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GLOBAL INVESTMENT OUTLOOK & STRATEGY

December 2017

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Stocks likely to end a Strong 2017 with Year-end Rally Fueled by Strong Earnings, Solid Global GDP Growth & U.S. on Verge of Big Tax Cuts. BoJ continues QE, Other Central Bank Policy Normalization Likely to be Gradual

After strong gains thus far in 2017, stocks likely to rally into year-end, fueled by solid Q4 earnings outlook, synchronized global GDP growth, the U.S. on the verge of big tax cuts and liquidity support with BoJ continuing QE buying & further rate cuts in some Emerging Markets. Further, the policy normalization by the Fed, ECB & BoE is likely to be gradual with low inflation. However, modestly expensive valuations likely to be headwinds for further gains.

Stock Market Outlook: Stocks extended gains in November with Q3 earnings results surprising on the upside, continued solid GDP growth, and higher oil prices. The rally gained steam in late November with increased odds of U.S. tax cuts. ***The Developed Markets gained 1.4% in November, taking YTD gains to 15.1%, while Emg Markets declined -0.9%, trimming YTD gains to 24.8%.***

Looking ahead, stocks are likely to end a strong 2017 with a year-end rally fueled by: 1) Strong Earnings Growth with stocks continuing to be buoyed by better-than-expected Q3 earnings results, especially in the U.S. and Japan. The earnings momentum remains strong in Q4 and heading into 2018 with expectations of over 10% global earnings growth in 2018 (after 12% growth in 2017) driven by double-digit earnings in the U.S. (11%) & Emerging Markets (12%); ***2) Solid H2 GDP Growth in Developed & Emerging Markets*** with the U.S. economy remaining robust with Q3 GDP growth surprising on the upside at 3.3%, despite Hurricane disruptions. GDP growth in Q4 is likely to be solid as production and consumption rebound after the Hurricane. Eurozone growth remains better-than-expected with Q3 GDP growth of 2.4%. Japan's growth remains above-trend pace with Q3 GDP growth of 1.4%. Emerging Markets, growth remains solid; ***3) Liquidity Support from BoJ & Emg Markets & Gradual Policy Normalization by Developed Central Banks*** with the BoJ's QE buying likely to be boosted by PM Abe's big win, and Emerging Central Banks continue to maintain easy monetary policies. Further the policy normalization by developed central banks is likely to be gradual.

However, stocks continue to face several risks which could short-circuit the year-end rally and keep markets volatile: ***1) Uncertainty*** about final passage of U.S. tax reforms complicated by reconciliation of the House and Senate versions of the tax bill; ***2) Geo-political tensions in Korea*** continue to simmer and mounting ***Catalan tensions*** in Spain; ***4) Trump Troubles*** if the Mueller inquiry into Russian interference in 2016 U.S. elections leads to further convictions.

Bond Market Outlook: Bond yields were mixed in November with volatility in equity markets offset by rising oil prices. ***Looking ahead, bond yields are likely to remain under upward pressure with: 1) Solid Global Growth Momentum*** with U.S. economy surprising on the upside with Q3 GDP growth of 3.3%, better-than-expected Eurozone Q3 growth of 2.4%, and Japan continues to grow at an above-trend pace; ***2) Developed Central Banks Normalize Policy:*** The Fed began shrinking its balance sheet in October and is on track to hike rates in December. The ECB announced its "lower-for-longer" QE taper strategy starting January 2018. The BoE started rate hikes in November with elevated inflation; ***However, bonds remain supported in the near term by: 1) Low Inflation*** as the earlier uptick in inflation has moderated and inflation in the U.S., Eurozone and Japan remains below target; ***& 2) Central Bank Support*** with the BoJ's reflation likely to get a boost with the big win for PM Abe, and rate cuts by some Emerging central banks. Further, the policy normalization by the Fed, ECB and BoE is likely to be gradual and not a significant headwind to bonds

Stocks likely to end a Strong 2017 with Year-end Rally Fueled by Strong Q4 Earnings Outlook, Solid, Synchronized Global GDP Growth & the U.S. on Verge of Big Tax Cuts. BoJ Continues QE & Further EM Rate Cuts, Policy Normalization by Fed, ECB & BoE Remains Gradual

Bond Yields likely to Remain Under Upward Pressure with Solid GDP Growth, Fed Rate Hike in December & Balance Sheet Roll-off, ECB QE Taper to Start in January & BoE Starts Rate Hikes

Stock Market Outlook (December): Global stock markets extended gains in early November with Q3 earnings results surprising on the upside in the U.S. and Japan, continued solid GDP growth, progress on U.S. tax cuts, and higher crude oil prices. The rally gained steam in late November with increased odds of U.S. tax cuts with the Senate set to vote on the tax bill. ***The Developed Markets index gained 1.4% in November, taking YTD gains to 15.1%. The Emerging Markets index declined -0.9%, trimming YTD gains to 24.8%.***

Looking ahead, stocks are likely to end a strong 2017 with a year-end rally fueled by expectations of strong Q4 earnings after upside surprise in the Q3 earnings season, the global economy continues to fire on all cylinders, and the U.S. on the verge of big tax cuts. Further, the BoJ's QE buying and rate cuts in some Emerging Markets are likely to provide liquidity, while the policy normalization by the Fed, ECB and BoE is likely to be gradual.

1) Stocks Supported by Q3 Earnings Upside Surprises & Expectations of Strong Q4 Earnings: Stocks continue to be buoyed by better-than-expected Q3 earnings results, especially in the U.S. and Japan. Further, the earnings momentum remains strong in Q4 and heading into 2018 with expectations of over 10% global earnings growth in 2018, after around 12% growth in 2017. Global earnings growth for 2018 are driven by double-digit growth in the U.S. (11%) & Emerging Markets (12%), and solid growth in Europe (9%) and Japan (8%). ***The U.S. Q3 earnings season is in full swing with upside earnings surprises, on track to post a solid 8.1% YoY gain after strong 12.4% growth in Q2.*** Part of the earnings surprise has been the stronger than expected earnings by Energy companies, which are now tracking 162% for Q3, compared to expectations of 136% growth before the earnings season. ***Expectations for 2018 are around 11% while 2017 earnings are tracking 18%,*** driven by solid U.S. GDP growth. While the dollar has appreciated recently, the sharp decline since the beginning of the year is still expected to provide a boost to company profits. While the final passage of tax reforms could still be complicated by the reconciliation between the Senate and House versions of the bill, both versions include a significant cut to corporate taxes. ***The U.S. earnings outlook thus could get a further boost if the tax bill is passed and corporate taxes are lowered significantly.*** A lower corporate tax rate could result in additional 10% boost to earnings with the prime beneficiaries being Energy and Financials.

Eurozone earnings results for Q3 came in slightly below expectations with earnings growth tracking around 2.5% after strong growth of 16% and 15.3% in previous quarters. ***Eurozone earnings outlook remains solid around 9% for 2018 after around 9% growth in 2017.*** Earnings is expected to get a boost both from solid domestic growth as well as the ongoing improvement in global growth but is likely to be offset somewhat by the euro appreciation year to date. ***Japanese companies are expected to post earnings growth of around 8% in 2018 after around 12% growth in 2017, supported by the weak yen.*** After the fresh mandate for PM Abe, there is an increased likelihood of a step-up in fiscal and supply-side reform efforts to raise Japan's potential growth. Further, PM Abe is likely to reappoint Governor Kuroda for another term as the BoJ Governor to ensure continuity for the reflationary monetary policy which is likely to keep the yen weak. Japanese earnings remain supported by the improvement in global demand.

The Emerging Markets earnings outlook remains strong with improving GDP growth and steady commodity prices expected to drive earnings growth to around 21% for 2017. EM Asia earnings growth have been revised higher to around 23% for 2017 after 3% growth in 2016. LatAm earnings growth is expected to remain strong at 22% in 2017 after 54% in 2016, while EMEA earnings are expected to grow 8% in 2017 after 6% in 2016.

2) H2 GDP Growth Remains Solid in Developed & Emg Markets: Stock markets remain supported by solid GDP growth in both developed and emerging economies. The IMF has raised its outlook for global growth in 2017 to 3.6% and 3.7% in 2018 (from 3.5% & 3.6%, respectively), reflecting a broad-based acceleration of growth in Eurozone, Japan, EM Asia, EM Europe, and Russia. GDP growth in Emerging Markets is expected to strengthen to 4.6% in 2017 and 4.9% in 2018-2019 from 4.3% in 2016. ***U.S. GDP growth was revised up to 3.3% QoQ annualized in Q3 (from 3%***

originally) and an improvement over the 3.1% pace in Q2, defying expectations of slowdown from the impact of hurricanes. The upward revision was primarily driven by business investment, inventories, and government spending. ***Looking ahead, U.S. GDP is expected to continue to grow at a solid pace in Q4, above 3%.*** However, since the hurricane disruption on Q3 growth was weaker than expected, the Q4 rebound is likely to be modest. ***Japan's Q3 GDP growth came in at 1.4% annualized, in line with expectations, after 2.6% in Q2,*** marking the seventh straight quarter of positive GDP growth, the longest streak in 16 years. The fresh mandate for PM Abe has increased the likelihood of a step-up in fiscal and supply-side reforms to raise Japan's potential growth.

The Eurozone economy continues to remain solid, with better-than-expected Q3 GDP growth of 2.4%. In addition, Q2 GDP was revised up to 2.8% from 2.4%. Full details about GDP composition are not yet available. ***The Q3 growth was driven by solid growth in Germany and Spain and an improvement in Italy,*** offset by a moderation in French, Belgian, and Dutch growth. ***U.K. GDP rose 1.6% in Q3, slightly better-than-expected and improving from 1.2% in Q2.***

Among Emerging Economies, China's GDP growth is likely to be stable around 6.8%, with the IMF raising China's growth outlook to 6.8% YoY in 2017 (from 6.7%), ***and to 6.5% in 2018*** (from 6.4%). ***India's GDP growth is expected to improve to around 6.5% in H2 2017*** as the impact of currency demonetization fades, and the economy recovers from the initial impact of the GST. ***Brazilian GDP growth*** disappointed in Q3, rising only 0.4% annualized, but ***remains on track to strengthen in Q4 to around a 1.6% pace and improve further in 2018, to above a 3% pace***, as consumption strengthens, investment spending recovers, and government spending stabilizes after earlier declines. GDP growth remains solid in ***Turkey (5.1%), Russia (1.8%), Korea (3.6%) and Taiwan (3.1%).*** However, ***Mexican GDP growth slowed to 1.6%*** from 1.8% in Q2. with a QoQ contraction in Q3.

3) Liquidity Support from BoJ QE & Emg Market Rate Cuts & Gradual Policy Normalization by Developed Central Banks: Stock markets continue to receive liquidity support from the Bank of Japan's (BoJ) QE buying and Emerging Central Banks maintaining easy monetary policies. However, the liquidity tailwinds are easing as developed central banks are in the process of normalizing policies, albeit gradually with inflation still well below target in the U.S. & Eurozone. ***Further, the BoJ's reflationary policies*** are likely to get a boost with PM Abe's landslide victory in the October snap elections. Market focus is on PM Abe's choice for the next BoJ Governor. Expectations are that current Governor Haruhiko Kuroda is likely to get another term or someone with similar views towards reflationary monetary policy.

Emerging Central Banks continue to maintain easy monetary policies with rate cuts in some markets (Brazil & Russia) and rates on hold in others. Brazil's central bank cut rates by 75bps to 7.5% in October, slowing the pace of rate cuts from 100bps rate cuts in April, May, July, and September. With inflation falling, ***the BCB is likely to cut rates by an additional 50bps in December,*** taking rates to 7%. ***The Central Bank of Russia (CBR) cut rates by 25bps to 8.25% at its October meeting.*** The CBR is expected to cut rates again by 25bps in December, taking rates to 8% as inflation continues to decline. ***The People's Bank of China (PBoC) is expected to continue to remain on hold with growth expected to slow, benign inflationary pressures and exchange rate largely stable***. With the conclusion of the 19th National Congress of the Communist Party of China, the PBoC is likely to announce new measures in line with the policy priorities announced at the party Congress. The Reserve Bank of India (RBI) kept policy unchanged in October on fears of rising inflation. However, with inflation still below the bank's target and with growth slow to improve after the impact of GST & demonetization, ***the RBI is likely to cut rates again*** towards the end of the current fiscal year ending March 2018. Other central banks remain on hold in ***Turkey, Mexico, Poland, Romania, Hungary, Korea and Taiwan.***

The U.S. Federal Reserve left policy unchanged at its early November meeting, as expected, after starting its balance sheet normalization in October. The Fed's projections imply a gradual process of tightening policy, with an additional 25bps hike in December and 50bps of hikes in 2018. ***The U.S. Q3 GDP upside surprise and solid labor market data is likely to give the green light for Fed to hike rates in December.*** President Trump has nominated Fed Governor Jerome Powell as the next Fed Chair when current Chair Yellen's term ends in January 2018. ***No change in policy is expected.***

In Eurozone, the ECB announced its "lower-for-longer" QE strategy, at its late October meeting. ***The ECB plans to trim its QE asset purchases to €30bn per month*** beginning in January 2018, from current €60bn per month***, but will extend the QE purchases through September 2018.*** The ECB assured that its QE could be increased "in terms of

size/or duration" depending on inflation outlook. ***In the U.K., the BoE raised interest rates by 25bps, as expected, to 0.5% at their early November meeting due to inflation concerns.*** However, the BoE's language was dovish and suggests further hikes are likely to be very gradual.

4) Equity Valuations Remain Modestly Expensive & likely to be Headwinds for Market Gains: Equity valuations continued to rise in November with P/E multiples trending higher as stocks posted further gains on stronger-than-expected Q3 earnings and expectations of U.S. tax cuts. The Developed Markets (MSCI World Index) P/E multiple was unchanged at 21.3X in November from 20.8X in September, remaining above the long-term average multiple of 20.4X (20-year average). ***The trailing P/E multiple for the S&P 500 rose in November to 22.3X from 21.7X at the end of October*** and 21.6X in September. The ***P/E multiple for Japanese stocks (TOPIX) rose to 16.1X in November from 15.9X in October*** and 15.6X in September. In Eurozone, ***the STOXX P/E eased slightly to 20.7X in November after inching down to 21.1X in October*** from 21.5X in September. The Emerging Markets (EM) P/E multiple inched down to 15.4X in November from 15.8X in October, and slightly above their long term (20-year) average of 14.9X. However, EM valuations remain attractive relative to DM stocks. Stocks remain cheap relative to bonds on an Earnings Yield Gap basis as the gap shrank in November with both bond yields and equity earning yield declining slightly from last month.

Bottom-line: Global stock markets extended gains in November with Q3 earnings results surprising on the upside in the U.S. and Japan, continued solid GDP growth, increased odds of U.S. tax cuts, and higher crude oil prices. ***The Developed Markets gained 1.4% in November, taking YTD gains to 15.1%. The Emerging Markets declined -0.9% in November, trimming YTD gains to 24.8%.***

Looking ahead, stocks are likely to end a strong 2017 with a year-end rally fueled by expectations of strong Q4 earnings after upside surprise in the Q3 earnings season, the global economy continues to fire on all cylinders and the U.S. on the verge of big tax cuts. Further, the BoJ's QE buying and rate cuts in some Emerging Markets are likely to provide liquidity, while the policy normalization by the Fed, ECB and BoE is likely to be gradual.

Equity markets are likely to enjoy a year-end rally fueled by: 1) Strong Earnings Growth: Stocks continue to be buoyed by better-than-expected Q3 earnings results, especially in the U.S. and Japan. The earnings momentum remains strong in Q4 and heading into 2018 with expectations of around 10% global earnings growth for 2018 after 12% growth in 2017. Global earnings growth for 2018 are driven by double-digit growth in the U.S. (11%) & Emerging Markets (12%), and solid growth in Europe (9%) and Japan (8%). The U.S. Q3 earnings season continues to post upside earnings surprises. The U.S. earnings outlook could get a further boost if the tax bill is passed and corporate taxes are lowered significantly; ***2) Solid H2 GDP Growth in Developed & Emerging Markets:*** The U.S. economy remains robust with Q3 GDP growth surprising on the upside at 3.3% despite Hurricane disruptions. GDP growth in Q4 is likely to be solid as production and consumption rebound after the Hurricane. Eurozone growth remains better-than-expected with Q3 GDP growth of 2.4%, led by solid growth in Germany and Spain, modest growth in France and growth improvement in Italy. Japan's growth remains above-trend pace with Q3 GDP growth of 1.4%, marking the seventh consecutive quarter of growth. The U.K. economy continues to struggle due to Brexit uncertainty, but Q3 GDP growth improved to 1.6% after the weak H1. Among Emerging Markets, growth remains solid in China, Turkey, Korea and Taiwan, India is expected to rebound after the Q2 slowdown, while Brazil and Russia remain on recovery track***; 3) Liquidity Support from BoJ QE & Emg Market Rate Cuts & Gradual Policy Normalization by Developed Central Banks:*** The BoJ is likely to continue QQE buying, especially following the big win for PM Abe in the October snap poll. Emerging Central Banks continue to maintain easy monetary policies with rate cuts in some markets (Brazil, & Russia) and rates on hold in others. Further the policy normalization by developed central banks is likely to be gradual with inflation still below target in the U.S. & Eurozone. The Fed continues shrinking its balance sheet, the ECB announced its QE taper strategy of ***"lower-for-longer",*** downsizing QE buying starting January 2018 but continue QE buying through September and longer if necessary. The BoE hiked rates in November but further hikes are likely to be gradual; ***However, stocks are likely to face headwinds from expensive valuations.*** P/E multiples in most markets remain elevated and above long-term averages as strong earnings growth is being offset by solid price gains. ***However, stocks remain attractive relative to bonds*** as the earnings yield gaps remain wide with bond yields still low.

Further, stock markets continue to face several risks which could short-circuit the year-end rally and keep markets volatile: 1) Uncertainty about Final Passage of U.S. Tax Cuts: While both the Senate and House have passed tax reform bills, reconciliation of the House and Senate versions could complicate the final passage of tax reforms bill; ***2) Geo-political tensions in Korea continue to simmer.*** While diplomatic efforts are under way to resolve the tensions in Korea, the acrimonious rhetoric from the North Korean dictator and U.S. President Trump is likely to rattle markets; ***3) Catalan tensions mount in Spain*** as the Catalonia independence movement and the Spanish government's strong reaction carries risks for EU integration; ***4) Continued Trump Troubles*** if the Mueller inquiry into Russian interference in 2016 U.S. elections leads to further convictions of Trump operatives.

Bond Yields likely to Remain Under Upward Pressure with Solid GDP Growth & Fed, ECB & BoE on track to Policy Normalization. Bonds Supported by Low Inflation

Bond yields were mixed in November with volatility in equity markets offset by rising oil prices. In November, the U.S. 10-yr Treasury rose 4bps to 2.42% and Eurozone yields edged up 1bp to 0.37%. U.K. gilt yields were unchanged at 1.33%, while Japanese yields declined to 0.03%.

Looking ahead, bond yields are likely to remain under upward pressure with: 1) Solid Global Growth Momentum with U.S. economy surprising on the upside with Q3 GDP growth of 3.3%, defying expectations of slowdown from impact of hurricanes, while the Eurozone Q3 GDP growth came in better-than-the expected at 2.4%. Japan's economy continues to grow at an above-trend pace, with Q3 GDP growth of 1.4%, marking the seventh consecutive quarter of growth; ***2) Developed Central Banks Normalize Policy:*** The Fed began shrinking its balance sheet in October and is on track for another 25bps hike in 2017 and 50 to 75bps of rate hikes in 2018. The ECB announced its ***"lower-for-longer"*** QE taper policy, starting January 2018. The BoE raised rates in November on inflation concerns. ***However, bonds remain supported in the near term by: 1) Low Inflation*** as the earlier uptick in inflation has reversed and inflation in the U.S., Eurozone and Japan remains low and below target; ***& 2) Central Bank Support*** with the BoJ's reflationary policies likely to get a boost after the recent big win for PM Abe and rate cuts by some Emerging central banks. Further, the policy normalization by the Fed, ECB and BoE is likely to be gradual.

Investment Strategy:

Asset Allocation: Year-end Rally for Stocks with Strong Earnings, Solid GDP Growth & U.S. Tax Cuts

Stocks: Remain Overweight as stocks are likely to end a strong 2017 with a year-end rally, fueled by strong Q3 earnings results and expectations of solid Q4 earnings, the global economy remains solid, the U.S. on the verge of big tax cuts, BoJ's QE buying and rate cuts in some Emerging Markets.

Bonds: Remain Underweight as bond yields are likely to remain under upward pressure with solid global GDP growth momentum, the Fed continues balance sheet roll-off & hikes rates again in December, the ECB starts QE Taper & BoE hikes rates. However, low inflation is likely to support bonds.

Global Equity Strategy: Modest Overweight in Emg Mkts & U.S., Raise Japan to Modest Overweight, Neutral in Eurozone & Underwt in U.K.

Emerging Markets: ***Trim Overweight*** on profit taking after almost 30% gains in 2017 YTD. However remain positive on Emg Markets with EM central banks maintaining easy monetary policies, solid GDP growth in both emerging & developed economies, and strong earnings outlook.

U.S.: ***Remain Modest Overweight*** with strong Q4 earnings outlook after Q3 earnings deliver positive surprises, solid Q3 GDP growth despite hurricane impact & Q4 rebound, and the U.S. on the verge of big tax cuts. Fed policy normalization and tax cut setback are likely to be negatives.

Japan: ***Remain Modest Overweight*** as fiscal and supply-side reforms to raise Japan's potential growth likely to get a boost from the fresh mandate for PM Abe. Further the BoJ's QE policies likely to be extended after the Abe landslide win, keeping the yen weak and boosting earnings and exports.

Eurozone: ***Remain Neutral*** with solid GDP growth and earnings outlook but offset by increased uncertainty from Catalan tensions in Spain. ECB to start ***"lower-for-longer"*** QE taper strategy, trimming QE buying from January but extending the program to September & beyond.

U.K.: ***Remain Underweight*** as Brexit uncertainty remains high. GDP growth improved in Q3 but domestic demand continues to struggle. The BoE started rate hikes in November with inflation elevated.

Global Bond Market Strategy: Bond Yields to Remain under Upward Pressure with Stronger GDP Growth & Central Bank Policy Normalization.

EM Debt: ***Remain Modest Overweight*** with EM central banks maintaining easy monetary policies, solid GDP growth in both Emerging & Developed economies. However, policy normalization by the Fed, ECB & BoE, geopolitical tensions, Brexit uncertainty & Catalan tensions in Spain remain risks.

Japan JGBs: ***Remain Modest Overweight*** as the outlook for Japanese JGBs remains modestly positive with inflation remaining low and below BoJ target, the BoJ's reflation and economic reforms likely to get a boost from PM Abe's big win.

Eurozone: ***Remain Neutral*** with low inflation but offset by solid GDP growth, ECB starting QE taper but extending the asset purchases. The ECB's "lower-for-longer" QE taper strategy is likely to keep downward pressure on yields. But solid GDP growth and Catalan tensions in Spain are a risk.

U.K. Gilts: ***Remain Underweight*** with elevated inflation and the BoE starting rate hikes. U.K. inflation remains elevated at 3% prompting the BoE to start rate hikes in early November. However, the U.K. economy remains weak, though Q3 GDP improved to 1.6%, which could limit the rise in yields.

U.S. Treasuries: ***Remain Underweight*** as yields are likely to rise further with the Fed tightening policy and stronger GDP growth, but inflation remains contained. Fed expected to hike rates in December. Q3 GDP growth solid despite hurricanes, and on track for Q4 rebound. Inflation eases to 2% YoY.

Global Sector Strategy:

Overweight: Industrials, Information Technology ***Modest Overweight:*** Financials***; Neutral:*** Healthcare, Energy, Materials, Consumer Discretionary & Telecomms***. Underweight:*** Consumer Staples, Real Estate & Utilities***.***

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