BARCLAYS

Wealth and Investment Management

In Focus: Markets as we see them

Trick or Treat?

"...the man who really counts in the world is the doer, not the mere critic – the man who actually does the work, even if roughly and imperfectly, not the man who only talks or writes about how it ought to be done."
(Theodore Roosevelt)

11 November 2016

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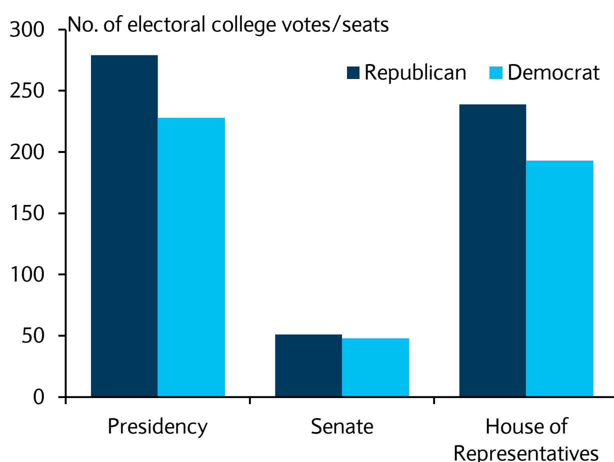
Hail to the Chief

As of 9th November 2016, Donald Trump was officially confirmed as the 45th President of the United States of America, with the Republican Party maintaining their hold over both upper and lower houses of Congress (Figure 1). The initial flight to safety that welcomed President-elect Trump's victory reversed at the mention of greater infrastructure spending in his victory speech (Figure 2). Asset class and sub-asset class moves since suggest investors are taking a lot of what President-elect Trump has said on the campaign trail very literally.

The era of Trump?

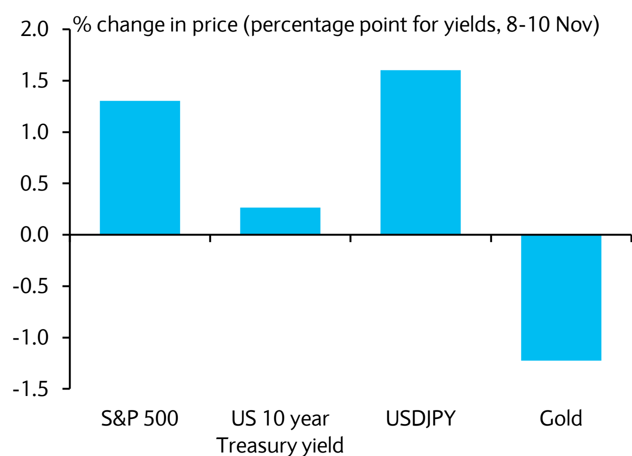
As we have noted before, we tend to be wary of precisely translating campaign trail promises and threats into future policy action. This should be especially for one so well known for his inconsistent views[1]. The president-elect has taken both sides on gun control, abortion, skilled immigration, universal healthcare to name a few. This is also a president elect who has switched between the Democratic and Republican Party at least five times in the past[2].

Figure 1: US elections



Source: Barclays

Figure 2: Markets post-election

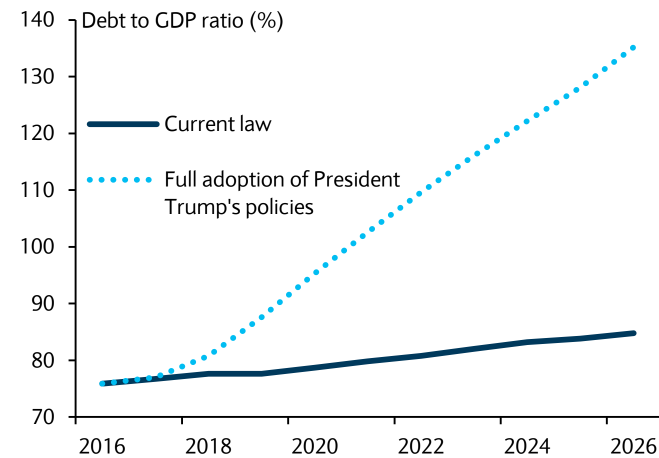


Source: Datastream, Barclays

[1] *A Full List of Donald Trump's Rapidly Changing Policy Positions – Jane C. Timm, NBC News, Nov 2016*
[2] *Donald Trump changed political parties at least five times – Jessica Chasmar, The Washington Times, Jun 2015*

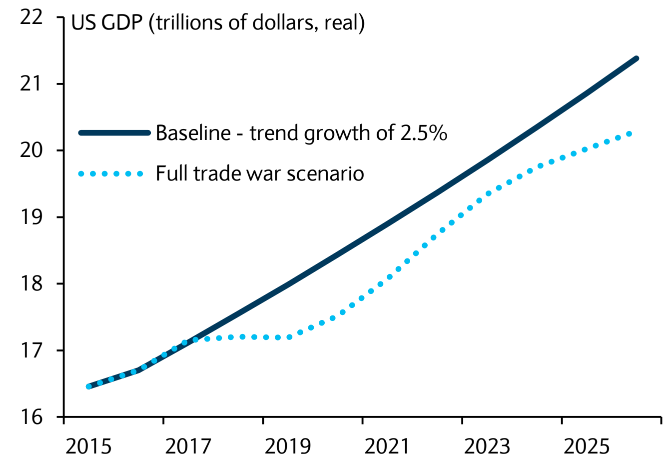
Important Information: Please note that the contents of this document are intended for non-US residents only.

Figure 3: US debt under President trump's policies



Source: Moody's Analytics, Barclays

Figure 4: US GDP under full trade war scenario



Source: PIIE, Barclays

Republican sweep

As mentioned in Compass Q4 2016, the president's domestic economic power is limited by the various checks and balances of the US political system. The constitution puts domestic fiscal and monetary policy firmly in the purview of Congress and the Federal Reserve respectively. Granted, the congressional make-up superficially looks to be one that would support the president, with the Republicans retaining control of both the Senate and the House of Representatives. However, many of President-elect Trump's fluid and often contradictory promises lie some distance from Republican orthodoxy. In any case, many of the president-elect's policy proposals are either so unfeasible or lacking in details[3], they would require substantial revisions or watering down anyway.

The president's powers to implement economic policy is limited by the various checks and balances of the US political system

Take his proposed tax policy for example – the campaign's tax plan broadly calls for a sharp reduction in marginal tax rates, lower corporate taxes, and a scale back in deductions and other tax breaks. However, the President-elect has not proposed any concrete spending reductions, indicating that most of the proposed tax breaks would be deficit-financed. Modelling the effects of tax changes is difficult – one must try and incorporate second order behavioural and growth effects in order obtain an accurate analysis. Nevertheless, experts estimate that even after including the positive behavioural and growth effects of lower taxes, the president-elect's plan would lead to an additional $10 trillion in public debt over the next ten years[4] (Figure 3). This may be hard to square with many of the traditionally fiscally conservative Republican lawmakers. Even some of his advisors are reported to have explained that such a proposal needs to be watered down[5].

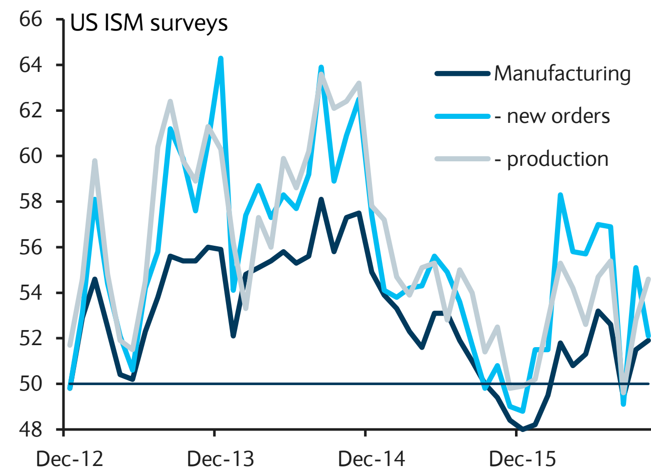
A return to mercantilism?

There is admittedly more scope for the president to use unilateral power with regards to foreign and trade policy. In theory, a president can invoke a variety of Acts and statutes already in place to restrict imports without having to go through Congress[6]. If President Trump were to unilaterally enact tariffs on major trade partners, this would surely be followed by retaliatory measures, risking a full blown trade war. The world has been here before, as many commentators rightly warn.

Based on the Peterson Institute of International Economics' (PIIE) analysis, such a scenario would send the US economy into recession and cost millions of Americans – particularly those working in lower-skilled and lower wage sectors – their jobs (Figure 4). According to

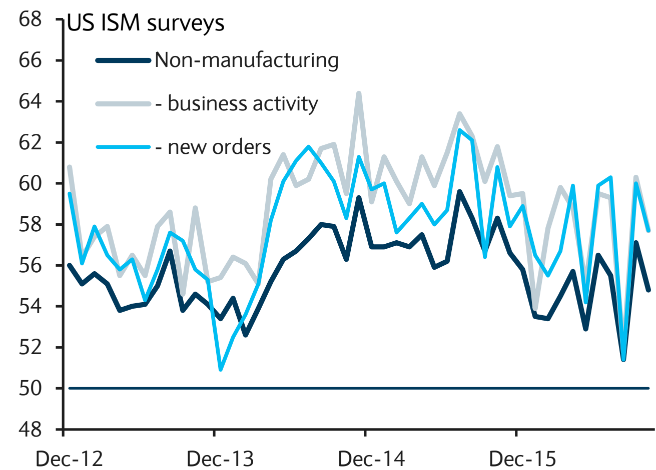
[3] *https://www.donaldjtrump.com/*
[4] *Details and Analysis of Donald Trump's Tax Plan – Cole, Tax Foundation, Sept 2015*
An Analysis of Donald Trump's Tax Plan – Nunns, Burman, Rohaly, Rosenberg, Dec 2015
The Macroeconomic Consequences of Mr Trump's Economic Policies – Zandi, Lafakis, White, Ozimek, Moody's Analytics, Jun 2016
[5] *Less Costly 'Trump 2.0' Tax Plan Urged by Reagan-Era Economists – Lynnley Browning, Bloomberg, Jun 2016*
[6] *Assessing Trade Agendas in the US Presidential Campaign (Chapter 1) – Noland, Hufbauer, Robinson, Moran, PIIE, Sept 2016*

Figure 5: US ISM Manufacturing Index



Source: Datastream, Barclays

Figure 6: US ISM Non-manufacturing Index



Source: Datastream, Barclays

the PIIE's macroeconomic model, the imposition of tariffs on China and Mexico leads to rising imported inflation, forcing the Federal Reserve to raise interest rates. Higher costs of borrowing and greater uncertainty then depress investment, pushing the economy into recession in 2019. With less in the way of congressional impediments, we are left relying on economic self interest to drive a wedge between soap box tirades and implementable policy[7].

The president-elect's stated policies are so unfeasible and damaging that they would eventually need to be watered down anyway

Investment conclusion

The scrabble to decipher what a Trump presidency would mean for the economy and markets is now on. However, the current policy fog will likely only slowly lift as we find out who the key figures are in the new administration in coming weeks and months.

In any case, even with his party in full control of the legislative branch, the president-elect's relationship with Republican lawmakers is frayed, and many of his policies lack sufficient detail for us to be certain of their full implementation. We suspect that the sheer unfeasibility of much of the agenda, allied to the damage it would do to the economy, will see it watered down significantly in many of the more controversial areas.

Just as with the UK's EU referendum, our recommended response to investors remains to focus on the underlying global economy. That global economic backdrop continues to look favourable for those who would lean their investment portfolios towards stocks and away from bonds as testified by the level and direction of travel of our most trusted cyclical lead indicators (Figure 5 and 6). The ongoing rout in government bonds is certainly being hastened by fears of the next administrations potentially inflationary agenda, but this is a correction that we see as long overdue in a world where the forces of inflation are less structurally impaired than only recently imagined.

Hao Ran Wee
Research Analyst
haoran.x.wee@barclays.com

William Hobbs
Head of Investment Strategy, UK and Europe
william.hobbs@barclays.com

[7] *Assessing Trade Agendas in the US Presidential Campaign (Chapter 2) – Noland, Hufbauer, Robinson, Moran, PIIE, Sept 2016*

Market calls – summary

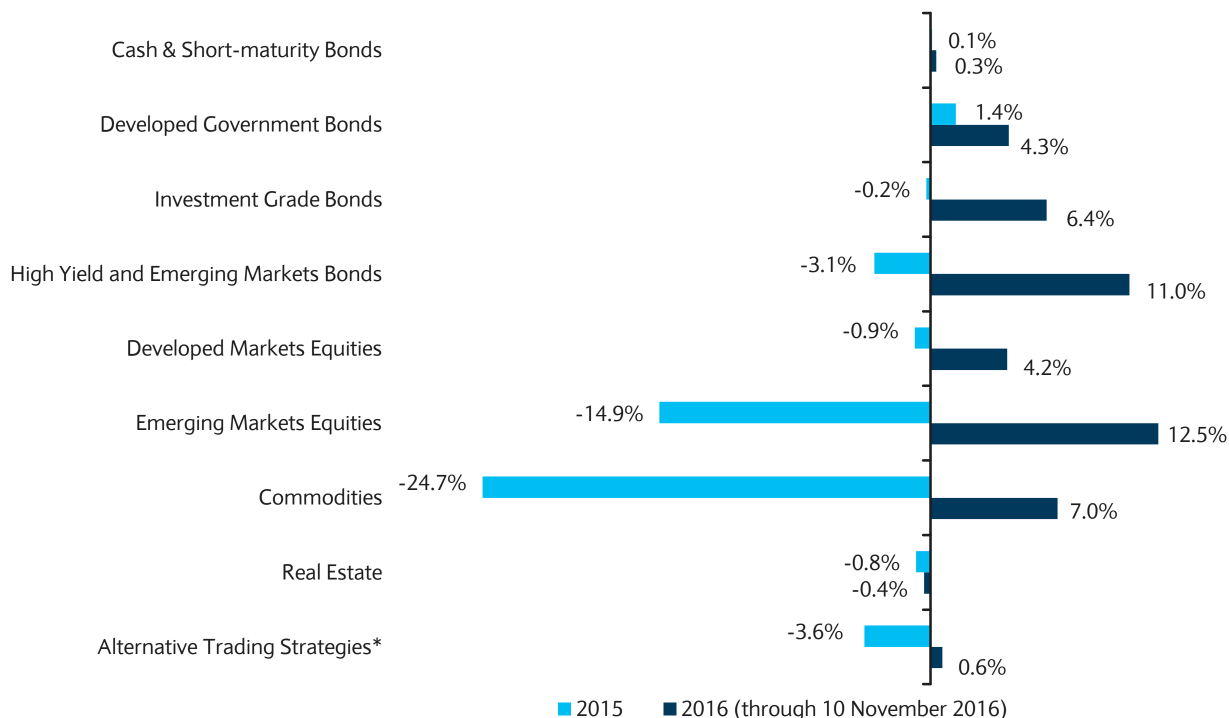
Macro economy summary

- The world economy continues to defy its many doubters, appearing increasingly less vulnerable now that the effects of lower oil prices are washing through the system. Inflation expectations continue to harden amidst conjecture on the next US administration's potentially inflationary agenda. The more visible pick up in nominal wages suggest that underlying inflationary pressure is already on an upward trajectory.
- The post-Brexit global confidence slump feared by many has so far failed to materialise. Nonetheless, Bank of England agent surveys for business investment suggest that the horizon is darkening a little for the UK economy. We retain our view that Brexit will have a more or less localised effect, with any potential headwind to UK activity slowing but not upending the European economic recovery.
- For now, China remains lower down our global list of concerns. Traditional heavy industries are struggling and private sector investment remains weak, however we continue to argue that China's slow down is likely to remain orderly for the time being.
- More broadly, we believe the world economy will continue to grow at above stall speed and see the cycle end as a relatively distant prospect. The political backdrop is set to be especially noisy as we go into the end of the year, but investors will be best served by tuning much of this out and focusing on the above described fundamentals in our view.

Investment conclusions

1. Strategically: corporate securities preferred to government, and stocks to bonds
   - There remain unfulfilled economic opportunities to exploit for the corporate sector in our view. Bonds look expensive, with positive real returns likely hard to achieve even if inflationary pressures remain benign.
2. Tactically: we remain overweight developed equities
   - Continuing economic growth, as well as the reduced influence of commodity earnings may see quoted sector earnings surprise market expectations positively this year. Equity market valuations continue to look unremarkable.

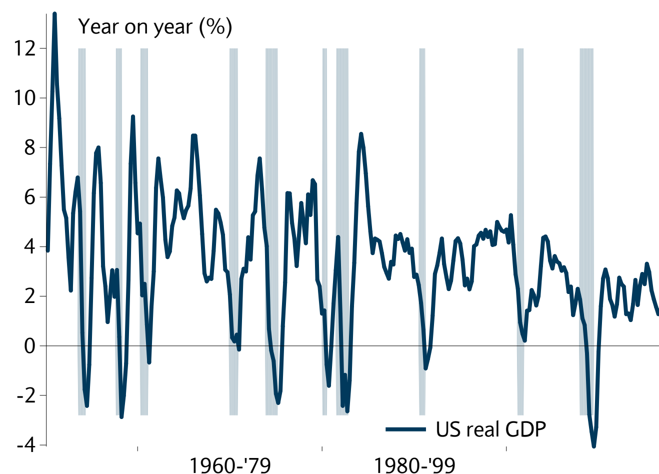
Total returns across key asset classes



*As of 9th November; Source: FactSet, Barclays. List of indices used: Cash & Short-Maturity Bonds: Barclays US T-Bills (USD); Developed Government Bonds: Barclays Global Treasury (USD Hgd); Investment Grade Bonds: Barclays Global Aggregate - Corporates (USD Hgd); High Yield & Emerging Market Bonds: 40% Barclays Global HY (USD Hgd), 30% Barclays EM Hard Currency Aggregate (USD Hgd), 30% Barclays EM Local Currency Government (USD); Developed Market Equities: MSCI World Net TR (USD); Emerging Market Equities: MSCI EM Net TR (USD); Commodities: Bloomberg Commodity TR (USD); Real Estate: FTSE EPRA/NAREIT Net TR (USD); ATS: HFRX Global Hedge Fund (USD).

Selected risks to our views

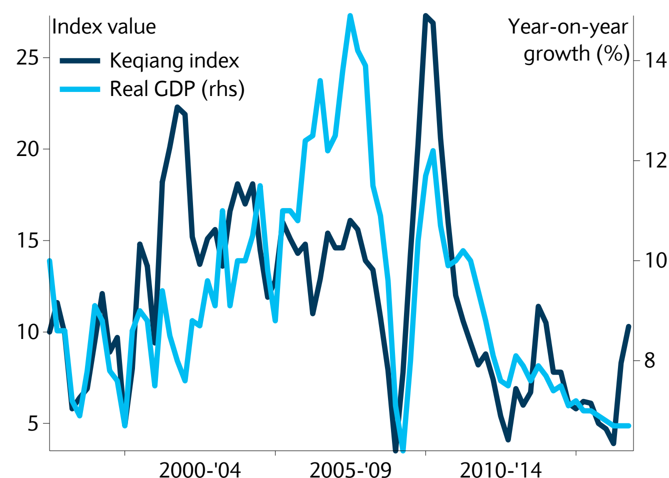
US recession?



Source: Datastream, Barclays

- A recession in the US poses the greatest risk to our investment outlook.
- The current US economic expansion is now in its eighth year, a year longer than the average post-War cycle. This has led many to call, somewhat mechanically, for an imminent recession.
- However, such claims are based on misguided notions about the fundamental drivers of the business cycle. Business cycles usually end because of some exogenous shock that causes firms and individuals to alter their planned expenditures and expectations of future incomes. They do not die of old age.
- So far, lead indicators for the US economy still indicate modest growth prospects for the US economy. In particular, trend readings in the ISM Manufacturing and Non-manufacturing indices are still hovering close to their expansion thresholds.

China hard landing?



Source: Datastream, Barclays

- Fears of a Chinese 'hard landing' have been lingering for some time. Since peaking in 2007, Chinese GDP growth has been on a downward trajectory. Manufacturing activity is no longer growing as it once did, while private sector investment growth has been falling. In particular, domestic corporations have started becoming more reluctant to invest, and the monetary transmission mechanism has become weaker over time.
- However, as we have repeatedly noted, traditional indicators of growth such as the Li Keqiang index may mean less today in the context of a Chinese economy rebalancing away from heavy industry and towards services and consumption.
- Our base case outlook is for the Chinese economy to undergo an orderly deceleration balanced by a lumpy pace of long-term reforms and occasional spurts of short-term stimulus.

A messy end of the bond bull market?

Source: Datastream, Barclays

- The multi decade long bond bull market has continued to run on, driven by a cocktail of economic pessimism, low inflation and central bank easing. However, this poses significant downside risks to global capital markets should this bull market unwind chaotically.
- The last month has indeed seen government bond yields reverse much of the gains seen in the aftermath of the UK's referendum on its membership of the EU amidst firming inflation expectations.
- However, for the moment, central bank ownership and historic precedent suggest to us that the bond market will remain more or less orderly, even with the return of more inflation. However, this is certainly a risk worth keeping an eye on.

Asset class summary

We maintain a Strategic Asset Allocation for five risk profiles, based on our outlook for each asset class. Our Tactical Allocation Committee (TAC), made up of our senior investment strategists and portfolio managers, regularly assesses the need for tactical adjustments to those allocations, based on our shorter-term (three to six month) outlook. Here, we share our latest thinking on our key tactical tilts.

Developed Markets Equities: Overweight (changed 22 July 2016)

Our favoured developed equity regions remain for the moment the US and Europe ex-UK

We retain our view that the still under-appreciated prospects for global growth and inflation will likely be the primary driver of investment returns on a six- to twelve-month view. It is these prospects that are likely to continue to be most influential with regards to the performance of capital markets, rather than the ever-murky political backdrop.

On this, we still advise investors not to underestimate the US consumer, particularly with real disposable income growing at such a robust pace. This positive view on the prospects for the US economy and its stock market may surprise those again calling for US profit margins to continue rolling over. However, we see such forecasts as likely understating the negative effect of energy sector earnings over the last year as well as the headwind to profits from the previous ascent of the US dollar. US operating earnings may well make it back into positive year on year territory at the nascent third quarter earnings season.

Within the developed world, our preferred markets remain the US, Europe ex UK and UK in roughly that order. For the US, we are not expecting further gains to come from multiple expansion, but from continuing earnings and dividend growth. For our overweight position in Continental European equities, much depends on the performance of the embattled banking sector where we expect a more helpful yield curve to continue to alleviate some of the more apocalyptic concerns. Our more positive outlook for oil prices is part of the reason that we have turned more positive on large cap UK equities. Perversely, they may also be a way for investors to insulate themselves from Brexit risks, with weaker sterling a positive for the large cap space, albeit predominantly a superficial one.

Emerging Markets Equities: Neutral

We moved our recommended tactical position in Emerging Markets Equities up to neutral in January. We are looking for a more visible turn in earnings momentum before adopting a positive tactical posture. The bounce in China's property market indicators has helped to stabilise sentiment towards the asset class, as has the related brighter tone in the commodity complex. Alongside this, evidence continues to mount that the wider Asia ex-China business cycle is in the process of forming a cyclical bottom.

Within Emerging Markets Equities, Asia remains our preferred region, with Korea, Taiwan and China (offshore) our highest conviction country bets on a strategic basis. The expected pick-up in global trade is central to this view. We continue to watch Korean exports for any signs of this[8]. We will obviously be watching the assembly of President-elect Trump's new administration for signs of his commitment to follow through with his various protectionist campaign trail threats.

Cash & Short-Maturity Bonds: Neutral (increased 13 October 2016)

Given ongoing market volatility, cash continues to play a pivotal portfolio insulation role. While the fixed income universe remains unattractive at current extreme valuations, cash offers a source of funds to invest into other asset classes when appropriate opportunities arise. Evidence of some returning inflation in the US obviously needs to be watched very carefully.

[8] *In Focus – The End of the World, 15th April 2016*

Developed Government Bonds: Underweight (decreased 13 October 2016)

Some returning inflation is central to our current tactical posture

With nominal yields offered by large chunks of the government bond universe still negligible, investors will likely have to work hard to make real returns from these levels over the next several years. Our view remains that such valuations underestimate the underlying inflationary pressures within the US economy in particular, something that incoming inflation data pay some testament to. The threat of a more fiscally expansive US administration has accelerated the yield retracement this week. For us, the level of (returns insensitive) central bank ownership probably suggests that the bond market will remain more or less orderly and may lag a pick-up in inflation. Nonetheless, our continuing small strategic and tactical allocation to the area suggests that higher real returns lie elsewhere.

Investment Grade Bonds: Underweight

The spread of investment grade credit over government bond yields remains close to its ten-year average. However, this leaves nominal yields in high quality corporate credit low in absolute terms and may make the job of those trying to make positive real returns difficult.

High Yield & Emerging Markets Bonds: Overweight (increased 13 October)

Earlier in the summer we moved from a tactical underweight to overweight position in High Yield and Emerging Markets Bonds by adding to Global High Yield. This was funded by moving from a tactical overweight to neutral position in Cash & Short-Maturity Bonds. Given our more sanguine take on the various risks to global growth and inflation, yields on junk credit look attractive on a risk-reward basis. We have more recently neutralised our earlier underweight position in Local Currency Emerging Market Bonds, again using Cash & Short Maturity bonds.

Commodities: Neutral (Increased 13 May 2016)

We closed our long-held underweight in the commodity complex in May. US monetary normalisation will likely provide a headwind, but the bounce in China's property market indicators looks sufficient to offset this for the moment. Although the prospects for greater US infrastructure spending have increased a little in the wake of the US elections, we would still take some of the more grandiose claims with a pinch of salt, just as we would tread carefully around the recent related spike in industrial metals prices.

Investors are likely best served by tilting their commodity exposure towards oil and away from gold where possible, with the latter still particularly vulnerable to further US interest rate rises. We see oil prices continuing to drift higher over the coming 12 – 18 months as the market's worst fears on China fail to materialise and a smaller than suspected surplus is worked through.

Real Estate: Neutral

Recent volatility has served as a timely reminder of the importance of maintaining a diversified portfolio with the ability to weather a number of market environments, and we continue to encourage clients to ensure that they are fully allocated to Real Estate.

Alternative Trading Strategies: Underweight (decreased 13 May)

We shifted our previous tactical underweight in Commodities to Alternative Trading Strategies (ATS). This is primarily a function of the difference in volatilities for the two asset classes. There is less risk being underweight the lower volatility ATS in the current market environment in our opinion. Alongside this, regulation and lower leverage leave this diversifying asset class without much tactical appeal at the moment.

Equities

MSCI indices	Yield	Total Return Performance 1 Week	YTD	5Yr Ann.	Global Market Capitalisation (%)	EPS growth (%) 2016	2017	P/E ratio (x) 2016	2017	LTM[1]	10 Year Ave. LTM[1]
Developed markets	2.6	2.1	4.2	9.8	89.2	0.7	12.3	17.3	15.4	17.3	15.1
US	2.1	3.7	7.2	13.4	53.5	1.4	12.0	18.3	16.3	18.3	15.9
Europe ex UK	3.4	0.1	-4.1	6.5	14.4	-0.7	11.9	15.8	14.1	15.8	13.7
UK	4.1	1.0	-3.7	3.3	5.9	-5.7	18.6	17.1	14.4	17.0	12.6
Japan	2.2	-2.5	1.3	8.0	7.9	12.0	7.7	14.6	13.6	15.2	n/m
Asia ex Japan	2.5	0.0	9.2	4.9	9.3	1.7	12.4	14.2	12.6	14.2	13.8
Emerging markets	2.5	-1.0	12.5	0.7	10.8	7.5	12.9	13.6	12.1	13.7	12.6

[1] LTM = Last Twelve Months, i.e. trailing. Source: FactSet, Datastream, Barclays

Developed markets – sectors

MSCI indices	Yield	Total Return Performance 1 Week	YTD	5Yr Ann.	Global Market Capitalisation (%)	EPS growth (%) 2016	2017	P/E ratio (x) 2016	2017	LTM[1]	10 Year Ave. LTM[1]
Developed markets	2.6	2.1	4.2	9.8	89.2	0.7	12.3	17.3	15.4	17.3	15.1
Energy	3.7	2.8	17.6	-0.7	6.1	-53.6	158.4	59.0	22.8	55.2	50.3
Materials	2.2	3.6	21.5	1.5	4.6	-6.3	21.3	19.7	16.3	19.8	17.8
Industrials	2.4	4.2	11.2	11.3	10.1	11.0	7.3	17.1	15.9	17.9	17.1
Cons. Discretionary	2.0	0.9	-0.8	13.5	11.0	8.0	11.7	17.0	15.2	17.0	20.7
Consumer Staples	2.6	-3.8	-0.7	10.1	8.8	4.6	10.0	21.3	19.4	20.4	18.4
Health Care	2.1	6.2	-4.2	15.1	11.3	6.9	8.3	15.7	14.5	16.5	19.0
Financials	3.3	6.3	5.6	11.6	15.6	-4.0	8.9	12.4	11.3	12.9	n/m
IT	1.5	0.3	8.4	13.6	13.1	3.0	12.3	18.7	16.7	18.0	20.2
Telecom. Services	4.3	-2.5	-1.7	6.7	2.9	12.2	2.4	14.1	13.7	14.1	15.6
Utilities	3.8	-4.4	1.5	4.8	2.8	-2.3	2.2	16.2	15.8	15.5	16.8

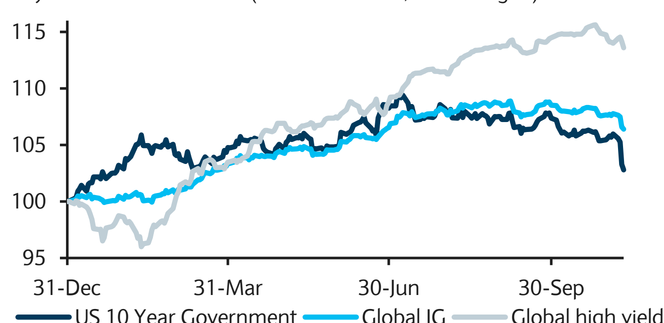
[1] LTM = Last Twelve Months, i.e. trailing. Source: FactSet, Datastream, Barclays

Fixed income

Index	Yield	Total Return Performance 1 Week	YTD	5Yr Ann.
Global inv. Grade	2.6	-1.1	6.4	4.9
Financials	2.4	-0.8	4.7	5.7
Industrials	2.7	-1.3	7.5	4.2
Utilities	2.6	-1.8	7.3	5.3
High yield global	6.2	-0.4	13.6	8.2
US	6.6	-0.2	14.5	7.2
Europe	4.3	0.0	8.8	10.8
US 10Y	2.1	-2.8	2.8	2.5
Euro 10Y	0.2	-1.1	5.0	5.2
UK 10Y	1.3	-1.2	8.0	4.6

Performance represents local currency/USD hedged returns.

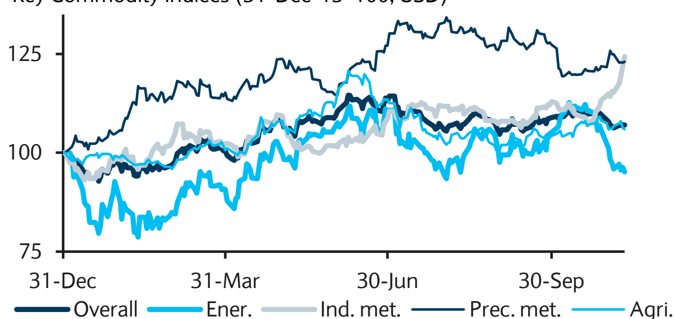
Key Fixed Income Indices (31-Dec-15=100, USD Hedged)



Commodities

DJ-UBS	Price Level	Total Return Performance 1 Week	YTD	5Yr Ann.
Energy		-2.2	-4.9	-20.7
Brent crude	43.82 $/bbl	-1.1	5.3	-19.7
Industrial metals		7.6	24.3	-6.2
Copper	5,588 $/tonne	13.4	18.2	-6.5
Precious metals		-1.5	23.0	-8.2
Gold	1265.4 $/oz	-2.8	18.7	-6.9
Agriculture		-0.2	6.0	-6.4
Corn	3.26 $/bushel	-1.3	-9.8	-12.3
Commodities		0.3	7.0	-10.7

Key Commodity Indices (31-Dec-15=100, USD)



Source for all figures on this page: FactSet, Datastream, Barclays.
All data as of close of business (COB) 10th November and in USD unless stated otherwise – see following page for more performance figures.

Performance

Equities

	Total Return Performance														
	QTD	YTD	1 Year	2 Yr Ann.	3 Yr Ann.	5 Yr Ann.	12m to 10.11.15	12m to 10.11.14	12m to 10.11.13	12m to 10.11.12	2015	2014	2013	2012	2011
Developed markets	-1.3	4.2	2.7	1.6	4.2	9.8	0.5	9.5	27.7	10.7	-0.9	4.9	26.7	15.8	-5.5
US	-0.1	7.2	5.4	4.5	8.4	13.4	3.6	16.6	30.5	13.0	0.7	12.7	31.8	15.3	1.4
Europe ex UK	-3.7	-4.1	-4.8	-2.8	-2.1	6.5	-0.9	-0.5	31.8	10.5	-0.6	-6.5	27.6	21.3	-15.3
UK	-4.5	-3.7	-6.4	-6.8	-4.2	3.3	-7.1	1.2	21.2	10.3	-7.6	-5.4	20.7	15.3	-2.6
Japan	-1.2	1.3	0.6	4.8	3.8	8.0	9.1	1.7	32.0	-0.2	9.6	-4.0	27.2	8.2	-14.3
Asia ex Japan	-2.9	9.2	6.8	-0.9	1.9	4.9	-8.1	7.7	7.5	11.7	-9.2	4.8	3.1	22.4	-17.3
Emerging markets	-3.0	12.5	7.5	-4.1	-1.9	0.7	-14.4	2.7	3.0	6.7	-14.9	-2.2	-2.6	18.2	-18.4

Developed markets – sectors

	Total Return Performance														
	QTD	YTD	1 Year	2 Yr Ann.	3 Yr Ann.	5 Yr Ann.	12m to 10.11.15	12m to 10.11.14	12m to 10.11.13	12m to 10.11.12	2015	2014	2013	2012	2011
Developed markets	-1.3	4.2	2.7	1.6	4.2	9.8	0.5	9.5	27.7	10.7	-0.9	4.9	26.7	15.8	-5.5
Energy	-0.2	17.6	5.0	-9.2	-6.1	-0.7	-21.4	0.4	17.5	-0.7	-22.8	-11.6	18.1	1.9	0.2
Materials	2.0	21.5	16.9	0.5	0.0	1.5	-13.5	-1.2	7.9	-0.1	-15.3	-5.1	3.4	11.3	-19.8
Industrials	0.6	11.2	9.6	4.0	4.9	11.3	-1.3	6.6	33.5	11.1	-2.1	0.4	32.1	16.0	-8.2
Cons. Discretionary	-1.9	-0.8	-3.1	4.8	4.8	13.5	13.2	4.7	42.0	15.4	5.5	3.9	39.2	24.3	-4.7
Consumer Staples	-7.8	-0.7	1.5	3.0	4.8	10.1	4.5	8.6	22.3	14.5	6.4	7.3	21.3	13.4	8.6
Health Care	-2.7	-4.2	-2.7	1.2	8.1	15.1	5.4	23.3	34.0	19.4	6.6	18.1	36.3	17.5	9.5
Financials	7.5	5.6	3.8	0.9	3.0	11.6	-1.9	7.4	32.1	19.7	-3.4	3.2	27.3	29.4	-18.5
IT	-2.5	8.4	6.8	7.8	12.3	13.6	8.9	21.7	25.2	6.7	4.8	16.1	28.7	13.3	-2.5
Telecom. Services	-8.4	-1.7	-1.1	-0.6	1.0	6.7	-0.2	4.4	28.2	4.6	2.5	-1.9	31.2	6.4	0.8
Utilities	-7.3	1.5	2.7	-2.7	2.8	4.8	-7.7	14.8	17.1	-0.8	-6.6	15.3	12.6	1.8	-3.3

Fixed income & Cash

	Total Return Performance														
	QTD	YTD	1 Year	2 Yr Ann.	3 Yr Ann.	5 Yr Ann.	12m to 10.11.15	12m to 10.11.14	12m to 10.11.13	12m to 10.11.12	2015	2014	2013	2012	2011
Cash & short-mat. Bonds	0.0	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Developed gov. Bonds	-2.1	4.3	4.9	3.8	4.4	3.9	2.7	5.8	0.7	5.5	1.4	8.1	0.1	4.5	5.5
Investment grade	-1.9	6.4	6.4	3.5	4.6	4.9	0.8	6.9	0.1	10.9	-0.2	7.6	0.1	10.9	4.8
Financials	-1.1	4.7	5.1	3.5	4.3	5.7	1.8	6.0	2.7	13.0	1.4	6.7	2.0	14.4	1.6
Industrials	-2.4	7.5	7.0	3.5	4.7	4.2	0.0	7.2	-1.9	9.1	-1.4	7.8	-1.4	8.2	8.0
Utilities	-3.0	7.3	7.7	4.3	6.0	5.3	1.0	9.3	-1.4	10.2	-0.6	11.3	-0.8	9.2	6.1
High yield global	-0.8	13.6	10.2	5.0	5.4	8.2	0.1	6.2	8.2	16.9	-0.7	2.6	6.5	19.2	3.6
US	-0.5	14.5	10.2	3.5	4.3	7.2	-2.8	6.0	8.6	14.7	-4.5	2.5	7.4	15.8	5.0
Europe	0.7	8.8	7.2	5.5	5.9	10.8	3.8	6.8	13.2	24.1	2.0	5.8	10.5	28.8	-2.5
HY&EM Bonds	-2.6	11.0	8.8	2.3	3.3	5.2	-3.7	5.3	2.3	14.1	-3.1	2.0	0.2	17.6	3.4
US 10Y	-4.3	2.8	3.6	3.0	4.2	2.5	2.3	6.8	-7.0	7.4	1.0	10.9	-7.6	4.3	16.9
Euro 10Y	-3.5	5.0	5.0	4.0	6.6	5.2	3.0	12.1	-0.8	7.0	0.2	16.7	-2.6	7.6	13.9
UK 10Y	-5.1	8.0	9.0	6.4	7.3	4.6	4.0	9.0	-4.8	6.7	0.8	15.6	-6.1	3.8	18.4

Performance represents local currency/USD hedged returns.

Commodities & other diversifying asset classes

	Total Return Performance														
	QTD	YTD	1 Year	2 Yr Ann.	3 Yr Ann.	5 Yr Ann.	12m to 10.11.15	12m to 10.11.14	12m to 10.11.13	12m to 10.11.12	2015	2014	2013	2012	2011
Energy	-9.5	-4.9	-21.8	-36.6	-27.2	-20.7	-48.6	-4.1	-5.0	-14.2	-38.9	-39.3	5.2	-9.4	-16.0
Brent crude	-9.6	5.3	-20.0	-37.1	-31.8	-19.7	-50.5	-19.8	3.8	1.0	-45.6	-47.6	7.2	7.6	16.8
Industrial metals	10.1	24.3	20.8	-7.7	-4.7	-6.2	-29.5	1.6	-9.8	-7.1	-26.9	-6.9	-13.6	0.7	-24.2
Copper	15.4	18.2	13.4	-8.9	-8.4	-6.5	-26.9	-7.3	-7.4	0.6	-25.1	-16.6	-8.8	5.0	-24.4
Precious metals	-3.4	23.0	19.3	5.1	-1.9	-8.2	-7.4	-14.6	-28.6	-3.1	-11.5	-6.7	-30.8	6.3	4.6
Gold	-3.8	18.7	15.6	3.9	-0.9	-6.9	-6.6	-9.9	-26.2	-2.5	-10.9	-1.7	-28.7	6.1	9.6
Agriculture	1.6	6.0	6.0	-5.5	-7.5	-6.4	-15.8	-11.3	-16.3	8.2	-15.6	-9.2	-14.3	4.0	-14.4
Corn	2.0	-9.8	-11.9	-13.0	-15.3	-12.3	-14.0	-19.7	-31.9	24.9	-19.2	-13.3	-30.3	19.0	1.1
Commodities	-1.7	7.0	0.0	-15.0	-11.9	-10.7	-27.9	-5.4	-12.4	-4.9	-24.7	-17.0	-9.5	-1.1	-13.3
Real Estate	-9.6	-0.4	2.4	0.3	4.2	8.6	-1.8	12.4	10.3	21.0	-0.8	15.0	3.7	27.7	-6.5
ATS	-0.7	0.6	-1.1	-1.6	-0.7	1.0	-2.1	1.0	6.6	0.9	-3.6	-0.6	6.7	3.5	-8.9

Source for all figures on this page: FactSet, Datastream, Barclays.

All data as of close of business (COB) 10th November and in USD unless stated otherwise.

Barclays key macroeconomic projections

Figure 1: Real GDP and consumer prices (% y-o-y)

	Real GDP			Consumer prices		
	2015	2016F	2017F	2015	2016F	2017F
Global	3.3	3.2	3.5	1.5	1.7	2.3
Advanced	2.1	1.5	1.6	0.2	0.7	1.9
Emerging	4.2	4.4	4.9	3.6	3.2	2.9
United States	2.6	1.6	2.3	0.1	1.3	2.6
Euro area	1.9	1.6	1.0	0.0	0.2	1.2
Japan	0.5	0.6	1.1	0.5	-0.3	0.4
United Kingdom	2.2	2.0	0.5	0.0	0.6	2.3
China	6.9	6.7	6.3	1.4	2.0	1.8
Brazil	-3.8	-3.3	0.5	9.0	8.9	5.9
India	7.3	7.7	8.0	4.9	5.2	5.1
Russia	-3.7	-0.5	1.1	15.5	7.1	4.7

Source: Barclays Research, *Global Economics Weekly, 4 November 2016*

Note: Arrows appear next to numbers if current forecasts differ from previous week by 0.2pp or more. Weights used for real GDP are based on IMF PPP-based GDP (5yr centred moving averages). Weights used for consumer prices are based on IMF nominal GDP (5yr centred moving averages). Aggregates for CPI exclude Argentina and Venezuela. There can be no guarantees that these projections will be achieved.

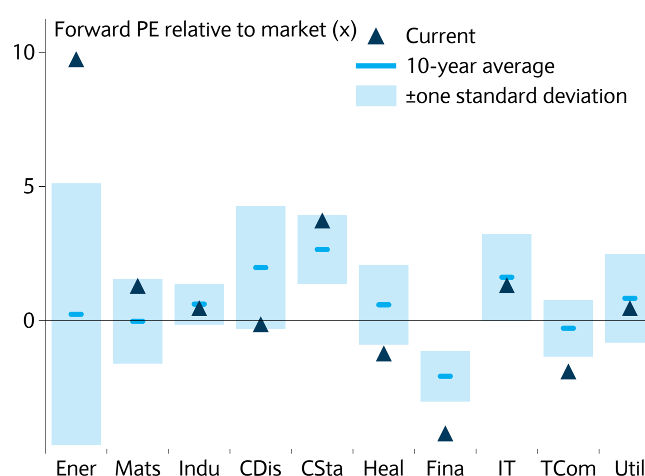
Wealth and Investment Management equity sector recommendations

Figure 1: Global sector strategy (% relative to GICS) – a zero indicates a neutral or GICS benchmark position

	US	Eu x UK	UK
Energy	1.5	1.5	1.5
Materials	0	0	0
Industrials	1.5	1.5	1.5
Consumer Discretionary	0	0	0
Consumer Staples	-3.0	-3.0	-3.0
Health Care	-1.5	1.5	1.5
Financials	1.5	1.5	1.5
Information Technology	1.5	0	0
Real Estate	0	0	0
Telecommunication Services	0	-1.5	-1.5
Utilities	-1.5	-1.5	-1.5

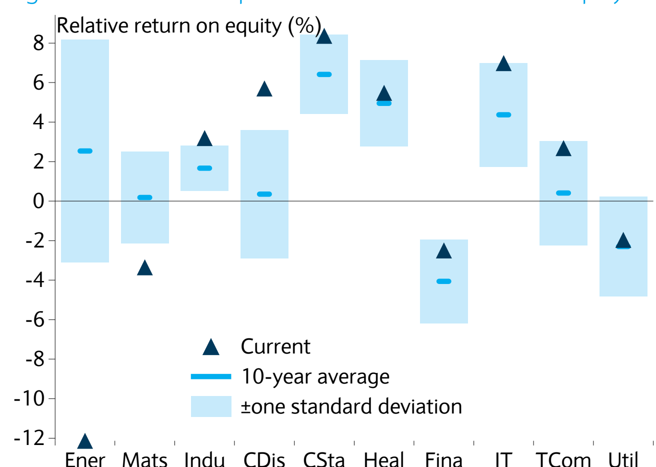
Source: Barclays

Figure 2: MSCI developed markets – sector forward PE ratios



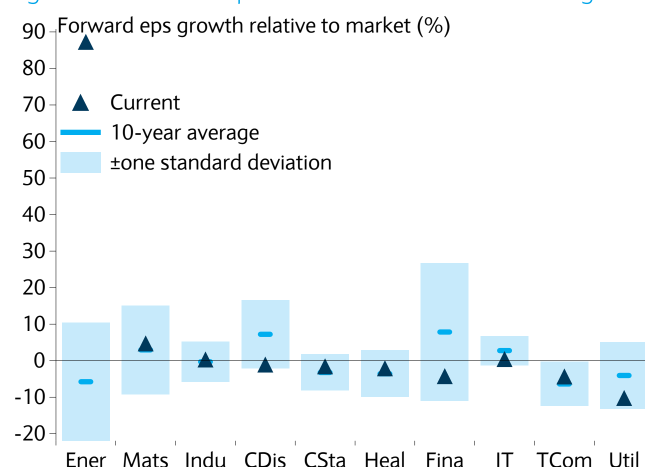
Source: MSCI, FactSet, Barclays

Figure 3: MSCI developed markets - sector return on equity



Source: MSCI, FactSet, Barclays

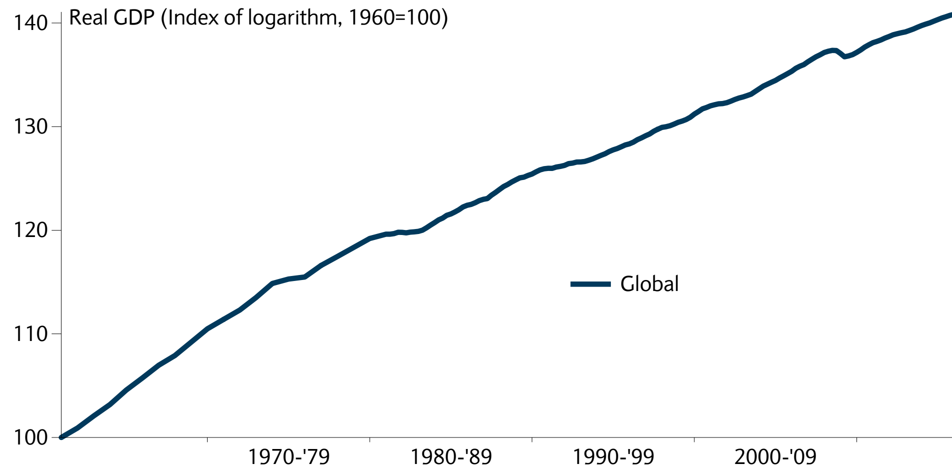
Figure 4: MSCI developed markets - sector forward EPS growth



Source: IBES, Datastream, Barclays

The case for investing

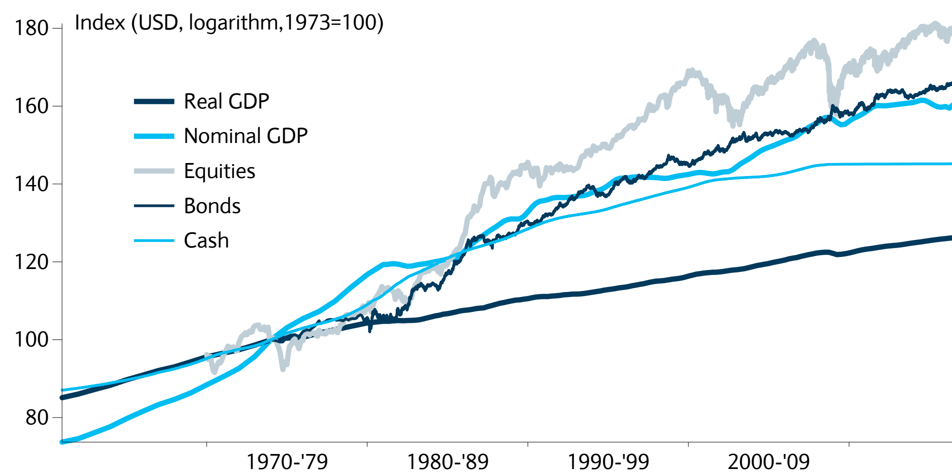
Global real GDP



Source: Datastream, Barclays

- Growth is the norm, not the exception.
- Most years, world output grows because of the simple interaction of new technology and the learning curve.
- The inference is that you have to find good reasons for betting against that trend and not with it, as has been the prevailing wisdom in the aftermath of the great financial crisis.

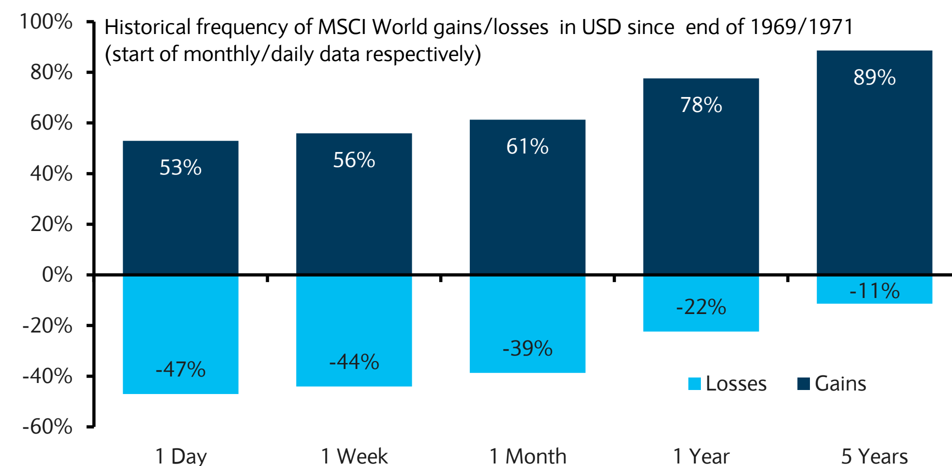
Growth of global GDP and asset classes



Source: Datastream, Barclays

- The future is of course unknowable. However, in addition to being able to suggest that it is more likely that the world will grow than not, we can also point to historic performance of the major asset classes relative to cash and both nominal and real GDP as an argument for both diversification and being invested in the first place.
- As our colleagues in Behavioural Finance are regularly at pains to point out, it is not so much about timing the market but time in the market.

Historical frequency of equity market gains/losses

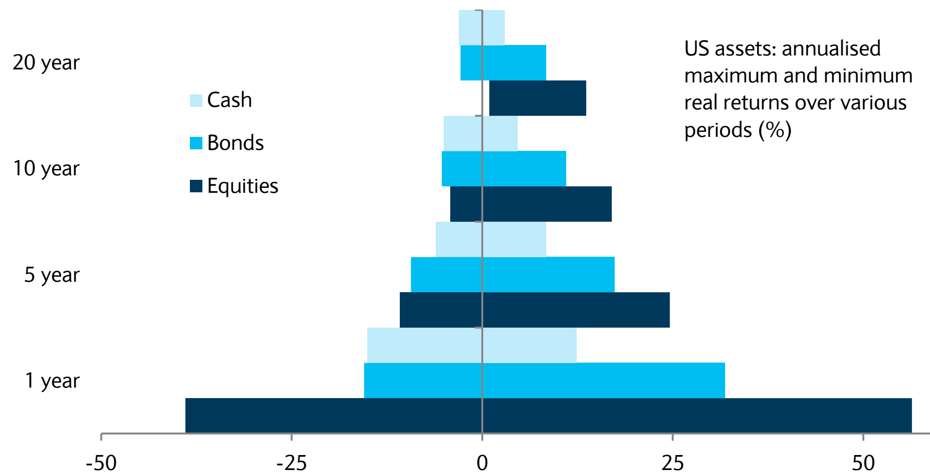


Source: Datastream, Barclays

- Historically, equity market returns have been positive a lot more than 50% of the time over the long term.
- Although equity markets are not the only source of investor returns, it is stocks that are going to provide the bulk of the long-term returns to investment portfolios.
- This ultimately means that an investor looking to grow assets above inflation will likely have to accept an investment portfolio that will be reasonably correlated to equity markets over time.

The case for investing

Minimum/maximum real return of US assets

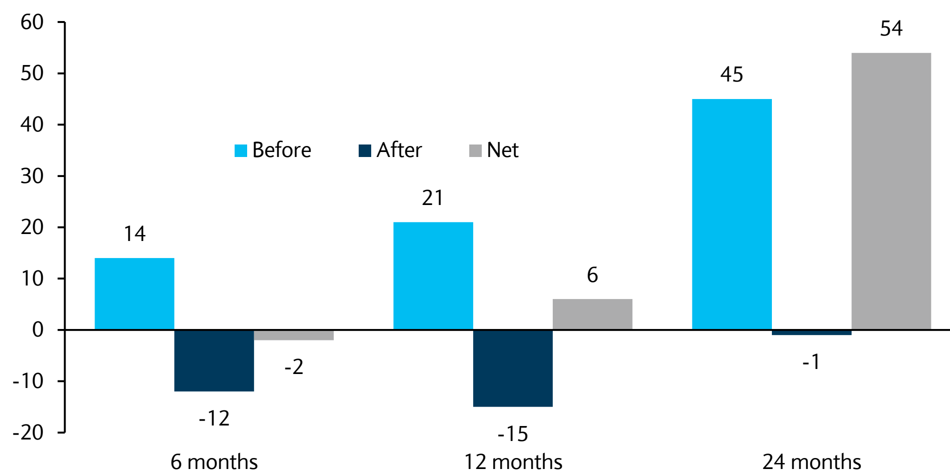


US assets: annualised maximum and minimum real returns over various periods (%)

Source: Datastream, Barclays

- Those able to buy and hold for longer periods may have a different perspective on the risks inherent in the major asset classes anyway.
- Deeper real annualised losses have come from bonds and cash when the holding period is extended to 10 years or more.
- The profile of real returns and losses is significantly more attractive for stocks over 10 and 20 year holding periods.

Median equity returns around market peaks



Source: BAML, Barclays

- Avoiding bear markets is an industry obsession. Understandably so – the work of Nobel laureate Daniel Kahneman and his colleague Amos Tversky tells us that 'losses loom larger than gains' for the average investor.
- However, the fact that most bear markets are preceded by a rush of blood that tends to outweigh the bloodletting that inevitably follows should temper how carefully we listen to the more persistent doomsayers.
- Being too early to call the end of the cycle tends to be more costly than missing the bear market altogether.

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