Synchronised Global Growth and Mixed Inflation

Executive Summary

- The global economy is experiencing the most synchronised growth since 2009/10, with both developed and emerging economies accelerating at the same time.

- Global inflation rates are also rising in tandem with an upswing in global growth, but underneath the headline rates, underlying inflationary pressures remain well contained.

- Equities had a strong first quarter, posting solid positive returns and outperforming Government Bond markets, due to a synchronised pick-up in global economic activity and rising inflation.

- The US is expected to be further ahead in the business cycle than other economies, with a buoyant consumer and high “animal spirits” spurring it on.

- The UK is likely to feel the effect of rising import prices on disposable incomes, a slowing housing market and uncertainty over a “hard” versus “soft” Brexit.

- In the Euro Zone, economic activity is soaring ahead and shows no signs of abating.

- Japan’s economy is likely to continue to benefit from the overall pick up in global demand and a weaker currency.

- In the Emerging economies, China continues to see an improvement in its economic fortunes thanks to a substantial fiscal boost and the need to maintain economic stability in a year when important changes in the Communist party are taking place.

- A number of political risks such as wrangling over the President’s proposals, European elections, the Middle East and North Korea, have the potential to upset the growth upswing.

- Given the mixed outlook for global inflation, monetary policy normalisation is likely to proceed in a multi-speed fashion.

- Government Bond yields are expected to fluctuate in a fairly wide rage during the course of the year.

- In terms of global Government Bond markets, the US looks attractive relative to other developed markets. US yields are significantly higher than the UK and, more particularly, the Euro Zone and Japan, where yields are still negative.

- The fundamental picture for Equity markets is reasonably positive: global GDP is continuing to grow, albeit at a fairly modest pace, and there have been some upgrades to forecast from leading international agencies such as the IMF, all of which supports company earnings.

- Set against this is the concern that Equity market valuations have become stretched. However, not all markets are expensive.

Introduction

The global economy is experiencing the most synchronised growth since 2009/10, with both developed and emerging economies accelerating at the same time. Global economies are growing in sync thanks to reflationary policies put in place last year in response to fears of deflation, a stabilisation in Commodity prices, a weaker Dollar and Yuan in 2017 and a rise in economic optimism on the back of the US government’s significant fiscal promises. Global growth is expected to be unimpressive by historical standards, but it is likely to continue to be significantly stronger than last year. Global inflation rates are also rising in tandem with an upswing in global growth, but underneath the headline rates, underlying inflationary pressures remain well contained.
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2017 First Quarter Review: A Good Start for Risk Assets

Equities had a strong first quarter (see chart 1), posting solid positive returns and outperforming Government Bond markets, due to a synchronised pick-up in global economic activity and rising inflation. The S&P 500 index rose 6.07% in total return terms in the first quarter of 2017. In addition to robust economic data, US Equities were also supported by a healthy corporate earnings season, with year-on-year earnings-per-share growth in the fourth quarter of 2016 of nearly 5% - the first growth in earnings for many quarters. In Europe, the FTSE 100 index rose 3.65%, despite the triggering of Article 50, which started the UK’s complicated exit from the EU. The EuroStoxx 50 index was up even more, at 6.82%, as the Euro Zone saw an even more impressive acceleration in economic activity and political uncertainty abated after the failure of the populist leader in the Dutch election. Emerging Market Equities were the best performing Equity market, with the MSCI Emerging Market index up 11.44%, thanks to a turn-around in the economic fortunes of China and stability in Commodity prices. Japan was the main laggard, as the strong Yen damaged the prospects of Japanese exporters, with the Topix index up only 0.57%.

Bond market returns were much more muted than their Equity counterparts. In the US, the Bank of America Merrill Lynch (BoAML) 7-10 Year Treasury index rose a meagre 0.94% as yields consolidated after rising significantly in the latter part of 2016. After increasing interest rates in March, the Federal Reserve kept the number of projected interest rate increases at three in total for 2017. This helped to assuage the fears of some Bond investors who had expected the Fed to be more hawkish. In the UK the BoAML 7-10 Year Gilt index was also up by 1.52% due to a sharp deterioration in retail sales as a result of Brexit uncertainty and rising inflation. The Euro Zone was the worst performing Bond market, with the BoAML 7-10 Year Euro Government Bond index down 1.34% in the quarter. This was due to a sharp pick-up in inflation and fears that the European Central Bank may be ready to scale-back its quantitative easing programme earlier than expected.

Credit markets outperformed Government Bond markets in the first quarter of the year. Yields were more attractive and accelerating economic growth meant a fall in credit risk. A stabilisation in oil prices compared to the sharp falls of last year was especially helpful for High Yield Bonds where the Energy sector represents a larger component of the market. Overall, the BoAML Investment Grade Corporate Bond index was up 1.42% and the BoAML High Yield Bond index was up an even bigger 2.71%.

Synchronised Global Growth

After years of economic divergence, the global economy is finally experiencing a simultaneous acceleration in activity. As can be seen in Chart 2, this synchronised growth is happening in Emerging as well as Developed economies. In particular, China’s decision to reintroduce large stimulus through fiscal and credit policies to reach its official growth targets has clearly boosted global growth: directly, given its share in global GDP, and indirectly by supporting commodity prices and therefore the exports of Emerging economies. At the same time, the fiscal stance has been relaxed across Developed and Emerging economies, including through the additional fiscal package in Japan, easier fiscal stances in the Euro Zone and the UK, and, notably, expected fiscal initiatives in the US for 2018. Last but not least, all this is happening against a backdrop of still very accommodative monetary policies. Overall, annual global growth will continue to accelerate in 2017, after five years of slow growth.

The US will likely be further ahead in the business cycle than other economies. Despite a recent softening in the composite Purchasing Managers’ Index (regarded as one of the best indicators of imminent economic activity), the index remains solidly above the 50 mark, which represents the border between economic expansion and contraction. The rolling-over in the index can be explained partly by seasonal factors, as a relatively warm winter reduced the output of the Utilities sector. Another fact, though, is the three increases in the Fed Funds Rate since December 2015, which is causing a tightening in financial conditions and a slowdown in loan growth. Outside of this sector, manufacturing output has risen for six consecutive months, helped by a recovery in the mining sector and business equipment spending. Going forward, the US economy will be supported by lower Commodity prices and the recent weakness in the Dollar which helps US exporters. The consumer will also carry on making substantial contributions to the US economy as the labour market reaches full employment and wages continue to edge upwards. Reinforcing these improving trends is the unleashing of “animal spirits”, helped by the President’s enormous tax cut and infrastructure proposals and promises to significantly deregulate the economy. The Conference Board Consumer Confidence index is at the highest level it has been since 2000 and the Philadelphia Federal Reserve Business Sentiment index is trading at the top of its historical range (see Chart 3). Further fuel will be added to the growth fire when the President’s fiscal promises (even if scaled down by Congress) are eventually implemented. Rising inflation, however, without a corresponding increase in wages, threatens to diminish consumer purchasing power.

Across the Atlantic, the UK continues to show remarkable resilience despite the uncertainty caused by Brexit. The manufacturing Purchasing Managers’ Index (PMI) reported a moderate decline in March but the overall level remains solidly in expansion territory and above its long-term average, helped in part by more competitive exports as a result of a much cheaper currency and stronger global demand. Looking ahead, the UK economy is expected to lose steam as uncertainty over the terms of Brexit intensifies and real disposal incomes become increasingly squeezed by higher inflation. Prices charged rose to their highest level since September 2008, which was due to the pass-through from a weaker exchange rate. This is feeding through to headline inflation which has jumped to 2.3% in February/March. Consequently, retail sales volumes are slowing sharply, with the three-month moving average of the year-on-year change in UK retail sales dropping from 6% to 2.35% in the last few months. The consumer will be further affected by a slowly deflating housing market where the year-on-year change in asking prices, have already fallen to 2.3%, according to Rightmove.

In the Euro Zone, economic activity is soaring ahead and shows no signs of abating. The latest composite Purchasing Managers’ Index continues to rise, with the latest reading at a near six year high. Quantitative easing and a cheaper currency is clearly working. Robust output indicators partly reflect a stronger global cycle and the euro depreciation through Q4 2016 boosting net trade. Also, the household sector has maintained a healthy pace of spending growth. Euro Zone retail sales climbed 0.7% month-on-month in February, despite an energy-related increase in headline inflation. Consumption seems to be well supported by on-going labour market improvements with the unemployment rate continuing to fall. Political uncertainty notwithstanding, improving global demand, continued monetary accommodation, a cheap Euro and falling unemployment will help to increase growth in 2017.

In the Emerging economies, China continues to see an improvement in its economic fortunes thanks to a substantial fiscal boost. GDP came in at 6.9% year on year in 2017Q1, up from 6.8% in 2016Q4 and narrowly beating expectations of a 6.8% print. Premier Li Keqiang’s target for the year is growth of “about 6.5% or above” – the 1Q outcome is comfortably in the range. Another positive is that nominal GDP growth accelerated again. In current prices, the economy expanded 11.8%, up from 9.6% in 2016Q4. Faster nominal growth drives higher profits, wage gains, and tax revenue – all positives for paying down China’s outsized debt. The main monthly measures also pointed to strength at the end of the quarter. Industrial output at 7.6% year on year was significantly up from 6.3% in the first two months of the year and way ahead of expectations. Retail sales and fixed asset investment also accelerated. In the details on the property sector, new real estate construction accelerated but sales slowed. Automobile sales picked up, though 2.3% growth for 1Q as a whole remains decidedly lacklustre. Looking forward, although the authorities are tapping on the monetary brakes and introducing restrictions to help cool the over-heating housing market, fiscal policy will remain loose and the exchange rate flexible, in order to maintain economic stability in a year when there will be leadership changes at the highest level of the Communist Party.
Uncertainties Abound

A number of political risks have the potential to upset the growth upswing. In the US, much of the rise in economic optimism is predicated on the President’s fiscal promises. The failure of the Republicans to push through the reform of Obamacare questions the President’s ability to come good with his proposals to significantly cut taxes and increase public spending. This would severely damage business and consumer confidence. Political wrangling over the lifting of the US debt ceiling, which will need to take place this year in order to accommodate the President’s proposals, would also increase uncertainty. However, tax cuts for corporations and the wealthy are much easier to do than health care reform and have broad support among Republicans. More importantly, after their failure on health reform, Republicans are now under pressure to deliver something substantial before next year’s mid-term elections or risk the wrath of voters. The likely outcome is that the expected fiscal boost will come later and be smaller than originally expected. But it will still be substantial. The Committee for a Responsible Budget estimated that the President’s proposals would equate to approximately $5.3 trillion over ten years – nearly 30% of US GDP. Even if a fraction of this was passed through Congress, it would still represent a massive fiscal stimulus, giving the US economy a significant tailwind in the latter part of 2017 and in 2018. Another political risk emanating from the US is a rise in protectionism. If the President goes through with his promises to increase tariffs and re-negotiate NAFTA, this could be hugely damaging to international trade and the global economy and could make the US economy less efficient and potentially increase prices for consumers. The President is likely to soften his tone, especially with regard to NAFTA, where Canada, for example, is the biggest export market for the US.

Europe also faces a number of political risks. Although the Dutch election passed without impacting markets and did not provide an unexpected result, it still demonstrated the rise in populist politics over recent years. If the French or German elections spring a surprise, they both have the capacity to raise uncertainty, which could lead to firms and households increasing savings in response to a more uncertain future.

In France, the far-right National Front (FN) supports exiting the EU and euro, and is through to the second round of voting, where Le Pen could face a tougher race. The FN has limited broader support and voters tend to coalesce behind centrist parties in run-offs. Even if the FN won the run-off, Le Pen could struggle to govern without an FN majority in parliament, which is unlikely even after the June 11 and June 18 parliamentary elections. Therefore, Le Pen may be forced to soften some of her positions to effectively govern.

In Germany, a Federal election takes place in September. Germany uses a proportional representation system in parliament to choose its chancellor. Chancellor Angela Merkel of the Christian Democratic Union is running for a fourth term. While Merkel’s popularity has fallen and the anti-immigration Alternative for Germany (AfD) party gained some parliamentary seats last year, some form of mainstream coalition is likely to prevail.

In Italy, elections are likely to take place at some time between mid and late 2017. Italy’s government is in a precarious position—the country installed its fourth unelected prime minister in a row after a constitutional referendum failed—raising the possibility of an early election. The vote is due by May 2018, but the second half of 2017 is more likely. The anti-euro Five Star Movement (M5S) is neck-and-neck with the ruling Democratic Party (PD) in opinion polls. The M5S has a long-standing promise not to join with other parties, but a coalition with the Northern League could threaten an exit from the EU.

Despite creating short term uncertainty, populist parties will not succeed. The Dutch elections demonstrated that, in the final hour, continental Europe in not prepared to fully embrace the anti-European populist mantra. Also, support for the Euro is still strong. Unlike the UK, the other countries listed above all use the Euro. At this point, there is no legal provision for leaving the EU without also leaving the Euro. Doing so would be very destabilizing.
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Economically, politically and socially. Moreover, EU asylum applications have plummeted, taking some of the sting out of populist support.

Having already voted to exit the EU, the UK has now triggered Article 50, starting a complicated and lengthy disengagement from its continental partners. Concerns about the economic impact of losing trade with its biggest export market will continue to put pressure on the UK economy. The recent announcement of the UK Prime Minister to call a general election will add a further layer of uncertainty and increase the debate over whether the UK will experience a “hard” versus a “soft” Brexit. Ultimately, the UK is likely to re-orient its economy towards the US and the rest of the world, and UK policymakers will need to ensure that economic policy is sufficiently loose to help dampen any economic uncertainty.

Last, but by no means least, events in the Middle East and North Korea have the potential to be biggest geo-political flash points. The North Korean leader is somewhat of a loose cannon and is threatening to use nuclear weapons against South Korea and possibly Japan. The strength of the US military, pressure from Beijing, and the threat of severe sanctions should keep him at bay. In the Middle East, the situation in Syria could spiral out of control and lead to a spike in the oil price which, as in the past, could presage another recession. However, the main powers will attempt to keep the conflict remains a local affair.

**Contained Inflation**

As well as a synchronised upswing in growth, inflation rates in the main economies have also risen in sync. In the US, headline inflation has risen above the Federal Reserve’s target, to 2.4% in March 2017 compared to 0.9% in March of last year. Similarly in the UK, headline inflation is above the Bank of England’s target, having risen to 2.3% in March 2017 compared to 0.5% in March of last year. The biggest inflation surprise is in the Euro Zone where headline inflation was 2% in February before falling back to 1.5% in March, having been as low as -0.6% in January of 2015. Given, in particular, Germany’s aversion to inflation, a number of eyebrows have been raised at the European Central Bank. Even in Japan, where the country has, on and off, experienced many years of negative inflation, the headline rate rose to 0.3% in February 2017.

However, if one looks under the hood of the headline rates, the inflation picture is much more mixed. Much of the recent rise in headline inflation is due to the rise in energy prices - supported by OPEC’s agreement in November to cut oil production - compared to early 2016 when oil prices collapsed. Underlying inflationary trends, therefore, are much more benign in many major economies. In the Euro Zone, for example, core inflation (excluding more volatile food and energy) is a much more subdued 0.7%, well below the ECB’s target of 2%. Similarly, in Japan, core inflation has slipped back into deflation territory with a rate of -0.1 in February 2017. In the US and the UK, the story is different, as core inflation rates are much firmer. In the US, despite falling back slightly in March, the core rate is at the Federal Reserve’s target of 2% (see chart 4). Likewise, in the UK, core inflation was 1.8% in March 2017, very close to the Bank of England’s target.

**Chart 4: US Inflation (%)**

There are signs that headline rates are beginning to abate as the base effect of the rise in oil prices starts to drop out of the year-on-year consumer price index calculations. Unless oil prices jump again, the effect of oil prices on headline inflation is unlikely to be as strong in the next few months. The recent range-trading nature of the oil price is helpful in this regard. More important in terms of a “sustained” rise in inflation, is the degree of economic slack and the growth in wages.

In the Euro Zone, therefore, underlying inflation is expected to remain subdued for a while longer. Although falling, unemployment is still very high at 9.5%. This bears down on wages which continue to drift sideways, with a current rate of year-on-year wage growth of only 1.5%, about the average of the last few years.

Similarly, in Japan, although unemployment has fallen to very low levels, wage growth remains subdued along with economic growth, which, in turn, continues to be held back by a rapidly ageing population.

Inflation in the US, on the other hand, after a brief respite, will continue to be firm. Economic slack in the US is negligible. There may be some headroom left in the labour market as previously disenchanted people return to the workforce, but not withstanding this, the labour market is very close to full employment, with an unemployment rate of only 4.5%. A tight labour market is putting upward pressure on wages which are now rising by 2.7% year-on-year. One silver lining is that there is still some slack in product markets as capacity utilisation, at 76%, is still below its historical average. This is holding back company pricing power and helping to keep inflationary pressures at bay.

However, as US growth continues through 2017, and especially when it receives a boost from a substantial fiscal stimulus, economic slack will disappear and prices will rise at a faster pace. In the UK, unemployment is also low and wage growth is rising, and the gradual pass-through effect of Sterling’s depreciation will continue to put upward pressure on inflation, but Brexit uncertainty and the squeeze on real incomes will likely keep inflation at bay.

The mixed picture of global inflation is highlighted even more by trends in Emerging economies. Inflation has not tracked the same rise in Developed economies, mainly due to the fact that food prices are a much more dominant factor than energy costs. Most food prices are lower or have not risen in the same way as oil. This is why inflation in China, for example, has slowed sharply to 0.9% in March compared to 2.5% in January 2017. Similarly, Indian inflation is at the very bottom of the range since the series began in 2011. Inflation in easing rapidly in some high inflation countries, such as Brazil and Russia, as the effect of past currency depreciations fades and monetary policy actions work through.

Given the mixed picture of global inflation, monetary policy normalisation will proceed in a multi-speed fashion. As the US is further ahead in the business cycle, economic slack is negligible, wages are rising, underlying inflation is hitting target levels, and a fiscal boost is waiting in the wings, the Federal Reserve will add to March’s rate rise with another two quarter point increases over the rest of the year, in line with its projections. As always, however, the Federal Reserve will be “data-dependent” and if growth moderates and/or a fiscal boost is not forthcoming, a shallower path of rate increases could take place. The Federal Reserve has also started discussing the size of its massive balance sheet and the possibility of allowing some of its securities to roll off as they mature rather than reinvesting them all. This could also influence the number of rate increases.

As for the European Central Bank, the fact that underlying inflationary pressures remain subdued means that we are unlikely to see any rate increases this year and only a gradual tapering in quantitative easing to zero by the end of 2018. With Brexit uncertainty and a squeeze on real incomes from mainly import-driven inflation, the Bank of England will look through the spike in inflation this year and, like the ECB, will hold off from increase interest rates.
Fluctuating Bond Yields

Government Bond yields will continue to fluctuate in a fairly wide range during the course of the year. In the last few months, Bond yields rose in response to the President’s expected fiscal stimulus measures, a rise in headline inflation rates as well as a synchronised upswing in global growth. However, a large part of the sharp rise in headline inflation can be explained by the significant rise in oil prices compared to the low point of the first quarter of last year. Going forward, this factor will not have the same influence, since oil prices will be caught in a tug-of-war between OPEC, whose production cuts are helping to support prices, and US shale producers, whose increase in production whenever prices rise materially, put downward pressure on oil prices.

Recently, headline inflation has started to come down as the year-on-year impact of higher oil prices is starting to drop out of the consumer price index calculations, and this has helped to bring Bond yields down (see chart 5) in their wake. Other factors that have led to a drop in Bond yields is the soft-patch in economic activity in the US, as evidenced by the rolling-over of the purchasing managers’ indices and a flight to safety in response to a rise in political uncertainty.

The recent fall in Bond yields, however, is likely to be temporary. One reason is that the safe-haven appeal of Government Bonds will slowly diminish as political uncertainty abates. One of the biggest tests of political risk, for example, is the French elections, where the chances of an anti-EU populist candidate winning the elections has fallen quite considerably after Macron’s victory in the first round. More importantly, underlying inflation, especially in the US, will remain firm as wage growth continues to pick up in the face of full employment. Moreover, the US economy will receive a second wind from the fall this year in the oil price and the Dollar, as well as from the President’s fiscal stimulus measures (even if watered down), all of which will help to eliminate any remaining economic slack and increase inflationary pressures.

In terms of global Government Bond markets, the US looks attractive relative to other developed markets. US yields are significantly higher than the UK and, more particularly, the Euro Zone and Japan, where yields are still negative. Moreover, the disconnect between an improving macroeconomic picture and exceptionally low yields in the Euro Zone will increasingly come under pressure as the economy roars ahead and the ECB continue to taper. In the UK, yields will face the headwind of Brexit uncertainty and the squeeze of disposable incomes. In Japan, yields will be capped by muted growth and a shrinking working population.

Investment Grade Corporate Bonds, on the other hand, offer a much higher yield than Government Bonds. The balance sheets of many of these companies are also much stronger, due to the huge cash piles that they have accumulated. Moreover, although rising Government Bond yields will increase interest rate risk, this will be offset by a fall in credit risk as economic growth accelerates and the probability of default falls. In the High Yield Bond market, yields are even more attractive than in the Investment Grade market. High Yield Bonds also offer the advantage of being less sensitive to rises in interest rates. However, yield spreads have already adjusted to these favourable conditions and are now

trading close to the bottom of their recent ranges, suggesting that investors should wait for more attractive entry points.

**Mixed Equity Valuations**

The fundamental picture for Equity markets is reasonably positive: global GDP is continuing to grow, albeit at a fairly modest pace, and there have been some upgrades to forecast from leading international agencies such as the IMF, all of which is supporting company earnings. Set against this is the concern that Equity market valuations have become stretched. However, not all markets are expensive. As can be seen from chart 6, while the Equity dividend yield has fallen below the Government Bond yield in the US, in other major markets, the income from Equities still looks relatively attractive.

![Chart 6: Equity Dividend vs Government Bond Yields](chart6.png)


For the US equity market, the debacle over Obamacare has had a negative impact on the President’s credibility to deliver on his election promises, but only slightly. Much more significant for the equity markets are other aspects of his proposals such as tax reforms and infrastructure spending. These elements of his programme, if delivered, will certainly stimulate short term growth. However, much of this already appears reflected in market prices and especially in those sectors best placed to benefit such as construction, road builders and other infrastructure plays. Overall, we expect reasonable earnings growth and a modest return from US equities for the remainder of the year.

In Europe, composite Purchasing Managers’ Indices have risen to their highest level for a number of years, while political risk that was holding back the equity market has reduced significantly with the recent first round results of the French election. This development has enabled investors to focus more on the corporate fundamentals for European equities, which are quite attractive. The earnings growth for European equities for 2017 and 2018 is around 10% on consensus numbers while the forward P/E ratio to March 2018 is less than 14x, suggesting a broadly positive outlook for the market.

For UK equities, the surprise decision to call an early general election – having previously denied any such intention – sent the pound sharply high and the Equity market lower in April. Assuming the polls are correct – perhaps a rash assumption given their failure to foresee the results of the US election and the EU referendum – the incumbent government is likely to win the election with a significantly enhanced majority. This will strengthen the government’s hand in the Brexit negotiations and also provide five years of stability for business. To that extent the election is likely to be a positive for the Equity market. On the corporate front, forecast earnings growth for the UK market has risen in recent months with IBES data now predicting growth of 20% in 2017 followed by 8% in 2018. Given the P/E on the UK market is around 13.4x and the dividend yield is estimated...
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to be 4.2% for the current year, this looks reasonably attractive.

In Japan, the structural demographic issues and a decline in the size of the workforce are difficult forces to counteract. However, the pressure to improve shareholder returns through changes in corporate governance and an emphasis by the Government Pension Fund and other public sector funds on Equity investment gives hope that the Equity market can rise through the remainder of the year. Our expectation is for a fairly modest return although if the yen were to depreciate significantly the equity market would certainly be a major beneficiary.

Conclusion

The next few quarters should see both opportunities and challenges for investors. Global growth is experiencing a synchronised upswing and will continue to do so as consumers benefit from tightening labour and housing markets and manufacturing enjoys the benefits of improving international trade. Rising political risk and protectionism are key threats to the global economy, but populism is unlikely to succeed in the Euro Zone and the President is likely to moderate his anti-trade rhetoric in the face of retaliatory threats. Inflation has risen in line with accelerating growth, but the outlook is mixed. Although rising in the Developed economies, inflation is falling in Emerging economies due to a fall in food prices. With more stable oil prices, headline inflation in the Developed economies in the next few quarters will not be boosted by energy-related factors in the same way as in the last few months. Underlying inflationary pressures will remain firm, especially in the US where wage growth continues to rise, but they will be more muted in the Euro Zone. Risk assets are expected to respond positively to improving economic conditions and rising company earnings, while Government Bonds, after a brief respite, are expected to grind upwards in line with rising inflation expectations, but will ultimately be capped by a lower “natural” rate of interest.
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