BARCLAYS

Wealth and Investment Management

In Focus: Markets as we see them

Quitaly?

25 November 2016

For EMEA and Asia distribution only

Inside (click to jump to sections)

The next democratic shock… In just over a week's time, the Italian electorate will trudge to the polls to decide whether to approve reforming their constitution

Who is supporting 'No' The latest polls suggest a marginal edge in favour of the 'No' vote

What happens if 'No' wins? Prime Minister Renzi has at various times suggested that he will resign if the electorate rejects the constitutional reform

How would markets react to a 'No' vote? We would expect risk premia on various associated assets to increase at least temporarily in the aftermath

Does a 'No' vote increase the potential for Italy to eventually exit the euro?

Investment conclusion The list of European political risk events looks dauntingly long right now, however we continue to urge investors to not be distracted from focusing on the improving fundamental backdrop

Market calls – summary

- Selected risks to our views
- Asset class summary
- Latest market data

Key macroeconomic projections

The case for investing

"Democracy is beautiful in theory; in practice it is a fallacy. You in America will see that some day." (Benito Mussolini, 1928)

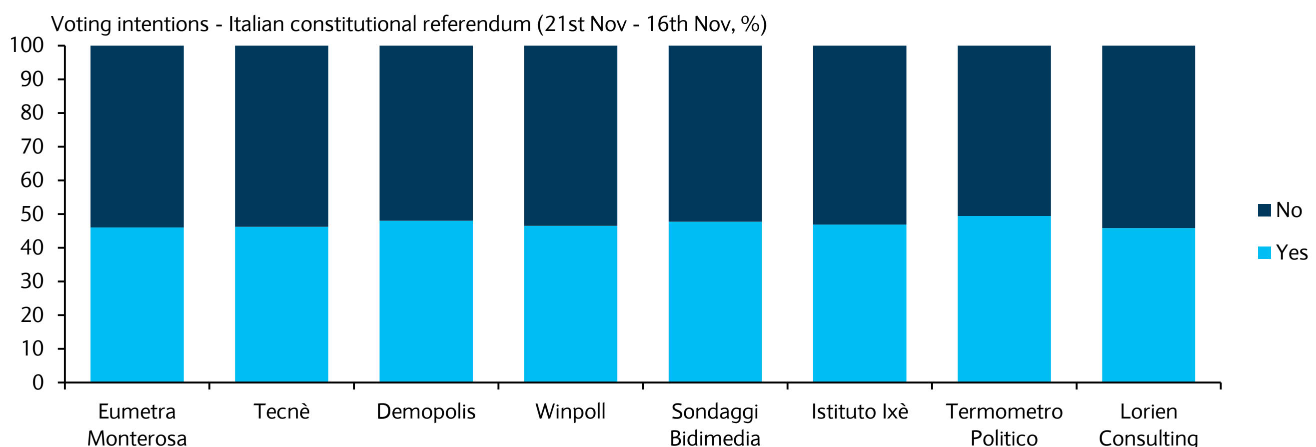
The next democratic shock…

In just over a week's time, the Italian electorate will trudge to the polls to decide whether to approve reforming their constitution. The proposed reform would move the parliament from one of almost perfect bicameralism to a more dynamic structure, with a shift in the balance of power towards the lower house (Chamber of Deputies), aimed at replacing frequent paralysis with legislative dynamism. Most economists seem to agree that such dynamism and the structural reforms that it would surely facilitate, in concert with the electoral reform already enacted, should be a good thing for Italy. On the other hand, polls indicate that Italians remain far from convinced. This week we explore the ramifications of a 'No' vote.

Who is supporting 'No'

We are now in a polling blackout, but the latest polls suggest a marginal edge in favour of the 'No' vote (Figure 1). There remains a large undecided cohort, but the persistency of the polling data should mean investors will not be caught meaningfully off guard if a 'No' is returned on Sunday 4th December. Those against the constitutional change are hard to categorise neatly. Regional unemployment statistics do not map well to voting intentions and this does not seem to be a clear proxy for support for the euro[1].

Figure 1: Polls on the Italian referendum

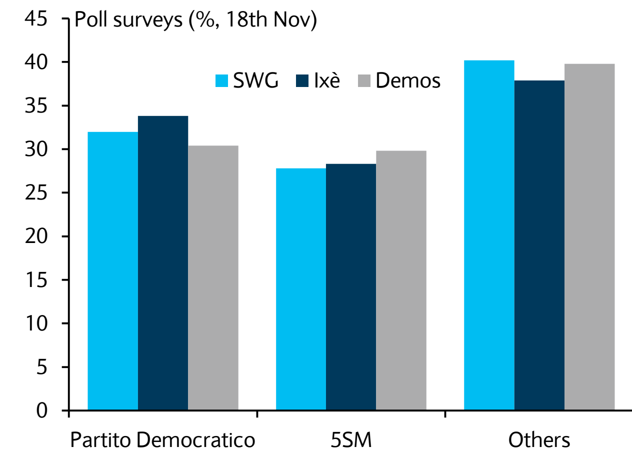


Source: Sondaggi Politico Elettorali – Italian Government, Barclays

[1] Economics Europe – Bloomberg Brief, Nov 2016

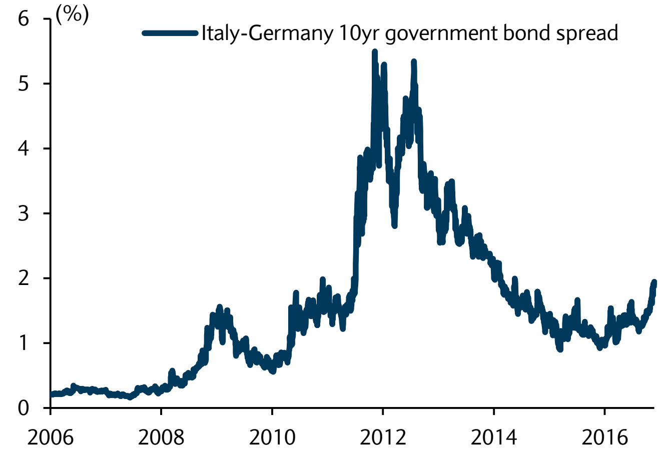
Important Information: Please note that the contents of this document are intended for non-US residents only.

Figure 2: Support for Italian political parties



Source: ScenariPolitici.com, Barclays

Figure 3: Italian government bond yield spreads



Source: Datastream, Barclays

There is understandable reluctance in some parts of the electorate at the idea of unravelling some of the constitutional safeguards that were put in place after the Second World War specifically to avoid a repeat of Benito Mussolini's dictatorship[2]. This part of the electorate seems to be wary of any signs of a potential concentration of power. Five former prime ministers have come out against the constitutional reform. Alongside all this, for one reason or another, this has become a referendum on Matteo Renzi's as-yet unelected leadership.

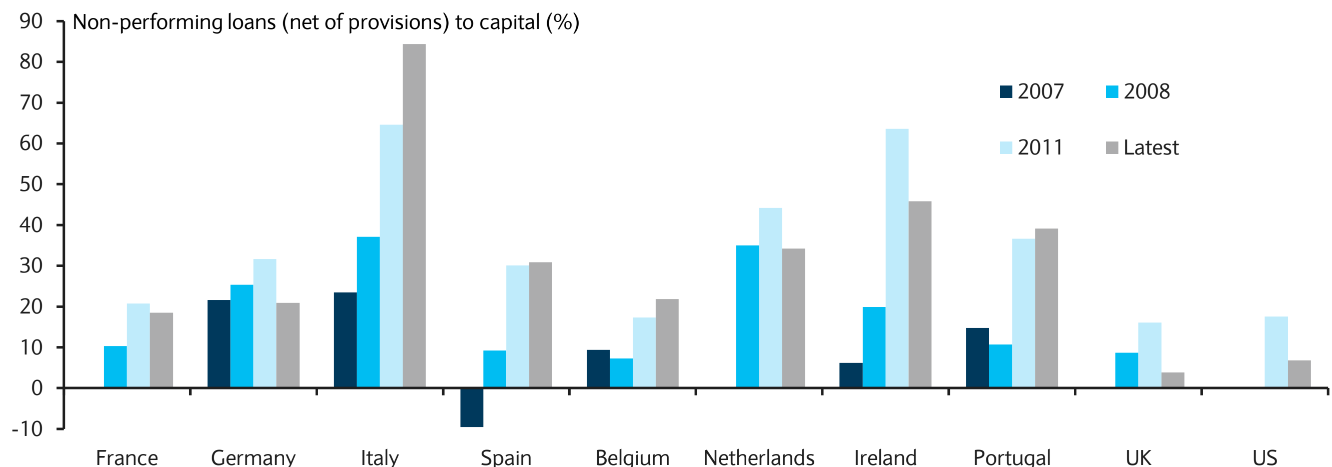
Five former prime ministers have come out against the constitutional reform

What happens if 'No' wins?

Prime Minister Renzi has at various times suggested that he will resign if the electorate rejects the constitutional reform. He has also at various times backed away from this promise, however for our purposes we will assume he does indeed resign. In this situation, Italy enters a political No Man's Land that its economy is now fairly familiar with, having endured over 60 different governments in the post-war period.

Snap elections are seen as unlikely, due to a further complication associated with an already-enacted electoral reform that is complementary to the constitutional reform. The so-called 'Italicum', among other things, awards a winning bonus of 54% of the lower house seats for a party winning a majority of 40% of the electoral votes[3]. In concert with the constitutional reform, 'Italicum' was intended to mitigate Italy's long-standing problem of weak governments, help unclog the legislative system, and facilitate much needed structural reform. However, 'Italicum' itself is now subject to legal challenge and review by the Italian constitutional court, with the results of this review due after the referendum.

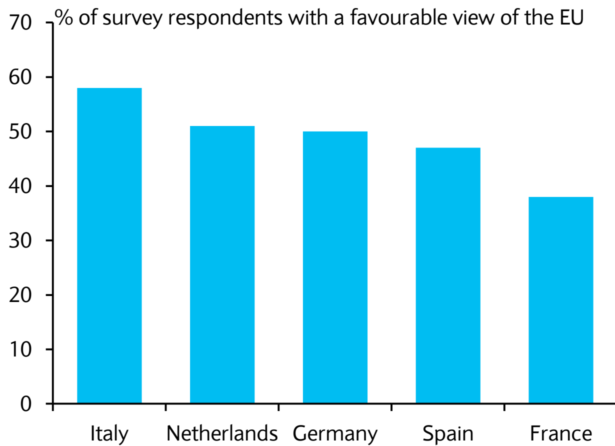
Figure 4: Bank non-performing loans



Source: Datastream, Barclays

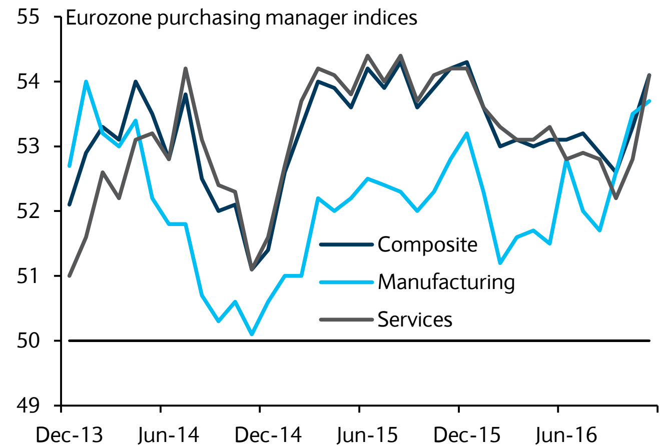
[2] *Berlusconi's Attempt to Reform the Italian Constitution; Rehearsal of New (Post-modern) Authoritarian Politics or Same Old Habit? – Wolff, Dec 2012*
[3] *Italian institutional reforms: will this time be different? – Bruegel, Dec 2015*

Figure 5: EU favourability



Source: Pew Research Center, Barclays

Figure 6: Eurozone PMIs



Source: Datastream, Barclays

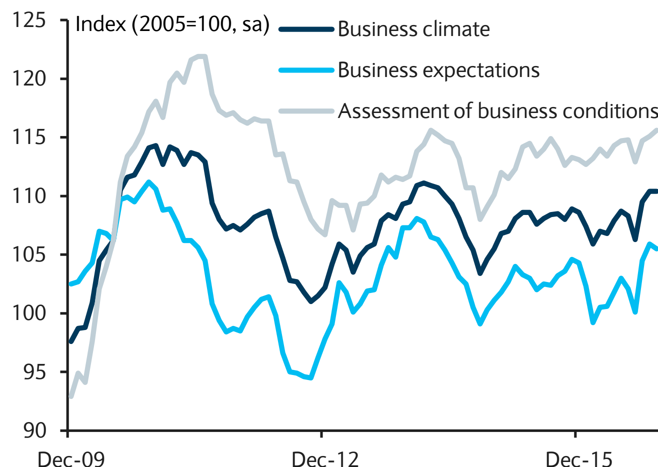
Without further progress on this ruling, a 'No' vote in the referendum would leave Italy with one part of its parliament on a proportional system and the other a majority system. With neither party having a commanding lead in the most recent polls (Figure 2), the prospects of a solid parliamentary majority would be thin if snap elections were to be called. In such a backdrop, we may see a grand coalition headed potentially by none other than Prime Minister Matteo Renzi as the more likely temporary fix, while these important constitutional questions are further chewed.

We would argue that extant economic forces are likely the more important factors to consider

How would markets react to a 'No' vote?

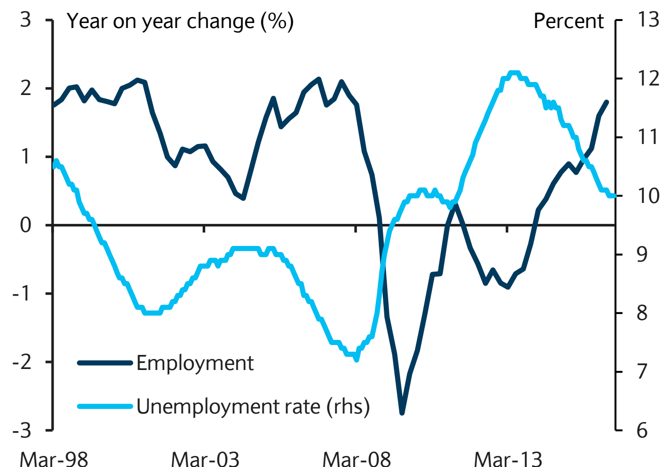
This is always hazardous to guess at, as the market reaction to recent political upsets has proved. Nonetheless, the likely fact that this wouldn't come as a significant shock to investors given the abovementioned polling suggests a relatively benign reaction. We would expect risk premia on various associated assets to increase at least temporarily in the aftermath, particularly government bonds. However, with the ECB meeting due later that week, it seems unwise to rule out a reaction from the central bank, particularly if such risk premia did rise to more asphyxiate levels for the economy (something that lies some way away given the starting point of yield spreads, as seen from Figure 3). Various capital-raising plans for the long-troubled Italian banks are unlikely to be helped either (Figure 4), which may see the wider banking sector give back some of its recent gains. Here too we would argue that extant economic forces are likely the more important factors to consider.

Figure 7: German Ifo survey



Source: Datastream, Barclays

Figure 8: Eurozone labour market conditions



Source: Datastream, Barclays

Does a ‘No’ vote increase the potential for Italy to eventually exit the euro?

Certain polls suggest that voter support for the euro is generally higher in Italy than it is in other founder members

This is probably the most important question. Certain polls suggest that voter support for the euro is generally higher in Italy than it is in other founder members (Figure 5). The Five Star Movement, although not arguing for an exit from the euro, has advocated a referendum on Italy’s membership. However, only an electoral victory for the Five Star Movement, a stable parliamentary majority and a change in the constitution would allow them to hold a referendum on international treaties. These represent significant, tactically insurmountable barriers in our opinion.

Investment conclusion

The list of European political risk events looks dauntingly long right now, however we continue to urge investors to not be distracted from focusing on the improving fundamental backdrop (Figures 6 to 8) in the euro area. It is this that is likely the dominant factor in prospective investment returns. We continue to favour stocks over bonds as described in more detail on pages 7 through 8.

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

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 have hardened 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.

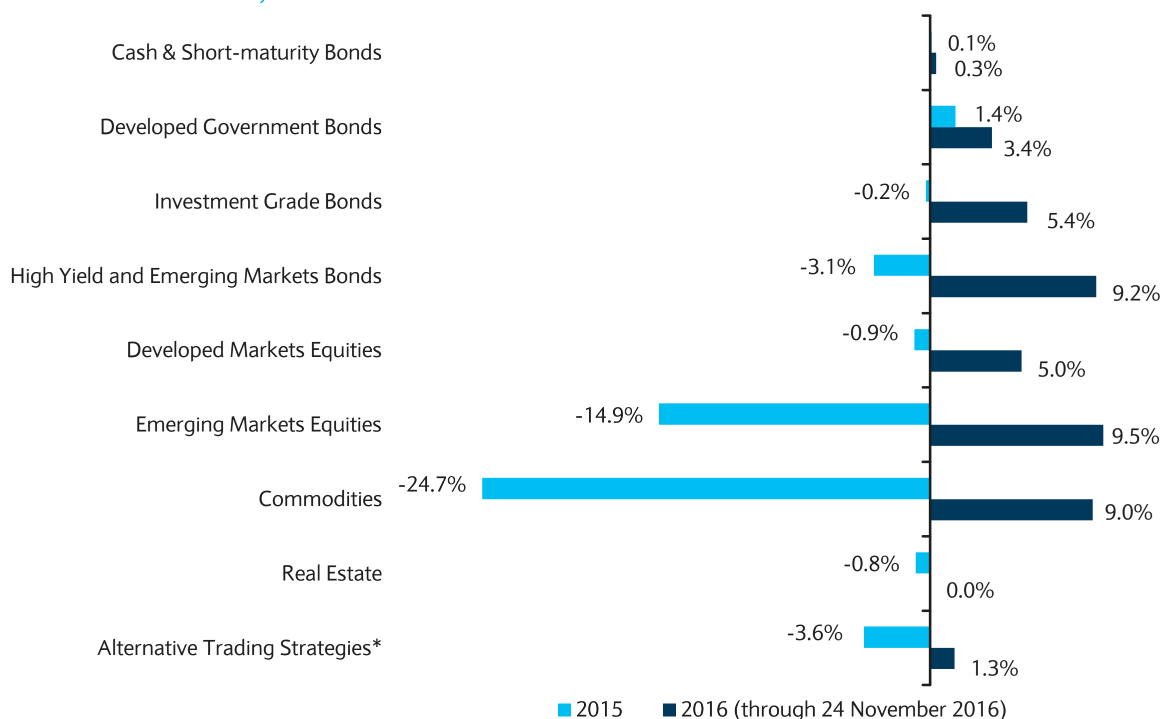
- For now, China remains lower down our global list of concerns. Traditional heavy industries are struggling and private sector investment remains weak, however we continue to argue that China's slowdown is likely to remain orderly for the time being.

- 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 next year. Equity market valuations continue to look unremarkable.

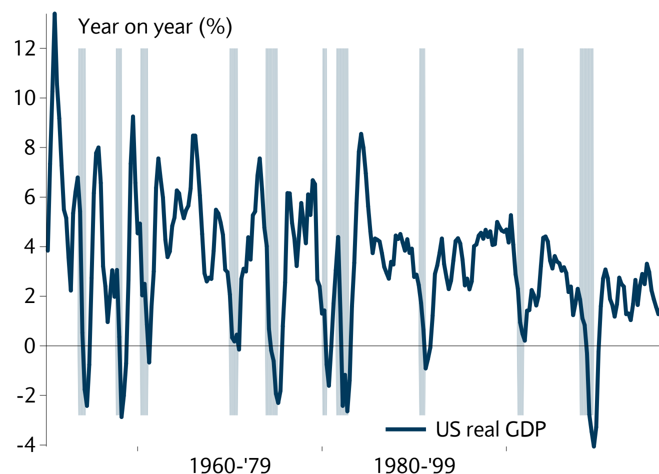
Total returns across key asset classes



*As of 23rd 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

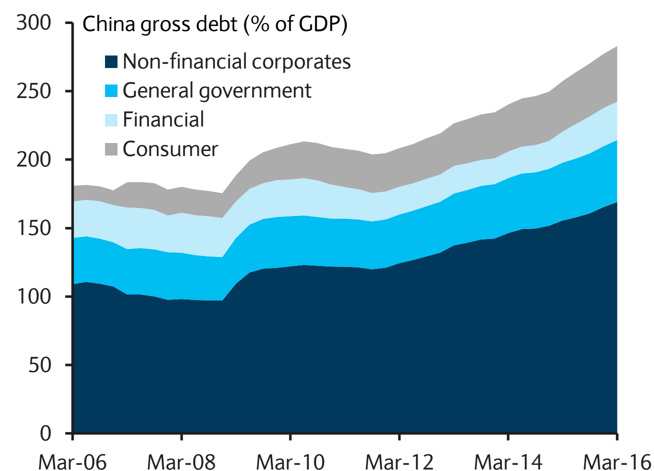
US recession?



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 decent 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 debt crisis?



Source: Datastream, Barclays

- Fears of a Chinese debt crisis have been lingering for some time. Overall debt ratios have soared over the past decade, the kind of surge that is historically followed by a financial crisis or an abrupt slowdown.
- However, the high levels of debt need to be viewed in context. China's high savings rate and a relatively undeveloped financial system mean that household deposits are disproportionately channelled into corporate debt rather than equity finance, thus artificially boosting debt levels. In essence, domestic Chinese entities are basically lending to one another.
- The financial system has high liquidity buffers, is less reliant on wholesale funding, and has the full backing of the central government. Such circumstances make it unlikely that China's debt will spark a systemic crisis in the near future. Still, such developments will need to be monitored closely.

A messy end of the bond bull market?

Source: Datastream, Barclays

- The multi decade long bond bull market remains more or less in place, 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.
- Government bond yields have indeed moved sharply higher since the summer, amidst recovering inflation expectations and fears of an inflationary policy agenda under President elect Trump.
- 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 Market Equities: Overweight (changed 22 July 2016)

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

The prospects for global growth and inflation seem less materially underestimated than they were earlier in the year. However, we still see expectations having further to travel before they meet the underlying reality as we see it, something that should continue to help stocks to outperform bonds in coming quarters in our 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. The prospects for US consumption remain well founded on a robust jobs backdrop, characterised by more visibly rising wages, which in turn is helping appetite for credit to continue to recover. The negative hit from oil prices on associated corporate earnings is fading as is the headwind to profits from the previous ascent of the US dollar. US operating earnings have now made it back into positive year on year territory at the now almost complete US Q3 earnings season, confounding those who believed the decline in profitability was terminal for this cycle.

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 Market Equities: Overweight (increased 23 November 2016)

We moved our recommended tactical position in Emerging Market Equities up to Overweight from Neutral in November. The Emerging Markets business cycle is bottoming, as evidenced by business confidence surveys and trade data. The latter has clearly collapsed and recovered in value terms due to commodity price swings, but the latest round of business confidence surveys have seen a sizeable rebound. US consumption also looks healthy, with wages now more visibly picking up and credit provision following suit. This suggests to us that the fundamental macroeconomic backdrop has turned more positive for Emerging Market corporate profitability.

Within Emerging Market Equities, Asia remains our preferred region, with Korea, Taiwan and China (offshore) our highest conviction country bets on a strategic basis. With the regions' earnings sensitive to the trade cycle, what President Trump decides to implement in regards to trade policy is important. Here, we take some solace from the observation that his inchoate administration has so far softened its tone on some of the president-elect's campaign trail promises. We suspect that economic self-interest will ultimately triumph over some of the president-elect's more populist trade threats.

Cash & Short-Maturity Bonds: Underweight (decreased 23 November 2016)

While cash continues to play a pivotal portfolio insulation role, the rising appeal from Emerging Market Equities have led the Tactical Allocation Committee to deploy our cash holdings into the former, bringing our position in Cash & Short-Maturity Bonds from neutral to underweight.

Some returning inflation is central to our current tactical posture

Developed Government Bonds: Underweight (decreased 13 October 2016)

Nominal yields offered by large chunks of the government bond universe are still negligible, even after the fairly dramatic sell off seen since the summer. 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. 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 has held more or less firm amidst the above mentioned correction; however this has still left investors nursing some short term bruises particularly within the utilities space. Nominal yields in high quality corporate credit remain low in absolute terms and may make the job of those trying to make positive real returns difficult.

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

Earlier in the summer we moved from a tactical underweight to overweight position in High Yield and Emerging Market 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 stabilisation in Chinese growth 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	0.4	5.0	11.5	89.5	0.7	12.2	17.7	15.8	17.7	15.1
US	2.1	0.8	9.2	15.3	54.2	1.5	11.7	18.9	16.9	18.9	15.9
Europe ex UK	3.4	-1.2	-6.7	7.7	14.0	-0.9	11.9	15.8	14.2	15.8	13.7
UK	4.1	0.9	-3.7	5.0	5.9	-5.3	19.1	16.9	14.2	16.7	12.6
Japan	2.2	-0.9	1.4	8.7	7.9	11.8	7.9	14.8	13.8	15.4	n/m
Asia ex Japan	2.5	0.5	6.1	5.5	9.0	1.6	12.5	13.6	12.1	13.7	13.8
Emerging markets	2.5	0.6	9.5	1.6	10.5	7.5	12.6	13.1	11.6	13.2	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	0.4	5.0	11.5	89.5	0.7	12.2	17.7	15.8	17.7	15.1
Energy	3.7	2.6	20.5	1.6	6.3	-53.3	156.4	59.5	23.2	57.7	49.9
Materials	2.2	1.4	20.8	3.4	4.5	-6.0	22.4	20.2	16.5	20.0	17.9
Industrials	2.4	0.9	11.8	12.8	10.1	10.3	7.4	17.9	16.6	18.4	17.1
Cons. Discretionary	2.0	1.2	2.4	15.6	11.3	8.2	11.5	17.4	15.6	17.7	20.7
Consumer Staples	2.6	-0.3	-1.3	10.7	8.7	4.3	9.6	20.5	18.7	20.4	18.4
Health Care	2.1	-2.3	-8.0	15.4	10.8	6.8	7.9	16.3	15.1	16.0	19.0
Financials	3.3	0.5	8.1	14.2	15.9	-4.0	9.1	13.4	12.3	13.2	n/m
IT	1.5	0.4	10.6	15.5	13.3	3.3	12.2	18.7	16.7	18.5	20.2
Telecom. Services	4.3	1.5	0.0	8.4	2.9	11.5	2.9	13.8	13.4	14.5	15.6
Utilities	3.8	-0.3	0.5	5.7	2.8	-2.3	1.7	15.4	15.1	15.4	16.8

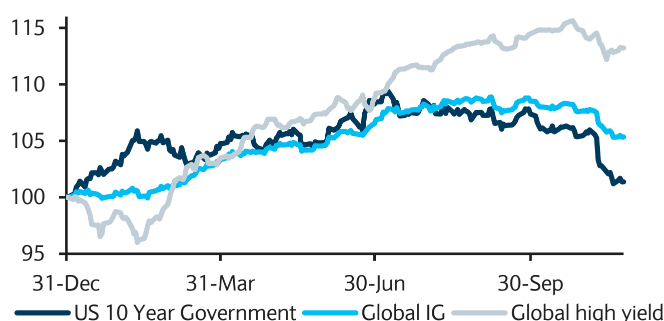
[1] LTM = Last Twelve Months, i.e. trailing. Source: FactSet, Datastream, Barclays

Fixed income

Index	Yield	Total Return Performance 1 Week	YTD	5Yr Ann.
Global inv. Grade	2.7	-0.3	5.4	4.9
Financials	2.5	-0.3	3.9	5.9
Industrials	2.9	-0.3	6.3	4.1
Utilities	2.8	-0.3	6.2	5.1
High yield global	6.3	0.2	13.2	8.6
US	6.6	0.4	14.7	7.6
Europe	4.6	0.1	8.3	11.3
US 10Y	2.4	-0.3	1.4	1.9
Euro 10Y	0.2	0.1	5.1	5.9
UK 10Y	1.4	-0.4	7.2	4.4

Performance represents local currency/USD hedged returns.

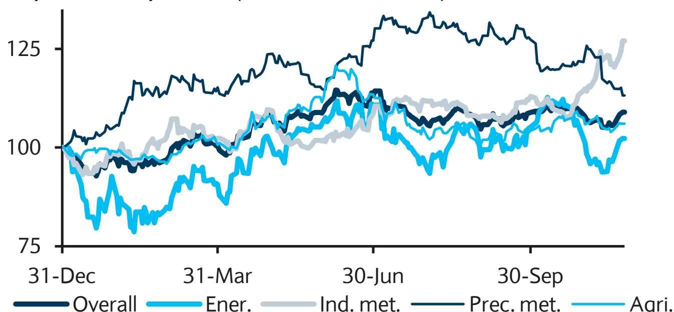
Key Fixed Income Indices (31-Dec-15=100, USD Hedged)



Commodities

DJ-UBS	Price Level	Total Return Performance 1 Week	YTD	5Yr Ann.
Energy		6.1	2.4	-19.0
Brent crude	47.87 $/bbl	4.8	12.0	-18.0
Industrial metals		4.7	27.0	-5.1
Copper	5,854 $/tonne	4.6	20.8	-5.5
Precious metals		-2.2	13.2	-8.9
Gold	1186.1 $/oz	-2.2	11.5	-7.4
Agriculture		1.8	6.1	-5.2
Corn	3.35 $/bushel	2.7	-7.9	-10.3
Commodities		3.2	9.0	-9.6

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) 14th 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 24.11.15	12m to 24.11.14	12m to 24.11.13	12m to 24.11.12	2015	2014	2013	2012	2011
Developed markets	-0.5	5.0	3.2	1.2	3.8	11.5	-0.7	9.3	27.0	21.4	-0.9	4.9	26.7	15.8	-5.5
US	1.8	9.2	6.9	4.6	8.4	15.3	2.4	16.3	30.2	23.1	0.7	12.7	31.8	15.3	1.4
Europe ex UK	-6.4	-6.7	-6.7	-5.7	-3.6	7.7	-4.7	0.8	29.0	25.5	-0.6	-6.5	27.6	21.3	-15.3
UK	-4.4	-3.7	-6.4	-7.1	-4.4	5.0	-7.8	1.1	20.1	21.9	-7.6	-5.4	20.7	15.3	-2.6
Japan	-1.1	1.4	-0.7	4.9	2.4	8.7	10.7	-2.4	33.8	5.7	9.6	-4.0	27.2	8.2	-14.3
Asia ex Japan	-5.7	6.1	3.4	-2.6	0.5	5.5	-8.2	6.9	7.8	19.4	-9.2	4.8	3.1	22.4	-17.3
Emerging markets	-5.6	9.5	3.9	-6.0	-3.2	1.6	-15.0	2.6	3.9	15.1	-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 24.11.15	12m to 24.11.14	12m to 24.11.13	12m to 24.11.12	2015	2014	2013	2012	2011
Developed markets	-0.5	5.0	3.2	1.2	3.8	11.5	-0.7	9.3	27.0	21.4	-0.9	4.9	26.7	15.8	-5.5
Energy	2.2	20.5	8.1	-8.4	-5.9	1.6	-22.4	-0.7	17.2	11.0	-22.8	-11.6	18.1	1.9	0.2
Materials	1.5	20.8	15.5	-0.9	-0.1	3.4	-14.9	1.3	6.4	11.3	-15.3	-5.1	3.4	11.3	-19.8
Industrials	1.2	11.8	9.0	3.8	4.5	12.8	-1.2	5.9	33.2	20.4	-2.1	0.4	32.1	16.0	-8.2
Cons. Discretionary	1.2	2.4	0.3	4.6	5.0	15.6	9.0	5.9	39.9	27.5	5.5	3.9	39.2	24.3	-4.7
Consumer Staples	-8.4	-1.3	-0.5	2.0	4.2	10.7	4.6	8.7	20.7	21.5	6.4	7.3	21.3	13.4	8.6
Health Care	-6.5	-8.0	-6.7	-1.5	5.5	15.4	3.9	21.1	36.0	28.2	6.6	18.1	36.3	17.5	9.5
Financials	10.1	8.1	6.2	1.7	3.2	14.2	-2.5	6.1	31.1	34.7	-3.4	3.2	27.3	29.4	-18.5
IT	-0.5	10.6	8.1	7.5	12.6	15.5	6.9	23.4	23.4	16.6	4.8	16.1	28.7	13.3	-2.5
Telecom. Services	-6.9	0.0	0.4	-0.7	1.0	8.4	-1.8	4.7	28.0	13.4	2.5	-1.9	31.2	6.4	0.8
Utilities	-8.1	0.5	2.0	-2.4	2.5	5.7	-6.7	13.1	17.1	4.4	-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 24.11.15	12m to 24.11.14	12m to 24.11.13	12m to 24.11.12	2015	2014	2013	2012	2011
Cash & short-mat. Bonds	0.0	0.3	0.4	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	-3.0	3.4	3.4	3.1	4.1	3.8	2.8	6.1	1.0	5.6	1.4	8.1	0.1	4.5	5.5
Investment grade	-2.9	5.4	4.8	2.9	4.2	4.9	1.0	6.8	0.7	11.7	-0.2	7.6	0.1	10.9	4.8
Financials	-1.9	3.9	3.7	3.0	3.9	5.9	2.2	5.9	3.0	15.2	1.4	6.7	2.0	14.4	1.6
Industrials	-3.5	6.3	5.4	2.7	4.1	4.1	0.1	7.0	-1.0	9.1	-1.4	7.8	-1.4	8.2	8.0
Utilities	-4.0	6.2	5.8	3.6	5.4	5.1	1.4	9.3	-0.3	9.6	-0.6	11.3	-0.8	9.2	6.1
High yield global	-1.1	13.2	10.6	5.1	5.2	8.6	-0.2	5.5	8.3	19.6	-0.7	2.6	6.5	19.2	3.6
US	-0.4	14.7	12.1	3.9	4.2	7.6	-3.7	5.0	9.1	16.9	-4.5	2.5	7.4	15.8	5.0
Europe	0.2	8.3	6.5	5.2	5.7	11.3	4.0	6.7	12.7	28.0	2.0	5.8	10.5	28.8	-2.5
HY&EM Bonds	-4.2	9.2	6.9	1.6	2.7	5.3	-3.4	4.9	2.3	17.1	-3.1	2.0	0.2	17.6	3.4
US 10Y	-5.6	1.4	1.3	2.0	3.7	1.9	2.6	7.2	-6.2	4.9	1.0	10.9	-7.6	4.3	16.9
Euro 10Y	-3.4	5.1	4.0	3.8	6.6	5.9	3.7	12.4	0.2	9.6	0.2	16.7	-2.6	7.6	13.9
UK 10Y	-5.8	7.2	6.5	5.3	7.1	4.4	4.2	10.6	-4.1	5.2	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 24.11.15	12m to 24.11.14	12m to 24.11.13	12m to 24.11.12	2015	2014	2013	2012	2011
Energy	-2.7	2.4	-11.8	-33.4	-26.4	-19.0	-49.8	-10.0	-6.5	-6.6	-38.9	-39.3	5.2	-9.4	-16.0
Brent crude	-3.9	12.0	-11.2	-33.7	-31.5	-18.0	-50.5	-27.0	6.8	8.1	-45.6	-47.6	7.2	7.6	16.8
Industrial metals	12.5	27.0	30.7	-7.4	-3.5	-5.1	-34.4	4.9	-13.8	-0.9	-26.9	-6.9	-13.6	0.7	-24.2
Copper	18.0	20.8	24.7	-7.8	-7.3	-5.5	-31.8	-6.3	-10.8	6.2	-25.1	-16.6	-8.8	5.0	-24.4
Precious metals	-11.2	13.2	11.4	-0.9	-3.3	-8.9	-11.8	-7.9	-32.9	3.2	-11.5	-6.7	-30.8	6.3	4.6
Gold	-9.7	11.5	10.2	-0.8	-1.9	-7.4	-10.7	-4.1	-29.4	2.4	-10.9	-1.7	-28.7	6.1	9.6
Agriculture	1.7	6.1	5.4	-6.1	-7.3	-5.2	-16.4	-9.7	-15.6	14.0	-15.6	-9.2	-14.3	4.0	-14.4
Corn	4.1	-7.9	-10.6	-11.9	-14.1	-10.3	-13.2	-18.4	-34.0	38.7	-19.2	-13.3	-30.3	19.0	1.1
Commodities	0.1	9.0	4.2	-14.5	-11.5	-9.6	-29.9	-5.3	-14.0	1.2	-24.7	-17.0	-9.5	-1.1	-13.3
Real Estate	-9.3	0.0	0.9	0.2	4.4	10.2	-0.4	13.2	8.7	31.4	-0.8	15.0	3.7	27.7	-6.5
ATS	0.0	1.3	0.1	-1.5	-0.7	1.4	-3.1	1.1	7.0	2.2	-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) 14th 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		
	2016F	2017F	2018F	2016F	2017F	2018F
Global	3.1	3.5	3.8	1.7	2.3	2.5
Advanced	1.6	1.6	2.0	0.7	1.8	2.1
Emerging	4.3	4.9	5.1	3.2	3.0	3.1
United States	1.6	2.2	2.5	1.3	2.4 ↓	2.8
Euro area	1.6	1.2	1.6	0.2	1.2	1.4
Japan	0.6 ↑	1.2	0.7	-0.3	0.4	1.0
United Kingdom	2.0	0.5	1.5	0.6	2.4	2.1
China	6.7	6.3	6.1	2.0	2.2	2.3
Brazil	-3.6	0.5	1.8	8.8	5.5 ↓	5.3 ↓
India	7.6	7.9	8.0	5.1	4.8	5.3
Russia	-0.5	1.1	1.9	7.1	4.7	4.1

Source: Barclays Research, *Global Economics Weekly, 18 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.

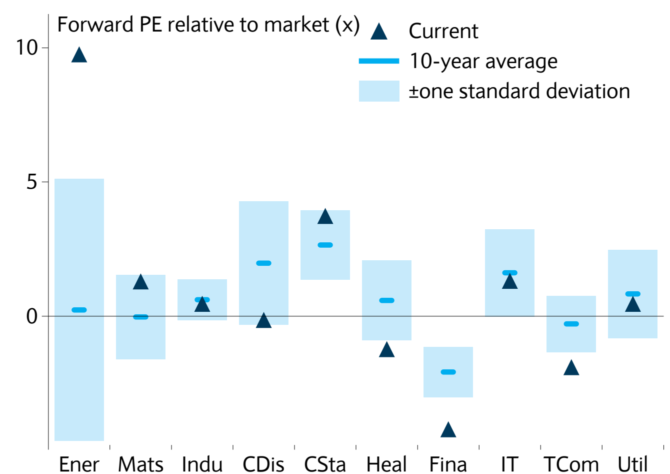
Wealth and Investment Management equity sector recommendations

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

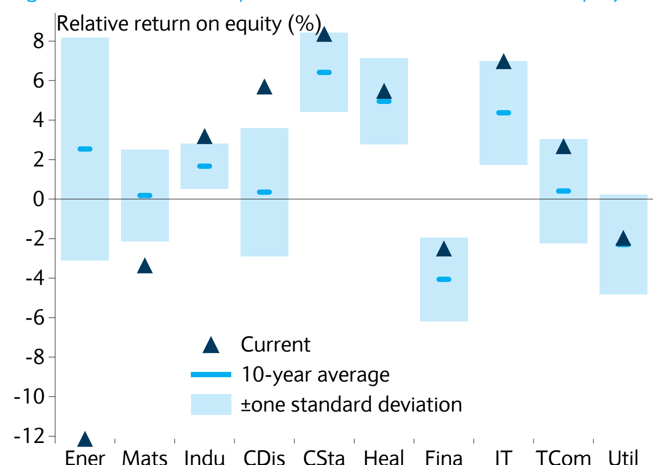
Source: Barclays

Figure 2: MSCI developed markets – sector forward PE ratios



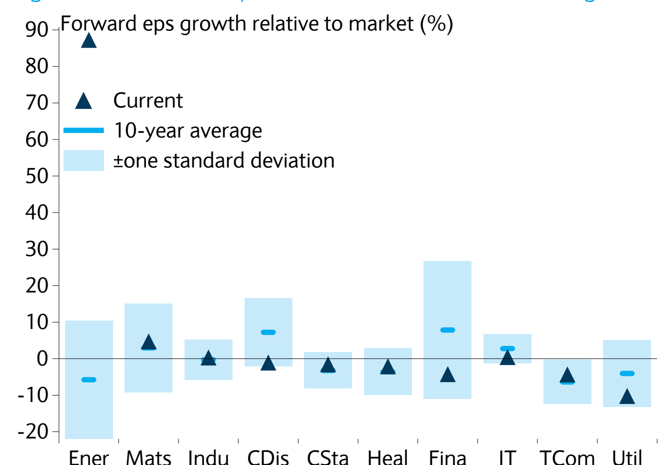
Source: MSCI, FactSet, Barclays

Figure 3: MSCI developed markets - sector return on equity



Source: MSCI, FactSet, Barclays

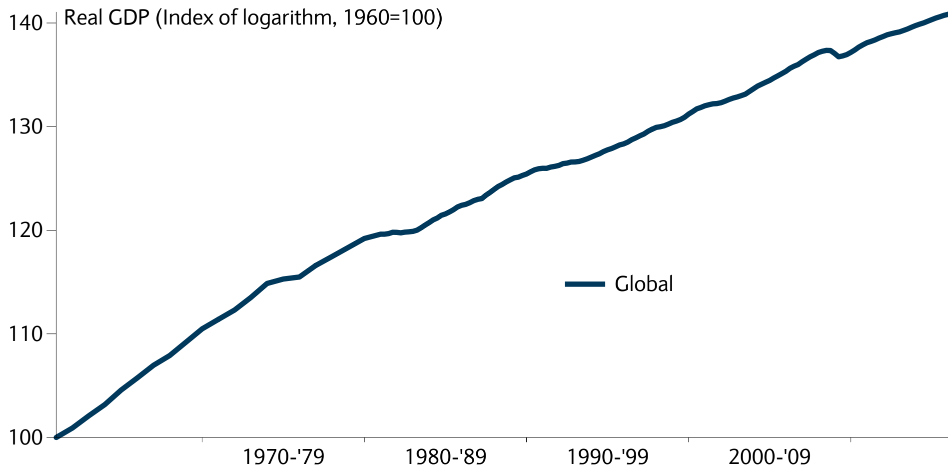
Figure 4: MSCI developed markets - sector forward EPS growth



Source: IBES, Datastream, Barclays

The case for investing

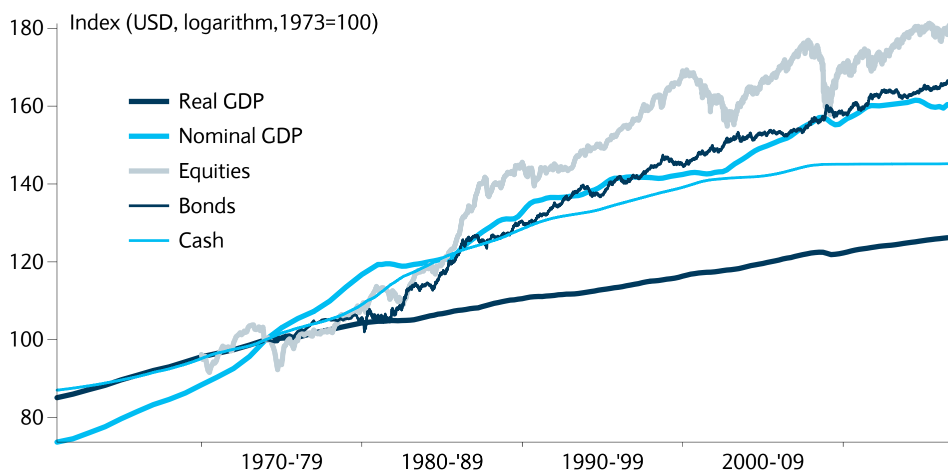
Global real GDP



- 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.

Source: Datastream, Barclays

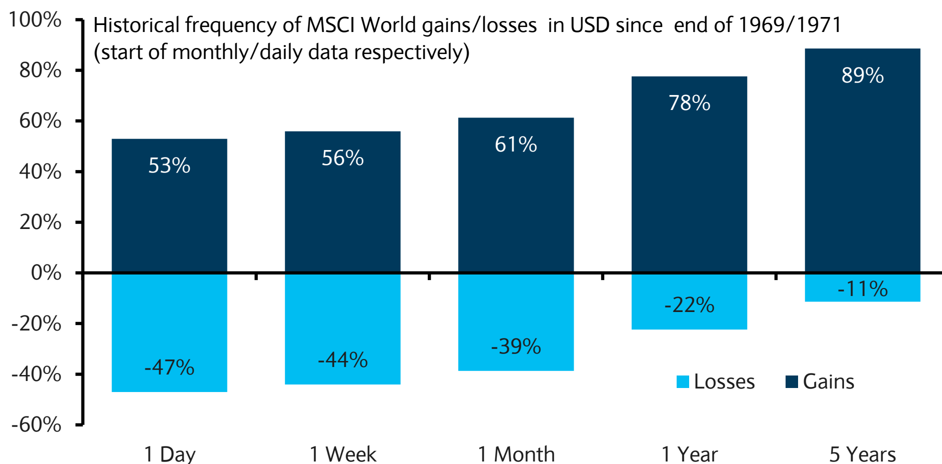
Growth of global GDP and asset classes



- 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.

Source: Datastream, Barclays

Historical frequency of equity market gains/losses

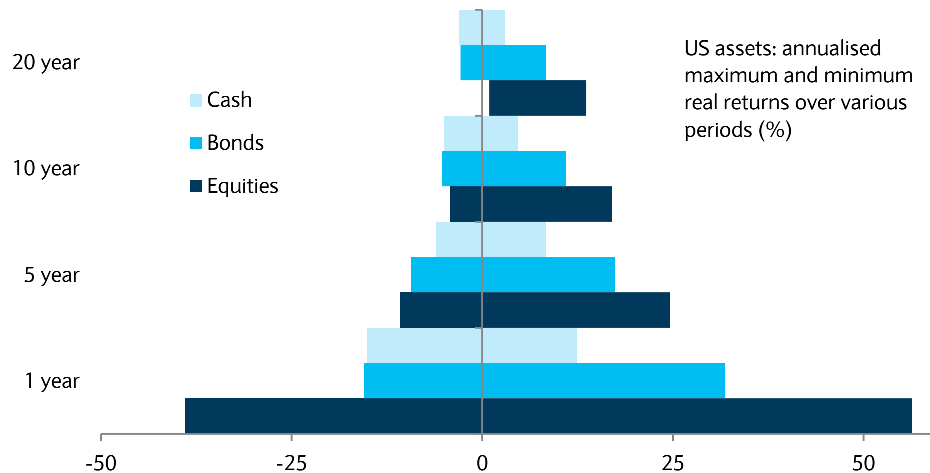


- Historically, equity market returns have been positive a lot more than 50% of the time over the long term.
- Although equity markets are not the only source of investor returns, it is stocks that are going to provide the bulk of the long-term returns to investment portfolios.
- This ultimately means 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.

Source: Datastream, Barclays

The case for investing

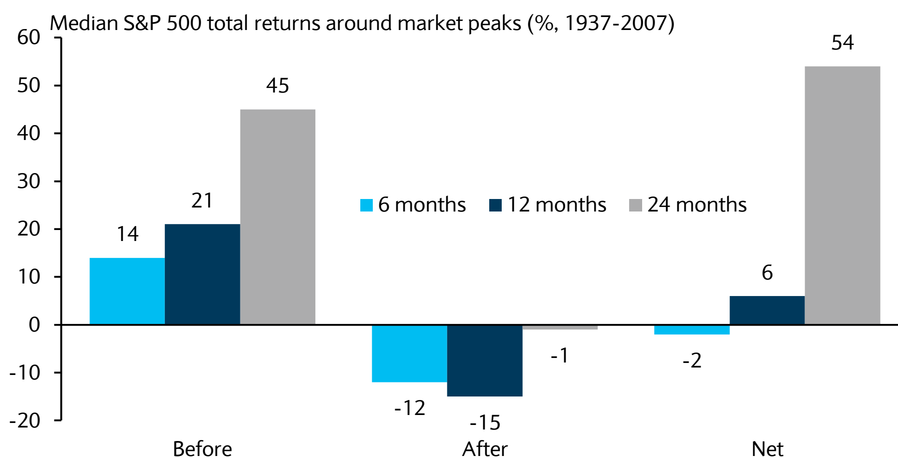
Minimum/maximum real return of US assets



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.

This document has been prepared by the wealth and investment management division of Barclays Bank plc ("Barclays"), for information purposes only. Barclays does not guarantee the accuracy or completeness of information which is contained in this document and which is stated to have been obtained from or is based upon trade and statistical services or other third party sources. Any data on past performance, modelling or back-testing contained herein is no indication as to future performance. No representation is made as to the reasonableness of the assumptions made within or the accuracy or completeness of any modelling or back-testing. All opinions and estimates are given as of the date hereof and are subject to change. The value of any investment may fluctuate as a result of market changes. The information in this document is not intended to predict actual results and no assurances are given with respect thereto.

The information contained herein is intended for general circulation. It does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The investments discussed in this publication may not be suitable for all investors. Advice should be sought from a financial adviser regarding the suitability of the investment products mentioned herein, taking into account your specific objectives, financial situation and particular needs before you make any commitment to purchase any such investment products. Barclays and its affiliates do not provide tax advice and nothing herein should be construed as such. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor. Neither Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of or reliance upon this publication or its contents, or for any omission. Past performance does not guarantee or predict future performance. The information herein is not intended to predict actual results, which may differ substantially from those reflected.

The products mentioned in this document may not be eligible for sale in some states or countries, nor suitable for all types of investors. This document shall not constitute an underwriting commitment, an offer of financing, an offer to sell, or the solicitation of an offer to buy any securities described herein, which shall be subject to Barclays' internal approvals. No transaction or services related thereto is contemplated without Barclays' subsequent formal agreement. Unless expressly stated, products mentioned herein are not guaranteed by Barclays Bank plc or its affiliates or any government entity.

This document is not directed to, nor intended for distribution or use by, any person or entity in any jurisdiction or country where the publication or availability of this document or such distribution or use would be contrary to local law or regulation, including, for the avoidance of doubt, the United States of America. It may not be reproduced or disclosed (in whole or in part) to any other person without prior written permission. You should not take notice of this document if you know that your access would contravene applicable local, national or international laws. The contents of this publication have not been reviewed or approved by any regulatory authority.

Barclays Capital Inc., Member SIPC, Barclays Bank plc and / or their affiliated companies and/or the individuals associated therewith (in various capacities) may already have or intend to: (i) seek investment banking or other business relationships for which they already receive or will receive compensation from the companies that are the subject of this publication ("Researched Companies"), such as underwriting, advising, and lending – as such, it is possible that Barclays Capital Inc., Barclays Bank plc or their affiliated companies may have managed or co-managed a public offering of securities for any issuer mentioned in this document within the last three years.; (ii) have an interest in the Researched Companies by acting making a market or dealing as principal in securities issued by Researched Companies or in options or other derivatives based thereon, or otherwise hold personal interests in the Research Companies; (iii) appoint employees or associates as directors or officers of the Researched Companies; (iv) act upon the contents of this publication prior to your having received it; (v) effect transactions which are not consistent with the recommendations given herein.

Barclays offers wealth and investment management products and services to its clients through Barclays Bank PLC and its subsidiary companies. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No. 1026167. Registered Office: 1 Churchill Place, London E14 5HP.

Cyprus – Barclays offers banking, wealth and investment management products and services to its clients through Barclays Bank PLC and its subsidiaries. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No. 1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Bank PLC is regulated by the Central Bank of Cyprus in the conduct of its banking and investment business in Cyprus. **France** – Barclays Bank PLC, Succursale en France - Principal établissement : 32 avenue George V - 75008 Paris - RCS Paris B 381 066 281 - C.C.P. 62-07 Paris - Siège social à Londres E14 5HP, Angleterre, 1, Churchill Place - Reg N° 1026167 - Capital autorisé 3 040 001 000 de Livres Sterling. BARCLAYS BANK PLC est un établissement de crédit, intermédiaire en assurance (l'immatriculation auprès du FCA peut être contrôlée sur le site internet www.orias.fr), prestataire de service d'investissement de droit anglais agréé par the Financial Conduct Authority (FCA), autorité de tutelle britannique qui a son siège social 25 The North Colonnade, Canary Wharf, Londres E14 5HS. (www.fca.org.uk), FCA register n° 122702 La Succursale française de Barclays Bank PLC, est autorisée par le FCA à recourir à un Agent lié, Barclays Patrimoine SCS. **Gibraltar** – Barclays offers banking, wealth and investment management products and services to its clients through Barclays Bank PLC and its subsidiaries. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No. 1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Bank PLC is authorised by the Gibraltar Financial Services Commission to conduct banking and investment business in Gibraltar. **Guernsey** – Barclays offers wealth and investment products and services to its clients through Barclays Bank PLC and its subsidiary companies. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered Number: 1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Bank PLC, Guernsey Branch is licensed by the Guernsey Financial Services Commission under the Banking Supervision (Bailiwick of Guernsey) Law 1994, as amended, and the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended. Barclays Bank PLC, Guernsey Branch has its principal place of business at Le Marchant House, St Peter Port, Guernsey, GY1 3BE. **Ireland** – Barclays Bank Ireland PLC is regulated by the Central Bank of Ireland. Registered in Ireland. Registered Number: 396330. Registered Office: Two Park Place, Hatch Street, Dublin 2. Calls may be recorded for security and other purposes. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No. 1026167. Registered Office: 1 Churchill Place, London E14 5HP. **Isle of Man** – Barclays offers wealth and investment products and services to its clients through Barclays Bank PLC and its subsidiary companies. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered Number: 1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Bank PLC, Isle of Man Branch is licensed by the Isle of Man Financial Services Authority. Barclays Bank PLC, Isle of Man Branch has its principal business address in the Isle of Man at Barclays House, Victoria Street, Douglas, Isle of Man, IM99 1AJ. **Italy** – Barclays offers wealth and investment management products and services to its clients through Barclays Bank PLC and its subsidiary companies. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No. 1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Bank PLC – Via della Moscova. 18 – 20121 Milan – Italy, is a branch of Barclays Bank PLC and is registered with the Register of Banks

Milan n° 4862. Company Register Milan n° 80123490155 – R.E.A. Milan 1040254 – Fiscal Code n° 80123490155 – Registered VAT n° 04826660153. **Jersey** – Barclays offers wealth and investment products and services to its clients through Barclays Bank PLC and its subsidiary companies. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered Number: 1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Bank PLC, Jersey Branch is regulated by the Jersey Financial Services Commission. Barclays Bank PLC, Jersey Branch is regulated by the Guernsey Financial Services Commission under the Protection of Investors (Bailiwick of Guernsey) Law 1987 as amended. Barclays Bank PLC. Jersey Branch has its principal business address in Jersey at 13 Library Place, St Helier, Jersey JE4 8NE, Channel Islands. **Monaco** – Barclays Bank PLC – Monaco is a branch of Barclays Bank PLC with its offices in the Principality of Monaco at 31 Avenue de la Costa, MC 98000 Monaco – Tel. +377 93 15 35 35. Registered with the Monaco Chamber of Commerce and Industry under No° 68 S 01191. Registered VAT No° FR 40 00002674 9. **Nigeria** – Barclays offers wealth and investment management products and services to its clients through Barclays Bank PLC and its subsidiaries. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No.1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Group Representative Office (NIG) Ltd. Registered Company No: RC41757 and its mailing address is Barclays Group Representative Office (NIG) Ltd, Courier Department, 3rd Floor, 1 Churchill Place, London, E14 5HP **Portugal** – Barclays offers wealth and investment management products and services to its clients through Barclays Bank PLC and its subsidiary companies. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No. 1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Bank PLC activity in Portugal is supervised by Banco de Portugal (BoP) and Comissão de Mercado de Valores Mobiliários (CMVM). **Qatar** – Barclays offers wealth and investment management products and services to its clients through Barclays Bank PLC and its subsidiary companies. Barclays Bank PLC is registered in England and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No. 1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority. Barclays Bank PLC QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA authorisation. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. This information has been distributed by Barclays Bank PLC. Related financial products or services are only available to Business Customers as defined by the QFCRA. **Singapore and Hong Kong** – Barclays offers wealth and investment management products and services to its clients through Barclays Bank PLC and its subsidiaries. Barclays Bank PLC is registered and incorporated in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Its members have limited liability. Registered No. 1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Bank PLC Singapore Branch is a licensed bank in Singapore and is regulated by the Monetary Authority of Singapore. Registered Address:10 Marina Boulevard, #24-01 Marina Bay Financial Centre Tower 2, Singapore 018983. Barclays Bank PLC Hong Kong Branch is registered with the Hong Kong Securities and Futures Commission (CE No. AAJ160) and is authorised and regulated by the Hong Kong Monetary Authority. Main business address in Hong Kong: 41/F Cheung Kong Center, 2 Queen's Road Central, Hong Kong. **Switzerland** – Barclays Bank (Suisse) SA is a Bank registered in Switzerland and regulated and supervised by FINMA. Registered No. CH-660.0.118.986-6. Registered Office: Chemin de Grange-Canal 18-20, P.O. Box 3941, 1211 Geneva 3, Switzerland. Registered branch: Beethovenstrasse 19, P.O. Box, 8027 Zurich. Registered VAT No. CHE-106.002.386. Barclays Bank (Suisse) SA is a subsidiary of Barclays Bank PLC registered in England, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. It is registered under No. 1026167 and its registered office is 1 Churchill Place, London E14 5HP. **United Arab Emirates (Dubai)** – Barclays offers wealth and investment management products and services to its clients through Barclays Bank PLC and its subsidiary companies. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No. 1026167. Registered Office: 1 Churchill Place, London E14 5HP. Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority. Barclays Bank PLC DIFC Branch may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Principal place of business: Wealth and investment management, Dubai International Financial Centre, The Gate Village Building No. 10, Level 6, PO Box 506674, Dubai, UAE. This information has been distributed by Barclays Bank PLC DIFC Branch. Related financial products or services are only available to Professional Clients as defined by the DFSA.