March 8, 2017

Global growth is synchronous again

Mikio Kumada, LGT Capital Partners

The global macro trends are the most convergent and balanced they have been in years and keep steadily improving at the margin. Hence, Europe and the emerging markets are now more frequently and consistently outperforming. This fundamental backdrop helps investors to keep shrugging off technical warnings of big impending corrections, and should drive markets higher over time.

Last Wednesday, we held our monthly allocation review for March. Although the participants' views were not uniform in nuance, they were highly compatible, and the strategy team's conclusions were clear - we are staying the course:

- We keep our overweight in equities. It is worth noting that our tactical overweight in all developed markets from North America to Asia is being complemented by our comparatively high strategic, i.e. neutral, allocation to the emerging markets (EM) – a combination that serves our investors well at present.
- We also maintain our pronounced underweight in fixed income, with traditional government bonds essentially kept at or near the minimum weights and higher-yielding, and alternative debt instruments at or close to our neutral allocations.
- We continue to prefer the US dollar.

Positive macroeconomic environment persists

On the macro front, the forward-looking purchasing managers' indices (PMI) have admittedly started to diverge somewhat recently, rising to new multi-year highs in Europe and Japan, but stalling in the US, China, and the EM. However, all readings clearly remain in growth territory, which leaves a sufficient safety buffer on the downside. In addition, the preliminary readings for March (known as "Flash PMIs") have started to perk up again in China and the EM.

The backward-looking data also improved modestly overall, backed by notable inflationary stimuli: the headline consumer price gauges jumped everywhere, exceeding the official target in the US and UK, and approaching it in the Eurozone and China. Naturally, that brought about talk that some central banks might bring forward their monetary tightening plans. The latter is most imminently true for the US Federal Reserve, which is now expected to raise interest rates by another 25 basis points next Wednesday.

A measured monetary tightening approach should add support to markets

That said, markets are not likely to become concerned about an undue policy tightening. In recent months, we have seen signs of current inflation, due to the oil price surge in the first half of 2016, and tightening labor markets for skilled workers. Expectations of future price gains have also risen on the back of a general political shift toward fiscal easing in most major economies, with last November's US election providing a loud reminder of this trend.

Importantly, however, these developments have not nudged the major central banks to overdo it on the hawkish side, as some have done in the past. Against that background, this year's market corrections have been brief and shallow, bond yields traded broadly sideways, and the USD recovered against most major currencies, after having given up some of its post-election gains in January (big corrections were limited to Brazil and Russia, where stocks had seen oversized gains of respectively 66% and 55% last year, in USD).

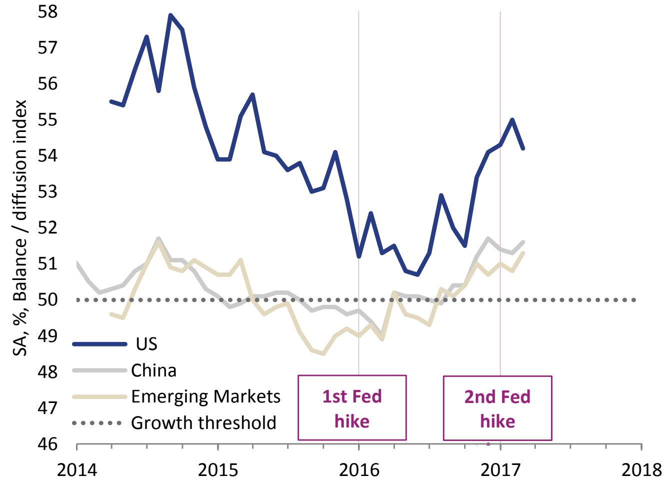
In that context, we warn against news headline-driven swings in perceptions of the Fed's plans. Firstly, little has changed in the US policy rate outlook: investors still expect about three small hikes over the next year - thus, if the Fed were to hike next week, it is still expected to pause some other point in the near future. Secondly, gains in the underlying core inflation rates remain sluggish to non-existent, while short-term market expectations of rate hikes have tended to be very volatile. What really matters is that the global macro policy mix remains well-calibrated to support an acceleration of growth, without risking a lasting upsurge in inflation - as is the case at present.

Charts and background information

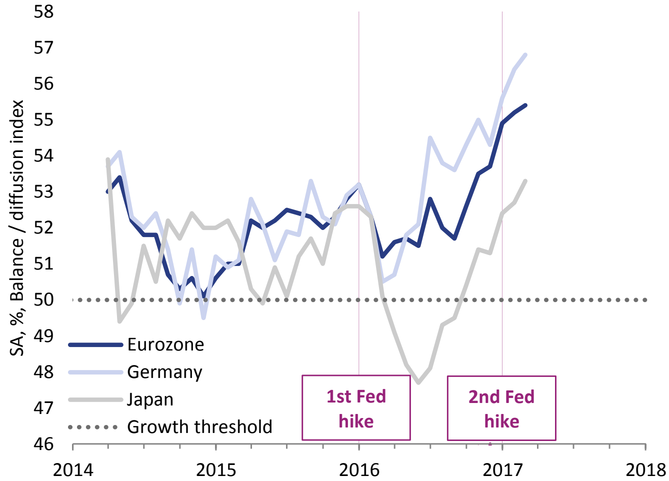
Synchronous global rebound in business outlook

The first tow graphs show the manufacturing PMI readings compiled by Markit and its respective partner firms in the various countries and regions. All indices have been synchronously trending higher since May 2016 - i.e. since the readings for China and the EM returned to above 50 points, signaling a rebound of growth. This pronounced global improvement (the indices measure specific business trends, not merely sentiment) gives the Fed room to accelerate rate hikes, compared to the pace since 2015.

Purchasing managers' indices, manufacturing



Purchasing managers' indices, manufacturing

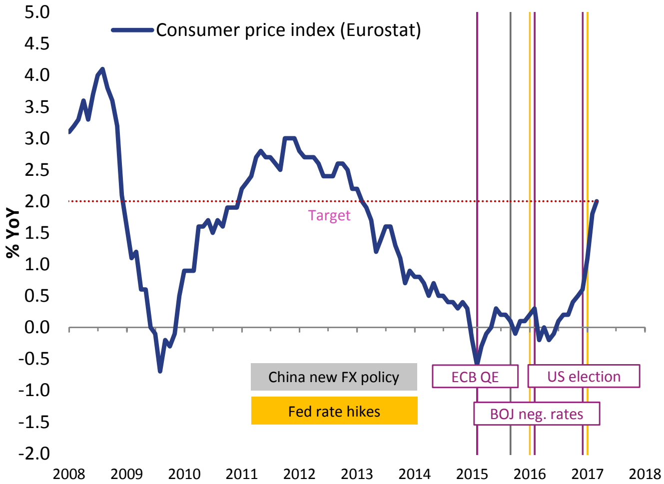


The underlying inflation trends remains tame

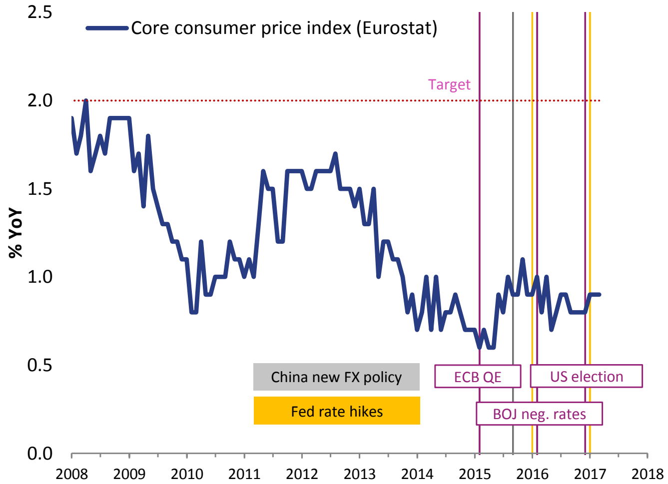
Next we highlight the difference between the recent increase in the headline consumer price indices (CPI) and the underlying core inflation gauges, using the Eurozone as an example. After the numerous monetary policy interventions of the major centrals banks, CPI readings generally began to rise in all countries around mid-2016. In January and February, the CPI surged was particularly strong - mainly due to the fact that crude oil prices had almost doubled on a year-on-year basis.

However, with crude oil prices have been moving broadly sideways to only slightly higher since mid-2016, this base effect will subside in the coming months. The prospective outcome is captured by the so-called core inflation indices, which ignore the generally volatile energy and food prices (chart on the right below): the core inflation trend has certainly recovered from last year's multi-year lows, but remains generally weak, sluggish and clearly below target. This underlying softness of inflation is true for all major economies, including the UK and the US, and makes the need for monetary countermeasures much less imminent than the business outlook might seem to suggest.

Inflation trends: Eurozone



Inflation trends: Eurozone



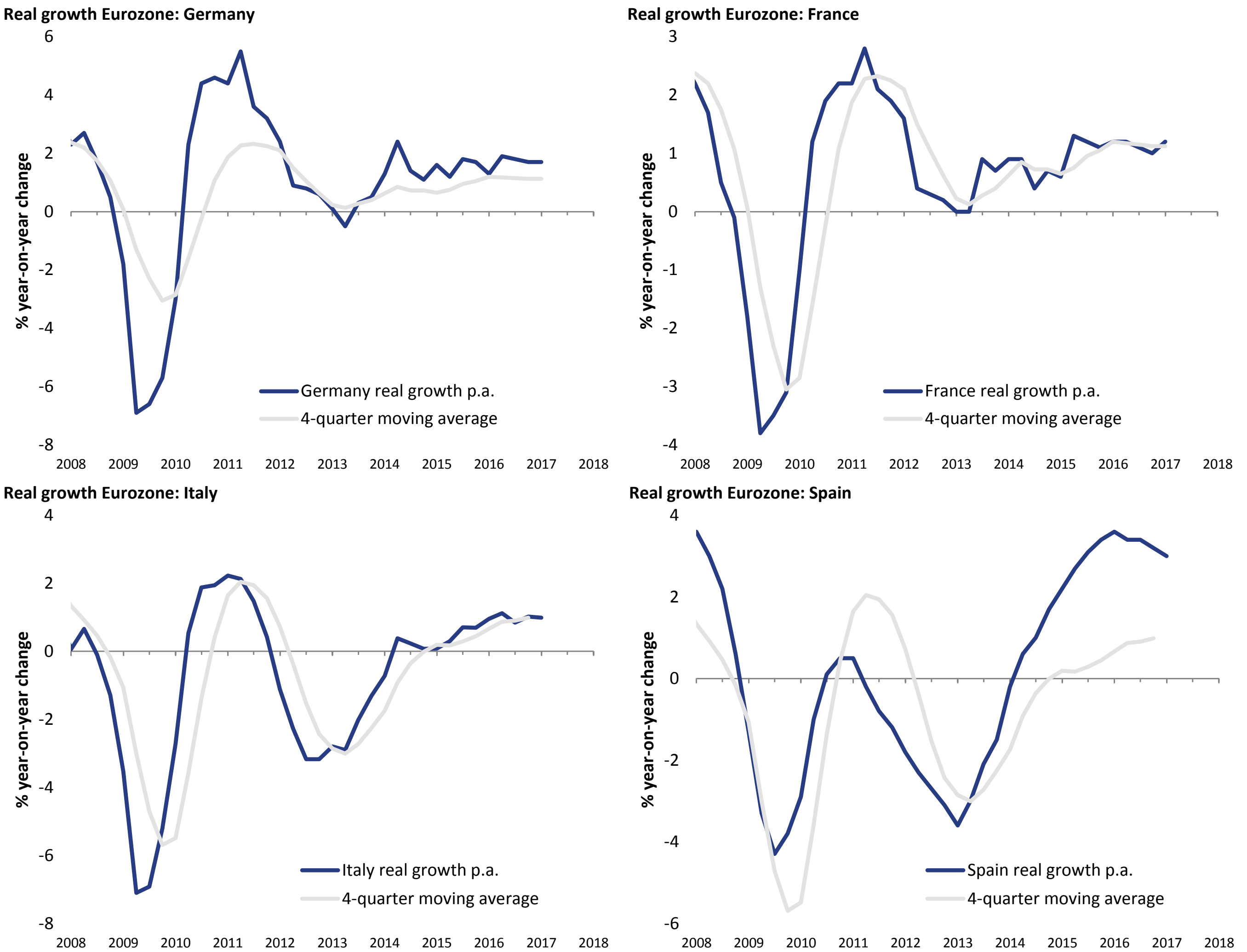
For the first time in a decade, the entire Eurozone is growing again

Finally, on the following page we show that the synchronous rebound is also visible in Europe. We list the annual economic growth rates of the European Union (EU) members since 2004 (real gross domestic product) and note that 2016 was the first year since 2006 in which all EU economies grew again. Furthermore, based on consensus estimates, this situation is expected to continue in the next two years. The fact that the consensus estimates for 2017 and 2018 are not high does not concern us much at this point. Given current cyclical trends and the policy mix, the relatively modest level of expectations merely increases the chance of future upward revisions.

Annual growth rates of the European Union members' real gross domestic product (RGDP)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	e2017	e2018
Germany	1.2	0.7	3.7	3.3	1.1	-5.6	4.1	3.7	0.5	0.5	1.6	1.7	1.9	1.6	1.6
United Kingdom	2.5	2.8	3.0	2.6	-0.6	-4.3	1.9	1.5	1.3	1.9	3.1	2.2	1.8	1.5	1.3
France	2.5	1.6	2.5	2.0	-1.9	-1.0	2.2	1.6	0.0	0.9	0.6	1.2	1.2	1.3	1.4
Italy	1.3	1.5	2.5	0.0	-3.5	-2.7	2.2	-1.1	-2.8	-0.7	0.1	1.0	1.0	0.8	1.0
Spain	3.0	4.1	4.1	3.6	-1.3	-2.9	0.5	-1.8	-3.6	-0.2	2.2	3.6	3.2	2.5	2.1
Netherlands	1.9	2.3	3.8	4.2	2.1	-3.3	1.1	1.7	-1.3	-0.3	1.4	2.0	2.1	1.8	1.6
Sweden	4.0	2.8	5.0	3.6	-5.1	-1.8	7.8	-0.5	0.6	2.4	3.2	4.6	2.3	2.3	2.3
Poland	5.3	3.5	6.2	7.2	4.2	2.8	3.6	5.0	1.6	1.4	3.3	3.9	2.8	3.2	3.2
Belgium	3.5	1.9	2.7	3.4	0.8	-2.3	2.7	1.8	0.1	-0.1	1.6	1.5	1.3	1.4	1.6
Austria	2.4	2.4	3.7	3.5	1.2	-3.6	1.8	3.0	0.7	0.1	0.8	0.8	1.5	1.5	1.5
Denmark	2.3	2.1	3.1	1.7	-4.1	-3.0	2.9	0.7	-0.1	1.3	2.0	0.5	1.9	1.5	1.7
Ireland	2.1	6.3	3.6	5.8	-8.0	-2.5	3.1	0.2	-0.9	2.0	11.1	28.4	3.8	3.3	3.0
Finland	4.7	1.0	4.2	5.9	-2.8	-6.8	5.0	0.8	-2.7	0.3	-0.5	0.7	1.3	1.1	1.3
Portugal	1.8	0.8	1.6	2.5	0.2	-3.0	1.9	-1.8	-4.1	-1.1	0.9	1.6	1.4	1.3	1.2
Greece	5.0	0.9	5.8	3.3	-0.3	-4.4	-5.3	-9.2	-7.3	-3.3	0.3	-0.2	-0.1	1.5	2.0
Czech Republic	6.6	5.7	7.1	5.6	-0.8	-3.3	3.2	0.9	-1.2	1.0	2.1	4.3	2.5	2.6	2.6
Romania	9.8	4.1	8.0	7.5	4.6	-5.9	-0.1	0.5	0.8	5.3	2.8	4.0	4.7	3.7	3.3
Hungary	4.7	3.9	4.0	1.3	0.7	-6.6	1.2	1.7	-1.6	0.5	4.1	3.2	1.9	2.9	2.8
Slovakia	5.2	6.5	8.3	10.8	5.8	-5.4	5.1	2.8	1.7	1.5	2.6	3.8	3.3	3.2	3.5
Luxembourg	3.4	3.1	5.5	6.9	-7.5	2.2	4.4	1.7	1.0	3.1	8.8	3.2	4.6	3.0	3.1
Bulgaria	7.1	6.7	7.5	7.5	4.4	-5.8	1.3	0.8	-0.1	1.8	2.2	3.7	3.4	3.0	2.9
Croatia	3.7	4.8	4.6	3.5	0.6	-4.9	-0.6	-0.7	-2.5	-1.1	0.1	1.8	3.4	2.8	2.7
Slovenia	4.0	3.9	6.2	5.5	-1.6	-5.1	2.4	-2.0	-3.3	2.2	2.6	2.8	2.6	2.6	2.5
Lithuania	7.7	n/a	7.5	9.2	-2.3	-15.3	5.1	5.7	4.3	3.3	2.4	2.1	3.2	2.8	2.8
Latvia	9.5	13.0	11.9	4.3	-9.2	-13.3	0.8	6.9	2.4	2.5	1.7	2.7	2.6	2.9	3.1
Estonia	6.3	11.2	10.2	4.5	-12.9	-8.1	6.2	5.9	3.2	1.7	3.5	0.7	1.3	2.3	2.8
Cyprus	4.9	3.9	4.6	5.5	1.6	-2.8	2.2	-0.8	-3.9	-5.9	-1.8	2.4	3.0	2.8	2.7
Malta	3.7	0.8	1.4	0.4	-1.9	1.3	0.9	1.3	1.1	-0.1	2.4	1.5	1.3	-	-
EU	2.5	2.1	3.5	3.2	0.5	-4.3	2.2	1.7	-0.4	0.3	1.7	2.3	1.8	1.7	1.7
Eurozone	2.2	1.7	3.2	3.1	0.4	-4.5	2.1	1.5	-0.9	-0.3	1.2	2.0	1.7	1.5	1.5

RGDP trends of the four largest eurozone economies



Source: LGT Capital Partners, Bloomberg. Numbers for 2017 and 2018 are based on Bloomberg consensus estimates, 2016 numbers for Spain, Ireland and Estonia are also consensus estimates, 2016 data for Malta and Luxemburg uses most recent actual data (i.e. for Q3/2016) available per March 2017.

Market Performance

Equities		Global share	Mkt Cap. in $	Last price	5 days	1 month	3 months	6 months	1 year	Year to date	Trend over past yr
World	BBG World All Country	100%	70,721	204.1	-0.6%	2.0%	3.8%	3.5%	12.5%	4.9%	Rising
Americas											
USA	S&P 500	37.5%	26,555	2,368.4	0.2%	3.2%	5.4%	8.6%	19.7%	5.8%	Rising
	Nasdaq Composite *	12.8%	9,087	5,833.9	0.1%	2.7%	7.7%	10.9%	25.5%	8.4%	Rising
	S&P 600 Small Cap *	1.1%	780	837.3	-1.1%	1.0%	-2.1%	9.8%	27.5%	-0.1%	Rising
Canada	TSX	2.9%	2,074	15,608.8	1.4%	0.4%	2.1%	5.4%	17.3%	2.1%	Rising
Brazil	Bovespa	1.2%	819	65,742.3	-1.4%	1.4%	8.3%	9.1%	33.9%	9.2%	Rising
Mexico	Mexbol	0.5%	344	47,419.2	1.2%	1.1%	2.3%	0.0%	6.5%	3.9%	Rising
Europe											
Euroland	Euro Stoxx *	7.9%	5,575	360.7	1.5%	3.7%	6.0%	8.7%	13.5%	3.0%	Rising
UK	FTSE 100	4.5%	3,187	7,339.0	1.0%	2.1%	5.9%	7.0%	19.8%	2.7%	Rising
Germany	DAX Price Ix	2.8%	1,951	5,804.5	1.1%	3.6%	6.7%	11.7%	19.8%	3.9%	Rising
Switzerl.	Swiss Perf Extra Pr Ix	2.2%	1,549	255.2	1.0%	3.8%	10.7%	8.3%	16.2%	7.8%	Rising
Poland	WSE	0.2%	162	2,201.0	0.4%	5.6%	14.6%	22.7%	17.3%	13.0%	Rising
Russia	Micex	0.8%	581	2,024.8	-0.5%	-7.5%	-8.3%	-1.3%	6.0%	-9.3%	Falling
Asia											
Japan	Nikkei 225	7.5%	5,335	19,229.0	-0.8%	1.2%	2.5%	13.4%	14.6%	0.6%	Rising
Hong Kong	Hang Seng Ix	6.1%	4,310	23,800.0	0.1%	1.3%	4.1%	-0.5%	18.9%	8.2%	Rising
China H	China Enterprises Ix	9.7%	6,892	10,309.1	0.2%	3.6%	4.2%	3.0%	21.2%	9.7%	Rising
China A	CSI 300	5.0%	3,530	3,456.0	-0.1%	2.1%	-0.4%	3.5%	11.2%	4.4%	Rising
Australia	ASX 200	1.8%	1,247	5,758.2	0.9%	1.9%	3.9%	6.9%	12.7%	1.6%	Rising
India	Sensex	2.5%	1,772	28,970.1	0.0%	2.4%	8.5%	-0.3%	17.5%	8.8%	Rising
Korea	Kospi	1.8%	1,299	2,094.7	0.1%	1.4%	3.1%	1.5%	7.6%	3.4%	Rising
Taiwan	Taiex	1.5%	1,045	9,762.0	0.9%	2.3%	4.1%	5.4%	12.7%	5.5%	Rising

All indices: price indices (excl. dividends), in local currency. Market cap in billion USD at current exchange rates refers to country or index where marked with asterisk (*)

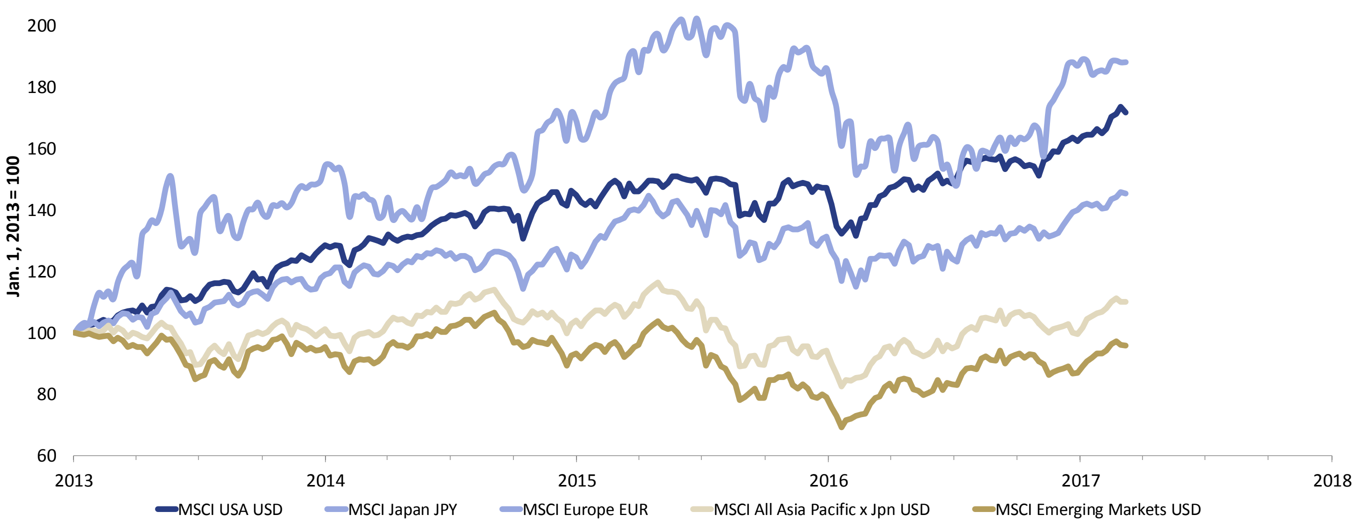
Currencies										
US Dollar, correlation-weighted index		USD	122.8	0.6%	2.0%	0.6%	5.6%	2.9%	-1.1%	Rising
Euro, correlation-weighted index		USD	97.1	0.7%	0.6%	0.1%	-1.7%	-1.7%	-0.7%	Rising
Japanese yen, correlation-weighted index		USD	355.9	0.6%	0.2%	0.9%	-6.0%	1.8%	2.0%	Rising
Swiss franc, correlation-weighted index		USD	345.3	0.0%	-0.1%	0.9%	0.8%	0.9%	-0.6%	Rising
Bonds										
US Treasuries **		USD	375.9	-0.7%	-0.7%	-0.4%	-4.5%	-1.4%	-0.1%	Falling
EMU Bonds (Germany) **		EUR	227.7	-0.7%	0.8%	-1.0%	-4.7%	-0.5%	-1.6%	Falling
UK Gilts **		GBP	646.3	-0.6%	1.7%	2.3%	-4.8%	6.9%	0.7%	Rising
EM Bonds USD ***		USD	804.8	-0.1%	1.1%	4.0%	-1.1%	10.7%	3.4%	Rising
EM Bonds Local ***		USD	266.9	0.1%	1.3%	4.1%	-2.7%	8.6%	4.2%	Rising
Investment Grade USD +		USD	144.5	-0.1%	-0.2%	0.9%	-2.7%	5.4%	0.6%	Rising
High Yield USD +		USD	174.5	-0.5%	0.6%	3.6%	4.7%	18.4%	2.8%	Rising

**Total return, indices of bonds with maturities of more than 1 year ***JP Morgan Indices + Bloomberg Indices

Commodities										
WTI Crude oil (generic future)		USD	52.8	-1.9%	0.9%	3.9%	10.9%	44.7%	-1.7%	Rising
Industrial Metals Index (S&P GSCI)		USD	149.2	-2.9%	-0.1%	2.2%	18.9%	19.9%	7.2%	Rising
Gold, spot price		USD	1,217.6	-2.6%	-1.9%	4.0%	-9.0%	-3.5%	6.1%	Sideways

Source: Bloomberg. All data based on last traded price at cut off time: 3/8/2017 13:10

Total return of stock market indices that are relevant for our asset allocation



Note: In our portfolios, equity positions in the USA, Europe and Japan are hedged against currency risk as a matter of principle.

Economic and Corporate Snapshots

Macro fundamentals		USA	Euroland	China	Japan	Germany	Britain	Brazil	Russia	Switzerl.
GDP, nominal, 2017 [1]	bn USD	19,377	12,408	12,362	5,106	3,619	2,610	1,954	1,442	684
GDP per capita, 2017 [1]	USD, PPP	59,407	38,322	16,660	40,090	49,768	43,579	15,496	26,967	60,787
Real GDP growth, expected 2017	Consensus	2.3%	1.5%	6.5%	1.1%	1.6%	1.5%	0.8%	1.1%	1.5%
Real GDP growth, expected 2018	Consensus	2.3%	1.5%	6.2%	0.9%	1.6%	1.3%	2.2%	1.5%	1.6%
Real GDP growth last quarter *	q/q annualized	1.9%	1.6%	7.0%	1.2%	1.6%	2.8%	-3.6%	-2.3%	0.4%
Unemployment rate [2]		4.8%	9.6%	4.0%	3.0%	5.9%	4.8%	8.2%	5.6%	3.3%
Inflation, core rate (CPI)	y/y	1.7%	2.2%	0.9%	0.1%	1.2%	2.6%	5.4%	5.0%	-0.2%
Industrial production	y/y	0.0%	2.0%	6.0%	3.2%	-0.7%	4.0%	2.3%	2.3%	-1.2%
Structural budget balance/GDP 2017	IMF	-3.7%	-1.1%	-3.2%	-4.8%	-0.2%	-2.5%	-7.8%	-1.9%	0.0%
Gross government debt/GDP 2017	IMF	108%	91%	50%	253%	66%	89%	82%	18%	44%
Current account balance/GDP 2017	IMF	-2.7%	3.1%	1.6%	3.3%	8.1%	-4.3%	-1.3%	3.5%	9.0%
International currency reserves	bn USD	40	258	3,005	1,171	37	111	185	330	698
			ESM / EFSF							
Govt bond yield 2yr **	p.a.	1.3%	-0.5%	3.7%	-0.3%	-0.9%	0.1%	9.7%	9.5%	-0.9%
Govt bond yield 10yr **	p.a.	2.5%	0.6%	4.5%	0.1%	0.3%	1.2%	7.6%	8.2%	-0.1%
Policy rate (or approximation) °	p.a.	0.75%	-0.40%	4.35%	-0.04%	-0.40%	0.25%	12.25%	8.25%	-0.75%

[1]IMF estimates. *annualized, most recent qtr. [2]PRC ex. migrant workers. ** Currency swap rates for China & Brazil, closest ESM or EFSF bonds for Eurozone. °Max target rate for Fed, SNB

Corporate fundamentals		USA	Euroland	China	Japan	Germany	Britain	Brazil	Russia	Switzerl.
Exchange capitalization*	USD	26,555	6,721	11,202	5,335	1,951	3,187	819	581	1,549
Growth in earnings per share, estimated (MSCI)										
Next fiscal year / current fiscal year	Consensus	12.3%	10.4%	13.2%	12.5%	9.1%	7.8%	14.8%	14.2%	10.9%
FY year after next / next FY	Consensus	11.0%	9.1%	14.7%	8.7%	6.8%	9.7%	16.5%	9.7%	9.5%
Growth in revenue per share, estimated (MSCI)										
Next fiscal year / current fiscal year	Consensus	5.1%	3.2%	10.2%	4.2%	2.2%	3.9%	6.1%	9.5%	4.0%
FY year after next / next FY	Consensus	0.7%	1.3%	-22.1%	0.8%	0.5%	-0.3%	9.3%	3.8%	1.6%
Valuation metrics (MSCI)										
Price-Earnings Ratio (est forward 12m)	Consensus	18.53	14.69	12.50	15.93	14.08	14.71	12.89	6.26	17.81
Price-Sales Ratio (est forward 12m)	Consensus	1.95	1.02	1.38	0.85	0.91	1.23	1.30	0.80	2.03
Dividend yield	Consensus	2.0%	3.3%	2.2%	2.0%	2.9%	4.3%	3.4%	5.1%	3.4%

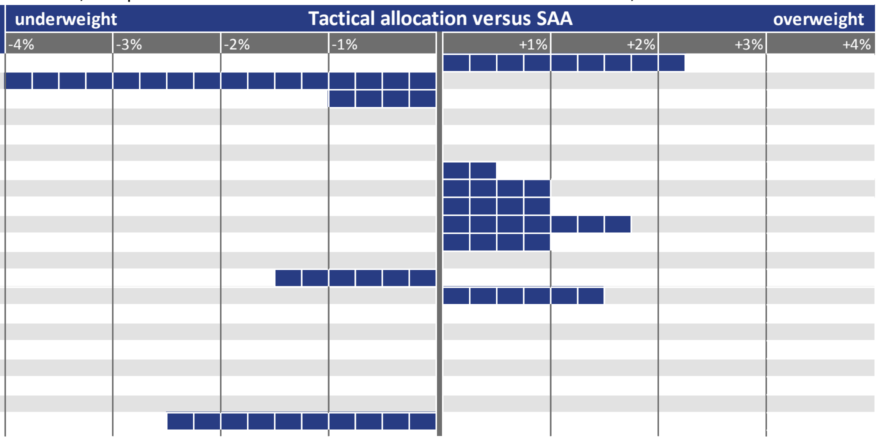
* China includes Hong Kong. Notes: Corporate fundamentals are based on consensus estimates ."Reversal +" denotes a return to profits, "Reversal -" an expected loss next year. Source: Bloomberg.

08.03.2017

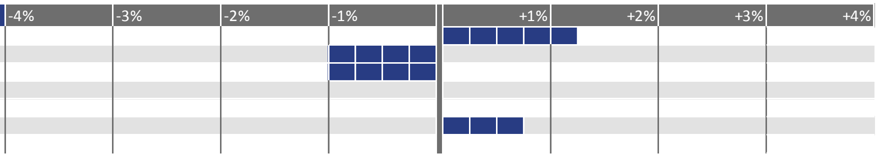
LGT Asset Allocation Strategy[1] for Q1/2017

Overweight in equities, strong undersweight in government bonds, and preference for USD reiterated at the last review on March 1, 2017.

	Asset class	SAA
Fixed income	Short-term investments	0.0%
	Global sovereign bonds	4.0%
	Inflation linked bonds	4.0%
	Investment grade corporates	3.0%
	High yield bonds	8.0%
	Emerging markets bonds	8.0%
Equities	Equities defensive	8.5%
	Equities North America	11.0%
	Equities Europe	5.0%
	Equities Japan	3.0%
	Equities Asia/Pacific ex Japan	3.0%
	Equities Emerging markets	9.5%
Real	Commodities	3.5%
	Real estate (REITs)	5.0%
	Infrastructure	1.5%
Alternatives	Insurance linked strategies	5.0%
	HF CTA	7.8%
	HF Equity long/short	1.8%
	HF Event driven	1.0%
	HF Relative value	1.8%
	Listed private equity	5.0%



	Currency[2]	SAA
Currencies	USD	85.1%
	EUR	0.0%
	CHF	0.0%
	GBP	0.0%
	JPY	0.0%
	Others (TAA vs. base currency)	14.9%



Source: LGT Capital Partners. 1 Based on LGT GIM Growth (USD). Tactical positions (TAA), i.e. the position versus the stratetic allocation (SAA), can be transferred to similar portfolios as a general rule, but investment restrictions or liquidity considerations may lead to deviations in implementation. 2 Position in other currencies (Others) is against base currency – in this case USD.