



### The markets are signaling expanding global trade

Mikio Kumada, LGT Capital Partners

**The new US president's economic nationalist rhetoric has fanned concerns about rising protectionism slowing global trade and hence hurting prosperity and growth for all involved. We acknowledge that risk and will monitor it for potential investment implications. For now, however, we must note that markets are signaling a much brighter future for profitable trade among nations.**

US President Donald Trump is considered an ardent protectionist. His inaugural address confirmed the key "America first" message of his electoral campaign. As promised in December, he has declared the formal US withdrawal from the planned Transatlantic Partnership (TPP) and officially notified Canada and Mexico of his country's intent to renegotiate the North American Free Trade Agreement (NAFTA), which has been in force for more than two decades. Companies wishing to sell their products in the US would have to either manufacture them locally or pay tariffs.

In Europe too, free trade, globalization, and even the European Union itself, are being increasingly challenged by various political forces. Transatlantic trade and investment agreements such as the TTIP and CETA are unpopular. Not few observers are consequently warning that an era of protectionism is dawning. If such an outlook were credible, it would of course weigh on financial markets in some form - at the very least, it should lead to a noticeable investor preference for assets that benefit from inward-looking protectionism, relative to assets that profit from outward-looking trade. However, none of that is the case in markets at present.

#### Financial markets signal growing world trade

The market signals are very clear. Although the initial enthusiasm has moderated somewhat since December, share prices, interest rates, and commodity prices are still trading significantly higher than on US election day. The emerging markets also continue to perform well in most cases (see table, page 3).

More interestingly, however, the merchant marine subsector, which is arguably most reliant on growing global trade, has been among the leaders of the post-election rally: the MSCI All-Country Marine Index has surged by nearly 14% in US dollars since the election, beating all main MSCI sectors, as well as US small caps, which were widely seen as the typical beneficiaries of US protectionism (see page 2).

#### Optimistic Swedish purchasing manager surveys

In addition, it is not just financial investors who expect global trade to pick up. The purchasing managers' surveys (PMIs) have generally been steadily improving around the globe over the past year, and that trend has generally persisted since the election. But the most notable increases in the PMI readings were registered in the export and production sectors of Sweden. The latter is of potential relevance because Sweden is a small but very open economy (gross exports account for 45% of economic output) that is particularly sensitive to expected fluctuations in global trade.

Given such clear signals, we should beware of hasty conclusions about a rising anti-globalization tide. Of course, investors and business managers may still be proven wrong in end. But even if it is hard to believe in the face of the currently dominating negative headlines, we should also be aware that markets tend to cut through the noise and focus beyond the apparently obvious.

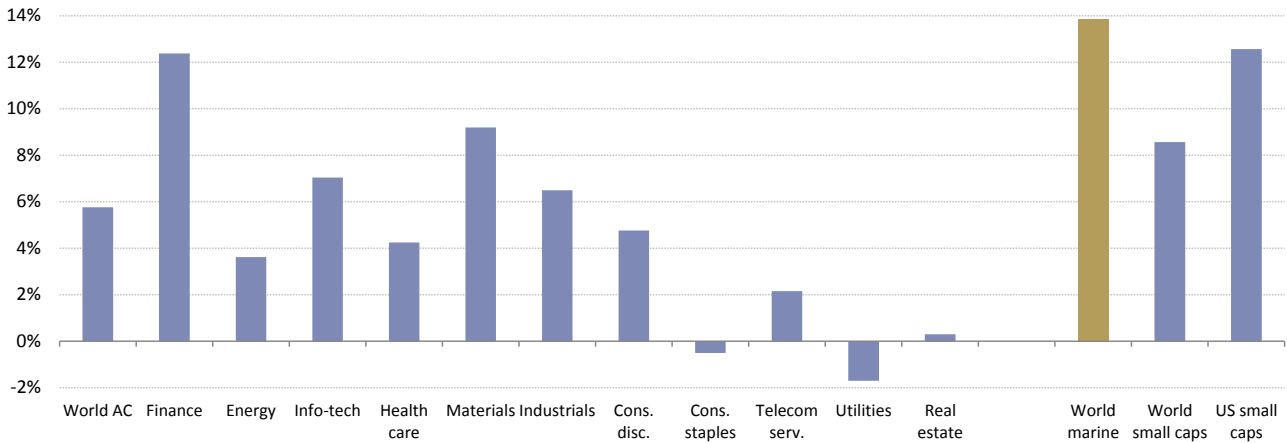
Thus, the latest trends can also be explained as follows: the anticipated increase in global economic growth could ultimately simply outweigh the impact of higher tariffs and trade barriers. Furthermore, the popular votes in favor of Brexit and Trump might have also triggered a global political process that could ultimately bring the global economic order more in line with the preferences of the citizens of most major economies - and thus contribute to a more stable and hence sustainable international trade regime.

## Charts and background information

### Marine transport stocks were among the biggest winners of the Trump rally

The first chart shows the performance of the eleven main sectors of the MSCI World All-Country Index since November 8, 2016 (US election), along with the MSCI All-Country Marine Index and the relevant small cap indices. Clearly, the global marine sector was one of the top performers in the relevant period. This market reaction contradicts the protectionist theme by signaling growing and more profitable trade among nations.

Performance of MSCI AC global sectors in USD since US election on Nov. 8, 2016

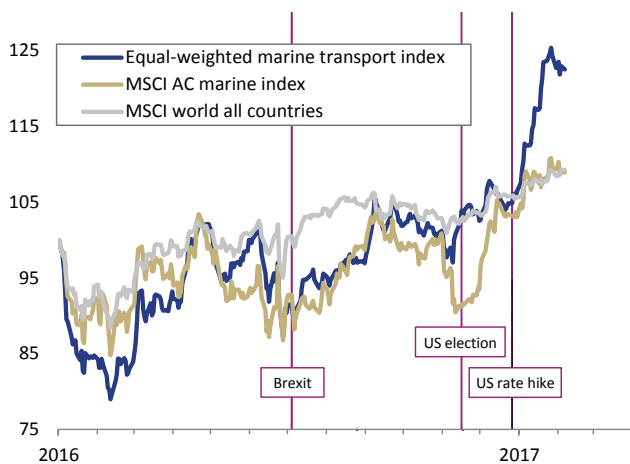


### Equal-weighted marine index and Swedish business manager surveys

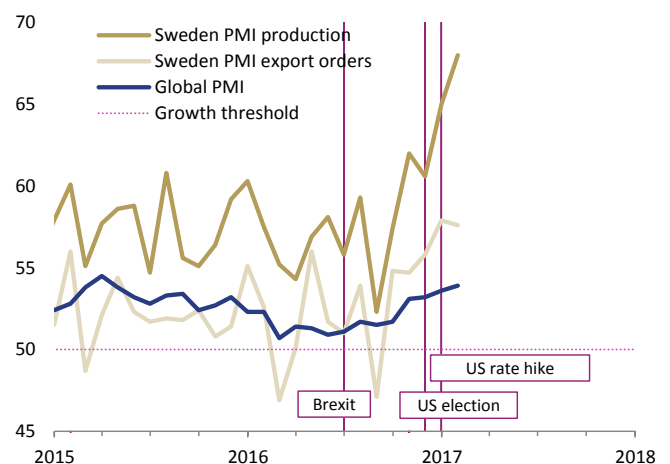
The relative strength of the marine subsector since the election becomes even clearer if we switch from the capitalization-weighted MSCI indices, which are dominated by a handful of very large firms, to an equally-weighted index of the world’s 25 largest shipping companies (with prices converted into USD to account for currency moves). This equal-weighted global marine index in USD is up about 24% since the election (led by Northern European firms and some of the US-listed Greek-owned shipping small caps).

Speaking of Northern Europe - the last chart on the right below shows the strong surge in the Swedish purchasing manager indices (production and export orders), compared to the improvement in the global PMI readings over the past year, which we have mentioned many times in the past. While the global rising trend is not new, it is worth noting that the rebound in Sweden began in more recent months - and continued after the US election.

Marine transport shares and global shares in USD



Purchasing manager surveys (PMI) compared



### We stick to our risk-friendly and well-diversified tactical investment allocation

Concluding, during our last monthly asset allocation review meeting, which was conducted last week, our strategy team has noted and discussed the broader theme of protectionism as one of the structural risks that have the potential to impact markets at some point. This year’s upcoming elections in several European countries (Netherlands, France, and Germany) will have to be monitored and assessed in that context. However, the team concluded that this risk remained largely irrelevant for financial market developments at present, as the above example illustrates.

The strategy team decided to maintain the current tactical asset allocation (TAA, see page 4), given there has been no material change in our macro and market assessment since December, when our TAA was last defined.

## Market Performance

Equities		Global share	Mkt Cap. in \$	Last price	5 days	1 month	3 months	6 months	1 year	Year to date	Trend over past yr
World	BBG World All Country	100%	69,066	199.4	0.1%	0.9%	3.9%	2.9%	16.5%	2.5%	Rising
<b>Americas</b>											
USA	S&P 500	37.4%	25,841	2,293.1	0.6%	0.7%	7.2%	5.1%	23.7%	2.4%	Rising
	Nasdaq Composite *	12.8%	8,845	5,674.2	1.1%	2.8%	9.3%	8.8%	32.5%	5.4%	Rising
	S&P 600 Small Cap *	1.1%	773	830.5	-0.4%	-1.2%	14.4%	11.4%	38.5%	-0.9%	Rising
Canada	TSX	3.0%	2,058	15,498.8	0.7%	0.0%	5.7%	5.0%	23.6%	1.4%	Rising
Brazil	Bovespa	1.1%	782	64,198.9	-0.7%	4.1%	0.1%	11.4%	58.2%	6.6%	Rising
Mexico	Mexbol	0.5%	317	46,729.0	-0.8%	1.4%	-3.6%	-1.4%	9.2%	2.4%	Rising
<b>Europe</b>											
Euroland	Euro Stoxx *	7.8%	5,411	347.5	0.3%	-1.9%	7.1%	8.0%	17.7%	-0.8%	Rising
UK	FTSE 100	4.6%	3,172	7,186.2	1.2%	-0.3%	5.0%	5.5%	26.3%	0.6%	Rising
Germany	DAX Price Ix	2.8%	1,903	5,604.0	-0.2%	-0.7%	9.8%	10.4%	24.8%	0.3%	Rising
Switzerl.	Swiss Perf Extra Pr Ix	2.2%	1,513	245.6	1.7%	2.3%	6.9%	5.9%	20.6%	3.8%	Rising
Poland	WSE	0.2%	153	2,086.5	1.4%	4.4%	17.0%	13.6%	17.9%	7.1%	Rising
Russia	Micex	0.9%	612	2,218.8	0.1%	0.2%	12.7%	13.4%	27.2%	-0.6%	Rising
<b>Asia</b>											
Japan	Nikkei 225	7.6%	5,268	18,875.6	-1.4%	-3.0%	9.9%	13.4%	11.0%	-1.2%	Rising
Hong Kong	Hang Seng Ix	6.1%	4,247	23,249.1	-0.3%	3.3%	1.5%	3.4%	20.5%	5.7%	Rising
China H	China Enterprises Ix	9.6%	6,613	9,799.6	0.4%	2.0%	1.4%	5.6%	21.7%	4.3%	Rising
China A	CSI 300	5.0%	3,465	3,352.3	-0.7%	0.1%	-0.6%	3.7%	13.1%	1.3%	Rising
Australia	ASX 200	1.8%	1,230	5,640.7	-0.2%	-2.0%	7.3%	1.9%	13.4%	-0.4%	Rising
India	Sensex	2.5%	1,730	28,335.2	2.5%	5.9%	2.7%	0.5%	16.7%	6.4%	Rising
Korea	Kospi	1.9%	1,302	2,063.3	-0.8%	0.7%	3.0%	1.6%	7.6%	1.8%	Rising
Taiwan	Taiex	1.5%	1,024	9,540.4	1.0%	1.8%	3.5%	4.3%	18.3%	3.1%	Rising

All indices: price indices (excl. dividends), in local currency. Market cap in billion USD at current exchange rates refers to country or index where marked with asterisk (\*)

### Currencies

US Dollar, correlation-weighted index	USD	120.5	0.5%	-2.4%	1.1%	1.9%	0.2%	-3.0%	Rising
Euro, correlation-weighted index	USD	96.5	-0.3%	-0.9%	-2.4%	-2.2%	-4.8%	-1.2%	Falling
Japanese yen, correlation-weighted index	USD	354.7	1.6%	2.3%	-5.9%	-7.9%	3.9%	1.7%	Rising
Swiss franc, correlation-weighted index	USD	345.3	0.1%	-0.2%	-1.0%	0.2%	-0.9%	-0.6%	Sideways

### Bonds

US Treasuries **	USD	378.7	0.4%	0.4%	-2.4%	-3.5%	-1.1%	0.6%	Rising
EMU Bonds (Germany) **	EUR	225.8	-0.4%	-1.5%	-3.3%	-5.2%	-1.0%	-2.4%	Falling
UK Gilts **	GBP	635.7	0.9%	0.7%	-0.7%	-4.9%	5.5%	-0.9%	Rising
EM Bonds USD ***	USD	796.2	0.8%	0.9%	-0.7%	-0.2%	12.9%	2.3%	Rising
EM Bonds Local ***	USD	263.4	0.6%	2.4%	-2.2%	-1.8%	11.4%	2.9%	Rising
Investment Grade USD +	USD	144.8	0.6%	0.4%	-1.3%	-1.5%	6.4%	0.8%	Rising
High Yield USD +	USD	173.5	0.4%	1.2%	3.7%	6.3%	22.6%	2.2%	Rising

\*\*Total return, indices of bonds with maturities of more than 1 year \*\*\*JP Morgan Indices + Bloomberg Indices

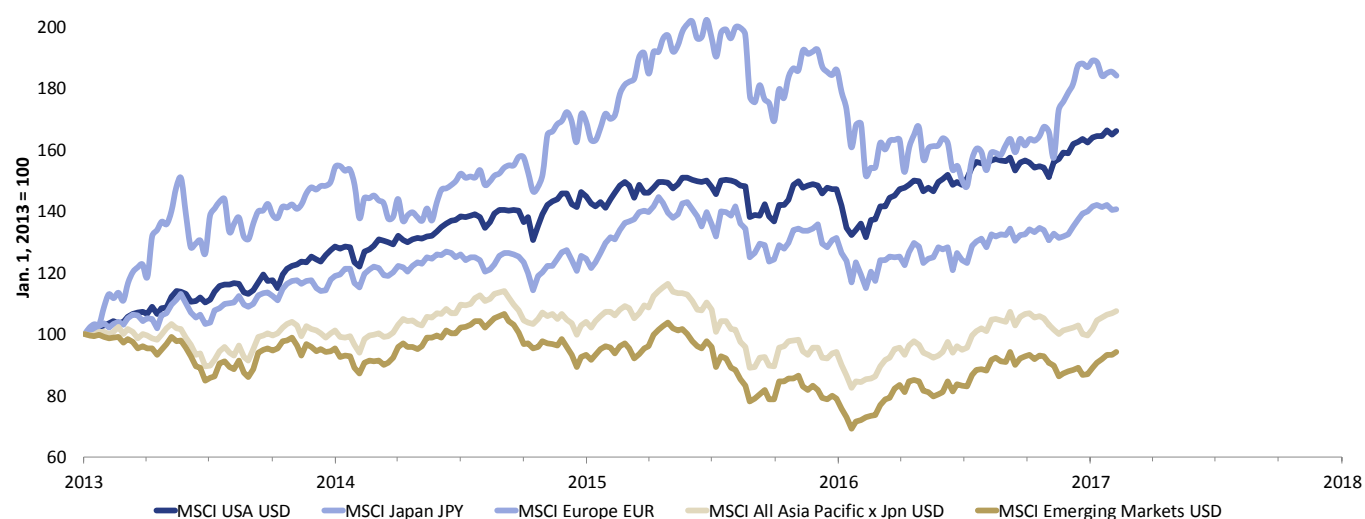
### Commodities

WTI Crude oil (generic future)	USD	51.5	-4.4%	-4.6%	14.5%	19.8%	73.5%	-4.1%	Rising
Industrial Metals Index (S&P GSCI)	USD	149.4	-1.1%	5.9%	9.6%	17.1%	29.2%	7.3%	Rising
Gold, spot price	USD	1,233.0	1.9%	4.4%	-3.3%	-7.7%	3.7%	7.5%	Rising

Source: Bloomberg. All data based on last traded price at cut off time:

2/8/2017 11:53

## Total return of stock market indices that are relevant for our asset allocation



Note: In our portfolios, equity positions in the USA, Europe and Japan are hedged against currency risk as a matter of principle.

## Economic and Corporate Snapshots

Macro fundamentals		USA	Euroland	China	Japan	Germany	Britain	Brazil	Russia	Switzerl.
GDP, nominal, 2017 <sup>1</sup>	bn USD	19,377	12,408	12,362	5,106	3,619	2,610	1,954	1,442	684
GDP per capita, 2017 <sup>1</sup>	USD, PPP	59,407	38,322	16,660	40,090	49,768	43,579	15,496	26,967	60,787
Real GDP growth, expected 2017	Consensus	2.3%	1.5%	6.5%	1.0%	1.5%	1.3%	0.7%	1.2%	1.5%
Real GDP growth, expected 2018	Consensus	2.3%	1.5%	6.2%	0.9%	1.6%	1.3%	2.2%	1.5%	1.6%
Real GDP growth last quarter *	q/q annualized	1.9%	2.0%	7.0%	1.3%	0.8%	2.4%	-3.3%	-2.3%	0.0%
Unemployment rate <sup>2</sup>		4.8%	9.6%	4.0%	3.1%	5.9%	4.8%	8.2%	5.3%	3.3%
Inflation, core rate (CPI)	y/y	1.7%	1.9%	0.9%	0.0%	1.5%	2.5%	6.3%	5.5%	-0.3%
Industrial production	y/y	0.5%	3.2%	6.0%	3.0%	-0.7%	1.2%	2.3%	3.2%	0.4%
Structural budget balance/GDP 2017	IMF	-3.7%	-1.1%	-3.2%	-4.8%	-0.2%	-2.5%	-7.8%	-1.9%	0.0%
Gross government debt/GDP 2017	IMF	108%	91%	50%	253%	66%	89%	82%	18%	44%
Current account balance/GDP 2017	IMF	-2.7%	3.1%	1.6%	3.3%	8.1%	-4.3%	-1.3%	3.5%	9.0%
International currency reserves	bn USD	39	261	2,998	1,158	37	107	185	328	679
ESM / EFSF										
Govt bond yield 2yr **	p.a.	1.2%	-0.6%	3.5%	-0.2%	-0.8%	0.1%	10.2%	9.5%	-0.9%
Govt bond yield 10yr **	p.a.	2.4%	0.6%	4.4%	0.1%	0.4%	1.3%	7.6%	8.0%	-0.1%
Policy rate (or approximation) <sup>o</sup>	p.a.	0.75%	-0.40%	4.35%	-0.04%	-0.40%	0.25%	13.00%	8.25%	-0.75%

<sup>1</sup>IMF estimates. \*annualized, most recent qtr. <sup>2</sup>PRC ex. migrant workers. \*\* Currency swap rates for China & Brazil, closest ESM or EFSF bonds for Eurozone. <sup>o</sup>Max target rate for Fed, SNB

Corporate fundamentals		USA	Euroland	China	Japan	Germany	Britain	Brazil	Russia	Switzerl.
Exchange capitalization*	USD	25,841	6,540	10,860	5,268	1,903	3,172	782	612	1,513
Growth in earnings per share, estimated (MSCI)										
Next fiscal year / current fiscal year	Consensus	12.1%	10.5%	13.1%	12.6%	9.1%	7.8%	16.8%	14.0%	10.9%
FY year after next / next FY	Consensus	11.4%	9.2%	9.6%	8.3%	5.7%	9.4%	17.4%	6.7%	7.7%
Growth in revenue per share, estimated (MSCI)										
Next fiscal year / current fiscal year	Consensus	5.2%	2.8%	10.1%	3.9%	1.9%	3.8%	7.0%	9.4%	2.9%
FY year after next / next FY	Consensus	-0.7%	1.2%	-14.2%	2.9%	1.6%	-7.8%	28.4%	2.7%	2.1%
Valuation metrics (MSCI)										
Price-Earnings Ratio (est forward 12m)	Consensus	17.85	14.15	12.17	15.86	13.64	14.58	13.02	6.75	17.21
Price-Sales Ratio (est forward 12m)	Consensus	1.88	0.99	1.34	0.84	0.88	1.19	1.27	0.87	1.98
Dividend yield	Consensus	2.1%	3.4%	2.3%	2.1%	3.0%	4.3%	3.2%	4.7%	3.5%

\* China includes Hong Kong. Notes: Corporate fundamentals are based on consensus estimates. "Reversal +" denotes a return to profits, "Reversal -" an expected loss next year. Source: Bloomberg.

08.02.2017

## LGT Asset Allocation Strategy<sup>1</sup> for Q1/2017

Overweight in developed market equities, mainly vs. underweights in government bonds and LPE. Elevated cash position. USD favored.

Asset class		SAA	Tactical allocation versus SAA							
			underweight				overweight			
			-4%	-3%	-2%	-1%	+1%	+2%	+3%	+4%
Fixed Income	Short-term investments	0.0%								
	Global sovereign bonds	4.0%								
	Inflation linked bonds	4.0%								
	Investment grade corporates	3.0%								
	High yield bonds	8.0%								
	Emerging markets bonds	8.0%								
Equities	Equities defensive	8.5%								
	Equities North America	11.0%								
	Equities Europe	5.0%								
	Equities Japan	3.0%								
	Equities Asia/Pacific ex Japan	3.0%								
	Equities Emerging markets	9.5%								
Real	Commodities	3.5%								
	Real estate (REITs)	5.0%								
	Infrastructure	1.5%								
	Insurance linked strategies	5.0%								
Alternatives	HF CTA	7.8%								
	HF Equity long/short	1.8%								
	HF Event driven	1.0%								
	HF Relative value	1.8%								
	Listed private equity	5.0%								
Currency <sup>2</sup>		SAA	-4%	-3%	-2%	-1%	+1%	+2%	+3%	+4%
Currencies	USD	85.1%								
	EUR	0.0%								
	CHF	0.0%								
	GBP	0.0%								
	JPY	0.0%								
	Others (TAA vs. base currency)	14.9%								

Source: LGT Capital Partners. <sup>1</sup> Based on LGT GIM Growth (USD). Tactical positions (TAA), i.e. the position versus the strategic allocation (SAA), can be transferred to similar portfolios as a general rule, but investment restrictions or liquidity considerations may lead to deviations in implementation. <sup>2</sup> Position in other currencies (Others) is against base currency – in this case USD.

**Disclaimer:** This marketing material was produced by LGT Capital Partners and/or its affiliates (hereafter "LGT CP") with the greatest of care and to the best of its knowledge and belief. LGT CP provides no guarantee with regard to its content and completeness and does not accept any liability for losses which might arise from making use of this information. The opinions expressed in this marketing material are those of LGT CP at the time of writing and are subject to change at any time without notice. If nothing is indicated to the contrary, all figures are unaudited. This marketing material is provided for information purposes only and is for the exclusive use of the recipient. It does not constitute an offer or a recommendation to buy or sell financial instruments or services and does not release the recipient from exercising his/her own judgment. The recipient is in particular recommended to check that the information provided is in line with his/her own circumstances with regard to any legal, regulatory, tax or other consequences, if necessary with the help of a professional advisor. This marketing material may not be reproduced either in part or in full without the written permission of LGT CP. It is not intended for persons who, due to their nationality, place of residence, or any other reason are not permitted access to such information under local law. Neither this marketing material nor any copy thereof may be sent, taken into or distributed in the United States or to U. S. persons. Every investment involves risk, especially with regard to fluctuations in value and return. Investments in foreign currencies involve the additional risk that the foreign currency might lose value against the investor's reference currency. It should be noted that historical returns and financial market scenarios are no guarantee of future performance.

© LGT Capital Partners 2016. All rights reserved.