Quarterly Perspective

PLURIMI

3 April 2019

Q1 2019 has seen a 'V' shaped recovery in risk assets. Equity markets have rallied by 10% and credit spreads have narrowed. The fears of an overly hawkish US Federal Reserve that depressed markets last year, have been addressed with an emphatic dovish turn by the Fed Chairman Powell. The Fed's hiking cycle now looks to be on hold for the remainder of the year.

While risk assets rallied significantly, 10 year yields in Germany and Japan turned negative, and the spread between 3m and 10y US Treasury yields inverted for the first time since 2007. This is a popular, and relatively successful predictor of a looming US recession.

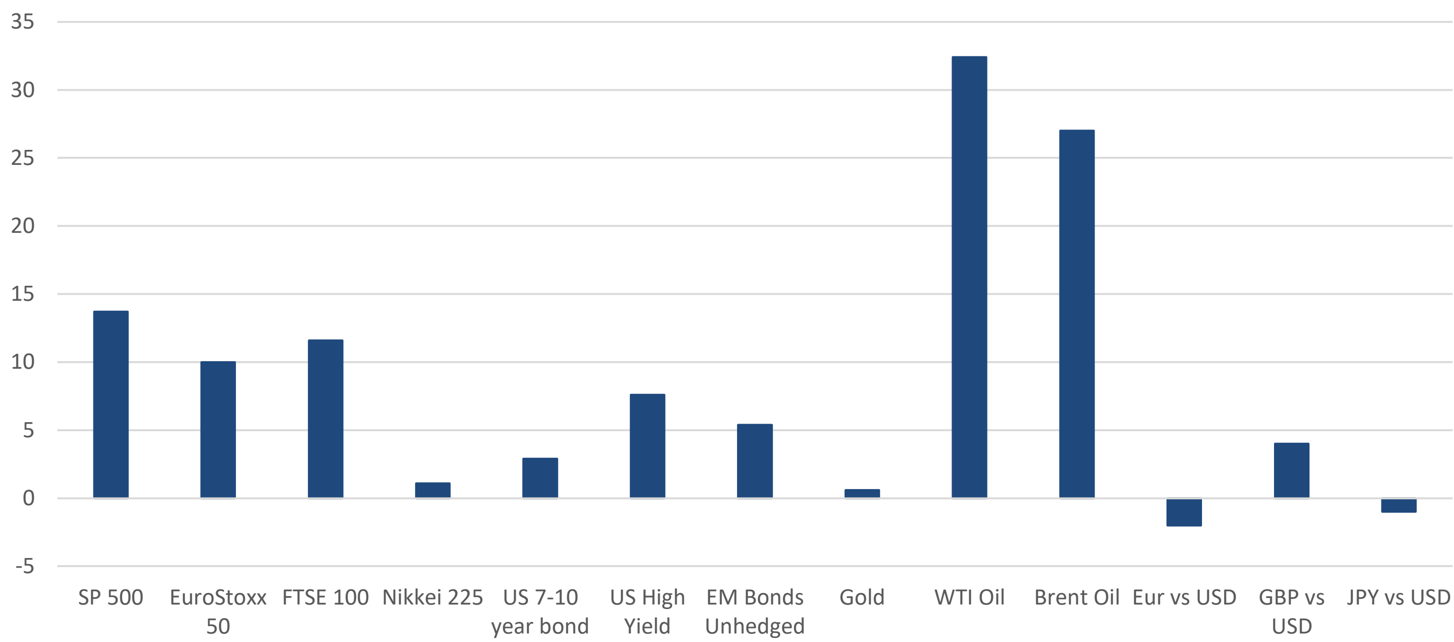
We remain negative on the value of bonds in the long term, the shift in Fed policy should allow bond yields to remain pinned down at low levels for the coming months. It will take stronger growth and inflation expectations to push yields higher, rather than the Fed. The current inversion of the US yield curve will likely reinforce the Fed's dovish bias.

Our economic outlook is slightly more upbeat than the prevailing sentiment. The recent decline in bond yields and looser policy have likely reduced the odds of a poor economic outcome.

Global equities are approximately fair value, but the rally is probably due for a pause. The next move will be driven by the direction of global economic activity. Countries outside of the US trade at depressed multiples and should outperform regardless of the overall direction of markets.

Q1 2019

Performance by asset class (% USD)



Source: Bloomberg, PIM

Asset performance in Q1 2019 was driven by a very dovish U-turn from the US Fed. Risks assets recovered from a very weak Q4 2018 with global equities delivering their strongest Q1 since 2010. High yield and emerging market bonds saw significant rebounds, and oil rose by 30%.

Risk assets indicate confidence in fundamentals, while bond markets indicate a sharp economic slowdown.

The magnitude of the rally contrasts sharply with the deterioration in the economic and corporate fundamentals. Q1 earnings for the S&P 500 will likely be lower than they were last year. Global economic growth forecasts from the IMF and consensus were reduced in recent months. No positive progress was made on Brexit, and not much was accomplished on US/China trade.

Strangely government bonds also moved higher during such a sharp risk rally, on looser policy and a weakening outlook. As bond prices moved higher, the US 3 month/10 year spread inverted in March, which is often viewed as a predictor of looming recession.

US equity markets are pricing in 15-20% chance of a normal recession, while US treasuries are pricing in a 75-80% chance. The question for the remainder of the year, which market is more accurately pricing in the state of the economy. Is the bond market overly cautious, or is the equity market complacent and overly confident in earnings?

Asset Allocation

Late in the cycle, but too late?

Overall	--	-	N	+	++
Equities			■		
Fixed Income		■			
Cash				■	
Commodities		■			
Alternatives					■

Regional Equities	--	-	N	+	++
Australia	■				
Canada	■				
Euro Area				■	
Ex- Germany				■	
Germany				■	
Hong Kong				■	
Japan				■	
Switzerland			■		
U.K.				■	
U.S.		■			
US Growth	■				
US Value			■		
Emerging Markets					■
Commodity Exporters			■		
Commodity Importers					■

Global Equity Sectors	--	-	N	+	++
Consumer Discretionary			■		
Consumer Staples			■		
Energy					■
Financials				■	
Health Care			■		
Industrials			■		
Information Technology		■			
Materials		■			
Real Estate				■	
Telecom Services			■		
Utilities		■			

Commodities	--	-	N	+	++
Gold					■
Brent Oil		■			
Copper		■			

Fixed Income	--	-	N	+	++
Duration		■			
Government Bonds		■			
Yield Curve Steep (+) Flat (-)					■
Inflation Protection				■	
Investment-Grade				■	
High-Yield			■	■	
EM Sovereign USD				■	
EM Sovereign Local				■	

Government Bonds	--	-	N	+	++
Australia				■	
Canada				■	
Euro Area			■		
Ex- Germany		■			
Germany	■				
Japan			■		
Norway				■	
Switzerland		■			
U.K.			■		
U.S.		■			

Currencies vs USD	--	-	N	+	++
Australia		■			
Canada		■			
Euro Area				■	
Japan				■	
New Zealand		■			
Norway		■			
Singapore				■	
Sweden			■		
Switzerland			■		
U.K.				■	
Emerging Markets				■	

Alternatives & Structured Opps.	--	-	N	+	++
Dispersion Euro 50					■
Dividends EuroStoxx				■	
Steepner Warrant (Embedded Note)					■
Covered Call on EU Integrated				■	
Long Oil co.s vs Brent and Canary Fx				■	

Global economic dashboard

Indicator	Derivative 1st	Derivative 2nd	Interpretation & outlook
Growth			
Global leading economic indicator	0	-	Slightly more positive than negative, but slowing throughout Q4
ZEW/IFO	-	-	Moved lower and negative throughout 2018 in US and Germany
US ISM manufacturing new orders	-	0	Significantly expansionary, but off of early year highs
Consumer confidence	+	-	Still strong but below Q4'18 peak.
Business confidence	+	0	Positive
G7 employment	+	0	Positive and no signs of slowing yet
Global trade volume	0	-	Sluggish and weakening in recent months.
Oil prices	-	0	Lower oil prices may indicate slowing demand, but will be boost for consumers
Policy			
Real policy rate	0	+	Tightening from Fed has stopped, and policy remains accommodative throughout the world.
Nominal GDP-bond yield gap	+	0	Positive gap is reflationary
G7 credit growth	+	0	Positive and stable
Financial stress	+	0	Warning signs form q418 have turned into narrowing spreads in 2019.
Fiscal thrust	0	+	Fiscal drag disappeared, with US stimulus, while Europe may be moving away from austerity. MMT next?
Inflation			
Core CPI	0	0	Deflation risks have dissipated, but there are no significant signs of inflation
Wage growth	+	+	Wage growth > inflation in developed world.

Source: Bloomberg, PIM

Global Economy — Growing but slowing

Our global economic dashboard shows a global economy which is expanding, but well past peak growth. Policy rates remain supportive for growth and will very likely remain anchored in accommodative territory for the remainder of the year. Trade and manufacturing data have been weak across the globe. Services indicators have been relatively strong, but are not given the same prominence as manufacturing numbers.

Barring trade wars or a hard Brexit we expect the global economy to positively surprise in the 2nd half of 2019.

Uncertainty surrounding Brexit and US/China trade talks were not resolved in the first quarter. We actually expect positive developments on both in April. Consumer and business sentiment have dipped, but in general have held up well. In aggregate most leading indicators continue to point to a weak expansion, but not a recession. In the US the current high personal saving rate, income growth running higher than inflation, and a Fed which has become more dovish should provide enough fuel to keep the US economy expanding. We expect modest cooling in the US economy in 2019, with annual growth of 2.3%. Still above long term potential but significantly below >3% rate in 2018. China will continue to rebalancing it economy, and is likely to provide enough fiscal stimulus to meet its targets, barring an escalation of a trade war with the US. Emerging markets PMI readings have also been strengthening in recent months. Expectation for Europe are now so depressed, we think there is scope for the Eurozone economy to surprise to the upside, barring a hard Brexit scenario.

We have lowered our growth forecasts for 2019 from 3 months ago, but we expect the global economy will see some stabilisation from China and Europe as the US economy decelerates from unsustainably high growth. The Eurozone economy is set to positively surprise in the second half of 2019. Expectations are very low, and the lagged impacts of a significantly weaker euro, and continued stimulative monetary policy will give the economy a needed boost. The aggregate Eu government's balance sheet, particularly Germany's is strong. This may (should) allow some fiscal stimulus, but there are no indications of this happening yet.

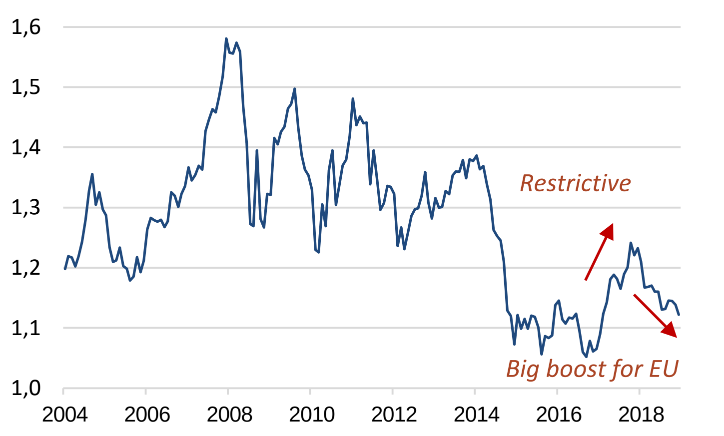
World GDP growth

	2017	2018e	2019e
World	3.8	3.7	3.3
Developed	2.4	2.3	2.1
Emerging	5.0	5.1	4.7
US	2.2	2.9	2.3
Euro	2.5	1.9	1.1
China	6.9	6.6	6.0
India	6.2	7.5	7.0

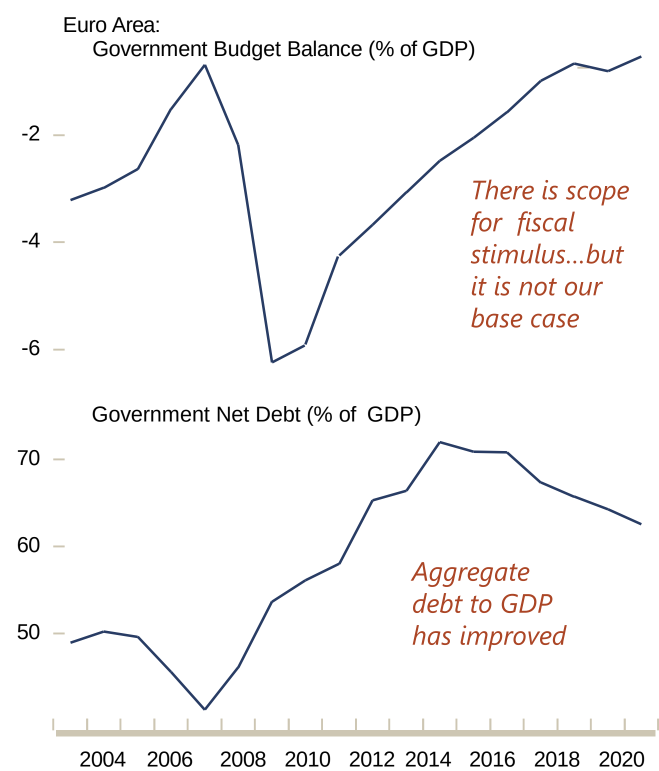
Source: Bloomberg OECD, PIM

The global economy will see some stabilisation from China and Europe as the US economy decelerates

EUR vs USD



The Euro Area can ease fiscal policy



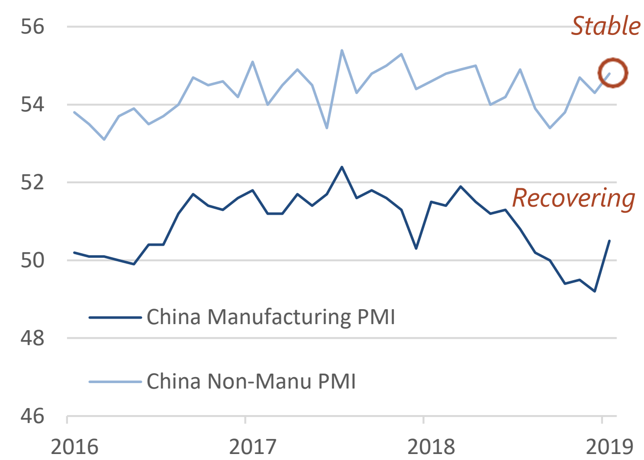
Source: Bloomberg MRB OECD

The Chinese economy has been the primary driver of global growth in recent years. A string of weak manufacturing and export numbers have many questioning the resilience of the Chinese economy to stay strong in the face of US tariffs and generally weaker global demand. Recent easing in macro policy, and a pickup in credit growth should create a base for growth. Chinese services have stayed strong over recent years, and March's manufacturing PMI has rebounded. This increases our confidence that the worst in Chinese growth is now behind us.

Chinese manufacturing PMI recovered to 50.5 in March and significantly beat consensus estimates.

Overall the global economy will slow moderately from about 3.7% in 2018 to about 3.3% in 2019. We think recession fears will wane in the coming quarters. Consensus has completely ruled out inflation moving higher in 2019, but our forecasts show growth significantly above the potential in the US. This is the one region where we expect labour market tightening, higher wages, and gradually rising inflation.

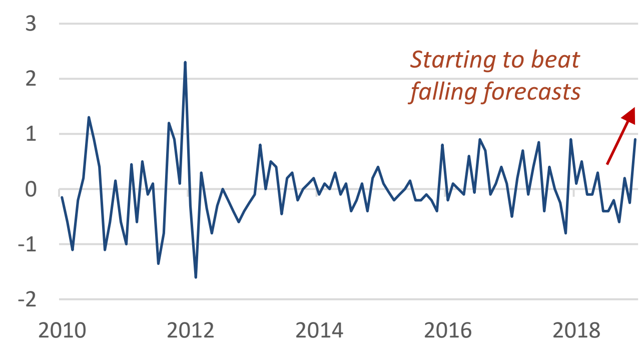
China PMI



Source: Markit Bloomberg, MRB

China's manufacturing has fallen rebounded from contraction, and the services sector remains strong

China Manufacturing PMI - China Manufacturing PMI (forecast)



Source: Bloomberg

Central Banks

The Fed's U-turn

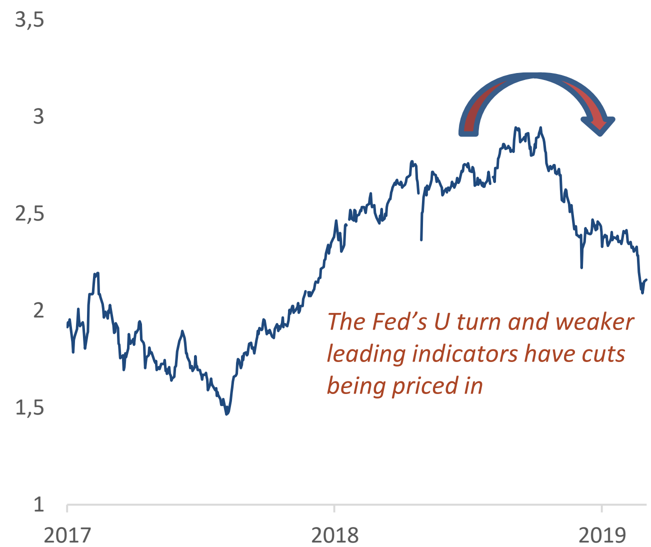
In our opinion, central bank policy has been the most important determinant of asset prices over the past decade. As equities sold off in Q4'18 there was a chorus of shouts for easier policy, and the Fed has delivered. In March the Fed changed its forecasts from 2 hikes in 2019, to no hikes. Fed funds interest rate futures have fallen dramatically, and are now discounting future cuts from the Fed. We expect the Fed will likely remain on pause for the remainder of 2019. Fed officials have been increasingly highlighting uncertainty about global growth. The bar for a hike is now likely very high, and any questions about a 'Powell Put' have been emphatically answered.

Major developed market central banks will keep policy in very accommodative settings throughout 2019. The ECB's March meeting was more dovish than expected, extending the forward guidance of no hikes through end-2019 and announcing a new series of TLTROs. The Bank of Japan has reaffirmed its commitment to easy monetary policy through maintaining yield curve control and its long-term JGB purchase guidelines at its March meeting.

The PBOC will continue to facilitate economic growth, but will likely want to keep its currency loosely linked to the price of the US dollar. Should the USD weaken slightly in 2019, as we expect, the PBOC will have no problems with this strategy, but should the USD strengthen against its trade weighted basket, the PBOC may need to let the renminbi fall to keep competitive with the rest of Asia, and to support the manufacturing sector.

Easier financial conditions globally combined with our expectation of gradually stronger global growth, should provide the ingredients for hikes in 2020. The bigger question, is if our base scenario of growth does not pan out, what firepower do other central banks have left?

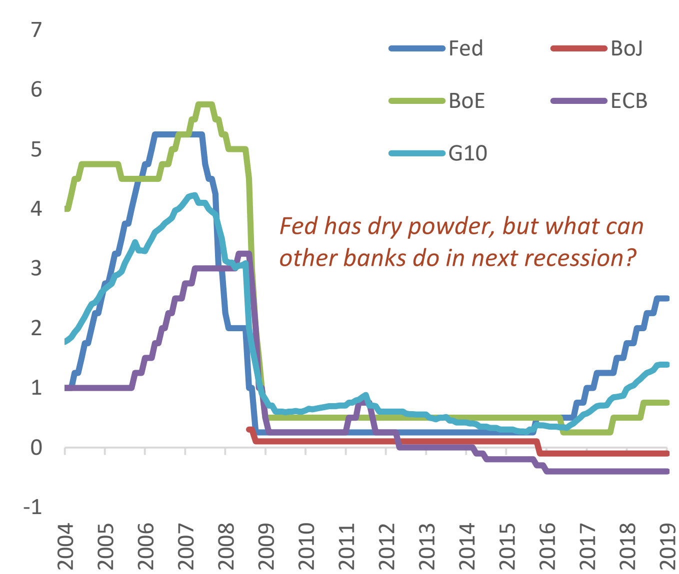
January 2020 Fed futures



Source: Bloomberg

The bar for a hike is now likely very high, and any questions about a 'Powell Put' have been answered.

Major CB policy rates



Source: Markit Bloomberg

Inflation — Ambers in US, but low overall

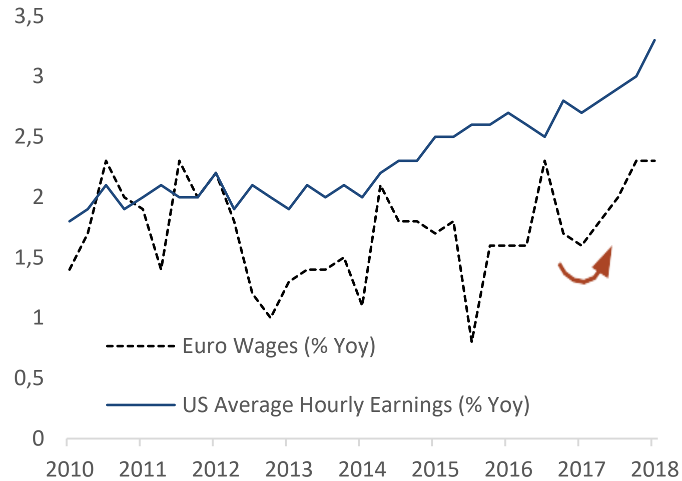
2019 will see a range of late cycle economic pressures. Some economies still have significant slack, and other regions are growing past capacity. On average, core inflation in OECD economies will remain low and stable.

Oil prices have rebounded strongly this quarter, and will start to push headline inflation higher. The US economy is the one economy with no slack left. The unemployment rate is at 50 year lows, wages are rising, and small business surveys show that filling vacancies with qualified people is the biggest issue they face. A US consumer, which is seeing wages grow faster than inflation, high consumer confidence is a very powerful driver of continued expansion, even as the fiscal benefits from tax cuts fade.

The employment outlook in the Eurozone is actually relative strong. Businesses have remained confident in their hiring plans, and wage growth of is significantly higher than inflation.

The UK is the other country which may see some inflationary pressures as well. With the risks of a hard or messy Brexit remaining, lower sterling could result in stagflationary pressures.

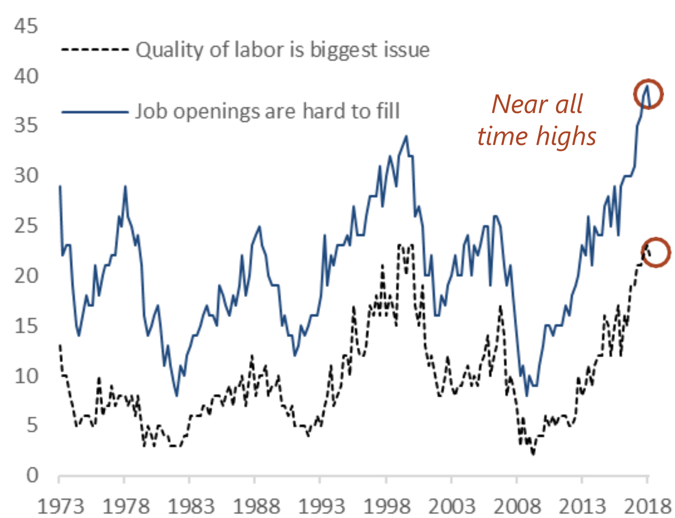
Wage pressures are picking up



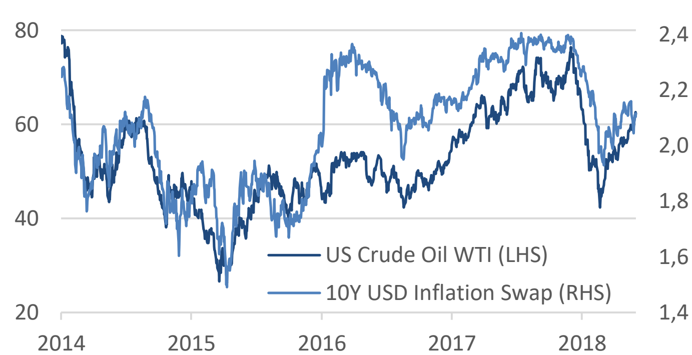
Source: Bloomberg

Higher wages, and strong consumer confidence will drive growth

NFIB surveys show tight US labour market



As goes oil prices, so goes inflation



Source: IMF

Global Politics

Impossible to ignore

Politics is always a potential wild card to the direction of both capital markets and the global economy. 2018 saw a massive late cycle stimulus in the US in the from of tax cuts, which boosted the economy and stock markets. It also saw the continued rise of populism as a successful election strategy around the world. The repercussions were felt in increasing global trade tensions, protectionist policies.

The main geo-political risks for the remainder of 2019 are:

Positive surprises to some of the specific risks are likely, but big picture issues around populism, and global alliances may worsen.

US / China trade: We had previously expected a deal to be agreed in Q1 19. We remain confident a deal will be struck in the coming weeks, but find an all encompassing deal, a very low probability. A truce is the most likely outcome. This should remove a significant overhang on the economic outlook for the world, but for China in particular. Flare ups throughout 2019 are likely, but given both sides desire for trade we do not expect a deterioration. Should tensions return and the threatened US tariffs materialise, we would need to lower our economic outlook, and the consequences would be stagflationary globally.

Brexit : Another risk which we thought may be concluded in Q119. The majority of British MPs and the public do not want a 'No Deal' Brexit, but it is difficult to get an agreement on ANY alternative. A no deal Brexit will push the UK into a recession, and be a significant negative for all of Europe. It is almost impossible to predict what will happen next, but we continue to expect something which avoids a crashing out scenario. Parliamentary approval of Prime Minister May's proposal, extending article 50 with a view to a new referendum, a general election with Brexit as the centrepiece are all possibilities. The chaos the UK has faced around this issue may drag on for years to come, as the only thing there is a consensus on, is there are not any great solutions to this issue.

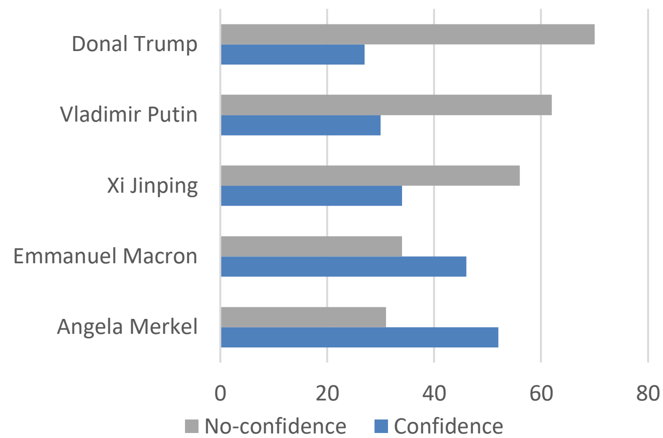
US Gridlock: A White house which is facing gridlock with a democratic controlled house, and headline grabbing risks coming from the full release of the Mueller investigation will be a distraction at a minimum. The distraction could see deregulation and pro-growth policies that the market responds to favourably forgotten as other matters are deemed to have greater priority. There is also a risk Trump's focus moves to foreign policy where he will not need Congress approval, or attacking the institutions which he sees as treating him unfairly.

We expect the US and China to reach a trade truce even if underlying strategic political tensions persist

EU: Italy and France have populist led discord. Risks around continuity of leadership of the CDU party in Germany have now passed, but the post Merkel era nears. Most of what ails the Eurozone comes from the anaemic growth it has delivered. Should growth improve, we expect political risks will quiet, but another year of disappointing growth or recession and these risks will only intensify.

Global leadership: As the US exits its role of influencing global hot spots, a vacuum is created. Russia and China seem most willing to fill the void, but this may not always be achieved with market friendly results. The world on average now has less confidence in Donald Trump than any other major leader. We expect volatility from the US White House will lead to a continued diversification of global reserves away form the US dollar.

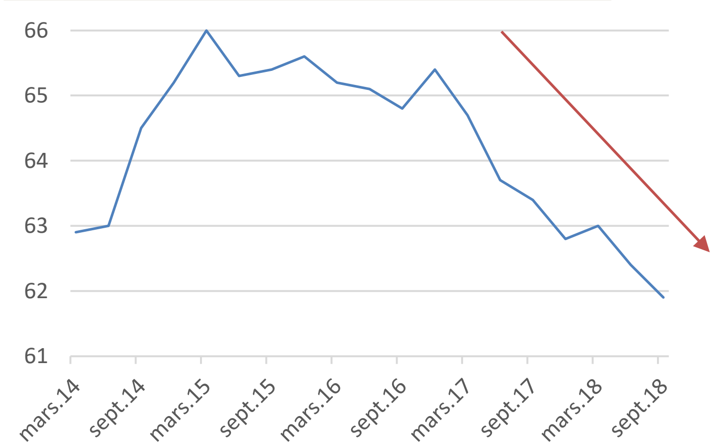
Pew Research global survey



Source: Pew Research Centre. Medians based on 25 countries

We expect to see a continued diversification of reserves away from the US dollar

USD percentage of allocated reserves



Source: IMF

Asset Allocation

Long term outlook

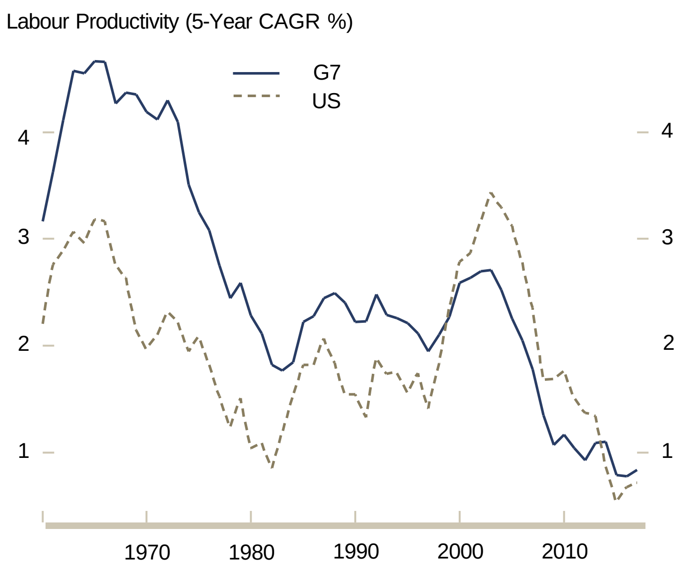
	Economic Forecasts (2019-2026)			Historical 2008-2018
Country/Region	Real GDP (% CAGR)	Population (% CAGR)	GDP Deflator (% CAGR)	Real GDP (% CAGR)
Brazil	3.0	0.6	3.7	1.5
China	4.4	0.2	2.0	8.2
Euro Area	1.3	0.1	1.8	0.6
India	6.9	1.0	3.9	7.0
Japan	0.4	-0.4	1.0	0.5
Switzerland	1.3	0.6	1.3	1.4
UK	1.4	0.5	2.0	1.1
US	1.9	0.7	2.0	1.5
Developed Markets	1.4	0.3	1.8	1.1
Emerging Markets	4.1	1.1	3.5	5.1
Global	2.5	1.0	2.6	2.6

Sources: IMF World Economic Outlook, MRB and Plurimi calculations. Population forecasts from UN, Compound annual growth rate

Our risk premia analysis utilises a long-term economic outlook of 2.5% per annum. This is in line with the previous 10 years. Growth will continue to be led by the emerging market economies, while developed market economies improve from the previous decade, but lag emerging markets.

The potential for economic growth has been constrained by very low labour productivity this decade. Our base case assumes continued muted improvements, but this could be an area which unlocks higher growth potential in the developed economies.

Productivity gains have constrained GDP growth



Source: US Conference Board, MRB

Equities

World (Neutral)

MSCI WORLD	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	17.46	33	21.03	19.92
BEst P/E Ratio	15.71	50	15.80	15.67
Long Term Price Earnings Ratio	23.09	67	22.06	21.58
Price to Book Ratio	2.36	54	2.38	2.34
Price/EBITDA	9.37	84	7.61	7.21
Price to Sales Ratio	1.64	91	1.30	1.30
Enterprise Value/EBITDA	11.43	73	10.60	10.54
Profit Margin	8.94	94	6.11	6.48
Operating Margin	12.08	85	10.40	10.36
Dividend Yield	2.52	70	2.25	2.22
10Y Yield	2.44	21	3.97	3.96

Source: Bloomberg. Jan 1995 to Jan 2019

Following the strong start to the year global equities are now trading at average 65th percentile on a range of valuation indicators. The market looks 'fair' value on earnings, book, and discounted dividend measures, but expensive on ebitda and revenue measures.

We expect earnings growth will be achieved in 2019, but no where near the rapid growth reached in 2018. If our macro scenario broadly pans out, we expect equity market leadership to shift away from the US market.

Overall global equities are offering a normal implied risk premia. The direction of markets will be more dependant on economic growth, and central bank policy than on a normalisation of valuation.

Earnings outside of the US should be positive, and grow at a faster rate than the US. We we expect US corporate profit growth will be very low as the US tax cut drops out of earnings growth, and margins are squeezed by higher labour costs and interest rates.

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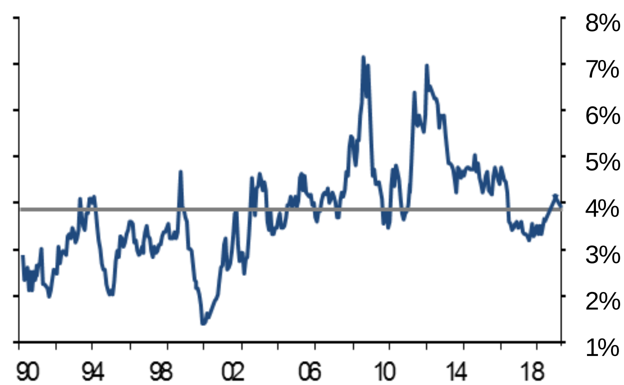
Key inputs for Global ERP

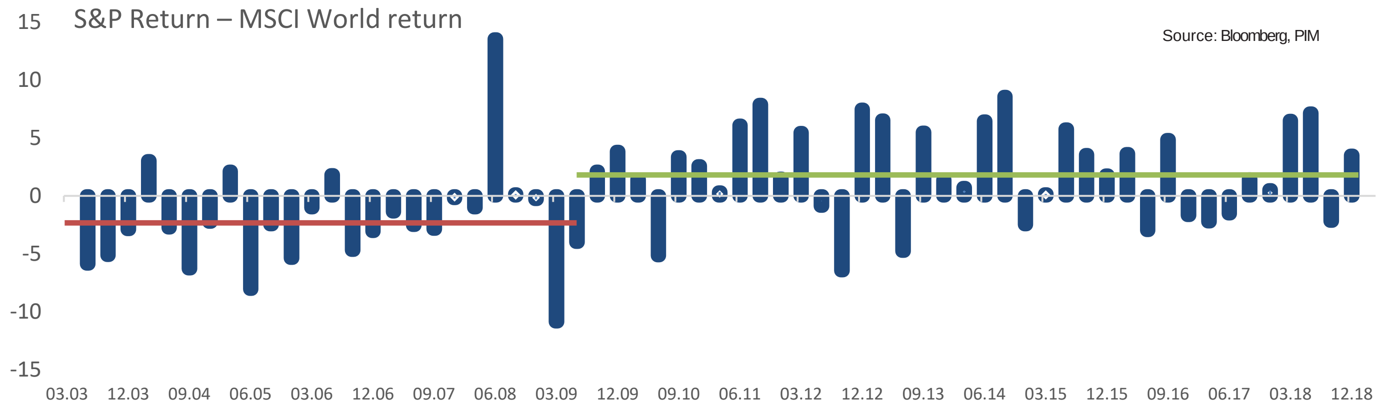
Risk premium	4.0%	Consensus growth '19	4.9%
Normal	4.0%	Consensus growth '19	10.4%
Min	1.5%	Medium-term growth	3.0%
Max	7.3%	Long-term growth	2.9%
10 year bond	2.0%	Payout ratio	39%
IRR	6.0%		

Global equity risk premium



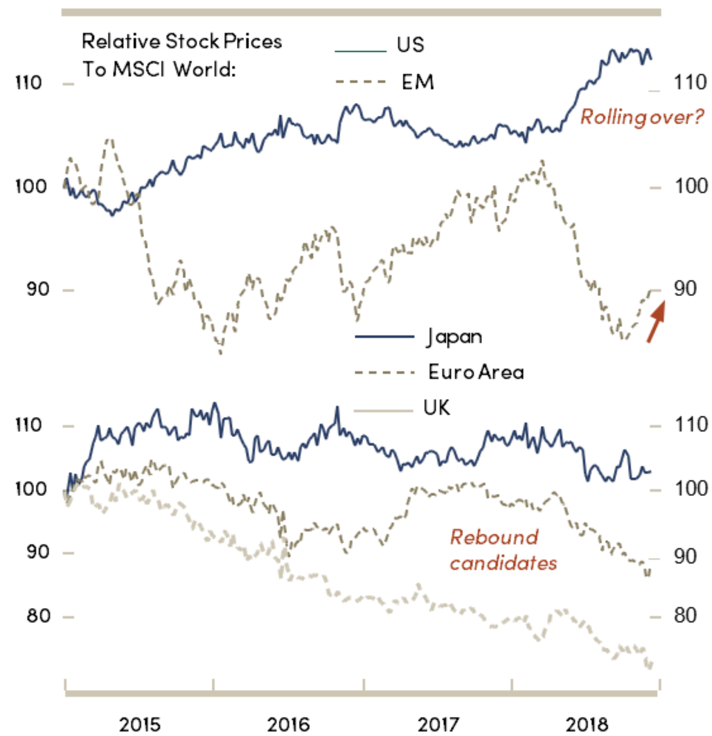
Source: Bloomberg SocGen, PIM

S&P 500 has moved from chronic underperformer to persistent outperformer

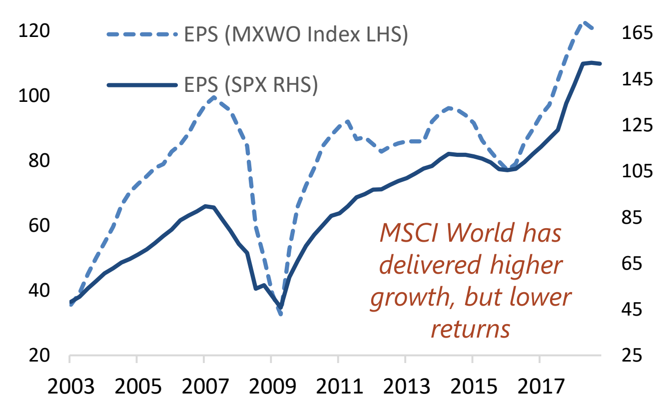


From June 2003 until September 2009, the S&P 500 underperformed the MSCI World by an average of 2.1% per annum, underperforming in 21/26 quarters over that period. From September 2009 the US market has lead the recovery from the 2008 financial crisis. Since then the S&P 500 has outperformed the MSCI World by 2.1% per annum, and outperforming in 28/38 quarterly periods. Over this entire period (Q2 2003-Q1 2019) the MSCI world has grown at 8.5% per annum, while its earnings have grown at 8.0% per annum. The S&P 500 has grown at 9.2% per annum but has seen its earnings grow at 7.5% per annum over that period. The resulting multiple expansion on the S&P 500 may have been justified based on better economic growth, fiscal and monetary stimulus, and a weighting towards leading technology companies, but we think it this has now run its course. The world ex-US is a much better investment at this point given the extended run the US has been on.

Relative Equity Performance will shift



MSCI eps vs SP 500 eps



Source: Bloomberg, PIM

Equities US (Underweight)

S&P 500 INDEX	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	18.69	50	19.60	18.67
BEst P/E Ratio	17.06	61	16.95	16.39
Long Term Price Earnings Ratio	25.67	77	22.20	21.28
Price to Book Ratio	3.36	82	2.86	2.77
Price/EBITDA	11.37	98	7.71	7.36
Price to Sales Ratio	2.14	94	1.47	1.50
Enterprise Value/EBITDA	13.15	92	10.54	10.66
Profit Margin	10.25	99	6.67	7.22
Operating Margin	13.27	86	11.58	12.06
Dividend Yield	1.94	46	2.09	1.97
10Y Yield	2.44	18	4.53	4.47

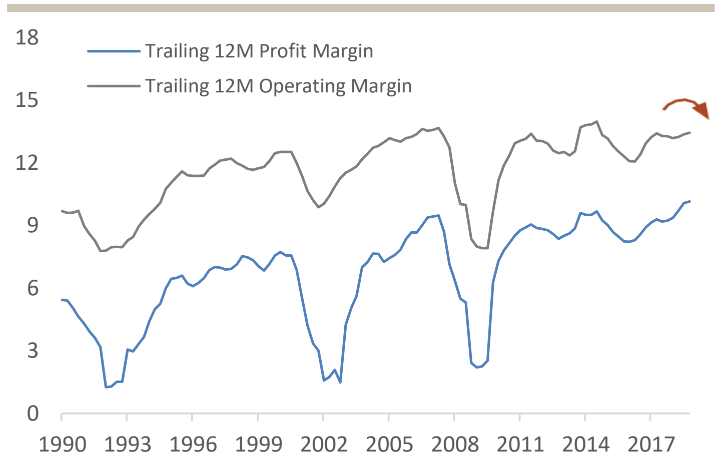
Source: Bloomberg. Jan 1995 to March 2019

US equities have bounced back to elevated multiples, with exception of price to trailing earnings, where the market trades in line with its historical average. US equities are again unambiguously expensive on ebitda, sales and book value. We expect the continued global expansion will see US companies meeting revenue forecasts, but worry profits may miss expectations as margins decline. Higher wage costs, and possibly increased regulatory costs for large cap technology could be the negative surprises in 2019.

We prefer value stocks in the US, due to their yield, and less demanding valuations. Growth stocks have strong price momentum, but are expensive again.

While a US recession this year is not likely, an earnings recession is becoming more probable. Q1 eps forecasts have fallen from almost 10% to negative 1% us Q1 progressed.

US profit margin is record high...may mean revert



Source: Bloomberg. Jan 1990 to March 2019

Equities UK (Overweight)

FTSE 100	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	17.24	49	25.09	17.41
BEst P/E Ratio	13.04	60	12.65	12.46
Long Term Price Earnings Ratio	16.87	61	16.28	14.77
Price to Book Ratio	1.73	18	1.95	1.89
Price/EBITDA	7.17	41	7.45	7.31
Price to Sales Ratio	1.17	50	1.18	1.18
Enterprise Value/EBITDA	8.66	40	9.11	8.81
Profit Margin	7.27	52	6.92	7.18
Operating Margin	10.94	66	10.49	9.99
Dividend Yield	4.85	94	3.81	3.77
10Y Yield	1.01	2	3.17	3.38

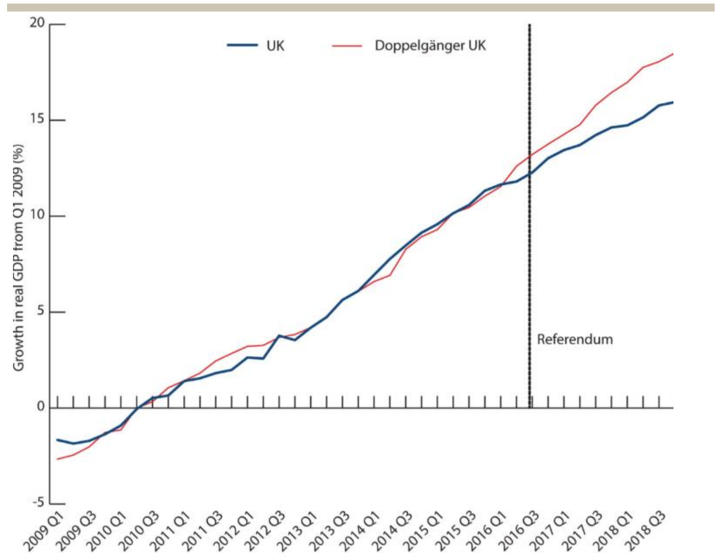
Source: Bloomberg. Jan 1995 to March 2019

UK equities are one of the few regions which is trading below its historic average on book, ebitda and sales measures. The stalemate around Brexit has continued past the previous 29 March deadline. We are entering a phase of increased newsflow, and even possibly a concrete outcome around Brexit in the coming weeks. UK equities derive about two-thirds of revenue from international markets. A negative Brexit outcome, should support stocks with international revenues, when measured in GBP, but this would not be useful for investors who measure returns in other currencies.

UK equities offer the highest yield and lowest p/s in developed world. Multiple expansion in good news Brexit scenario may push stock higher.

Within the UK we prefer large cap oil, and the multi-national banks as ways to invest in the listed UK market. An extension of Brexit date would be market friendly, as crashing out risk would be lowered, but longer uncertainty is also a headwind to growth. Since the Brexit referendum the BoE estimates the UK economy is 2% smaller than it would have been otherwise. CER estimate 2.3% smaller.

UK Economy vs Doppelgänger (Germany, Lux, USA)



Source: Centre for European research

Equities

Europe (Overweight)

STXE 600 € Pr	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	17.62	46	22.56	19.01
BEst P/E Ratio	14.15	62	13.38	13.30
Long Term Price Earnings Ratio	19.78	66	17.55	17.39
Price to Book Ratio	1.80	44	1.86	1.84
Price/EBITDA	7.90	82	6.48	6.30
Price to Sales Ratio	1.27	87	1.07	1.10
Enterprise Value/EBITDA	9.71	69	9.10	9.15
Profit Margin	7.63	69	6.11	6.25
Operating Margin	11.04	77	9.73	9.20
Dividend Yield	3.67	78	3.38	3.38
10Y Yield	-0.05	2	2.47	3.02

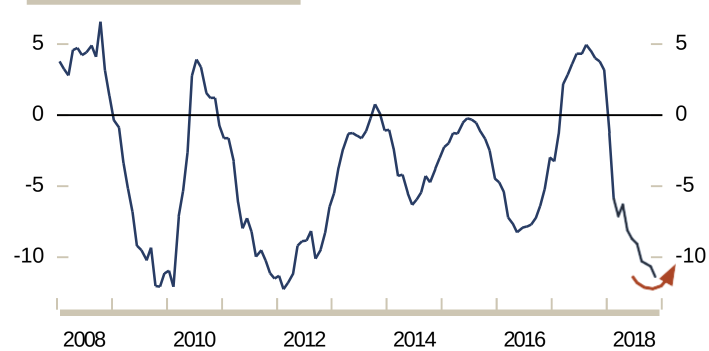
Source: Bloomberg. Jan 1995 to Jan 2019

European equities are cheap vs other regions and cheap vs. their own history. The question remains, are they cheap enough given the lacklustre growth, and political issues facing the region. A dividend yield nearing 4% should support equity prices while interest rates stay near zero throughout 2019. European companies may begin to be their own catalyst. As the cost of debt has fallen (to almost zero in some instances), we expect companies to follow US styles share buy backs. 80% of European companies have dividend yields higher than their corporate bonds, so buy backs will actually be cash flow positive.

80% of European companies pay dividends greater than their corporate bond yields.

The potential for strong growth will be driven primarily by earnings expectations. Any positive outcomes that result in the EU muddling through with growth of 1.1-1.2% will be viewed as a positive surprise for markets. A relaxation of the US trade threat that has weighed on European cyclical stocks is our base case. This assumes no new issues on US trade, but this continues to be a risk that needs to be monitored. This is also an area where Europe may deliver a positive surprise in 2019. We expect Europe will be a major beneficiary of a rotation from more expensive US equities to equities which are pricing in a very pessimistic economic outlook.

Global Ex-US / US



Local currency; Source: MSCI. Bloomberg, MRB

We prefer well capitalised banks, integrated oil, and German residential property companies within the region.

Equities Japan (New Overweight)

Topix	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	13.75	4	60.49	22.02
BEst P/E Ratio	13.20	9	20.53	15.80
Long Term Price Earnings Ratio	22.30	39	28.26	24.42
Price to Book Ratio	1.20	25	1.58	1.53
Price/EBITDA	6.14	48	7.06	6.22
Price to Sales Ratio	0.75	62	0.70	0.69
Enterprise Value/EBITDA	7.90	4	10.71	9.75
Profit Margin	5.41	95	2.19	2.15
Operating Margin	7.80	90	5.22	5.48
Dividend Yield	2.34	92	1.40	1.12
10Y Yield	-0.08	2	1.47	1.36

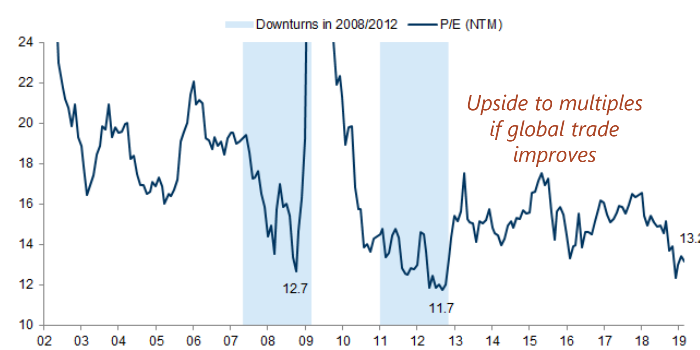
Source: Bloomberg. Jan 1995 to March 2019

Japanese equities have never been much cheaper than they are currently. A dividend yield of 2.3% is much higher than 10 year bond yields and its historic average. This should support equity prices while interest rates stay near zero for the foreseeable future. Japanese exports and production have been weak in in recent quarters, based on slowing global trade. Japanese companies would be big beneficiaries of improving global trade, and conversely be hampered by any escalation in trade tensions.

Japanese stocks are pricing recession, we don't think that should be the base case

Should Japan avoid recession and deliver any earnings growth we think the progress in labour market and governance reforms should lead to a rerating on Japanese equities. The BOJ will likely be a net buyer and Japan should benefit from foreign buying, as a crowed US long position is eventually unwound.

Japan P/E at recessionary troughs



Source: Goldman Sachs Jan 2002 to March 2019

Equities

Emerging markets (Overweight)

MSCI EM	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	13.02	42	14.83	13.45
BEst P/E Ratio	12.64	74	11.47	11.79
Long Term Price Earnings Ratio	16.05	52	16.62	15.90
Price to Book Ratio	1.59	57	1.56	1.53
Price/EBITDA	6.09	69	5.23	5.51
Price to Sales Ratio	1.25	65	1.15	1.12
Enterprise Value/EBITDA	8.29	80	6.99	7.25
Profit Margin	9.49	61	8.80	8.88
Operating Margin	13.03	51	12.91	13.00
Dividend Yield	2.71	71	2.42	2.43
10Y Yield	2.44	21	3.97	3.96

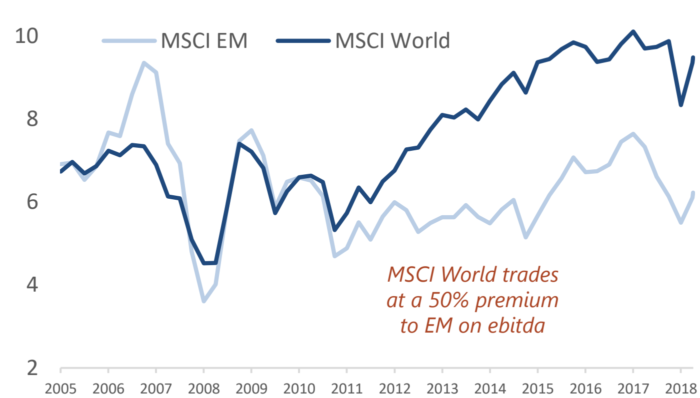
Source: Bloomberg. Jan 1995 to Mar 2019

In our opinion emerging markets, offer the best potential equity returns for the remainder of 2019. EM equities are the biggest beneficiary of liquidity, and the improved financial conditions since the Fed's U-turn.

EM are biggest beneficiary of improved financial conditions following Fed's U-turn

EM equities weakened for much of 2018, but they have outperformed since early-October, despite investor concerns about the global growth outlook. All non-US markets have been hurt by the US threat of protectionist trade measures, and should be the main beneficiaries if this threat diminishes in 2019 as we expect.

EM vs World on p/ebitda



Source: Bloomberg, PIM

From 2007-2011, EM and the developed world traded at similar multiples to ebitda. The MSCI World now trades at a 50% premium to EM equities.

While our long term outlook is positive for emerging markets, the climate will likely be choppy in the near term following a strong Q1. As some potential threats to global growth fade, we expect EM to outperform.

We recommend Naspers, EM ETF

Fixed Income

Bond Bear market takes a cyclical pause

We are neutral on the cyclical outlook for G7 government bonds, but bearish on the long term. One of our longstanding themes has been that the deleveraging drags in the global economy have progressively faded over the past decade, with the healing of household and bank balance sheets in the US and euro area. G7 government bond yields will remain anchored while the economic outlook is cloudy, but will remain vulnerable should a healthier macro backdrop occur. Over the long term a country's bond yield is roughly equivalent to its nominal growth. Should bond yields converge with our expectations for nominal growth over the next 7 years, real returns for bond investors will be significantly negative.

Global Bonds

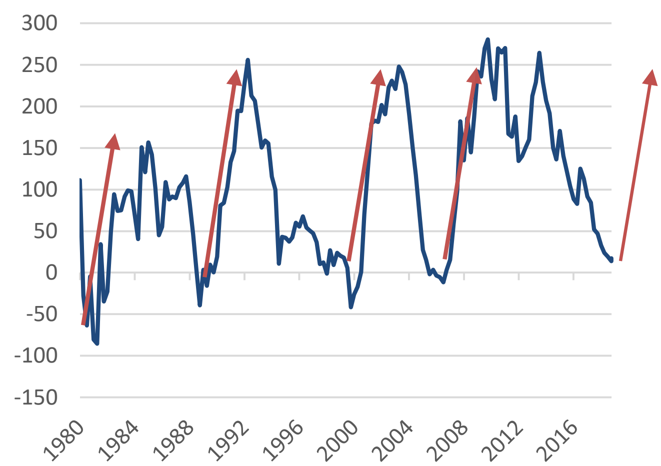
Scenario		Current	2025	GDP deflator (% CAGR)	Real return rolling into 10 years
Normal after 7 years	US	2.4	4.1	2.1	**-2.4**
	Germany	0.0	3.0	1.6	**-5.9**
	UK	1.0	4.0	2.0	**-6.2**
	Swiss	-0.4	3.2	1.1	**-6.2**
	Japan	-0.1	1.6	1.0	**-5.4**

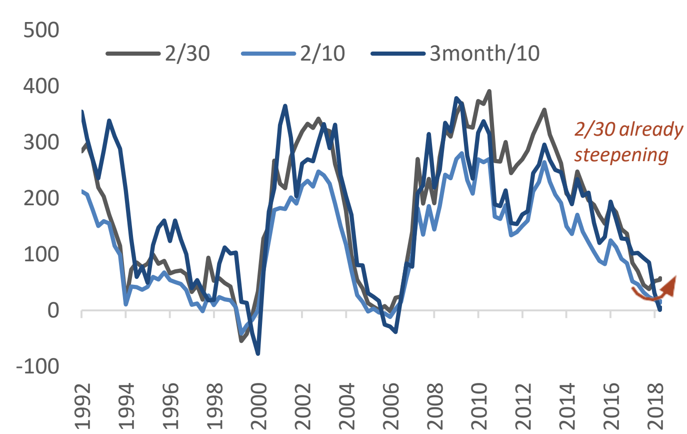
Source: Bloomberg. PIM

Within fixed income we believe the curve flattening that has occurred in the US since 2014 has now run its course. Much of the US yield curve has inverted, and at the end of the quarter 2 year yields were essentially the same as 10 year yields. This has been a good indicator of a coming recession, but has been GREAT at is predicting is a future steepening. Should a recessionary environment emerge, the Fed will almost certainly cut rates, and the curve will steepen as has happened in all previous recessions. Should growth pick up, the Fed has indicated it may let the economy run hot, which should push 10 year yields higher, but keep the front end anchored.

Since December 18, the 2/30yr spread has steepened, while the 2/10yr and 3 month/10yr spreads have fallen to zero. A steepening in the 2/30yr spread has typically led a steepening in the 3month/10 year spread by 3 months.

US Calendar Spreads



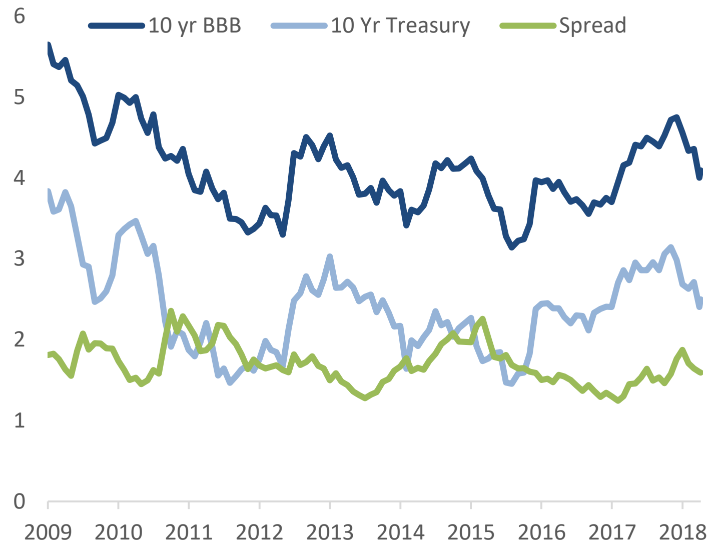


Source: PIM, Bloomberg

The US economy is set to slow in the coming year, and will provide support to the bond market in the near run. Longer term we expect 10 year yields to converge with the US expected nominal economic growth potential. Roughly 4-4.5%

Spread product looks attractive to us over a market cycle, given its carry and re-investment benefits, but low level of starting spread increase risk in a slowing economy. Should the economy avoid recession as we expect, high yield and leveraged loans will continue to see low levels of defaults.

We prefer spread to government bonds



Source: Bloomberg. PIM

Foreign Exchange

USD will start to fade

We do not forecast any major moves in currencies in for the remainder of 2019. The bounce in the US dollar from its February 2018 lows has been driven by better economic growth, interest rate differentials. Looking ahead to next year, fundamental support is likely to gradually erode for the US dollar. Last year's rally has made the US dollar expensive, and political risks may dampen demand for both US dollar and eventually treasuries.

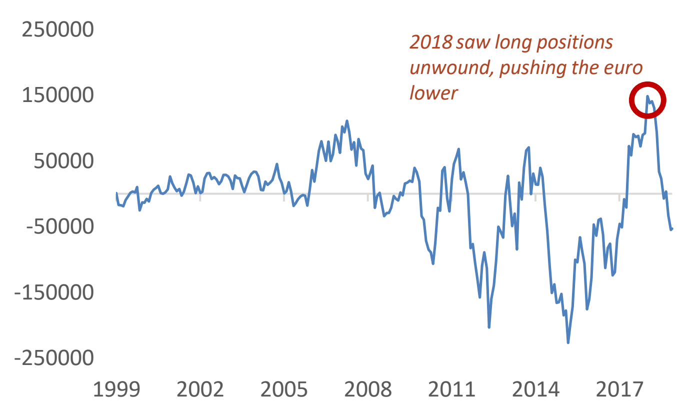
We expect US economic growth to continue to lead the rest of the developed world, but expect it to slow towards its long term potential of about 2% per annum. We prefer prefer to be long currencies which offer better value, and the potential to surprise on pessimistic economic outlooks. In 2018 speculative positioning in the euro was very long. As we enter Q219, investors are short the euro. Given its significant current account surplus, this may quickly reverse on any positive surprises in the euro economy.

Major currency vs USD on PPP

	PPP Consumer	PPP Producer	BIG MAC
CHF	8.73	-6.63	19.26
GBP	-4.58	-24.76	-22.00
EUR	-2.9	-7.78	-13.79
JPY	-29.64	-29.11	-34.34

Source: Bloomberg. PIM

Speculative positions in Euro



Source: Bloomberg. PIM

Commodities Gold is preferred long exposure

The prospects for most industrial commodities are not compelling following a strong Q12019.

As we enter Q2 demand growth will continue for oil, but will likely slow for industrial metals. Manufacturing PMI's are low around the world but are showing signs of bottoming. Supply in oil is very elastic, as US Shale and OPEC can produce more if prices rise.

Gold is the one commodity we have a positive view on for the remainder of 2019. We are attracted to the safe haven aspects of gold. We expect a weakening US dollar and a Fed that pauses for too long, will likely push gold prices higher. Economic and geo-political risks are higher than normal, and should some inflationary pressure build in the US economy as we expect, the head wind from rallying treasuries may diminish. We also expect gold will see increased demand as a reserve asset due to political risks in the US. China has increased gold reserves in December '18 for first time in 2 years. It has continued to do so in every month in 2019.

Both industrial metals and oil prices should be range bound for remainder of 2019.

Chinese monthly Gold reserves (m Ounces)

Source: Bloomberg. PIM

Trade Ideas (Appendix)

See 1 pagers on

Europe Integrateds – covered calls

BNP/ING

Dispersion

US 2/10 Steepener

European Dividends

Naspers