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GLOBAL INVESTMENT OUTLOOK & STRATEGY

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Stock Markets Remain in Uptrend with Strong Q3 Earnings, Solid Growth Momentum & Fresh Hopes for U.S. Tax Cuts. Reduced Stimulus from Fed, ECB & BoE but BoJ QE & EM Easing Continues. Valuations Modestly Expensive

After grinding higher over the summer, global stock markets are likely to remain in an uptrend driven by strong Q3 earnings results, solid growth momentum in H2 and renewed prospects for U.S. tax cuts. However, stocks face reduced stimulus from developed central banks and modestly expensive valuations.

Stock Market Outlook: Stock markets rose in early September as geopolitical tensions in the Korean peninsula eased and Hurricane Irma did less damage than initially feared. Further, there has been some unexpected progress on U.S. tax cuts. ***The Developed Markets gained 2.2% in September taking YTD gains to 10.8%, while Emerging Markets rose 0.3%, taking YTD gains to 21.3%.***

Looking ahead, equity markets are likely to remain in an uptrend, driven by: 1) Strong Q3 earnings growth after upside earnings surprises in Q2 and Q1. Markets remain upbeat on the Q3 earnings season due to kick-off in October. Global earnings are expected to rise around 13% for full year 2017, driven by double-digit growth in the U.S. (12%), Europe (11%), Japan (14%) & Emerging Markets (20%); ***2) Solid global GDP growth momentum in H2.*** The U.S. economy took a hit in Q3 with hurricanes, but is expected to rebound in Q4 as production and exports recover. Eurozone growth remains solid and Japan continues to grow at an above-trend pace. Emerging Markets continue to grow at a healthy pace. ***In addition, renewed prospects for a U.S. tax cut are likely to provide additional fuel for the equity rally. However, stocks face reduced stimulus from developed central banks but emerging markets continue to ease.*** Further, the BoJ is likely to continue QQE buying with inflation still well short of the Bank's target. However, the Fed announced that it will start shrinking its balance sheet in October. The ECB signaled that it will discuss their QE taper in October. The BoE is likely to start hiking rates in November. ***In addition to reduced liquidity tailwinds from developed central banks,*** stocks face headwinds from expensive valuations. However, stocks remain attractive relative to bonds with the earnings yield gaps remaining wide as bond yields are still low. Finally, stock markets continue to face geopolitical tensions in North Korea.

Bond Market Outlook: Bonds yields fell in early September, but rose following strong inflation data. ***Looking ahead, bonds yields are likely to remain under upward pressure with: 1) Solid global GDP growth momentum in H2*** after robust GDP growth in H1. The U.S. economy is expected to rebound in Q4 after taking a hit in Q3 from hurricanes. Eurozone GDP growth remains solid while Japan continues to grow at an above-trend pace. Even the U.K., which has been struggling with Brexit uncertainty, is showing improved growth in Q3. The Emerging Markets continue to grow at a healthy pace; ***2) Developed Central Banks Normalize Policy:*** The Fed announced that it will start shrinking its balance sheet in October. The ECB signaled that it will discuss their QE taper in October and the BoE is likely to start hiking rates in November. ***However, bonds remain supported in the near term by: 1) Safe Haven Demand*** as the heated rhetoric from the North Korean dictator and U.S. President Trump is likely to rattle markets; ***2) Low Inflation*** as the recent uptick in inflation is likely to reverse and inflation in the U.S., Eurozone and Japan remains below target; ***& 3) Central Bank Support*** with the BoJ continuing QE buying and rate cuts by some Emerging central banks.

Market Outlook: Stocks Volatile but likely to Remain in an Uptrend Driven by Strong Q3 Earnings Results & Solid GDP Growth Momentum. Renewed Prospects for U.S. Tax Cuts likely to Provide Additional Fuel for Equity Rally. Reduced Liquidity Tailwinds

Bond Yields likely to Remain under Upward Pressure with Solid GDP Growth Momentum, Fed, ECB & BoE Start to Normalize Policy. However, Bonds Supported by Safe Haven Demand & Inflation Reversal

Stock Market Outlook (October): Global stock markets rose in early September as geopolitical tensions in the Korean peninsula eased and Hurricane Irma did less damage than initially feared. Further, there has been some unexpected progress on a U.S. tax cut. ***The Developed Markets gained 2.2% in September taking YTD gains to 10.8%, while Emerging Markets rose 0.3%, taking YTD gains to 21.3%.***

Stock markets have been grinding higher over the summer in the face of geo-political tensions and unfavorable seasonal effects. Stocks are likely to remain in an uptrend, supported by strong Q3 earnings results and solid growth momentum in H2. In addition, renewed prospects for a U.S. tax cut are likely to provide additional fuel for the equity rally. Further, the Fed balance sheet normalization and the ECB QE taper are likely to proceed at a gradual pace, while the BoJ continues QE buying and further rate cuts are likely in the Emerging Markets.

1) Stocks Continue to be Supported by Strong Earnings Growth: After upside earnings surprises in H1, markets are upbeat about the Q3 earnings season starting in October. Global earnings are expected to rise around 13% for full year 2017, driven by double-digit growth in the U.S. (12%), Europe (11%), Japan (14%) and Emerging Markets (20%). ***The U.S. Q2 earnings season ended on a strong note*** with earnings growth of 12.4% YoY for the quarter after the strong 15.3% pace in Q1. ***The Q3 earnings season is set to kick-off in a few weeks and U.S. companies are expected to post solid earnings results. Expectations for full year 2017 earnings growth remains solid, around 12%.*** After the U.S. debt ceiling extension, there appears to be a fresh impetus to pass tax reforms which could include lower rates as well as a favorable repatriation tax on profits held overseas. ***Any positive surprise on the tax front could give a boost to the U.S. earnings outlook.***

Eurozone earnings are on track to rise around 16% in Q2 after rising 15.3% in Q1. Eurozone earnings are benefiting from the improvement in global demand. The improvement in earnings over the past quarters have been due to sales growth and operating leverage rather than cost reduction. Eurozone earnings growth is expected around 11% in 2017 after -2% decline in 2016 with favorable base effects and improving global growth offset somewhat by euro appreciation. ***Japanese earnings growth expectations for 2017 remain solid around 14% despite the yen remaining elevated in past few months.*** However, the yen still remains weaker than corporate expectations.

Emerging Markets are on track to post a strong 20% earnings growth in 2017 with improving GDP growth and steady commodity prices. EM Asia earnings growth is expected to be strong at 21.5% in 2017 after 2.9% growth in 2016. Latin American earnings growth is expected to remain strong at 21.6% in 2017 after 57.4% growth in 2016, while EMEA earnings growth has been revised up to 8.6% (from 7.3%) for 2017 after 6.0% in 2016.

2) Solid Global Growth Momentum in H2 after Improved H1 GDP Growth: Stock markets remain supported by solid GDP growth as the global economy enters H2 with robust growth momentum. U.S. Q2 GDP growth was revised up to 3.1% annualized from 2.6% in the earlier estimate and 1.2% in Q1. The Q2 upward revision was largely driven by stronger consumer spending and business investment. However, it was partially offset by weaker government spending. ***Looking ahead, while the U.S. economy remains solid, hurricanes Harvey and Irma are likely to subtract 0.3% to 0.5% from Q3 growth. Beyond Q3, GDP growth is expected to rebound in Q4 as the temporary dislocation from the hurricanes begins to reverse and production, exports and consumption recovers.***

The Eurozone economy had a solid H1 with Q2 GDP growth confirmed at 2.4% annualized in the final estimate after 2% in Q1. Among individual countries, the big three, Spain, Germany and France posted healthy growth. ***Looking ahead, Eurozone growth is expected to continue at a healthy pace supported by domestic demand,*** but experience a modest slowdown as the strong Euro depresses net exports.

The U.K. economy continues to struggle with Brexit uncertainty and GDP growing a modest 1.2% annualized in Q2 after the weak 0.8% in Q1. Looking ahead, U.K. GDP growth is expected to remain below-trend in H2 due to ongoing Brexit uncertainty. However***, the BoE expects a modest pickup in economic activity in Q3,*** with a less pronounced slowdown in household consumption, steady investment spending, and a pick-up in net trade in response to currency depreciation. ***Japan's Q2 GDP was revised sharply lower to 2.5% QoQ annualized growth from earlier estimate of 4%.*** Looking ahead, Japanese GDP growth is expected to remain above trend, around 1.5% in H2 with consumer and business investment spending remaining solid.

Among Emerging Economies, China's Q3 GDP is expected to slow modestly to 6.7-6.8% YoY in Q3 from 6.9% in Q2, with economic activity disappointing in August. India's GDP growth slowed in Q2 to 5.7% YoY from 6.1% in Q1 due to the lingering impact of demonetization and disruptions ahead of the Goods & Services Tax (GST) implementation. ***However, India's GDP growth is expected to improve to 6-6.5% range in H2 as the impact of currency demonetization fades and the services sector recovers gradually from the initial impact of the GST. Brazil GDP grew a modest 0.8% annualized in Q2, slightly better-than-expected, after a strong 4% increase in Q1.*** The economy is expected to be on the recovery path with falling unemployment supporting consumption and improved business confidence and rate cuts supporting business spending. ***GDP growth remains solid in Mexico (2.4%), Turkey (5.1%), Russia (2.5%), Korea (2.7%) and Taiwan (2.1%).***

3) Reduced Liquidity Tailwinds as Developed Central Banks Curtail Stimulus but Emerging Markets Continue to Ease: Stock markets are likely to enjoy reduced tailwinds as developed central banks are in the process of reducing stimulus. ***The U.S. Fed left the federal funds rate unchanged*** at their September meeting, as expected. Further, the Fed announced that it would ***begin its balance sheet normalization in October, as expected, following the procedures outlined in the June meeting addendum.*** The Fed's projections still imply a gradual process of tightening policy, with ***another 25bps hike in 2017. The Bank of Japan kept policy unchanged in September.*** With inflation still well short of the bank's target, the BoJ is likely to continue its QQE policy in the near-term.

The ECB left policy unchanged at their early September meeting but had a "very preliminary" discussion about its QE asset purchase program. At the next meeting in October, the ECB is expected to discuss details about ***starting their QE taper in early 2018.*** Draghi stressed that the ECB is unlikely to raise rates until well after the end of its asset purchases. ***In the U.K., the BoE left policy unchanged in September. However, the BoE tone turned decisively hawkish, opening the door for a rate hike, as early as November.*** The minutes of the September meeting indicate that a majority of policy makers would back a rate hike in "coming months" due to elevated inflation risks.

Emerging Central Banks continue to ease monetary policies with rate cuts in some markets (Brazil, Russia, Indonesia & Peru) and rates on hold in others (India, China, Mexico, Turkey, Taiwan, Korea and Eastern Europe). Brazil's central bank cut rates by another 100bps to 8.25% at its early September meeting. The central bank signaled that it is preparing to slow the pace of rate cuts with rates now close to the natural rate. ***However, with underlying inflation remaining at low levels, the Bank has room to cut rates further. The Central Bank of Russia (CBR) cut rates by 50bps to 8.5% at its September meeting with falling inflation***. The central bank is expected to cut rates by 25bps each at its remaining two meeting in 2017 taking the policy rate to 8% with inflation likely to end the year below its 4% target. ***Mexico's central bank, Banxico, left the overnight rate unchanged at 7% in August following seven consecutive rate hikes.*** Further rate hikes are unlikely with inflation "seems to be nearing to a peak". Mexico's Finance Minister predicted that rates could be cut as early as the end of 2017 or early 2018. ***The Central Bank of Turkey kept rates on hold in September as the recovery in economic activity has gained strength with solid domestic demand,*** strong exports to EU, and implementation

of structural reforms. ***The CBT is expected to keep rates on hold through the remainder of the year given stronger growth and elevated inflation. In India, the RBI is likely to remain on hold near term*** with inflation trending higher but expected to cut rates again with GDP growth slowing on lingering impact from currency demonetization and Goods & Services Tax (GST) implementation while inflation remains below the RBI's target. ***In China, the PBoC is expected to keep policy on hold*** with no surprises on the policy front ahead of the Communist Party Congress, ***with the possibility of easing after the Party Congress.*** Meanwhile, ***Taiwan, Korea, Hungary, Romania and Poland*** remain on hold with improving GDP growth, ***while the Czech Republic hiked rates***.

4) Equity Valuations Remain Modestly Expensive & likely to be Headwinds for Market Gains: Equity valuations remain slightly expensive although P/E multiples eased during August with stocks remaining almost flat for the month while Q2 earnings were stronger-than-expected. The Developed Markets (MSCI World Index) P/E multiple decreased to 20.8X in August from 21.6X in July, but remained above the long-term average multiple of 20.5X (20-year average). ***The trailing P/E multiple for the S&P 500 rose in mid-September*** to 21.4X from 21.2X in August and July with stocks rebounding as geo-political tension eased after rising in August. ***The P/E multiple for Japanese stocks (TOPIX)*** inched up to 15.3X in September from 15.1X in August and 15.0X in July. ***In Eurozone, the STOXX P/E edged up*** to 21.1X in early September after falling slightly to 20.8X in August from 21.0X in July. ***Emerging Market (EM) P/E multiple rose to 15.6X in August*** after jumping to 15.5X in July from 14.9X in June and are now modestly above their long term (20-year) average of 15.0X. ***Stocks remain cheap relative to bonds on an Earnings Yield Gap basis*** even though the gap is shrinking in September with bond yields increasing slightly.

Bottom-line: Global stock markets rose in early September as geopolitical tensions in North Korea eased and Hurricane Irma did less damage than initially feared. Further, there has been some unexpected progress on a U.S. tax cut***. The Developed Markets gained 2.2% in September taking YTD gains to 10.8%, while Emerging Markets rose 0.3%, taking YTD gains to 21.3%.***

Looking ahead, equity markets are likely to remain in an uptrend, driven by: 1) Strong Q3 earnings growth after upside surprises in Q2 and Q1: Markets remain upbeat on the Q3 earnings season due to kick-off in October. Global earnings are expected to rise around 13% for full year 2017 driven by solid earnings across major markets with double-digit growth in the U.S. (12%), Europe (11%), Japan (14%) & Emerging Markets (20%). Eurozone and Japan earnings are expected to be driven by strong domestic and global demand, though strong currencies are a risk to earnings. Emerging Markets earnings are expected to be driven by improving GDP growth and steady commodity prices; ***2) Solid global GDP growth momentum:*** Stock markets remain supported by solid GDP growth as the global economy enters H2 with robust growth momentum. The U.S. economy took a hit in Q3 with hurricanes, but is expected to rebound in Q4 as production and exports recover. Eurozone GDP growth remains solid, led by Spain, Germany and France. Japan's Q2 GDP growth was revised down 2.5%, but the economy continues to grow at an above-trend pace. Even the U.K., which has been struggling with Brexit uncertainty, is showing improved growth in Q3. The 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 some markets (Brazil, Russia, Indonesia & Peru) and rates on hold in others (India, China, Mexico, Turkey, Taiwan, Korea and Eastern Europe). Further, the BoJ is likely to continue QQE buying for an extended period with inflation well short of the Bank's target. However, the Fed announced that it will start shrinking its balance sheet in October. The ECB signaled that it will discuss QE taper in October and begin the taper process in early 2018. The BoE is likely to start hiking rates in November with inflation risks.

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 geopolitical tensions in Korea.*** While Korean tensions appeared to be easing, the rhetoric from the North Korean dictator and U.S. President Trump remains heated, and keeps rattling markets. However, the

U.N. and U.S. are seeking to impose fresh sanctions which could avert a nuclear conflict. ***Further, the media focus on President Trump's political troubles has shifted with the Trump administration's effective handling of the hurricane relief efforts and the bipartisan deal on debt ceiling.*** However, the Mueller inquiry into Russian interference in 2016 U.S. elections and the alleged links between Russia and the Trump campaign operatives continues to widen and has the potential to lead to fresh political turmoil.

Bond Yields Rise in September. Bond Yields to remain under Pressure with Solid Growth Momentum, Fed, ECB & BoE Policy Reversal. Bonds Supported by Safe Haven Demand & Inflation Reversal

Bond yields fell in early September, but rose following strong inflation data. In September, the U.S. 10-yr Treasury yield rose 21bps to 2.33%, Eurozone yields increased 10bps to 0.46%, U.K. yields jumped 32bps to 1.36%, while Japanese yields edged up 6bps to 0.06%. ***Looking ahead, bond yields are likely to remain under upward pressure with solid global growth momentum, policy normalization by developed central banks and easing geopolitical tensions. However, easing inflation and fresh escalation of geopolitical tensions are likely to limit the rise in bond yields. Bond yields are likely to remain under upward pressure with: 1) Solid global GDP growth momentum*** in H2 after robust GDP growth in H1. The U.S. economy took a hit in Q3 with hurricanes, but is expected to rebound in Q4 as production and exports recover. Eurozone GDP growth remains solid led by Spain, Germany and France. Japan's Q2 GDP growth was revised down 2.5% but the economy continues to grow at an above-trend pace. Even the U.K. which has been struggling with Brexit uncertainty is showing improved growth in Q3. The Emerging Markets continue to grow at a healthy pace; 2***) Developed Central Banks Normalize Policy:*** The Fed announced that it will start shrinking its balance sheet in October. The ECB signaled that it will discuss their QE taper in October and the BoE is likely to start hiking rates in November with inflation risks; ***However, bonds remain supported in the near term by: 1) Safe Haven Demand with*** Korean tensions appearing to be easing, but the rhetoric from the Korean dictator and U.S. President Trump remains heated, and keeps rattling markets; ***2) Low Inflation*** as the recent uptick in inflation is likely to reverse and inflation in the U.S., Eurozone and Japan remains low and below target; ***& 3) Central Bank Support*** with the BoJ continuing QE buying and rate cuts by some Emerging central banks.

Investment Strategy:

Asset Allocation: Stocks Remain in Uptrend with Strong Q3 Earnings, Solid Growth & Prospects for U.S. Tax Cut

Stocks: Increase Overweight as stocks are likely to post further gains driven by strong Q3 earnings results and solid growth momentum in H2. Renewed prospects for a U.S. tax cut likely to be another positive. Geopolitical tensions & reduced stimulus from Fed, ECB & BoE remain negatives.

Bonds: Increase Underweight as bond yields are likely to remain under upward pressure with solid global growth momentum and policy normalization by developed central banks. However, easing inflation and fresh escalation of geopolitical tensions are likely to limit the rise in bond yields.

Global Equity Strategy: Modest Overweight in Emerging Markets, U.S. & 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 lingering geopolitical tensions in Korea and policy normalization by Fed, ECB & BoE.

U.S.: ***Remain Modest Overweight*** with strong earnings outlook in Q3 after Q2 earnings upside surprise, GDP growth expected to rebound in Q4 after storms depress Q3 GDP. Geopolitical tensions ease but risk of fresh escalation & Fed to start balance sheet roll-off in October are negatives.

Eurozone: ***Raise to Modest Overweight*** with positive earnings surprises and solid GDP growth outlook and easing political uncertainty with Merkel set to win fourth term. ECB set to discuss QE taper in October, but taper likely to be gradual due to risk of euro appreciation.

Japan: ***Remain Modest Underweight*** with yen remaining elevated and lingering geopolitical tensions in neighboring Korea. Recent yen appreciation is a negative for exporters & earnings. Q2 GDP growth revised lower to 2.5% and expected to slow further to around 1.5%.

U.K.: ***Remain Underweight*** as Brexit uncertainty remains elevated with policy drift within the U.K. government and tough stance of EU negotiators. U.K. economy continues to struggle. BoE turns hawkish with inflation risks and likely to raise rates in Q4 despite weak growth.

Global Bond Market Strategy: Yields Face Upward Pressure with Solid Growth Momentum, Fed, ECB & BoE Policy Normalization

EM Debt: ***Remain Modest Overweight*** with healthy growth in emerging economies, and EM central banks continue to provide stimulus. However, lingering geopolitical tensions in Korea, continued Brexit uncertainty and policy normalization by Fed, ECB & BoE 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. Q2 GDP growth revised lower to 2.5% and expected to slow further to around 1.5%.

Eurozone: ***Remain Neutral*** with inflation remaining low, but offset by solid GDP growth and the ECB likely to start QE taper discussion in Q4. Eurozone GDP growth is expected to remain solid in H2 driven by domestic demand. Reduced safe haven demand on easing elections uncertainty.

U.K. Gilts: ***Remain Underweight*** with BoE turning more hawkish on elevated inflation and set to raise rates in Q4, despite weak growth. U.K. GDP continues to struggle. Brexit uncertainty remain elevated with policy drift within the U.K. government and tough stance of EU negotiators.

U.S. Treasuries: ***Remain Underweight*** with solid GDP growth and Fed set to start balance sheet roll-off in October. GDP growth expected to rebound in Q4 after storm depress Q3 GDP. However, low inflation and safe haven demand with lingering Korea tensions likely to limits rise in yields.

Global Sector Strategy:

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