



MEDIA RELEASE

2014 OUTLOOK: TIME FOR FINANCIAL MARKETS TO STAND ON THEIR OWN FEET AGAIN

LONDON, 11 DECEMBER 2013: Looking forward to 2014, Threadneedle Investments believes the year will be characterised by the move towards financial markets standing on their own feet again, as the global policy support that has been providing abundant liquidity to markets starts to be withdrawn. This will mark an important change in the drivers of investment returns:

- Instead of liquidity, corporate earnings will move into the spotlight and drive equity performance
- The gap between equity and fixed income valuations will continue to normalise as bond yields rise
- In a low growth world, credit will continue to shine among fixed income assets
- Emerging markets are a “wildcard” and likely to remain volatile.

Mark Burgess, Chief Investment Officer at Threadneedle, commented: “Following many years of liquidity provision from the world’s central banks which supported the performance of ‘risk assets’, 2014 will be about selecting the right investments as the global economic recovery will be put to the test. Financial markets will have to re-engage with reality against a backdrop of significant macro and policy challenges and investors need to be alive to the consequences of this changing environment and subsequent volatility. What happens if QE is withdrawn too quickly? What risks lie ahead if companies don’t deliver earnings growth?”

Equities

“While we remain bullish on equities overall, regional and sector performance will vary significantly. Investors are increasingly shifting their focus away from market liquidity to company fundamentals following the Fed’s announcement in September that it is preparing to start turning off the QE tap. Companies will have to step up their game and earnings will have to pick up significantly if equities are to sustain or even come close to the rally we have seen in developed markets during 2013.

“**US** company earnings have been at the forefront, having recovered and surpassed their previous peak. We don’t think this year’s returns of close to 30% will be repeated in 2014,

but US equities remain attractive. The banking sector is well capitalised and has started lending again, providing a boost to the economy. While the debt ceiling remains a risk, a combination of low energy and labour costs should support company margins into 2014. We think the best performers will be companies in the technology and consumer discretionary sectors.

“In contrast, only half of **European** companies have beaten earnings expectations so far this year. The region remains beset by relatively poor growth dynamics compared with the rest of the developed world. This year’s stock market recovery could easily herald a false dawn. The banking sector still has a long way to travel to address its capital shortage, although the fundamentals are much improved. While for the first time in three years we believe Europe is likely to return to positive GDP growth in 2014, earnings growth is likely to be steady rather than dramatic. Stock pickers, however, could be handsomely rewarded when concentrating on companies with strong business models, robust finances, experienced managements and ideally dominant market positions.

“While the **UK** economy is still smaller than it was pre-crisis, we have seen some very encouraging data in 2013 and there could be a surprise uptick in GDP growth of around 2% next year. Unemployment has been falling and there is a likelihood that the BoE’s 7% threshold will be reached in late 2014. The problem is that the positive data has not necessarily translated into domestic profits thus far and companies are likely to end the year flat. On the upside, we have seen a pickup in IPO activity and expect the improved economic backdrop to further drive corporate confidence and activity in 2014. We think the best returns are going to come from industrials and the consumer discretionary sector, with consumption (and housing) having driven the economic recovery to date. However, relatively little economic rebalancing has taken place to date, something that has been exacerbated by the success of the ‘Help to Buy’ scheme and raises questions over the sustainability of the recovery.

“**Japan** has embarked on a clear and credible path, and ‘Abenomics’ has been transformative. Low interest rates support credit growth and 80% of companies are set to raise base salaries.^[1] More challenges lie ahead but we expect further gains in equities and are overweight in financials and beneficiaries of policy action.”

^[1] 1 Japanese Ministry of Labour and Welfare survey

Fixed income

“2014 will be a year of transition for bonds. The expectation of QE tapering has already led to the end of the bond market rally, although we see no evidence for a rotation out of the asset class as demand from pension funds and banks remains. In **sovereign** markets, we expect yields to move gradually upwards, with the 10-year US Treasury yield at around 3.5% by the end of 2014. While we may not witness a return to the historic norms just yet, the gap between equity and bond yields should slowly start to normalise, so the “risk-on” stance that has worked well for investors during the last few years becomes less glaring in 2014. In fact, corporate **credit** as an asset built for a slow growth environment should perform well next year, having already delivered positive returns in 2013. **High yield** in particular has had a good year and we expect this to continue. Company balance sheets are robust and we see defaults as very unlikely.”

Emerging markets

“Emerging markets are a mixed bag and a wildcard in 2014. The announcement of QE tapering has caused significant headwinds in fixed income assets and concerns over currency volatility and current account deficits remain. Equity valuations are attractive, but history shows that rising US Treasury yields and a stronger US dollar can have a negative impact on EM returns. In addition, GDP growth in countries such as Brazil is unlikely to look spectacular compared to the developed world. On the upside, Mexico points to a year of solid growth linked to the US economic recovery and the country’s lower manufacturing cost base compared to China. While the latter has impressed us with the third plenum, stock picking is going to be of particular importance over the next few years. Equally, domestic markets in Latin America and those emerging market companies that are geared to an economic recovery in the developed world should not be dismissed.”

- ENDS -

For further comment please contact:

Wendy Svirakova (UK) / Nicolas Duperrier (Europe)

+44 (0)20 7464 5650 / +44 (0)20 7464 5940



firstname.lastname@threadneedle.com

Notes to Editors

About Threadneedle Investments

Threadneedle is a leading international investment manager with a strong track record of outperformance across asset classes. We actively manage €101.5 billion of assets (as at 30 September 2013), investing on behalf of individuals, pension funds, insurers and corporations. We are the 4th largest UK retail fund manager¹ and the 9th largest UK fund manager¹ by AUM. In Europe we rank in the top 50². Established in 1994 in London, Threadneedle has a presence in 17 countries.

Threadneedle's distinctive investment approach is based on creative thinking, sharing of ideas and rigorous debate. Our c.150 investment professionals invest across developed and emerging market equities, fixed income, commodities and UK property. As at 30 September 2013, 65% of Threadneedle funds outperformed over 1 year, 76% over 3 years and 81% over 5 years³. In 2013, Threadneedle has won over 70 prestigious fund management industry awards globally⁴.

Threadneedle is owned by Ameriprise Financial (NYSE: AMP), a leading US diversified financial services company with US\$735 billion in assets under management and administration. As its international investment platform, Threadneedle provides Ameriprise and its retail and institutional clients with world class investment solutions.

¹ UK IMA ranking, Aug 2013, see www.investmentfunds.org.uk

² Europe ranking, Morningstar Sep 2013

³ All funds managed by Threadneedle, including segregated accounts/portfolios. The data does not include funds sub-advised by third parties or guest funds on a Threadneedle platform. All figures are as at 30 Sep 2013, in GBP unless stated otherwise. Total value of funds outperforming their relevant benchmark expressed as a percentage of total assets under management. This information aims to demonstrate the overall performance capabilities of Threadneedle's asset management team. It is not intended to indicate the performance of individual funds or products. Please refer to product specific documentation in relation to individual funds. The value of investments and any income is not guaranteed and can go down as well as up.

⁴ For details see: <http://www.threadneedle.com/en/About-us/Awards/>

Past performance is not a guide to future performance.

The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested.

This material is for information only and does not constitute an offer or solicitation of an order to buy or sell any securities or other financial instruments, or to provide investment advice or services.

The research and analysis included in this document has been produced by Threadneedle Investments for its own investment management activities, may have been acted upon prior to publication and is made available here incidentally. Any opinions expressed are made as at the date of publication but are subject to change without notice. Information obtained from external sources is believed to be reliable but its accuracy or completeness cannot be guaranteed.



The mention of any specific shares or bonds should not be taken as a recommendation to deal. Threadneedle Investments does not give any investment advice. If you are in doubt about the suitability of any investment, you should speak to your financial adviser.

Issued by Threadneedle Asset Management Limited. Registered in England and Wales, No. 573204. Registered Office: 60 St Mary Axe, London EC3A 8JQ. Authorised and regulated in the UK by the Financial Conduct Authority.

Threadneedle Investments is a brand name and both the Threadneedle Investments name and logo are trademarks or registered trademarks of the Threadneedle group of companies.