

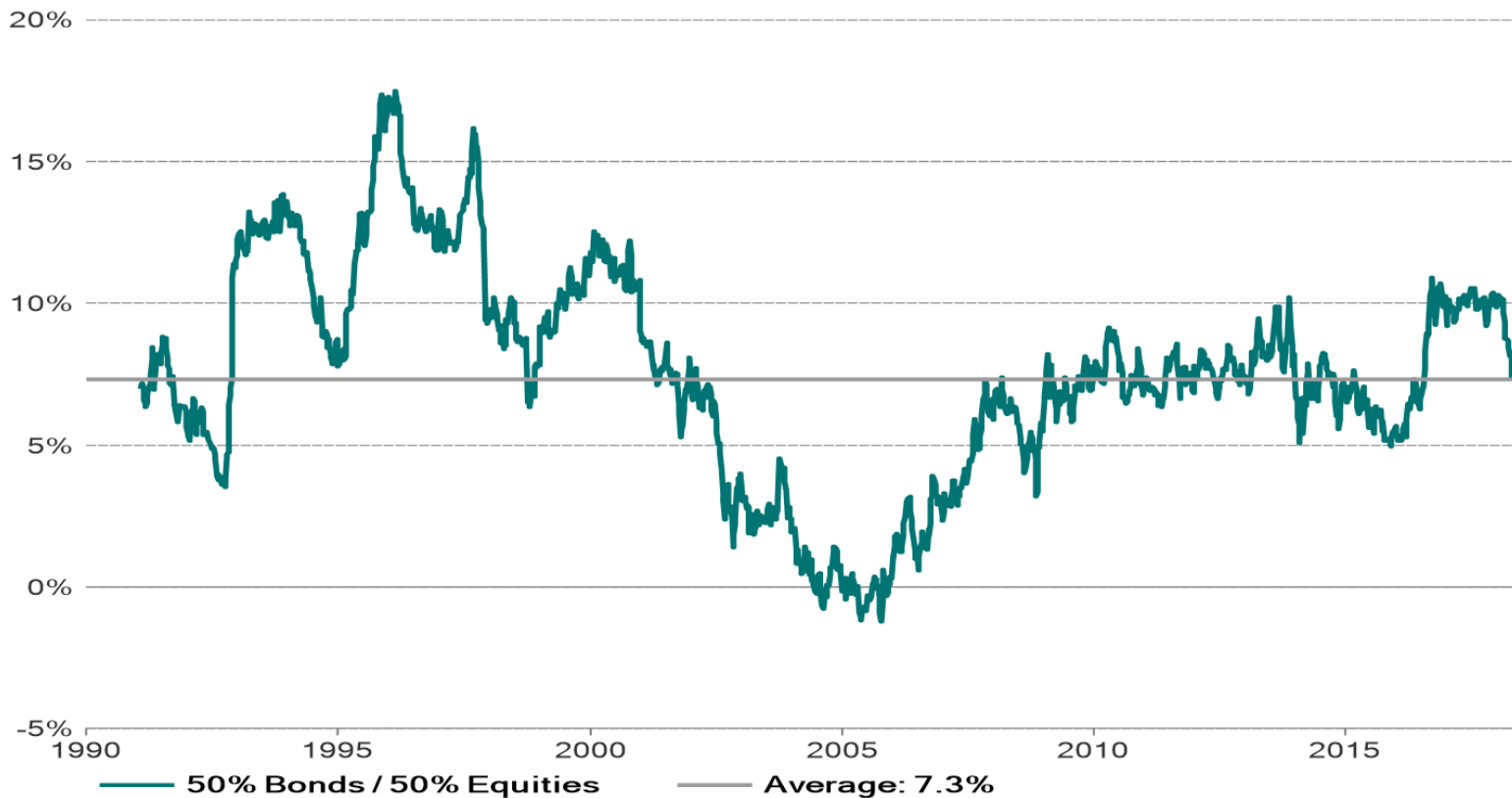
Challenging conventional wisdom

ANDREW COLE
HEAD OF MULTI ASSET LONDON

14 June 2018
Leeds

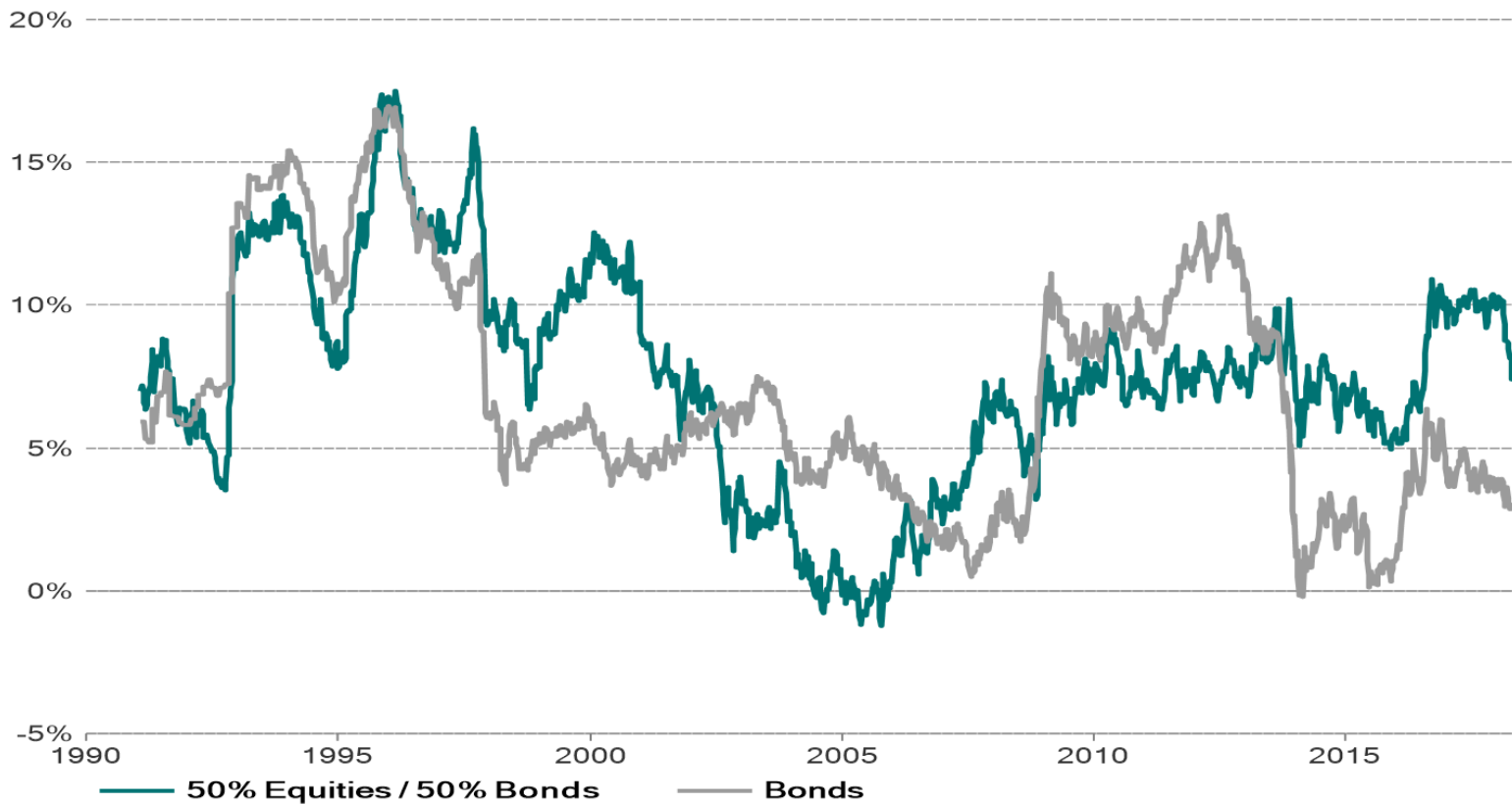


IT HAS BEEN A GOOD TIME TO BE PASSIVE



Source: Datastream. Performance for 50% MSCI World AC Index / 50% BOFA ML Global Gov Bond Index (5Y rolling ann. return in %) in GBP over the period February 1991 – June 2018.

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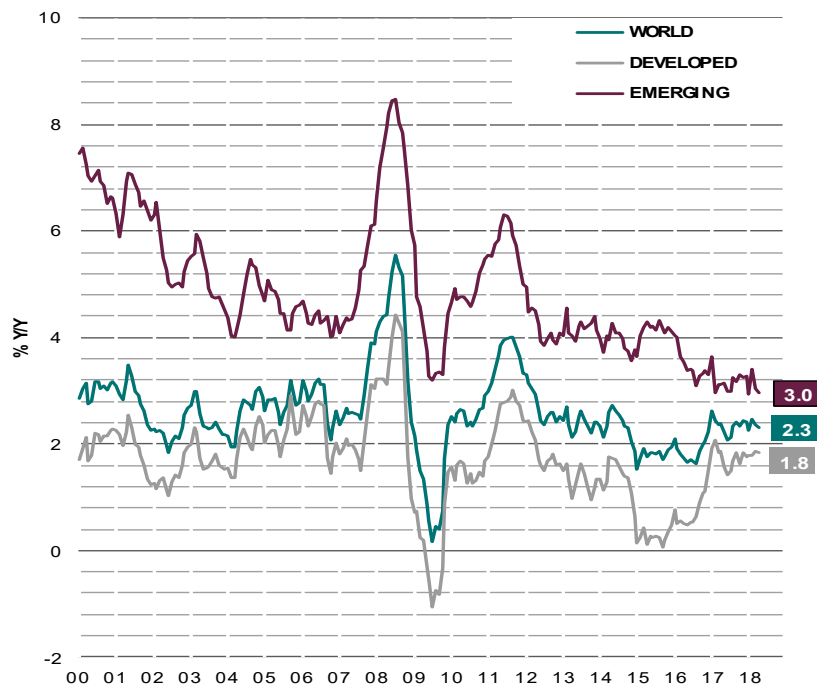


Source: Datastream. Performance for 50% MSCI World AC Index / 50% BOFA ML Global Gov Bond Index, BOFA ML Global Gov Bond Index & MSCI World AC Index (5Y rolling ann. return in %) in GBP over the period February 1991 – June 2018.

- › We've had a bull market in equities
- › We are now late in the cycle:
 - Earnings are growing
 - Inflation is rising
- › Real returns from bonds set to be negative
- › Increasing volatility in valuation and returns

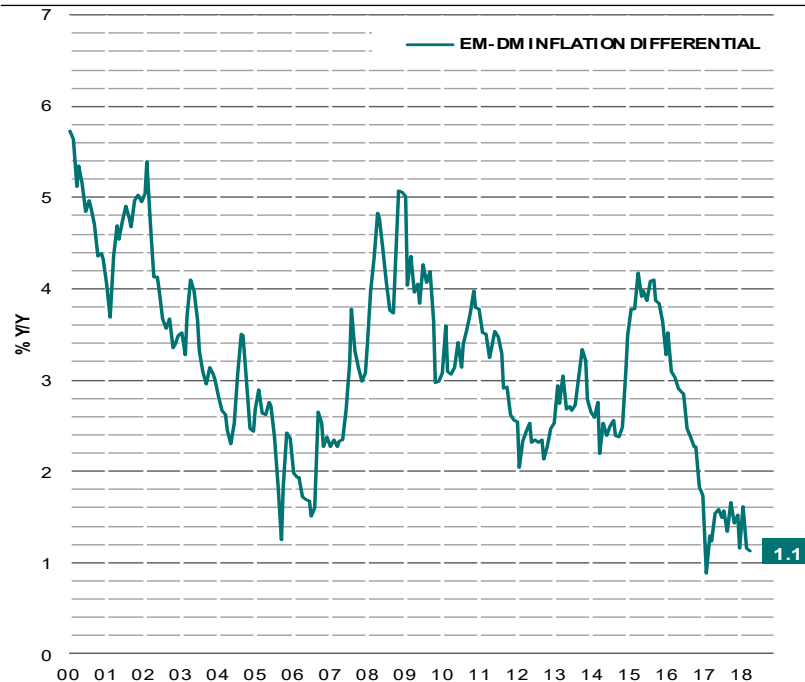
WORLD INFLATION

World headline inflation rate*



Source: Pictet Asset Management, CEIC, Datastream
 *Weighted average of 42 countries inflation rates

EM – DM inflation

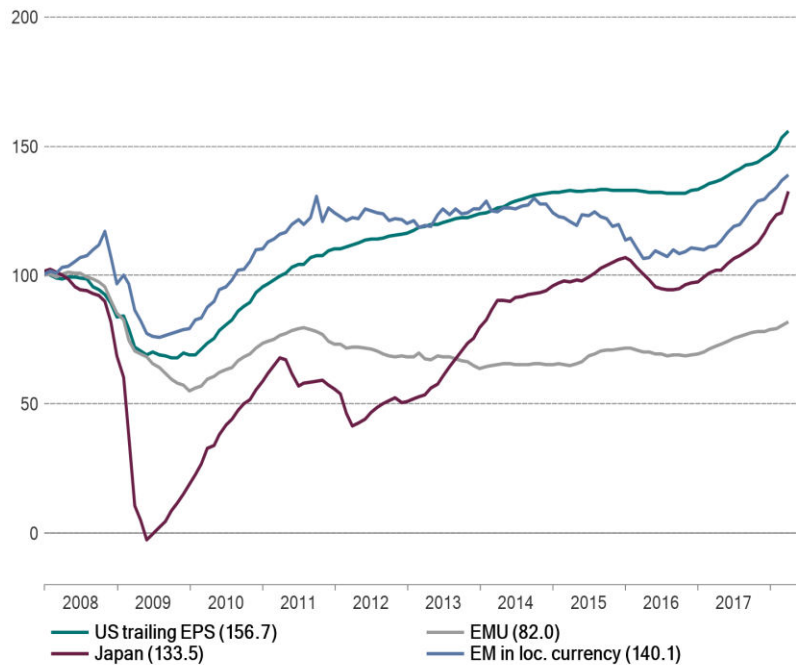


Source: Pictet Asset Management, CEIC, Datastream



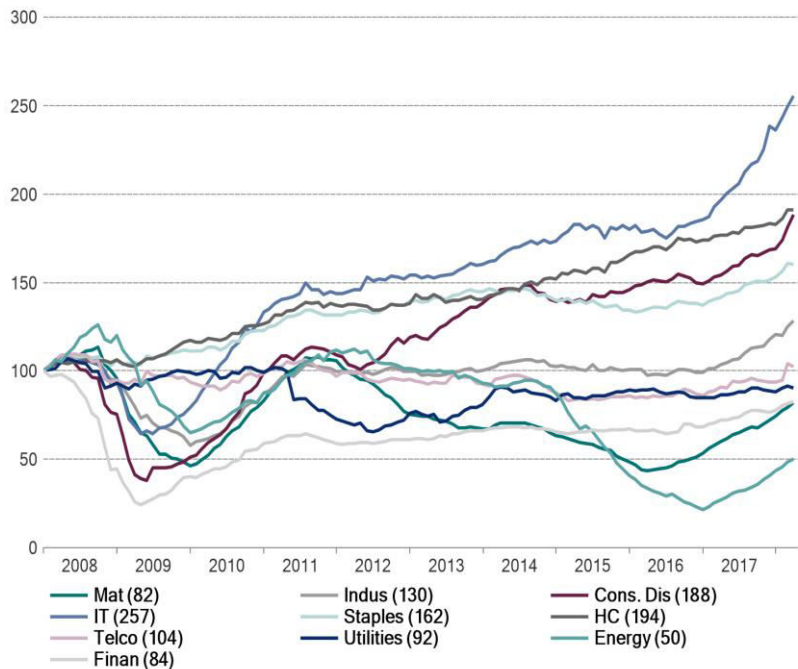
CORPORATE PROFITS SINCE 2008 – REGIONS AND GLOBAL SECTORS

EPS level since Jan 2008 (=100) by region



Source: Datastream, IBES

EPS level since Jan 2008 (=100) by global sector

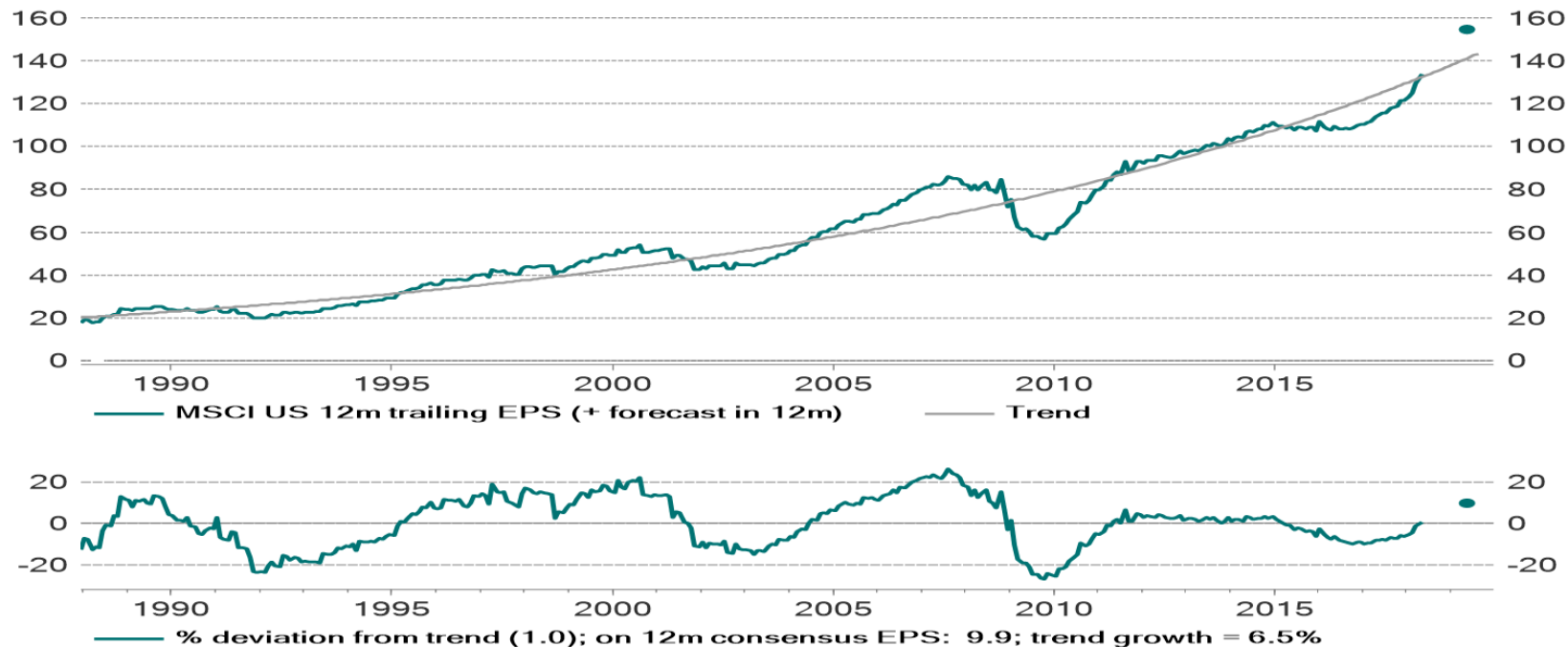


Source: Datastream, IBES



US CORPORATE EARNINGS TO RISE ABOVE THEIR LONG-TERM TREND

MSCI US 12m trailing EPS and trend

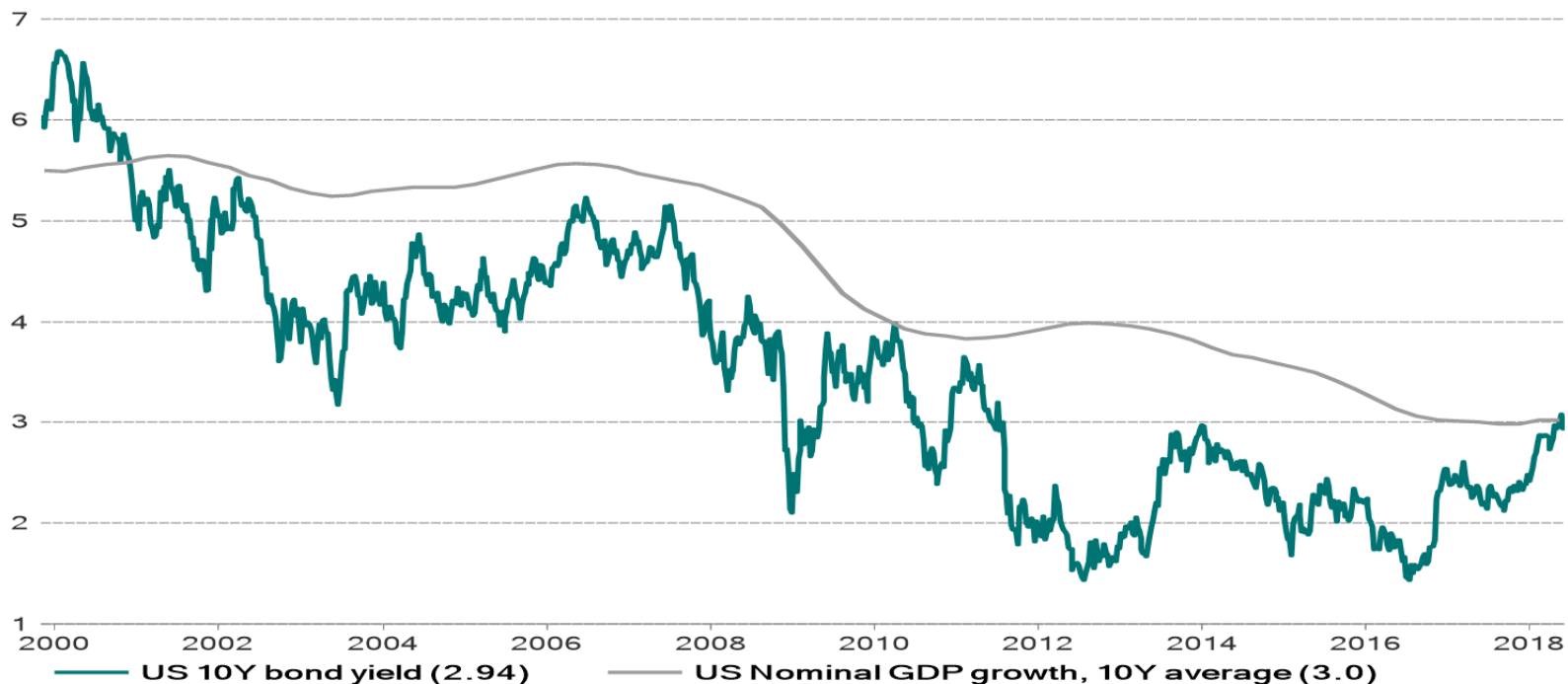


Source: Datastream, IBES, Pictet Asset Management.



US BOND YIELDS IN LINE WITH TREND NOMINAL GDP GROWTH

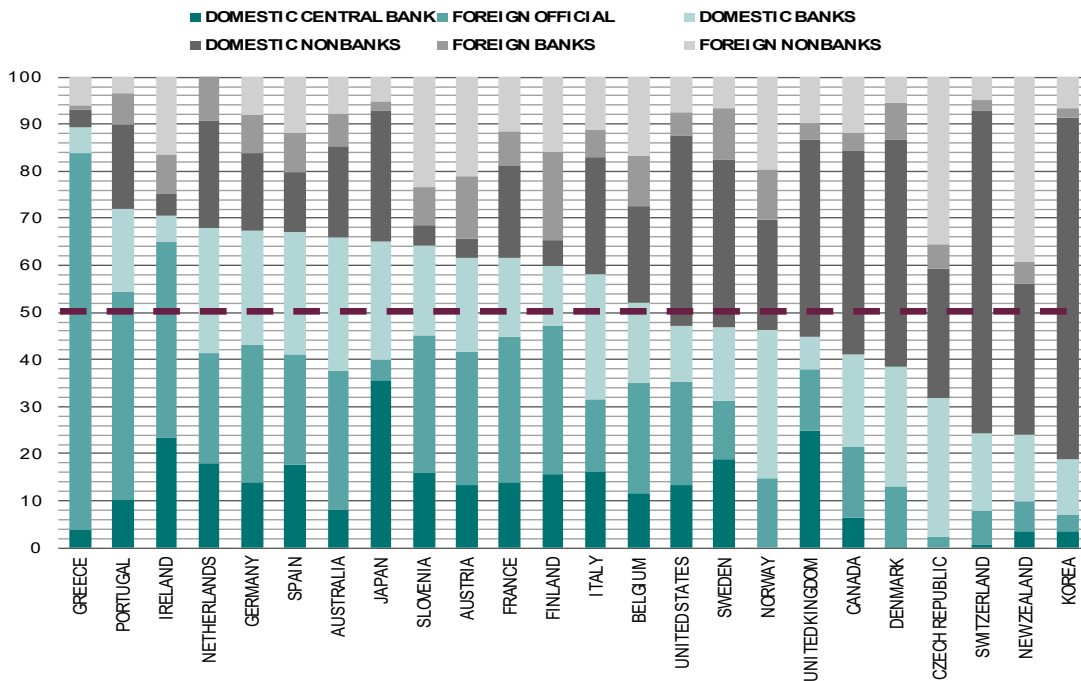
US 10Y bond yield and trend nominal GDP growth (10Y moving average)



Source: IMF, Pictet Asset Management

PUBLIC DEBT DISTRIBUTION (2017)

General Govt Debt – Investor Base (2017)

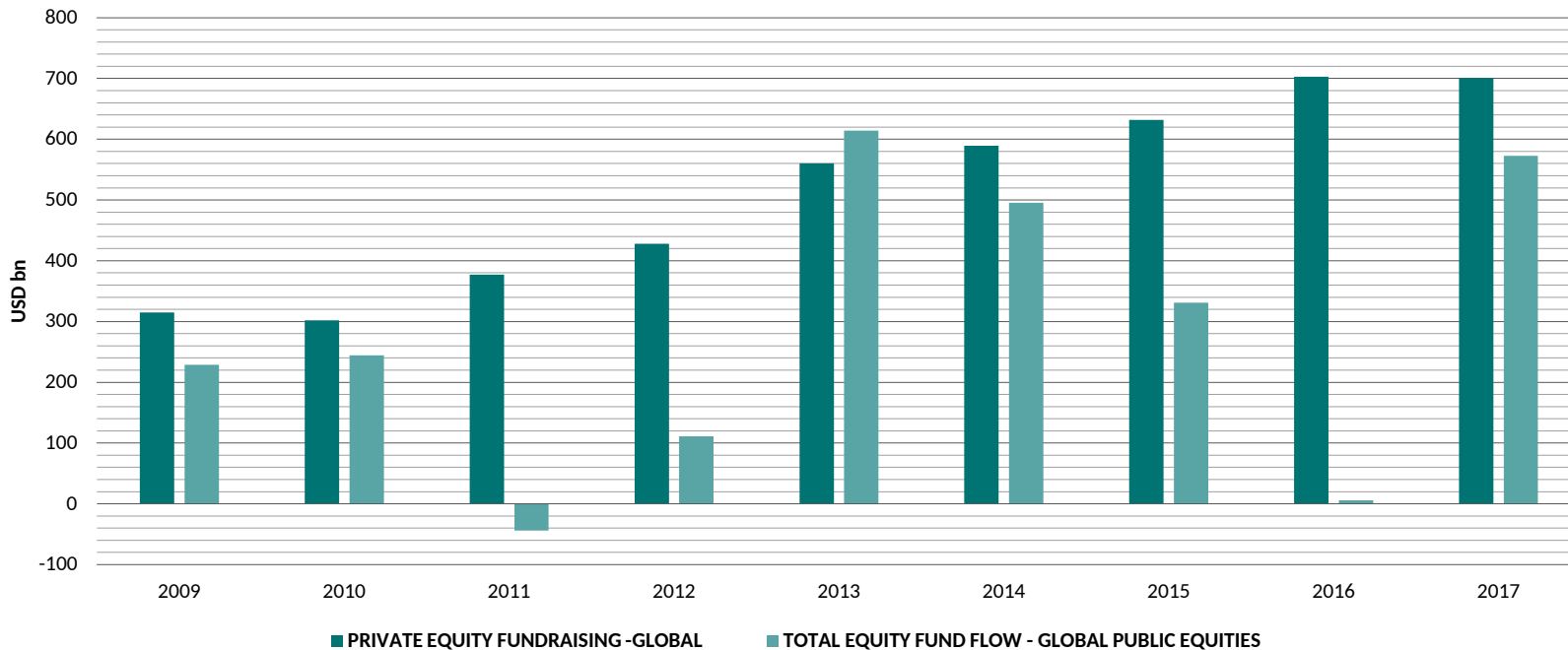


'Captive' holders (green bars)
 --
 54% average captive ownership rate (14 countries >50%)

Source: IMF, Pictet Asset Management

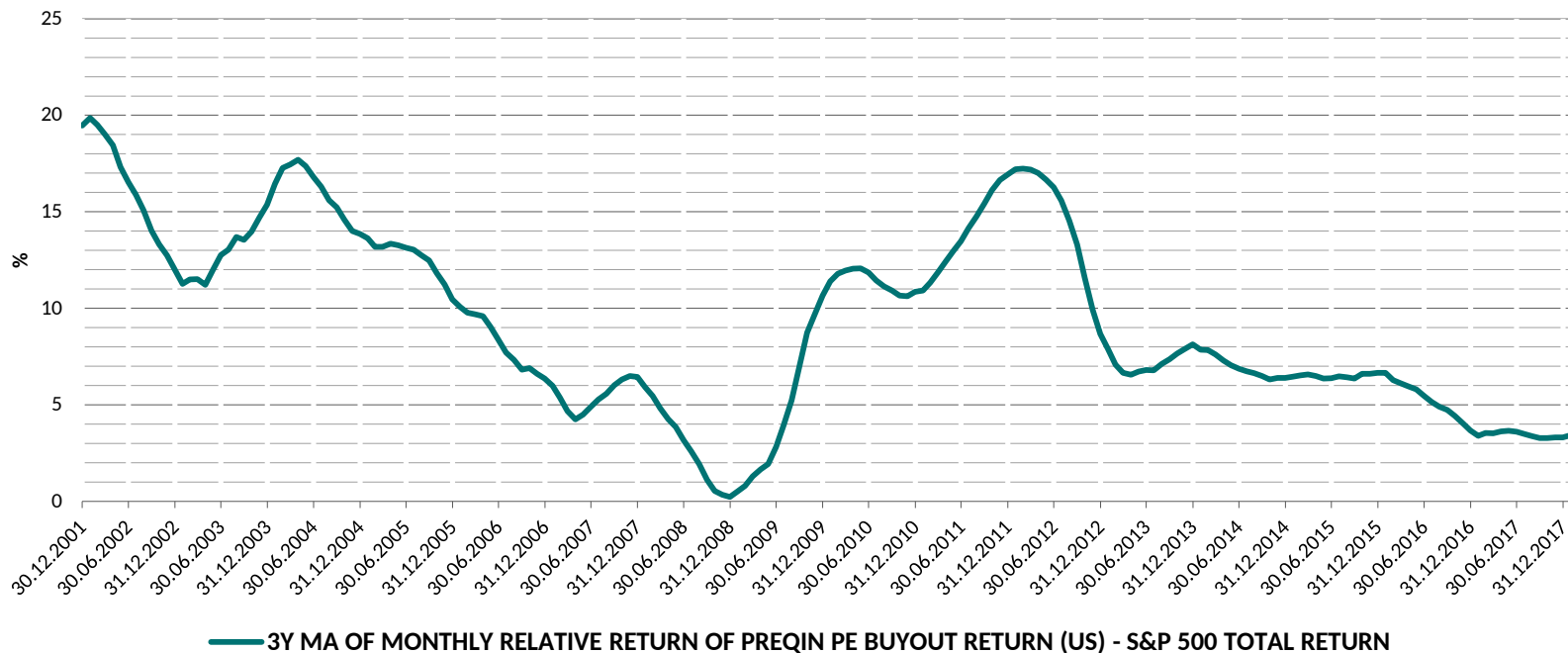


SIGNIFICANT INFLOWS INTO PRIVATE EQUITY



Source: Pictet Asset Management.

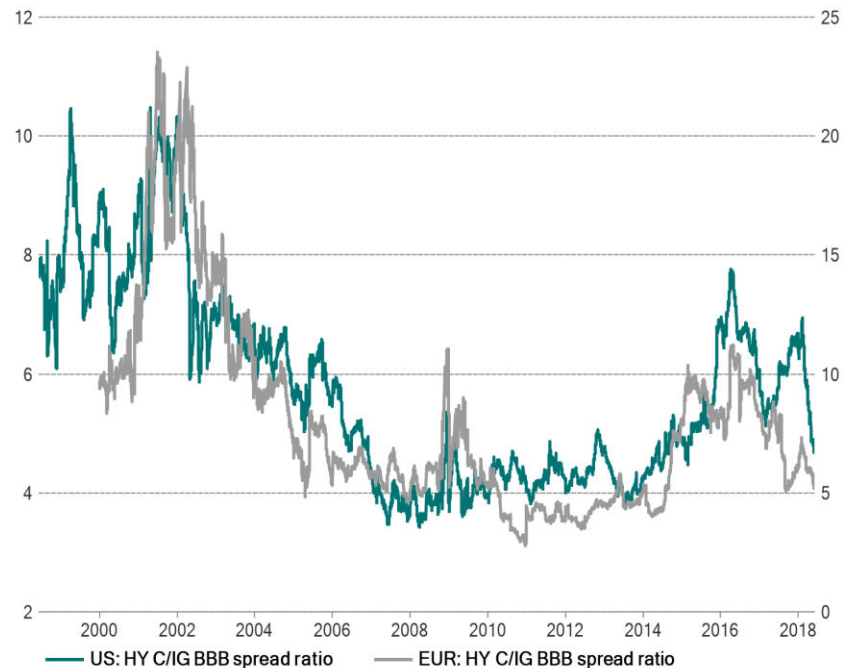
THOUGH EXCESS RETURNS ARE FALLING



Source: Pictet Asset Management.

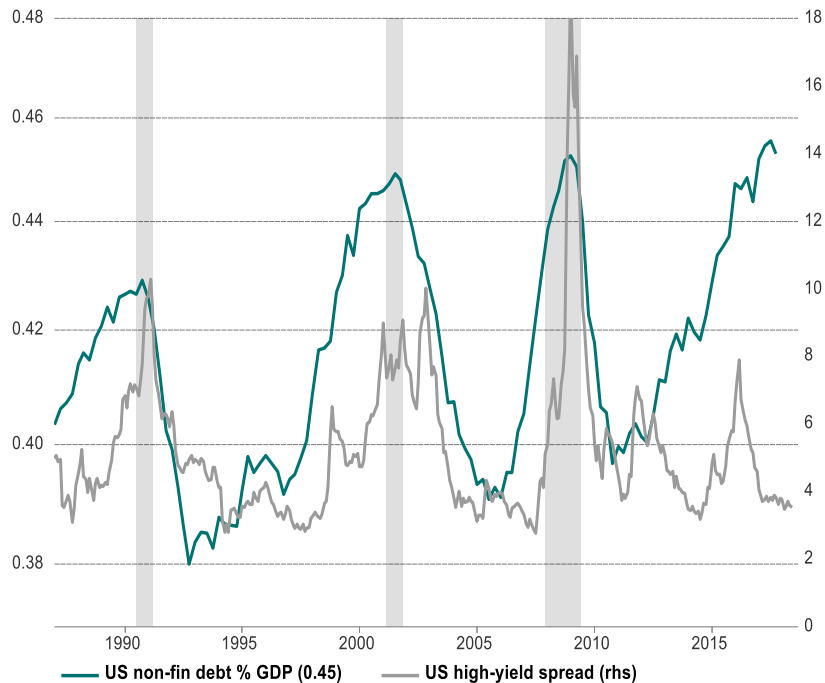
WATCH OUT FOR CREDIT

Ratio of low rated to BBB spreads in US and Europe



Source: Pictet Asset Management, BoAML, Datastream

US debt burden vs. HY credit spreads

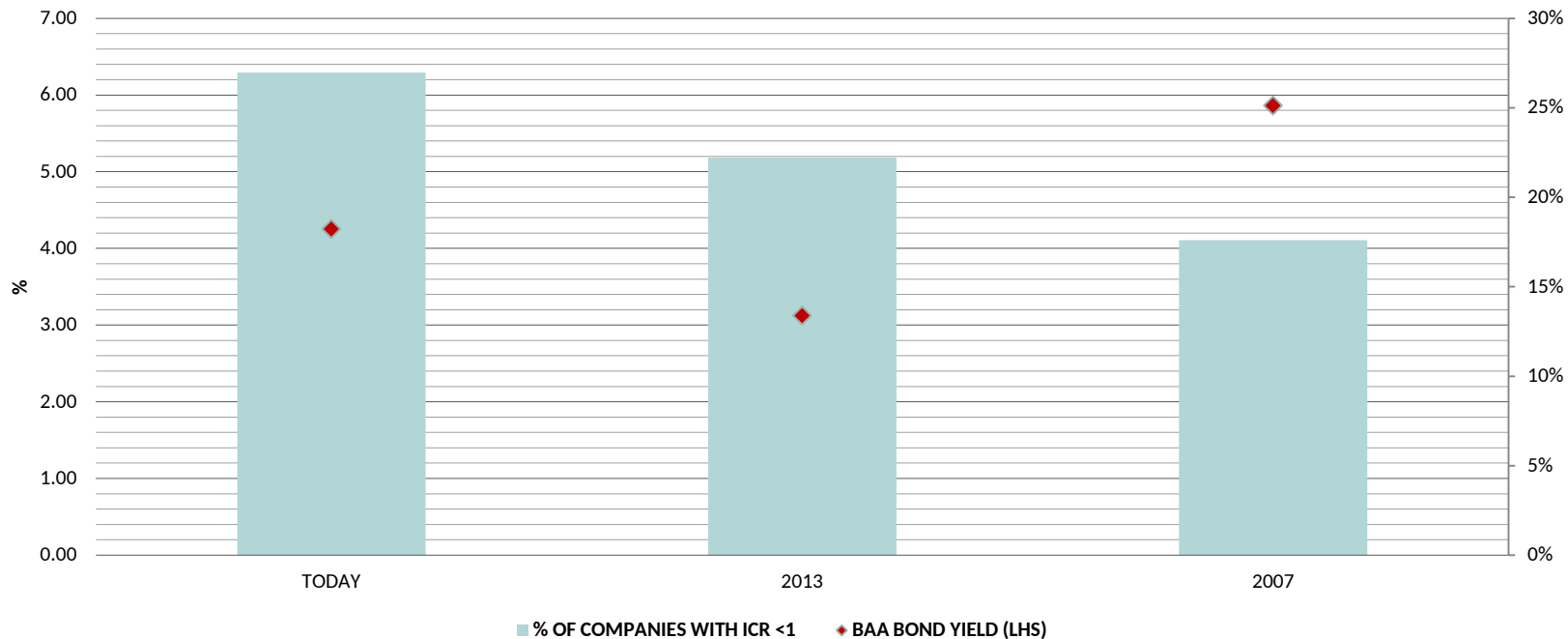


Source: Pictet Asset Management, BoAML, Datastream



WEAK INTEREST COVERAGE AN ISSUE FOR NEARLY 30% OF SMALL AND MID CAPS

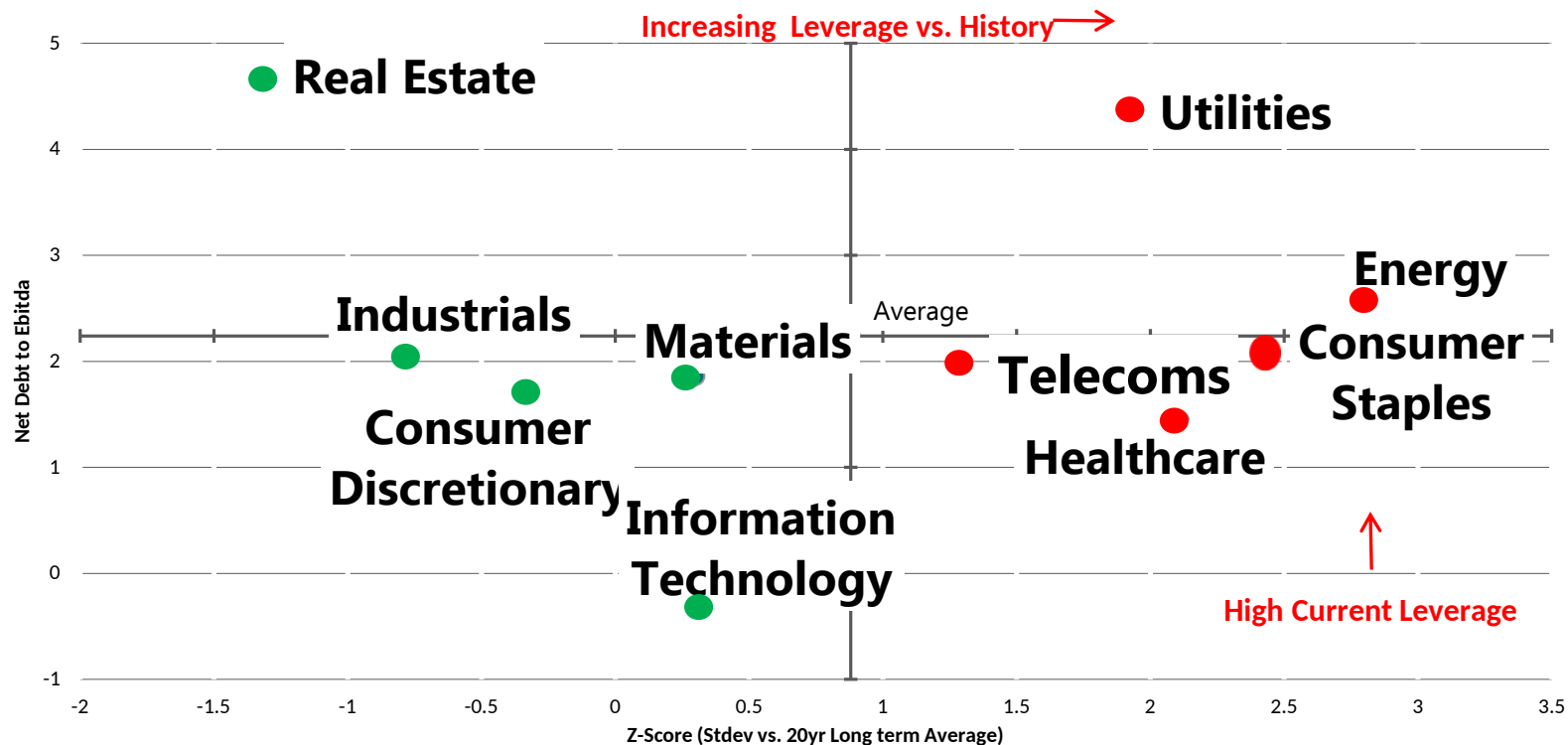
Russell 2000: % cos. with interest coverage <1 vs. BAA yield



Source: Datastream, Worldscope. Covers between 97%-98% of companies in all cases, with the rest being unavailable. Universe is used as of the date referred to.

DEFENSIVE SECTORS MOST LEVERAGED - PREFER CYCLICAL SECTORS

Net Debt to EBITDA



Source: Datastream, Pictet Asset Management. Data from Q1 1998 - Q1 2018 (Q1 2018 data based on moving averages).

SUMMARY

- › Moving to late cycle
- › Negative real returns from bonds
- › Cycles usually end with a credit event
- › Beware the crowded trades
- › Correlations say nothing about returns
- › Opportunities arising from volatility
- › Real returns matter!

For more information

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