PRAMERICA INTERNATIONAL INVESTMENTS ADVISERS, LLC. ("Pramerica")

Global Investment Outlook & Strategy

September 2017

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Stocks Grind Higher in Early H2 as Strong Q2 Earnings & Improved GDP Growth offset Heightened Geopolitical Tensions. Fed & ECB Reducing Stimulus but BoJ QE Buying & Emg Market Easing Continues

After solid H1 gains, global stock markets likely to grind higher in H2 with strong earnings growth, solid global GDP growth, the BoJ continuing QE and further rate cuts by emerging central banks. However, stocks face headwinds with developed central banks starting to reduce stimulus, expensive valuations and political uncertainties.

Stock Market Outlook: Stock markets sold off in early August amidst heightened geo-political tensions in Korea. However, stocks recovered in mid-August as North Korea backed-off on its threats, but struggled on growing Trump troubles. ***The Developed Markets fell -0.1% in August, trimming YTD gains to 8.5% while Emerging Markets gained 1.9%, taking YTD gains to 21.0%.***

Looking ahead, equity markets are likely to grind higher, driven by: 1) Continued strong earnings growth as Q2 corporate earnings results surprised on the upside and the trend is likely to continue in H2. Global earnings are expected to rise around 13% for full year 2017. U.S. Q2 earnings results are beating expectations with earnings growth tracking 13% and earnings for full year 2017 are expected to improve to 12% from just 1% in 2016; ***2) Solid global growth momentum in H2 after improved H1 GDP growth*** with U.S. Q2 GDP growth rebounding to 3%, while Eurozone GDP growth strengthened to 2.4%. Japan posted an upside growth surprise with Q2 GDP growth of 4%. Emerging markets continue to grow at a healthy pace; ***3) Reduced stimulus from developed central banks but emerging markets continue to ease*** with rate cuts in several countries. Further, the BoJ is expected to continue QE buying for an extended period with inflation well short of the Bank's target. In addition, the Fed's balance sheet normalization, and the ECB's QE taper are likely to proceed at a gradual pace as inflation remains stubbornly low and below target.

In addition to reduced stimulus from developed central banks, stocks are likely to face headwinds from expensive valuations with P/E multiples above long-term average. Finally, stock markets continue to face political uncertainties with geo-political tensions in Korea and growing troubles for President Trump.

Bond Market Outlook: Bond yields fell in August on safe haven demand with rising geopolitical tensions in Korea and fresh Trump troubles. ***Looking ahead, bonds remain supported in the near term by: 1) Increased safe haven demand*** with heightened geopolitical tensions in the Korean peninsula and fresh political troubles for President Trump with a negative reaction to his comments following the incident in Charlottesville, Virginia; ***2) Low inflation*** in the U.S. (1.7%) and Eurozone (1.3%) with the Fed and the ECB continuing to express concerns of inflation undershooting target; and ***3) Central bank support*** with the BoJ continuing QE buying and further rate cuts by several emerging central banks. ***However, bond yields are likely to be under upward pressure with: 1) Solid global GDP growth momentum*** in H2 after robust GDP growth in H1. Q2 GDP growth rebounded in the U.S. to 3% and strengthened to 2.4% in Eurozone. Japan posted an upside growth surprise with Q2 GDP growing 4%; ***2) Developed central banks reducing stimulus:*** The Fed has been raising rates and is set to start shrinking its balance sheet in Q4 2017. The ECB is debating the start of its QE taper with solid Eurozone GDP growth, while the BoE is likely to start raising rates with inflation risks.

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Market Outlook: After Solid H1 Gains, Stocks Grind Higher in Early H2 as Stronger-than-Expected Q2 Earnings Results & Improved GDP Growth Offset Heightened Geopolitical Tensions. Developed Central Banks Curtail Stimulus but BoJ QE & Emg Mkt Easing Continues

Bonds Remain Supported by Safe Haven Demand with Geopolitical Tensions in Korean Peninsula, Fresh Trump Troubles & Low Inflation. Improved GDP Growth & Developed Central Banks Reducing Monetary Stimulus Could Push Yields Higher from Current Low Levels

Stock Market Outlook (September 2017): Global stock markets sold off in early August amidst heightened geo-political tensions with North Korean saber rattling. However, stocks recovered as North Korea backed-off on its threats. Stocks resumed their sell-off with fresh troubles for President Trump. ***The Developed Markets fell -0.1% in August, trimming YTD gains to 8.5% while Emerging Markets gained 1.9%, taking YTD gains to 21.0%.***

Looking ahead, stock markets are likely to grind higher as heightened tensions in the Korean peninsula and growing troubles for President Trump are offset by strong earnings growth and solid global GDP growth. The Q2 earning results surprised on the upside and the trend is likely to continue in H2. The global economy enters H2 with solid growth momentum after improved H1 GDP growth. Further, the Fed and the ECB have turned dovish on concerns about low inflation, suggesting that the Fed's balance sheet normalization or further rate hikes, and the ECB's QE taper is likely to proceed at a very gradual pace. In addition, the BoJ continues QQE buying and several emerging central banks are cutting rates further. Finally, bond yields remain low with weak inflation readings and safe haven demand. ***However, stocks are likely to face headwinds from expensive valuations*** with P/E multiples in most markets remaining elevated and above long-term averages as strong earnings growth is being offset by price gains.

1) Stocks continue to be supported by Strong Earnings Growth: Global earnings growth remained solid in Q2 after the strong pace in Q1 and the trend is likely to continue in H2. Global earnings are expected to rise around 13% for full year 2017 with double-digit earnings growth in the U.S. (12%), Europe (11%), Japan (14%) and Emerging Markets (20%). ***U.S. earnings results continue to surprise positively with Q2 earnings growth tracking around 12% after the strong 15.3% pace in Q1.*** U.S. earnings expectations for H2 have been revised down modestly after the strong Q2 results to around 9%, but full year 2017 growth remains solid, around 12%. While the odds of progress on Trump tax cuts and reforms have decreased, any positive surprise could give a boost to U.S. earnings expectations which have not taken into account lower tax rates.

Eurozone corporate results for Q2 are coming out better than expected with earnings growth tracking 14% after rising 15.3% in Q1. Eurozone earnings are expected to grow a solid 11% in 2017 after declining -2% in 2016 with earnings growth driven by strengthening GDP growth as well as favorable base effects from 2016. ***Japanese earnings expectations remain solid around 14% in 2017 with the yen remaining weaker than corporate expectations, despite recent strength.*** The yen has appreciated recently to around 109.5/$ but remains lower than the corporate sector expectations of an average rate of 108/$ over FY2017-18. Japanese domestic demand has picked up strongly with Q2 GDP growth surging 4%. Companies continue to benefit from low corporate financing costs with the BoJ expected to continue its accommodative policy of keeping interest rates low and targeting the 10-year bond yield at 0.1%.

Emerging Markets earnings are expected to rise around 19.7% in 2017 after rising 7.8% in 2016. EM Asia earnings growth is expected to be strong, at 22.7% in 2017 after 2.9% growth in 2016. Latin American earnings growth is expected to remain strong at 20.8% in 2017 after 57.4% growth in 2016, while EMEA earnings growth has been revised lower to around 7.3% for 2017.

2) Solid Global Growth Momentum in H2 after Improved H1 GDP Growth: Stock markets remain supported by improved GDP growth as the global economy enters H2 with solid growth momentum after robust GDP growth in H1. The U.S. economy rebounded in Q2 ***with GDP growing 3% QoQ annualized (revised up from 2.6% originally) confirming that the Q1 slowdown to 1.2% was a blip, not a trend. The Q2 GDP growth rebound was driven by solid consumption and business investment spending.*** Consumption spending rebounded to 3.3% (revised up from

2.8%) in Q2 after 1.9% in Q1 while business investment spending remained solid at 6.9% (revised up from 5.2%) in Q2 after 7.1% in Q1. Net trade added a modest 0.2% to growth, while inventories were flat after a big drag in Q1. ***Looking ahead, U.S. GDP is expected to grow at a solid pace, above 3% in Q3, building on the Q2 rebound.***

Eurozone GDP growth strengthened in Q2 to 2.4% annualized, after a downwardly revised 2% increase in Q1. Survey and individual countries data indicates Q2 growth was broad based with solid contributions from domestic demand and trade. ***Among countries that reported, growth was solid in Spain (3.6%) and Austria (3.2%), France improved (1.8%), while German GDP rose 2.1% and Belgium grew at 1.6%. Looking ahead, Eurozone growth is expected to continue at an above-trend pace in H2. The U.K. economy continues to struggle with Brexit uncertainty with GDP growing a modest 1.2% in Q2 after a disappointing 0.8% in Q1 and*** on track to slow to 1.2% YoY by the end of the year. Brexit uncertainty is weighing on trade, investment spending and business confidence. Further, rising inflation has forced the BoE to turn hawkish and potentially raise rates despite weak growth and Brexit challenges. ***Japan's economy posted an upside growth surprise with Q2 GDP growth of 4%, after just 1.5% in Q1.*** The strong Q2 growth was driven by a rebound in consumer spending and business investment spending.

Among Emerging Economies, China's GDP is expected to grow around 6.7% YoY in Q3 after Q2 GDP growth surprised on the upside at 6.9% YoY, on par with Q1 pace. The robust Q2 growth was driven by stronger consumption and solid exports offsetting softer investment growth. ***India's GDP growth slowed in Q2 with production cuts ahead of the implementation of the Goods & Services Tax (GST) in July.*** Looking ahead, India's GDP growth is expected to rebound to over 7% in H2 with the economy overcoming the initial hiccups in implementing the GST. ***The Brazilian economy is back on recovery track as political uncertainty eased with President Temer winning an impeachment vote in the Lower House.*** Earlier, Brazilian GDP rose 4% annualized in Q1, after an upwardly revised -2% in Q4 2016. ***The Mexican economy remains healthy*** with Q2 GDP growth of 2.4% annualized. ***Taiwan's GDP rose 2.1% YoY in Q2*** after 2.6% in Q1, while ***Korean GDP grew 2.7% in Q2*** after 2.9% in Q1***. Turkey's economy remains strong with Q2 GDP estimated to have risen around 5.6%*** after 5% in Q1. ***Russia's GDP grew 2.5% in Q2*** well above consensus expectations of 1.7%.

3) Reduced Liquidity Tailwinds as Developed Central Banks curtail Stimulus but Emerging Markets continue to Ease: The liquidity tailwinds that buoyed stock markets for the past several years are easing as several developed central banks are in the process of normalizing policy and reducing stimulus. ***However, the BoJ is likely to continue QQE buying for an extended period and Emerging Central Banks remain in an easing mode.*** The U.S. Fed left the federal funds rate unchanged at their late July meeting. ***The Fed reiterated its commitment to start its balance sheet normalization "relatively soon".*** The July minutes reveal a detailed discussion about the weakness in inflation. The minutes also show that the Fed continues to struggle about further rate hikes and the timing of its planned balance sheet normalization. ***On balance, the minutes suggest that the Fed is likely to announce the start of its balance sheet roll-off at the September meeting. However, with inflation below the Fed's 2% target, a rate hike in September appears unlikely.*** The Fed held its annual Economic Policy Symposium at Jackson Hole in late August. In her keynote speech, ***Chair Yellen defended the financial regulations*** put in place after the 2008 financial crisis ***and concluded that these reforms had made financial markets safer and pushed back against large scale roll-back of reforms.***

The ECB left policy unchanged at their July meeting. The minutes of the July meeting reveal concern within the ECB about excessive Euro strength, which could lead to difficulty in achieving their inflation target. The ECB is likely to start discussion about trimming QE asset purchases in the Fall. However, despite solid Eurozone growth and low inflation, concerns about Euro strength may prompt ***the ECB to be gradual in starting its QE taper.*** In the U.K., ***the BoE left monetary policy unchanged at the August meeting.*** While the statement emphasized that more tightening would be required than was incorporated into market forecasts, ***it added that rates will only rise "at a gradual pace and to a limited extent."*** In Japan, ***the BoJ kept interest rates and asset purchases unchanged in July.*** While other major central banks have started policy normalization, ***the BoJ policy committee decided that any move towards normalization is unwarranted with inflation still well short of the bank's target.***

Emerging Central Banks continue to ease monetary policy with continued rate cuts in Brazil and Russia, rate cuts in India, Indonesia, Columbia, Peru, South Africa, Mexico on pause and China moves to a neutral stance from its tightening bias in H1. Brazil's central bank cut rates by 100bps in July, and is likely to cut rates by another 100bps at the September meeting with inflation surprising on the downside. ***The Central Bank of Russia (CBR) kept rates on hold at 9% in July*** due to short-term risks to inflation from higher food prices and the Ruble. However, the CBR expects higher fruit and vegetable prices to reverse, ***giving it room to cut rates in September. In India, the RBI cut its policy rates by 25bps in early August*** with inflation falling well below expectations and to cushion any potential adverse impact from the implementation of the Goods & Services Tax. ***In China, the PBoC is expected to keep policy on hold in the near-term*** given the government's focus on maintaining macro stability, especially ahead of the upcoming 19th Communist Party Congress, ***with the possibility of easing after the Party Congress. Mexico's central bank, Banxico, left the overnight rate unchanged at 7% in August, following seven consecutive rate hikes.*** With inflation near its peak and likely to start declining to reach the 3% target by the end of 2018, Mexico's Finance Minister predicted that rates could be cut as early as the end of 2017 or early 2018. ***Turkey's*** central bank remained on hold in July with improving GDP growth and inflationary expectations remaining elevated. Meanwhile, ***Taiwan, Korea, Hungary and Poland*** remain on hold with improving GDP growth.

4) Equity Valuations remain Modestly Expensive & likely to be Headwinds for further Market Gains: Equity valuations remain modestly expensive with P/E multiples inching up as stronger-than-expected earnings are offset by continued price gains. The Developed Markets (MSCI World Index) P/E multiple inched up to 21.6X in July from 21.5X in June, remaining above the long-term average multiple of 20.5X (20-year average). ***The trailing P/E multiple for the S&P 500 inched down in mid-August*** to 20.95X from 21.20X in July and 21X in June with stocks pulling back on heightened geo-political tensions. ***The P/E multiple for Japanese stocks (TOPIX) inched higher to 15.1X in August*** from 15.0X in the previous two months. ***In Eurozone, the STOXX P/E edged down to 20.9X in early August*** after falling slightly to 21.2X in July from 21.3X in June with the stocks declining in August. ***Emerging Market (EM) P/E multiple jumped to 15.5X in July from 14.9X in June*** and are currently modestly above their long term (20-year) average of 15.0X. ***Stocks remain cheap relative to bonds on Earnings Yield Gap basis with the Stocks-Bonds Earnings Yield Gap widening in August*** with bond yields easing further on soft inflation data.

Bottom-line: Global stock markets sold off in early August amidst heightened geo-political tensions with North Korean saber rattling. However, stocks recovered in mid-August as North Korea backed-off on its threat. Stocks resumed their sell-off with fresh growing troubles for President Trump. ***The Developed Markets fell -0.1% in August, trimming YTD gains to 8.5% while Emerging Markets gained 1.9%, taking YTD gains to 21.0%.***

Looking ahead, equity markets are likely to grind higher, driven by: 1) Continued strong earnings growth as Q2 earning results surprised on the upside and the trend is likely to continue in H2. Global earnings are expected to rise around 13% for full year 2017, with double digit earnings growth in the U.S. (12%), Eurozone (11%), Japan (14%) & Emerging Markets (20%); ***2) Solid global growth momentum in H2 after improved H1 GDP growth*** with Q2 GDP growth rebound in the U.S. to 3%, while Eurozone GDP growth strengthened to 2.4%. Japan posted an upside growth surprise with Q2 GDP growth of 4%. Emerging Markets continue to grow at a healthy pace; ***3) Reduced stimulus from developed central banks but Emerging Markets continue to ease*** with further rate cuts in Brazil and Russia, recent rate cut in India, Indonesia, Columbia, Peru, South Africa, Mexico on pause and China moves to a neutral stance. Further, the BoJ is expected to continue QQE buying with inflation well short of the Bank's target. In addition, the Fed's balance sheet normalization or further rate hikes, and the ECB's QE taper is likely to proceed at a very gradual pace as inflation remains stubbornly low and below target in the U.S. and Eurozone.

In addition to reduced liquidity tailwinds from developed central banks, 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 price gains. ***However, stocks remain attractive relative to bonds*** with the earnings yield gaps remaining wide with bond yields still low on inflation concerns.

Finally, stock markets continue to face political uncertainties with geo-political tensions in Korea and growing troubles for President Trump. While the initial Korean tensions appeared to have eased, there continue to be fresh flare-ups with North Korea reacting to the U.S. & South Korea holding joint war games in late August. ***Further, the odds of progress on Trump reflation agenda continue to diminish*** as his troubles mount after negative reaction to Trump's comments following the incident in Charlottesville, Virginia. In addition, the Mueller inquiry into Russian interference in 2016 U.S. elections and alleged links between Russia and Trump campaign continues, casting a shadow on stocks.

Bond Yields Fall on Elevated US-North Korea Tensions. Bonds Remain Supported by Safe Haven Demand & Low Inflation but Solid GDP Growth & Developed Central Banks Reducing Stimulus remain Negatives

Bond yields fell in August on safe haven demand with rising geopolitical tensions between the U.S. and North Korea and fresh Trump troubles. In August, U.S. 10-yr Treasury yield fell -17bps to 2.12%, Eurozone yields declined -18bps to 0.36%, U.K. yields decreased -19bps to 1.04%, and Japanese yields fell -7bps to 0.00%. ***Looking ahead, bonds remain supported in the near term by increased safe haven demand and with inflation remaining low. However, yields are likely to come under upward pressure as geopolitical tensions ease, developed central banks reduce stimulus and global GDP growth maintaining its solid momentum.*** Bonds continue to be supported by: ***1) Increased Safe Haven Demand*** with heightened geopolitical tensions in the Korean peninsula, fresh political troubles for President Trump with a negative reaction to his comments following the incident in Charlottesville, Virginia and ongoing Brexit uncertainty; ***2) Low Headline Inflation*** in the U.S. (1.7%) and Eurozone (1.3%) and both the Fed and the ECB continue to express concerns of inflation undershooting target; ***& 3) Central Bank Support*** with BoJ continuing QE buying and rate cuts by some Emerging central banks. ***However, bond yields are likely to be under upward pressure with: 1) Solid global GDP growth momentum*** in H2 after robust GDP growth in H1. The U.S. Q2 GDP growth rebounded to 3%, while Eurozone GDP growth strengthened in Q2 to 2.4%. Japan's economy posted an upside growth surprise with Q2 GDP growing 4%; ***2) Developed Central Banks Curtail Stimulus:*** The Fed has been raising rates and is set to start shrinking its balance sheet in Q4 2017. The ECB is debating the start of its QE taper with solid Eurozone GDP growth, while the BoE is likely to start raising rates with inflation risks.

Investment Strategy:

Asset Allocation: After Solid H1, Further Equity Gains fueled by Strong Earnings & Improved GDP Growth

Stocks: Modest Overweight as stocks are likely to grind higher driven by continued strong earnings growth and solid global growth momentum in H2 after improved H1 GDP growth. However, elevated geopolitical tensions and reduced stimulus from developed central banks remain negatives.

Bonds: Modest Underweight as bonds remain supported by increased safe haven demand on heightened geopolitical tensions and fresh political troubles for President Trump. However, yields are likely to come under upward pressure on solid global growth and developed central banks reducing stimulus.

Global Equity Strategy: Modest Overweight in Emerging Markets & U.S., Neutral in Eurozone, Underweight in U.K. & Japan

Emerging Markets: Remain Modest Overweight with emerging markets continuing to grow at a healthy pace, strong earnings outlook and EM central banks remaining in an easing mode, but offset by increased geopolitical tensions in Korea and continued Brexit uncertainty.

U.S.: Remain Modest Overweight with solid earnings outlook in H2 after stronger than expected Q2 earnings and GDP expected to grow at a solid pace, above 3% in Q3 after the Q2 rebound. Increased geopolitical tensions and fresh Trump political troubles reducing odds of reflation are negatives.

Eurozone: Remain Neutral with the ECB set to discuss trimming QE asset purchases in the Fall and Brexit uncertainty offset by robust GDP and solid earnings growth. While ECB QE taper is likely to be gradual, risk of Euro appreciation remains a negative.

Japan: Remain Modest Underweight as heightened geopolitical tensions in the Korean peninsula is likely to keep Japanese stocks under pressure. Recent yen appreciation is a negative for exporters & earnings. GDP growth expected to slow to around 1.5% after the strong 4% growth in Q2.

U.K.: Remain Underweight as U.K. economy continues to struggle with Brexit uncertainty with GDP growing a modest 1.2% in Q2 after a disappointing 0.8% in Q1, and likely to slow further in H2. BoE remains hawkish with inflation risks and may be forced to raise rates despite weak growth.

Global Bond Market Strategy: Safe Haven Demand & Low Inflation Support Bonds, but Risks from Solid GDP Growth & Reduced Stimulus

EM Debt: Remain Modest Overweight with healthy growth in emerging economies, and EM central banks continue to provide stimulus. However, heightened geopolitical tensions in Korea, continued Brexit uncertainty and reduced stimulus by developed central banks remain risks.

Japan JGBs: Remain Neutral with BoJ continuing QQE buying. Core inflation remains low around 0.4% YoY, and is expected to pick up to around 0.7% in H2, but is still well below the BoJ target. GDP upside surprise in Q2, growing 4%, but expected to slow modestly in coming quarters.

Eurozone: Remain Neutral with inflation remaining low, but offset by solid GDP growth and the ECB likely to start QE taper in Q4. Eurozone GDP growth is expected to remain solid, around 2%, driven by domestic demand. Less safe haven demand as elections uncertainty fades.

U.K. Gilts: Remain Underweight with BoE may be forced to raise rates as inflation remains well above 2% target. However, U.K. GDP continues to struggle, rising just 1.2% in Q2 after 0.8% in Q1, a positive for Gilts.

U.S. Treasuries: Remain Underweight with solid GDP growth and Fed expected to start balance sheet normalization in Q4. GDP growth rebounded in Q2 to 2.6% and expected to grow at a solid pace, around 3% in Q3. However, low inflation and safe haven demand limits rise in yields.

Global Sector Strategy:

Overweight: Information Technology; ***Modest Overweight:*** Financials & Industrials;

Neutral: Energy, Materials, Healthcare, Consumer Discretionary & Telecomms; ***Underwt:*** Consumer Staples & Utilities.

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