply suppressed in 2019. These include the Vienna Agreement by OPEC and non-OPEC members (collectively known as OPEC+) to curtail output by 1.2 mn b/d. In January, compliance of the former was 86%, compared to just 25% for the latter. Output therefore has further to fall, moving the market closer to balance. Cuts in Alberta, Canada have also limited supply. Inventories also remain around a four-year low despite a build-up in Q4.

Chart 10: Global Oil Supply and Demand, mn Barrels/Day



Source: IEA, Bloomberg

Meanwhile, geopolitics continues to be important. The US imposed sanctions on Venezuela in January, banning American customers from buying oil from the country until a new government is formed by the President of the National Assembly, Juan Guaidó, who the US officially recognises as Venezuela's president. This led to a 40% mom fall in Venezuelan oil exports and further declines are likely in Q2 after the wind-down period for US deliveries ends in April. This lack of supply, in turn, could impact US supply as American refiners have relied on heavy crude from Venezuela, as well as from Saudi Arabia and Canada. There is also uncertainty over supply from Iran, with waivers set to expire in May, and Nigeria, following a controversial general election in February.

At the same time, US shale output (light sweet crude) has continued to expand, with the oil rig count at end-2018 the highest since 2015. Hence, supply losses have mainly been from medium/heavy crude producers and the OPEC+ cuts are reducing supply further, against gains for light sweet. This pushed the Brent/Dubai spread (the spread between light and heavy crude) to a historical low in February. The rising price of heavy crude has raised refiners' costs and reduced margins, which could eventually reduce demand. This scenario may lead OPEC+ to limit its cuts to H1.

Overall, supply uncertainties present a source of volatility that is balanced by an improved demand outlook. Hence, we stay *neutral*. Key downside price risks come from weaker than expected impact of stimulative/dovish policy and OPEC+ not extending its output cuts into H2.

Industrial metals: Economic conditions and industrial metals prices have been closely correlated in recent months. The latter rose by 4.4% over the past three months having been down as much as 6.4% at one point. The rally was mostly driven by anticipation of monetary and fiscal easing in China. In addition, low stock levels and ongoing production issues in countries like Chile may result in insufficient supply in the coming months amid a seasonal increase in Chinese demand. Similar dynamics are at work in the zinc and nickel markets. Thus, we expect favourable supply-demand dynamics to be supportive of industrial metals prices and remain *overweight*.

Precious metals: The best performing commodities sub-sector over the latest quarter was precious metals, gaining 7.7%. Gold prices rose by 6.6% over the period. The metal proved to be an effective hedge amid 1) rising global risks (e.g. the economic slowdown, US-China trade tensions) and 2) more dovish global central banks. This was a somewhat perfect storm for precious metals and may repeat in 2019. Nevertheless, we still expect conditions for the asset class to remain favourable given ongoing risks such as the US-China trade tensions and uncertainty over a sustainable global recovery, which is likely to keep central banks dovish. Investor demand for gold is likely to remain robust given the age of the US cycle and the risk of a downturn. Meanwhile, economic stabilisation and currency strength in China and India, which account for around half of global demand, and continued central bank reserve diversification should be supportive for the gold price. Finally, gold supply is not expanding significantly as mining costs rise. We believe precious metals offer a good hedge against ongoing uncertainties, so we stay *overweight*.

Soft commodities: Agricultural commodities, particularly grains, are likely to be sensitive to developments in US-China trade tensions. The two countries have moved closer to a deal in recent months, but the specific removal of Chinese tariffs on US agricultural commodities would likely be required to push prices higher. Despite progress, uncertainty over a deal being announced has weighed on sentiment. Meanwhile, weather in the Southern Hemisphere could act as a constraint on supply as projections currently suggest drier conditions than usual. Moreover, cold conditions in the US pose a threat to crops. Stocks-to-use ratios have been falling across the complex, making prices more sensitive to a demand pick-up. Given a healthy economic backdrop and ongoing supply risks, we keep our *overweight*.

The information contained herein is obtained from sources believed by City of London Investment Management Company Limited to be accurate and reliable. No responsibility can be accepted under any circumstances for errors of fact or omission. Any forward looking statements or forecasts are based on assumptions and actual results may vary from any such statements or forecasts.

KEY ASSET ALLOCATION INDICATORS *(All data shown are as at end-February 2019 unless otherwise stated)*

	ASSET ALLOCATION							PERFORMANCE						BENCHMARK INDEX & WEIGHTS	
	-3	-2	-1	0	+1	+2	+3	5Y	3Y	1Y	2018	Ytd	Dec-Feb		
EQUITIES*					■			**35.6**	**43.2**	**-0.8**	**-9.4**	**10.8**	**3.0**	**MSCI ACWI**	**50%**
US					■			60.1	49.9	4.3	-5.0	11.7	1.6	MSCI USA	25%
Europe					■			3.6	28.0	-5.5	-14.9	10.2	5.1	MSCI Europe	10%
Japan					■			29.0	31.2	-10.3	-12.9	6.1	-1.0	MSCI Japan	5%
EM					■			22.4	52.3	-9.9	-14.6	9.0	6.1	MSCI EM	10%
FIXED INCOME			■					**5.3**	**6.0**	**0.1**	**-1.0**	**0.9**	**3.0**	**J.P. Morgan Global Agg Bond Index**	**45%**
Rates			■					**1.8**	**4.8**	**-1.4**	**-0.4**	**0.4**	**3.0**	**Bloomberg Barclays Global Treasury Total Return Index Value Unhedged**	**30%**
USTs				■				8.9	1.5	3.2	0.9	0.2	2.4	Bloomberg Barclays US Treasury Total Return Unhedged USD	10%
Bunds		■						-5.9	5.8	-3.3	-2.5	-0.2	1.6	Bloomberg Barclays Euro Aggregate Treasury Germany TR Index Unhedged USD	10%
JGBs		■						0.8	4.2	-2.8	3.7	-0.8	3.6	Bloomberg Barclays Asian-Pacific Japan Treasury TR Index Unhedged USD	5%
EM Local					■			3.8	20.5	-3.5	-4.8	3.8	5.2	Bloomberg Barclays EM Local Currency Liquid Govt TR Index Unhedged USD	5%
Credit			■					**8.4**	**10.8**	**0.2**	**-3.2**	**2.3**	**3.6**	**Bloomberg Barclays Global Aggregate Credit Total Return Index Value Unhedged USD**	**15%**
US IG			■					17.2	11.9	2.6	-2.5	2.6	4.1	Bloomberg Barclays US Corporate Statistics Index	5%
US HY				■				24.8	33.1	4.3	-2.1	6.3	4.0	Bloomberg Barclays US Corporate High Yield Statistics Index	3%
European IG		■						14.0	6.9	0.8	-1.3	1.8	2.0	Bloomberg Barclays EuroAgg Corporate Statistics Index	2%
European HY				■				0.5	24.0	-6.4	-8.4	3.5	4.4	Bloomberg Barclays Pan-European High Yield (Euro) Index Statistics	2%
EM Sov $					■			27.9	18.2	2.8	-4.2	4.9	6.5	Bloomberg Barclays Emerging Markets Sovereign TR Index Value Unhedged USD	2%
EM Corp $		■						23.8	21.0	2.8	-1.9	3.8	5.0	Bloomberg Barclays Emerging Markets Corporates TR Index Value Unhedged USD	1%
COMMODITIES					■			**-49.8**	**25.1**	**-2.5**	**-13.8**	**13.1**	**4.4**	**S&P GSCI Total Return Index**	**5%**
Energy				■				-59.1	49.8	2.0	-17.1	22.0	7.7	S&P GSCI Energy Total Return Index	2%
Industrial metals					■			-2.7	33.0	-8.5	-18.0	8.6	4.0	S&P GSCI Industrial Metals Index Total Return Index	1%
Precious metals						■		-6.9	5.0	-1.3	-3.6	2.4	7.7	S&P GSCI Precious Metals Index Total Return Index	1%
Agricultural					■			-48.2	-21.3	-16.0	-8.0	-2.9	-5.2	S&P GSCI Agriculture Index Total Return Index	1%

**Regional allocation relative to other asset classes*
Source: Bloomberg, City of London Investment Management

CITY OF LONDON
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