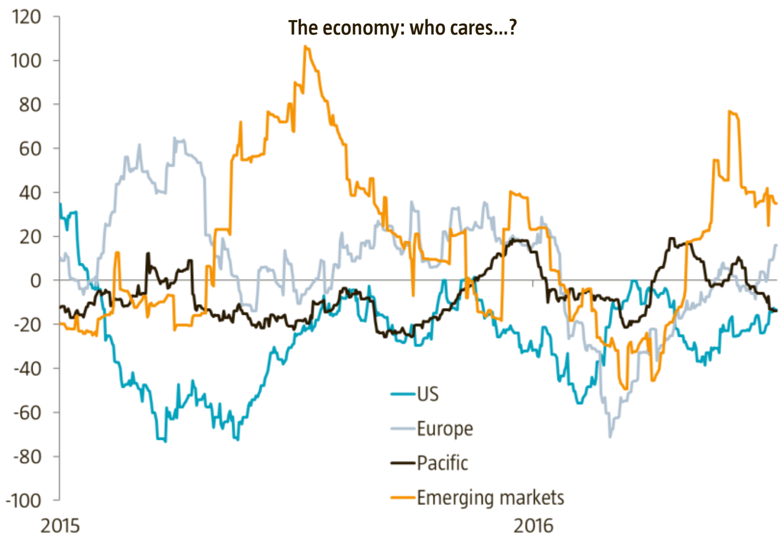
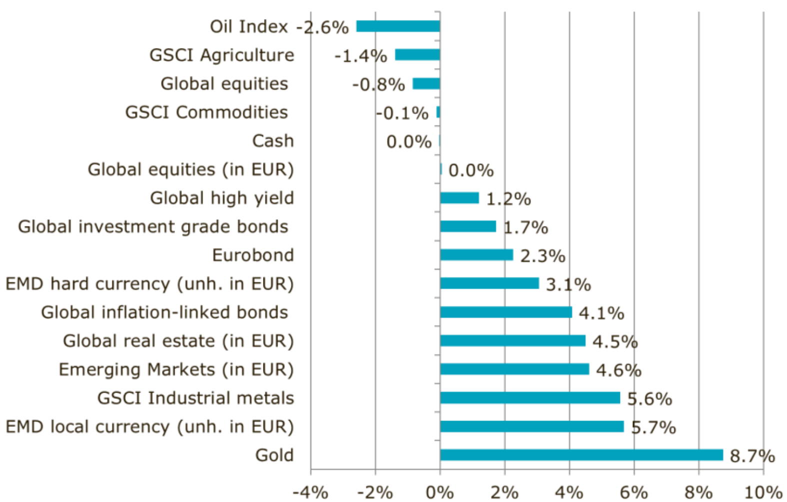
Multi-asset markets outlook

July 2016

General overview



June returns: not half as bad as one might think



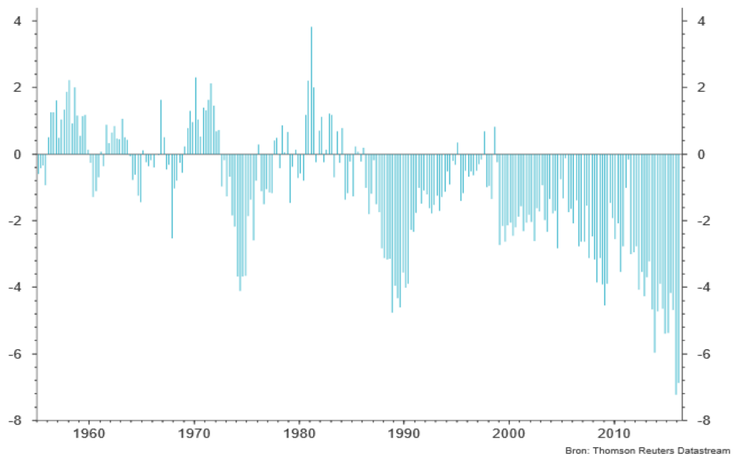
- Brexit, Brexit, Brexit. Like many, we had hoped that the word would soon fall out of fashion, following a (predictable?) victory by the Bremain camp, but we turned out to be wrong. The Brexiteers came, won... and then fled the scene, leaving us with a prolonged period in which Brexit will continue to take center stage. Financial markets were caught completely off guard, resulting in huge swings in the days following the 23 June referendum. Risky assets (European equities) and European currencies (sterling) suffered, while government bonds once again acted as the safe haven, driving yields to new all-time lows almost uniformly across the globe. As sharp as the sell-off was, as surprising was the rebound that followed, with global equities almost erasing all losses within two weeks. We think that this rebound is a too-optimistic interpretation, which is why we have now moved to an underweight in (European) equities. On balance we managed to get through the whole ordeal unscratched, as we decided to put up a short hedge against the British pound just prior to the outcome.

- The economy played second fiddle this month. The US economy showed signs of recovery, following the weak first quarter. Europe, on the other hand, weakened ahead of the UK referendum and will remain weak, thanks to the Brexit outcome. As said, the dominating theme was neither the economy, nor company earnings, but politics. UK politics no less....

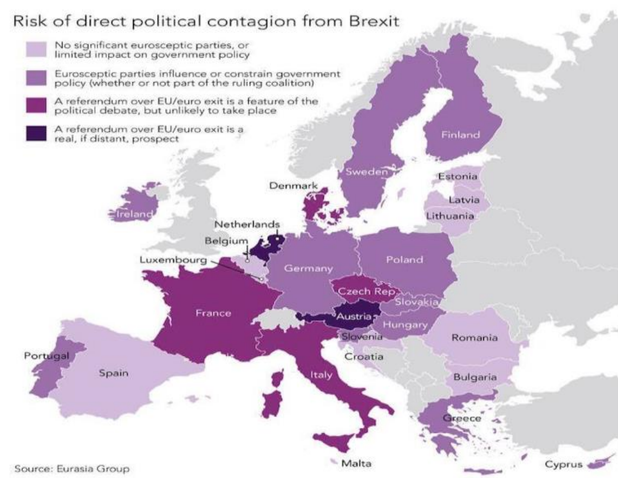
Our highlight this month: Brexit

Economy

Huge UK current account deficit



Weakest links: Austria and the Netherlands



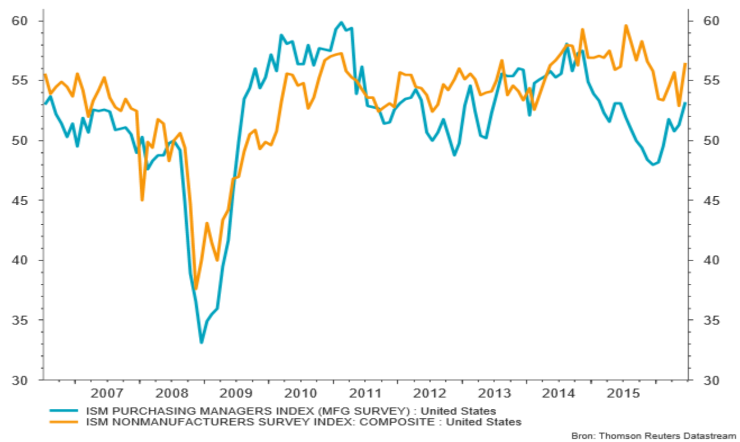
- Britons stunned the world on 23 June by voting for a Brexit by a narrow majority of 52% against 48%. British PM David Cameron resigned immediately and choose not to trigger Article 50 of the Lisbon Treaty which sets into motion a two-year countdown after which EU Treaties no longer apply to the UK.

- Given the uncertainty about future relations between the UK and the EU, it is likely that the UK economy will drift into a recession. Investments will be postponed and major international companies will relocate, possibly to Ireland and the Continent. Consumer confidence will be damaged due to rising inflation as a consequence of the lower pound, a weaker housing market and a contracting economy. The Bank of England has announced it is considering further monetary stimulus as a consequence.

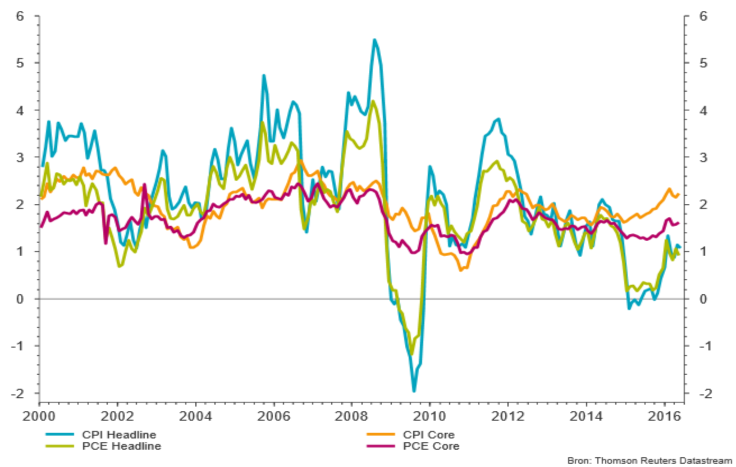
- As the UK is currently less than 4% of the world economy, it is unlikely that a UK recession can push the EU or the world also into a recession. The main risk is of political contagion. The first test is the October referendum in Italy on constitutional reform. A defeat for PM Matteo Renzi could be a further blow to the belief in the ongoing integrity of the EU. On the other hand, the increasing economic and political disarray in the UK and the rise of separatist pressures there could counteract populism in other European countries.

United States

Strong rebound in ISM non-manufacturing data



Inflation is rising moderately



– The US economy is showing signs of strength. It is unlikely that the Brexit shock will have much impact, despite the strengthening US dollar. The most recent ISM manufacturing index indicated that the nascent recovery in the beleaguered manufacturing industry is gaining momentum. The index climbed to 53.2, the highest level since February 2015, boosted by stronger bookings and production. Moreover, the ISM non-manufacturing index jumped to an impressive 56.5, the highest level in in seven months, on stronger orders and sales. Both indicators signal a healthy US economy.

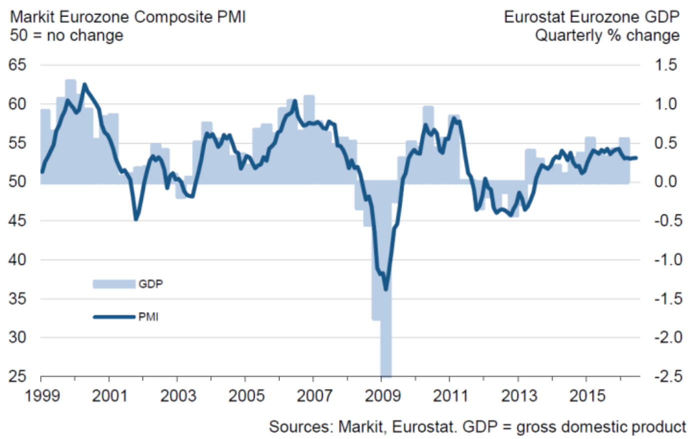
– Inflation is expected to rise gradually. For the Fed the trend in the core PCE is especially important. Three-quarters of this index is determined by services prices, which are particularly influenced by the amount of slack in the economy. As this slack is slowly diminishing and wage pressures are rising, a gradual pick-up is likely. This won't be able to force the hand of the Fed for the time being, as it will choose to be cautious in the light of the Brexit fall out. A modest additional rate hike of 25 basis points is not to be expected before December.

– Consumers will need reassurance that the labor market recovery remains on track. If non-farm payrolls in the coming months rebound again from the 38,000 in May toward levels around 175,000, there is not much to worry about.

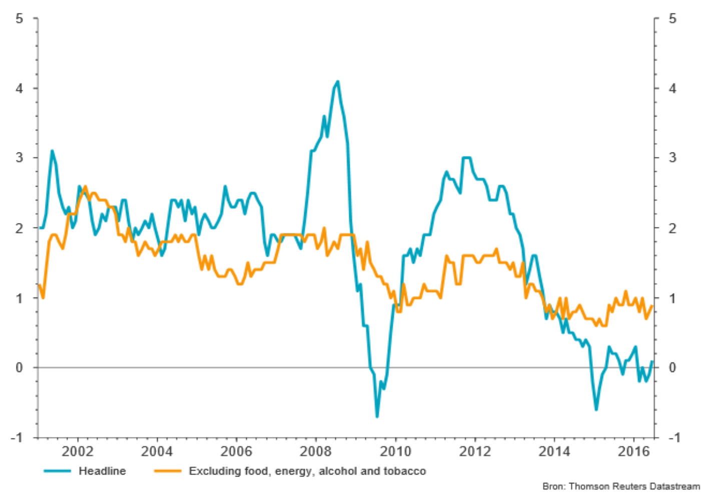
Europe

Economy

GDP growth is steady at a moderate pace



Euro area inflation is moving sideways



- The European economy unfortunately did not accelerate in June. All in all, the second quarter has been disappointing. Although the manufacturing sector accelerated, the services sector slowed down, so growth was unchanged and consistent with a GDP growth rate of around 0.3%. Given the Brexit shock, it is now unlikely that the Eurozone will be able to reach a 2016 growth rate of 1.75% that was initially forecasted by us.

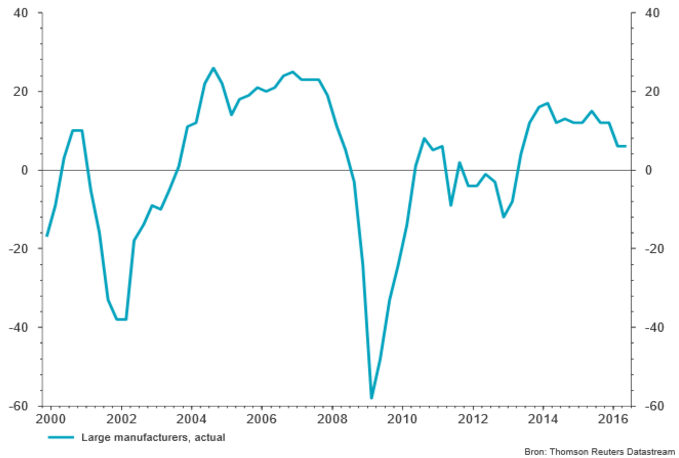
- The Spanish elections resulted in a stalemate once again, but contrary to the polls, the radical Unidos Podemos failed to become the second-largest party in Spain. This could suggest a more conservative attitude of European voters after the Brexit shock.

- In the meantime, tensions within the EU have risen again as Italian banks' bad loans amounted to 20% of GDP, forcing the Italian government to attempt to recapitalize its banks once again. This in principle forces it to bail-in bondholders under new European banking union rules. Italian bank bonds are widely held by Italian households, which makes this bail-in a political impossibility, especially in the light of the referendum on constitutional reform in October. The most likely result will be a fudge. If PM Renzi loses the referendum vote despite a misty compromise, European politics will be thrown into turmoil again.

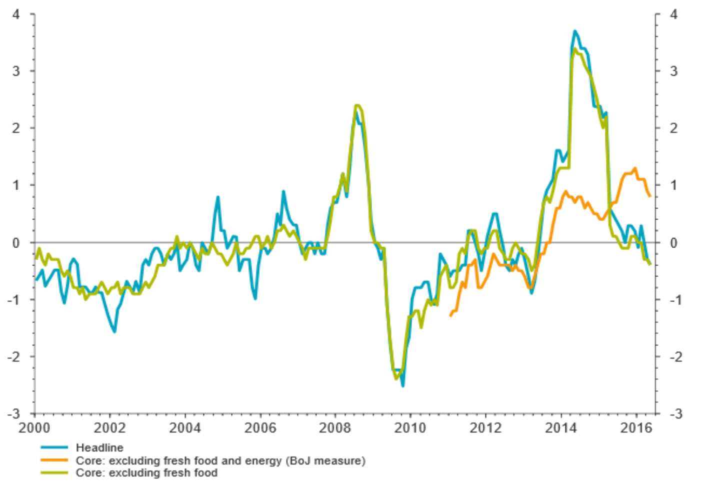
Japan

Economy

Japan's Tankan: large manufacturers' mood was flat in Q2



Deflationary pressures are rising again

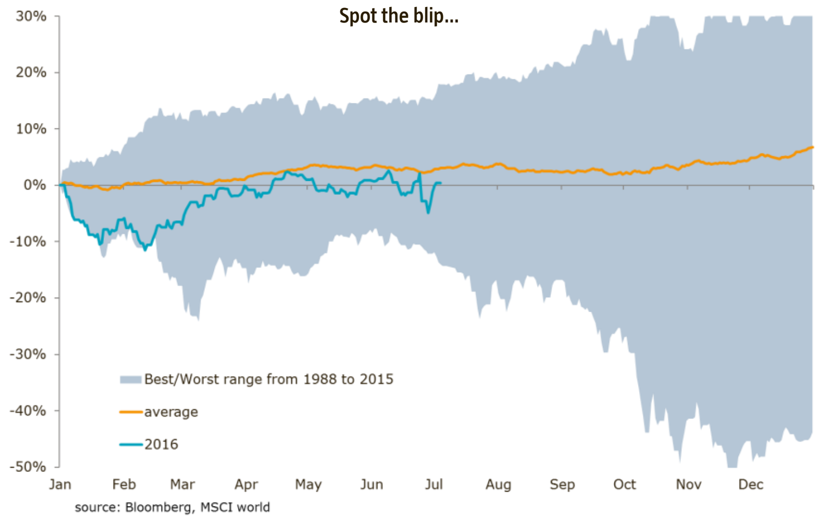


- The trade relationship between Japan and the UK is limited. Therefore, the expected direct economic impact of the Brexit vote should in principle be low. However, safe haven flows into the yen pushed USD/JPY through the level of 100. The yen is approaching pre-Abenomics levels. The Tankan survey suggested that the mood among large manufacturers is flattish, which was a positive surprise, but their expectations are based on a much weaker yen (on average falling in value by about 10% for the fiscal year 2016/2017). The stronger yen will weigh on profits and probably dampen capital expenditures.

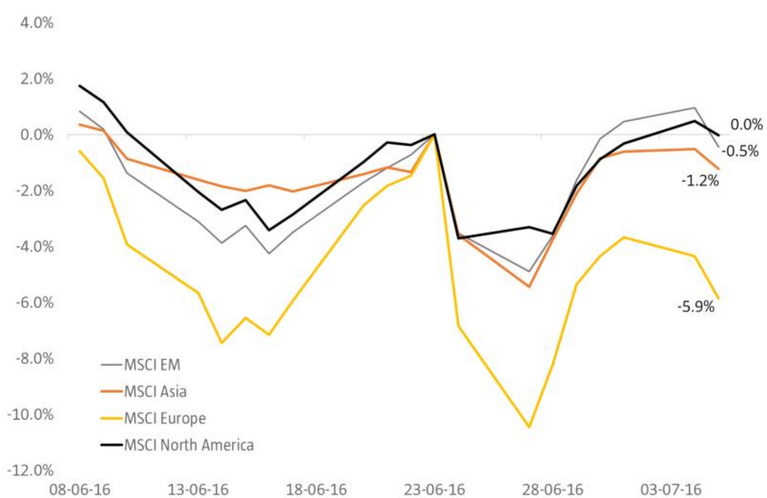
- After deciding to delay the VAT hike from April 2017 to October 2019, Prime Minister Shinzo Abe suggested a fiscal stimulus package would be launched in the autumn, generally expected to amount to 1% of GDP. It is now more likely that the size of the package will be increased to about 2% of GDP.

- It is furthermore likely that now that deflationary pressures are increasing once again, the Bank of Japan will expand its QE buying program from JPY 80 trillion to JPY 100 trillion, probably accompanied by a modest rate cut, at its regular policy meeting July 29. Core inflation excluding fresh food and energy costs - the inflation indicator preferred by the Bank of Japan - fell to 0.8% in May and is expected to drop further. Other inflationary indicators have fallen back into deflationary territory.

Equities (I)



Stocks suffered and rebounded, on balance ending June mostly unchanged

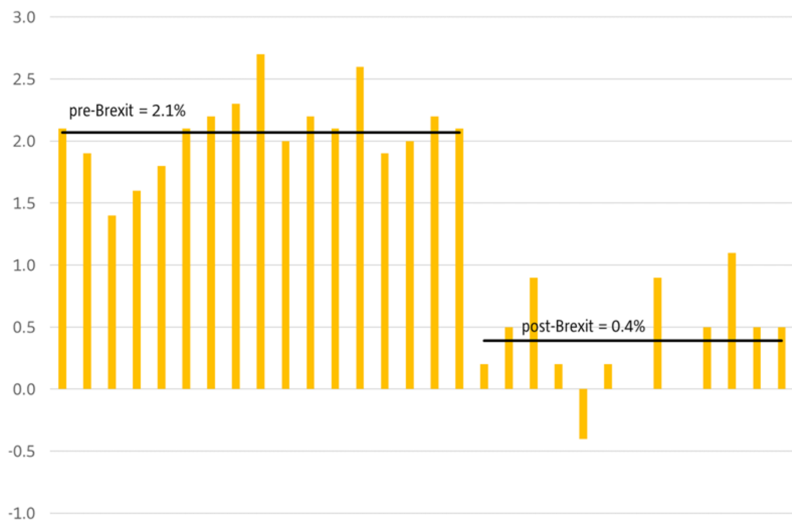


- What is more remarkable? The fact that the majority of UK citizens voted to leave the EU, or that global stocks markets reacted as mildly as they did? Mind you, we are well aware of the fact that European banking stocks and UK homebuilders suffered massively in the days following the surprise outcome, and are still down by a double-digit percentage compared to their pre-Brexit close. So the term 'mildly' should certainly be seen in the right perspective. The point we are trying to make is that the damage to worldwide stocks appears to have been temporary, and on balance anything but historically large. The MSCI world index declined by roughly 7% in the two days that followed the Leave vote, but rebounded by roughly 6% in the week afterwards, shrugging off the biggest part of the losses. Of course, this aggregate number masks a big discrepancy between the various regions, with Europe clearly lower, while Asia Pacific and Emerging Markets managed to recover all of their initial losses.

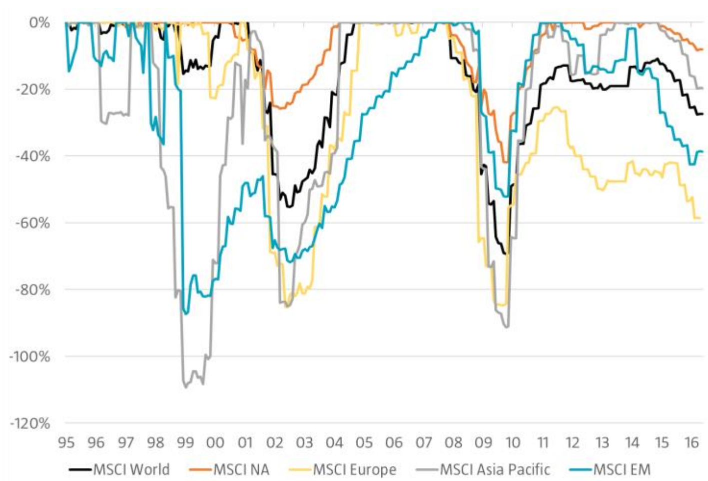
- If we leave out European equities for a moment: is this indeed such a non-event for equities; a regional problem, and not much more? It is clear that the impact will be bigger the closer you get to the epicenter, but we see a number of reasons why from a global perspective, stocks have reacted too complacently. For one thing, there is a negative growth shock administered to the system. Uncertainty on what will happen next will certainly lead the UK economy into **>>**

Equities (II)

The Brexit has resulted in a sharp lowering of the UK growth outlook for 2017



Another earnings recession does not look very convincing

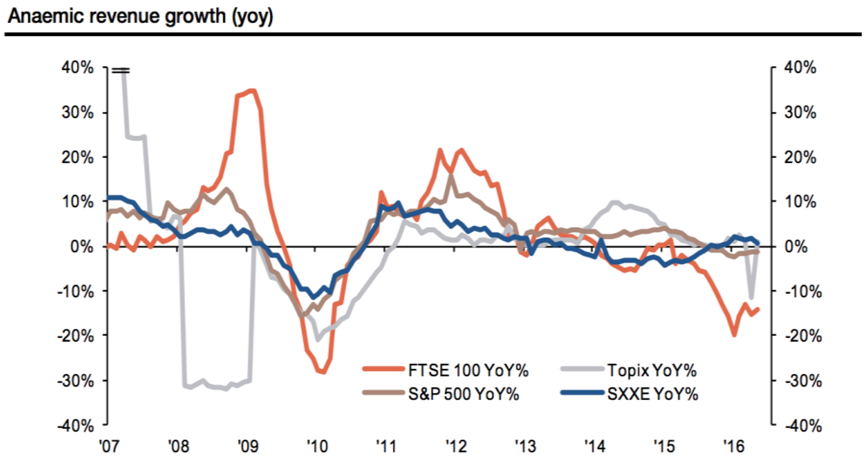


- a recession as companies scale back investment plans, while consumers are likely to take a wait-and-see stance. Part of the pain has been alleviated thanks to the weakening of the British pound, but the UK's gain (in relative terms) in this case is Europe's loss: exports will be hit, while the resulting political uncertainty is bound to have an impact on producer/consumer confidence in the continent as well. As stated, the UK economy is too small to throw the whole world in a recession, but the Brexit growth fall-out comes at a time of subdued growth and falling earnings, so it will be felt nevertheless. A second point is the inherent political risk linked to the vote: a less-unified Europe is hardly good news with the current political situation in Russia and the Middle East. Although this will not have a direct measurable impact on earnings, it does mean that underlying risks have increased, leading to a less favorable risk/reward trade-off.

- This assessment is clearly at odds with how stocks on balance reacted to the Brexit. Following the initial negative reaction, stocks rebounded sharply. The Bank of England indicated it would begin new monetary stimulus, while the odds of a Fed rate hike were priced out of the market. Added to this was the fact that as time progressed, the reality sunk in that the Brexit vote would not result in a sudden move or collapse, while there was even some (false) hope that this would ultimately result in a second referendum a couple of years down the road.

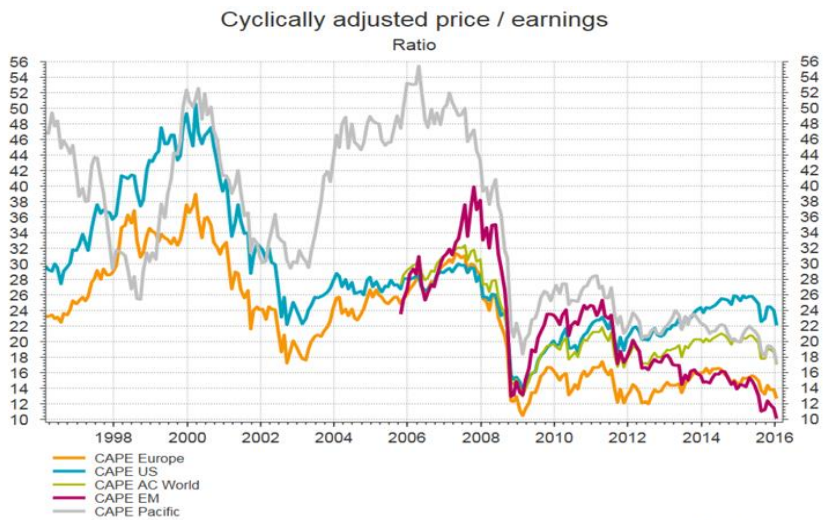
Equities (III)

Reported sales growth has weakened almost everywhere



12-month trailing sales in local currencies, growth year-on-year; Sources: Datastream, Worldscope, SG Cross Asset Research/Equity Strategy

Stocks in emerging markets and Europe are now cheap



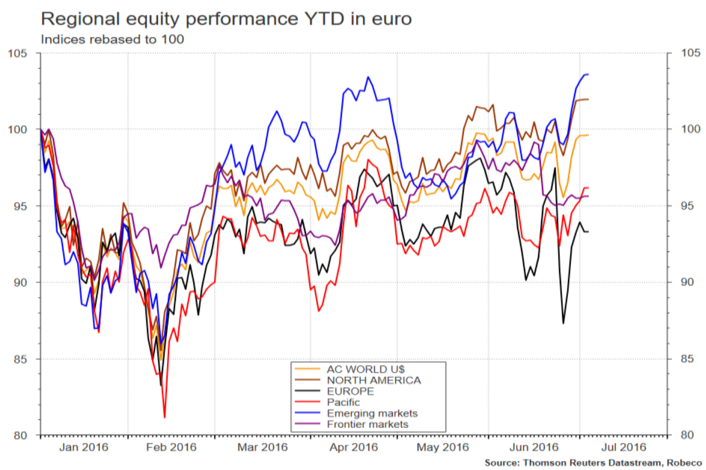
Bron: Thomson Reuters Datastream,Robeco

- With the election of the Prime Minister scheduled to take place at the beginning of September, and with the macroeconomic data for July not scheduled to be released until the end of August at the earliest, stock markets breathed a sigh of relief that there was no meltdown after all. Although we are equally happy that a meltdown scenario was diverted, we strongly believe that the stock market is currently too complacent with respect to the whole situation.

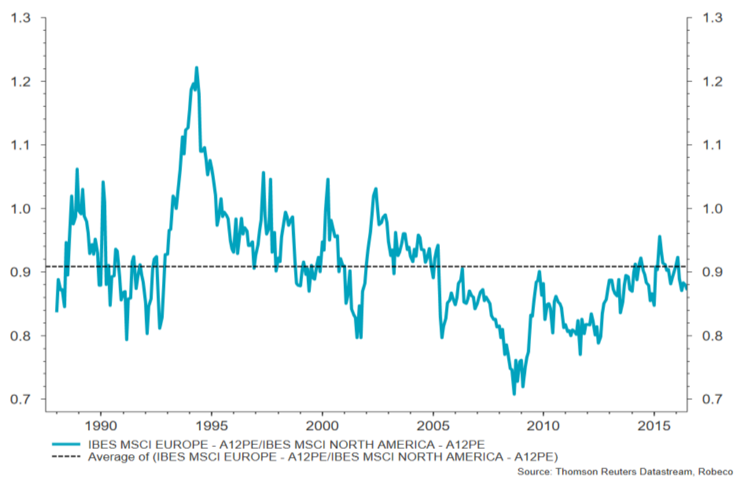
- Taking our cue from the UK economy, we would say that we are much more on an ‘either-way-you-lose’ outcome. Either the UK economy escapes mostly unharmed, with UK and European earnings only marginally impacted, which would give a clear signal that the downside of leaving the EU is not as bad as it is made out to be. This would open the way for other member states to organize - and win - exit referendums. This is the scenario in which the European market starts to disintegrate, which would ultimately mark the end of the Eurozone as well. The alternative scenario of a big economic slowdown caused by a UK recession is not very positive either. Although this would serve as a deterrent for other exiteers, the drop in demand from the UK would certainly come at the cost of lower growth in the Eurozone as well. The odds of a messy divorce between the UK and the EU would clearly increase in this scenario. All in all, we now have an underweight position in (European) equities.

Developed Market Equities

European stocks lag behind



European equity valuations are not attractive enough



- It was a turbulent month for developed market equities, as event risk manifested itself with the British referendum vote to leave the UK. Momentum on a one-month basis in euros has remained positive for US equities, as investors preferred the region. European equities bore the brunt, as the Brexit vote highlighted the systemic risk surrounding the EU, causing strong risk-off moves in European risky assets. The subsequent lower interest rates particularly hit European bank stocks, with some declining more than 30% on June 24. Pacific equities' momentum remained positive, despite the stronger yen lowering competitiveness for Japanese corporates. Longer-term momentum (12 months to one month) is also strongly favorable for US equities.

- Valuations based on CAPE indicate that global equities, perhaps somewhat surprisingly after the Brexit vote, became more expensive last month, with the US CAPE now at 26.4. Looking at forward P/E, European equities have not become notably cheaper versus the US, despite being more vulnerable to negative sentiment. Taking the negative growth consequences of the Brexit vote into account, analysts' forward earnings growth forecasts seem too upbeat. With the Fed now out of the way until December, we prefer US and Pacific equities over European equities.

Equities: Emerging vs Developed (I)

EM v DM growth differential

Figure 1: Developed vs emerging market real GDP growth differential versus MSCI EM/World performance

Source: MSCI. Oxford Economics. IMF. Credit Suisse research

China – Liquidity & Manufacturing PMI

Figure 5: Extreme liquidity in China typically heralds a recovery in the manufacturing PMI survey

Source: Peoples Bank of China, Markit, Credit Suisse research

- Emerging markets outperformed in June, especially after the Brexit result. The trade-weighted US dollar gained, but as European and Japanese equities slumped, emerging markets stayed ahead of developed markets.

- The rise of the dollar had a lot to do with the increased political uncertainty in Europe, and much less about US monetary policy. In fact, investors anticipate that the Fed will not hike rates until 2018. While that may be a bit overdone, we do think the Fed will take it easy, as the external environment is pretty shaky. This means less upside for the dollar, which is a positive for emerging markets.

- Next to that we could be close to a trough in the relative growth rate of emerging markets over developed markets. The chart on the top left shows how emerging equities tend to outperform when growth in their regions accelerates relative to developed markets. It may be a bit early, but we are getting close.

- The big ‘if’ is China. As always we are getting mixed signals. Credit growth is slowing, but only just. Non-performing loans and bad debt risks are significant, and the best that China can do is to kick the can down the road. A positive is liquidity, which improved this year, and as the graph on the bottom left >>

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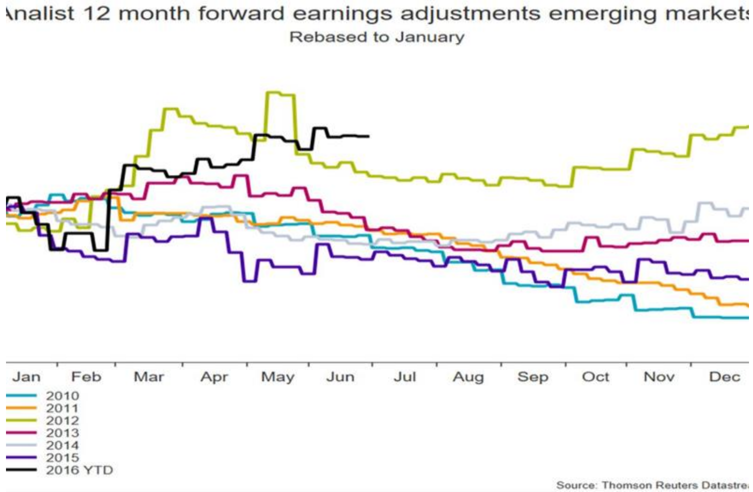
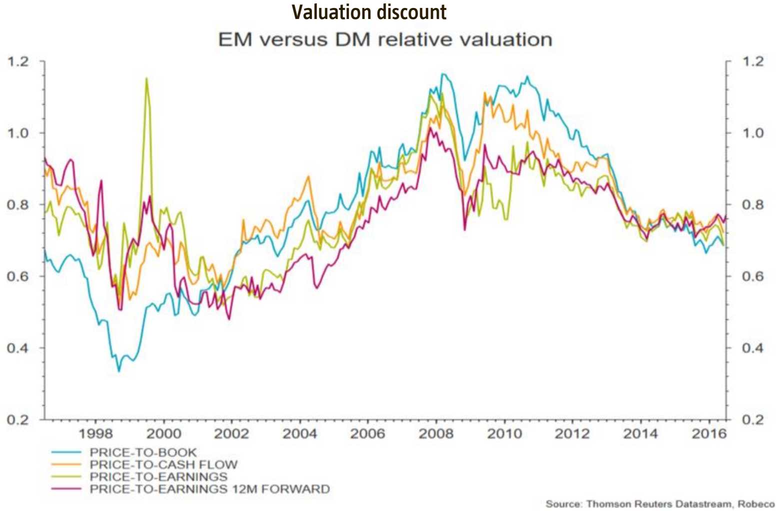
Equities: Emerging vs Developed (II)

Earning estimates are moving up



Valuation discount



- shows, historically this has coincided with a rising manufacturing PMI. We could be in for a brief spell of better macro data, but uncertainty remains.
- Commodities are an important factor when judging emerging markets. Commodity prices seem to have stabilized and we don't expect a renewed slump if growth holds up.
- In addition, we have seen some positive bottom-up news. Emerging market earnings revisions are now the strongest - or rather, the least bad - in our regional rankings. Second, earnings are expected to grow this year as the chart on the top left shows. This could still become a 2012 scenario, but the outlook is the best it has been in four years.
- Emerging market valuations have been attractive for some time now, but as argued before, valuations alone are not enough to become more positive on emerging markets. But taking the Fed, commodity prices, earnings revisions and momentum into account we have decided to upgrade emerging markets to neutral. Although risks remain, we don't expect emerging markets to underperform developed markets in the near future.

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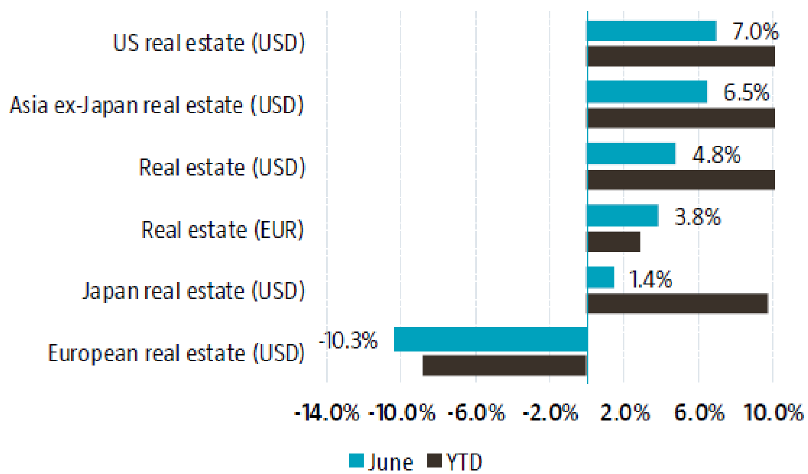
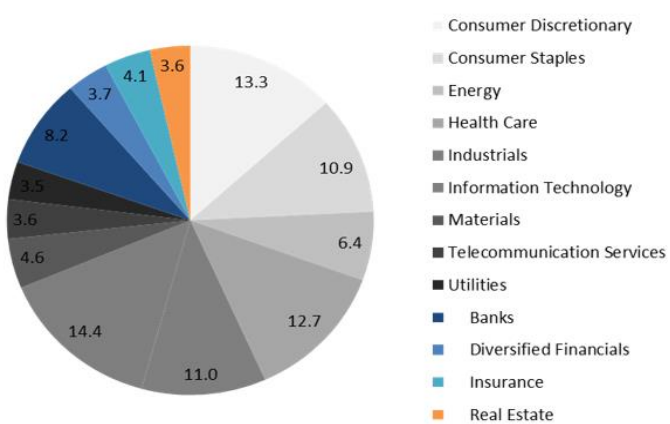
Real estate

The Brexit effect in real estate



Real estate as the 11th sector for MSCI



Source: Factset

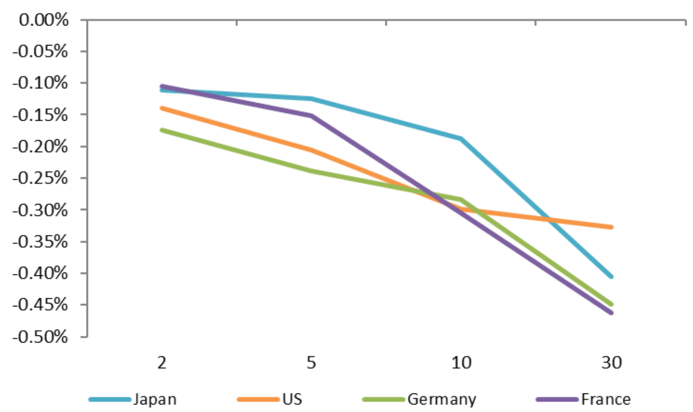
- Of course, the Brexit turbulence also had an effect on real estate. On a global level, the S&P Developed Property index (in US dollars) gained 3.6%. Listed real estate (REITs) as shown in the graph on the left performed even better (+4.8%). However, the differences in performance on a regional level were very large. European real estate suffered from the Brexit. As with other asset categories, investors turned to the German property market. US real estate surged 7.0% in US dollar terms, profiting from the declining interest rates and investors turning towards investments with higher yields. Japanese real estate showed a lot of volatility. Backed by the Bank of Japan and a relatively high dividend yield, the sector rose 1.4%. Yield still matters more than stretched valuations.

- As of September 1, MSCI will introduce real estate as its 11th sector. MSCI already recognized REITs as being a part of the financial sector, but after introduction of a bespoke real estate categorization, the sector will be larger than utilities and telecoms. It will have a weight of around 3.6% in the MSCI World Index. We expect the change to cause some market impact on forehand as institutions will reshuffle their portfolios to be in line with the new sector weights.

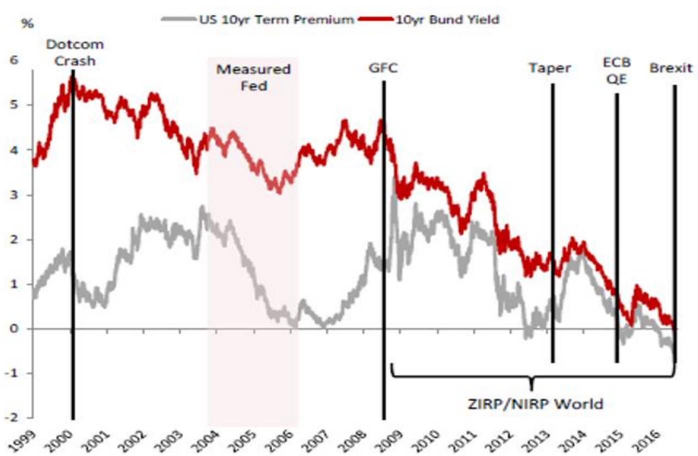
- Our neutral stance on real estate is still intact.

AAA Bonds (I)

Q2 rate changes: in the second quarter, rates moved substantially lower globally



Global central bank easing are anchoring G4 rates



Source Bloomberg, Nomura

- In the days just prior to the Brexit vote, equity markets looked to be positioning for Bremain, as they started to rally. When it became clear that Britons had chosen to leave the EU, the market dramatically readjusted. High quality government bonds did what they always do in such an environment and rose in value, driving bond yields to new all-time lows across the globe.

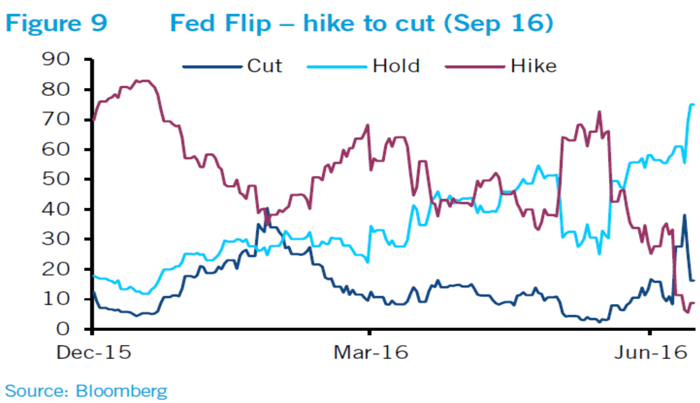
- The vote triggered a new leg-down for yields, but it definitely wasn't a game changer. When looking back to 2016 pre-Brexit, the only conclusion that can be drawn is that the referendum merely accelerated an existing trend. What keeps surprising us is the persistence of that trend. While other asset classes like equity still seem to react symmetrically to news, this no longer seems to be the case in yields. Negative news is a reason to take rates lower rapidly, while positive news is either ignored, or produces a highly muted reaction.

- We struggle to understand this phenomena, just as we struggle with the limited differentiation that is being made across different regions. We can only assume that this is all due to the power of quantitative easing. Apparently it is completely irrelevant which of the big central banks is **>>**

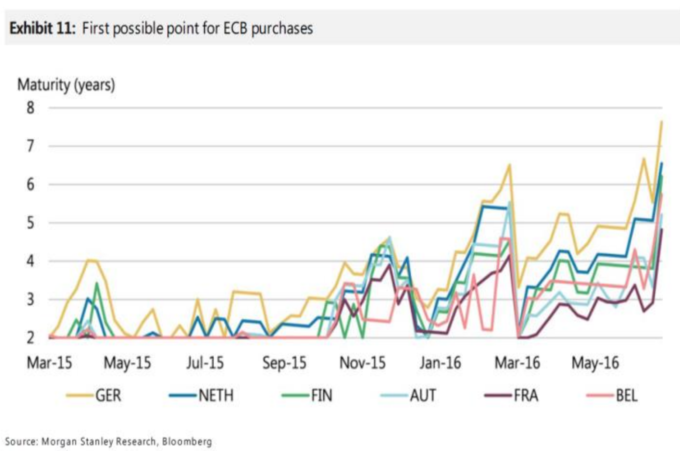
Fixed Income

AAA Bonds(II)

The European economy is chugging along nicely



Fewer and fewer bonds are eligible to be purchased by the ECB



Source Bloomberg

- doing QE: so long as they are committed to it and the size of the program is big enough, yields will decline everywhere. We were slowly starting to think that circumstances in the US were getting to a point were US yields would be able to break free. Data strengthened and the Fed looked determined to raise rates. Unfortunately this didn't happen as Fed Chairwoman Janet Yellen got cold feet when the latest job numbers disappointed. The market immediately reacted and was quick to price out near-term rate hikes, pulling rates lower.

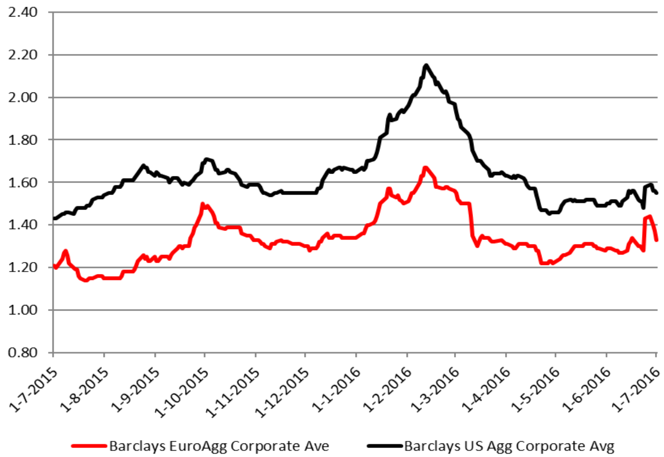
- In Europe, given the current settings of the bond purchase program, it looks like QE is starting run into technical problems. The self-imposed limit of not buying bonds that yield below the deposit rates of -40 basis points, along with the continued pressure on rates, means that the pool of bonds that can be purchased is getting smaller. This is pushing central banks up the curve. Currently the ECB can only purchase German bonds with a maturity above 7.5 years and Dutch bonds with a maturity above 6.5 years. By the way, in their search for yield, investors are forced up the curve as well.

- We continue to think that bonds offer no value, but currently we also see no immediate trigger that will pressure rates higher. We therefore prefer to remain on the sidelines.

Investment Grade Credits (I)

Fixed Income

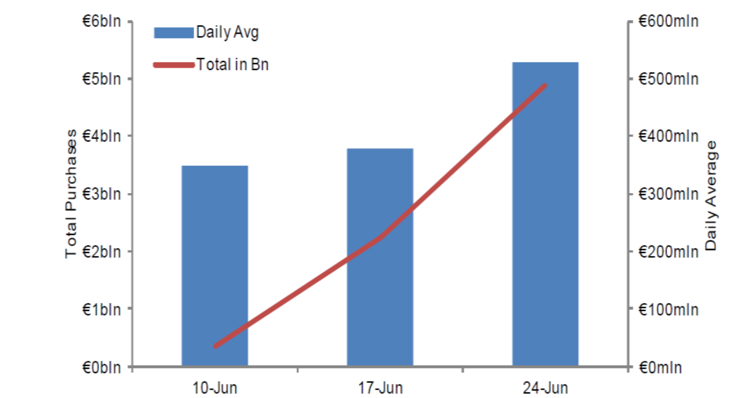
European and US spreads are trading in a close range



Source: Bloomberg, Robeco

ECB bond buying in June

Chart 1: Daily purchases increase this week



Source: SG Cross Asset Research/Credit

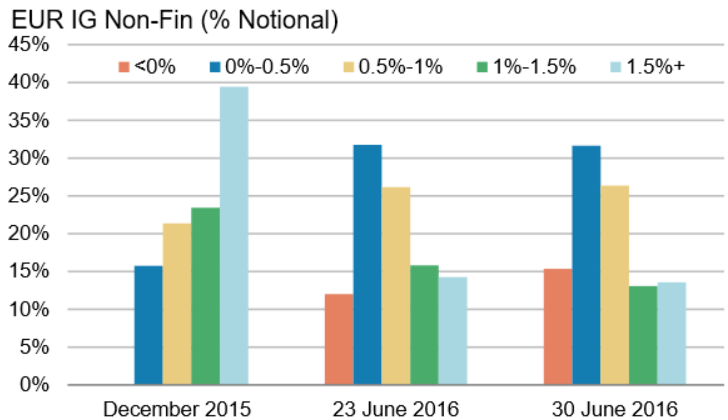
- Credit spreads widened sharply in the aftermath of the British referendum, but recovered with the same speed in the days afterwards. European spreads traded at 137 basis points by the end of June, but tightened further in the first days of July towards the pre-Brexit levels of mid-June (around 130 basis points). US credit spreads followed more or less the same path, but were less volatile.

- This spread development may suggest that the market doesn't care at all about the Brexit, but there are some factors that have an influence here. The overall spread may be tightening but when we dig a layer deeper, we see that core Northern European credits are tightening, while on the other hand, credit spreads in the peripheral countries are widening. Investors fear contagion following the rumors about the solvency of Italian banks. Some banks need extra governmental aid to solve the 'bad bank' problems in a decent way.

- Besides that, core European credits profit from the start of the CSPP program of the ECB. Its bond buying in the first days was more aggressive than expected. If these figures are extrapolated, the total amount of ECB purchases ends up at around EUR 8 billion, which is well above the general markets; expectation of EUR 5 billion. Some analysts suggest that the ECB is buying upfront so that it **>>**

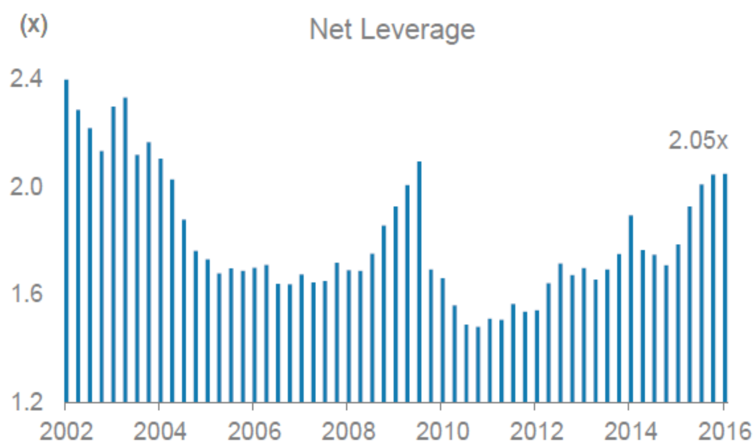
Investment Grade Credits (II)

The negative yielding bucket continues to increase



Note: EUR IG Non-Fin Index, Including Bonds With <1 Year To Maturity
Source: Markit, Bloomberg, Morgan Stanley Research

US credit yields are attractive along different buckets



- does not have to operate extensively during the summer lull when issuance is low and flows in the secondary markets are weak. Meanwhile, yields in European investment grade credits continue to decline, with a high percentage of bonds having a 'below zero' yield.

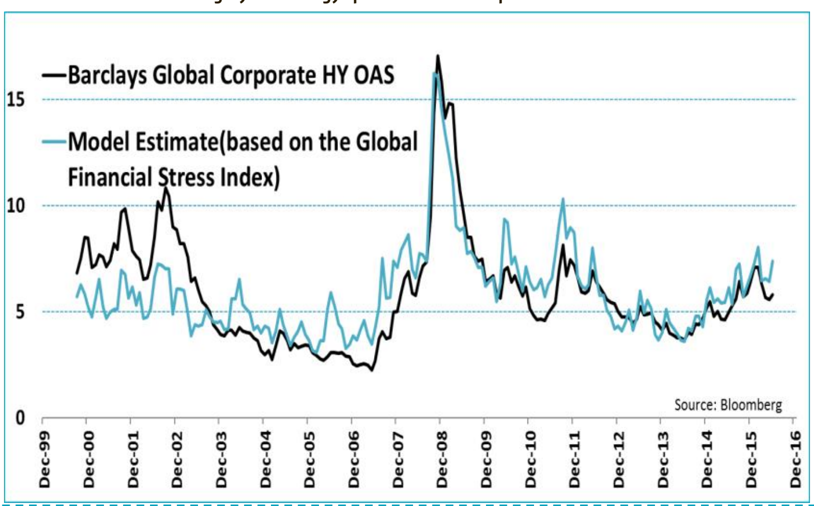
- In the US, a rate hike seems to be off the table for a while. As yields are generally higher there than in Europe, it might be interesting to buy US credits. However, the risks are increasing. Leverage is still rising and at relatively high levels. The state of the economy of the US is not that bad, but a disappointing development may cause a rise in defaults. Defaults are already rising in the high yield area. They are still relatively low in the investment grade credits segment, but rising as well. US credits aren't cheap and spreads are near their all time lows.

- We have an overweight position in European credits as the ECB will be in the market as the 'ultimate buyer'. We expect spreads to tighten further, paving the way for financials to profit from the search for yield later on. We expect spreads in Europe to tighten and therefore we prefer European credits over US credits, the 'ECB-buying bonus' being the main reason for this.

High Yield (I)

Global high yield spreads have fallen

US high yield energy spreads vs. the oil price



- Global high yield spreads widened towards the end of June after the UK referendum result. However, as a result of ever-lower government bond yields, global high yield did manage to realize a positive return. Not surprisingly, Europe underperformed due to the Brexit vote, resulting in a negative return over the past month.

- The referendum result has increased market uncertainty, which is reflected in high yield spreads. The graph on the bottom left shows that the Global Financials Stress Index has increased since the last week of June. Based on a simple regression model this stress index shows that spreads could widen a little further. Risk premiums have increased somewhat.

- We expect global growth to slow a bit, but do not see immediate recessions in the US or the Eurozone, which should bode well for high yield bonds. Obviously, the falling government bond yields also help the asset class as refinancing is relatively cheap. This offsets the increased leverage and deterioration of balance sheets in some part of the high yield universe. In addition, high yield companies have acted on the low rates, shifting the refinancing wall outwards.

Fixed Income

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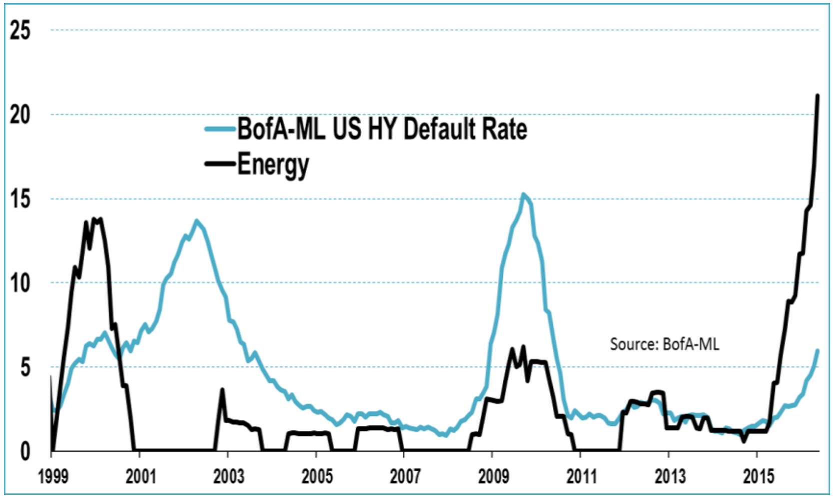
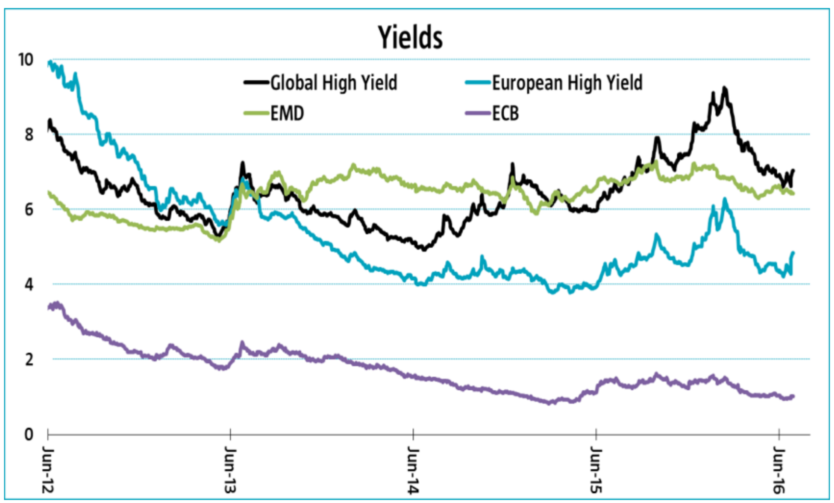
High Yield (II)

Defaults



Relative valuations



- High yield bonds defaults are concentrated in the US, where commodity companies, and energy companies in particular, are under severe pressure, even as oil prices have recovered. An important aspect of the energy-related default cycle - defaults have risen to over 20% - is that banks' willingness to lend to commodity companies has decreased. And since energy has a relative big weight in the US high yield index, overall defaults are also on the rise.

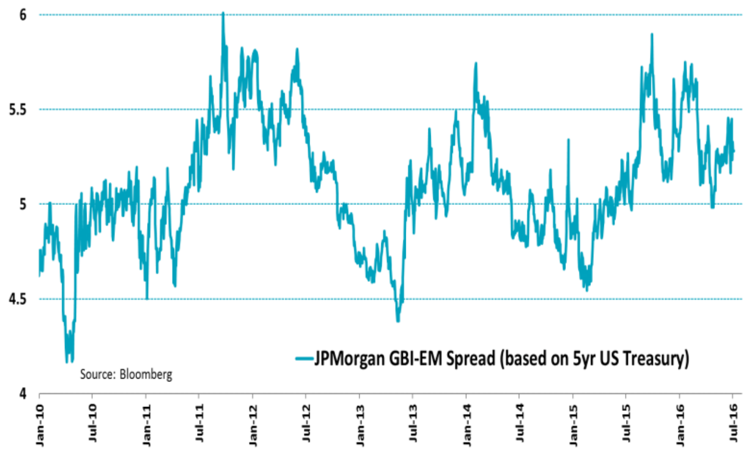
- Outside the US, however, things look much better. Defaults are still pretty rare; still well below 1% in Europe. They are expected to rise, but this is reflected in the average spread, which is way above the lows earlier in this cycle. The Brexit will surely push down GDP growth a bit, but unless it leads to outright political and economic chaos, we expect defaults to remain contained.

- Valuations of high yield bonds remain attractive, albeit much less so than a couple of months ago. High yield offers more value per unit of risk than emerging market debt and government bonds, which remain expensive, especially in Europe. We keep our small overweight in high yield, with a preference for Europe. We like European high yield over European equities, in which we are now short.

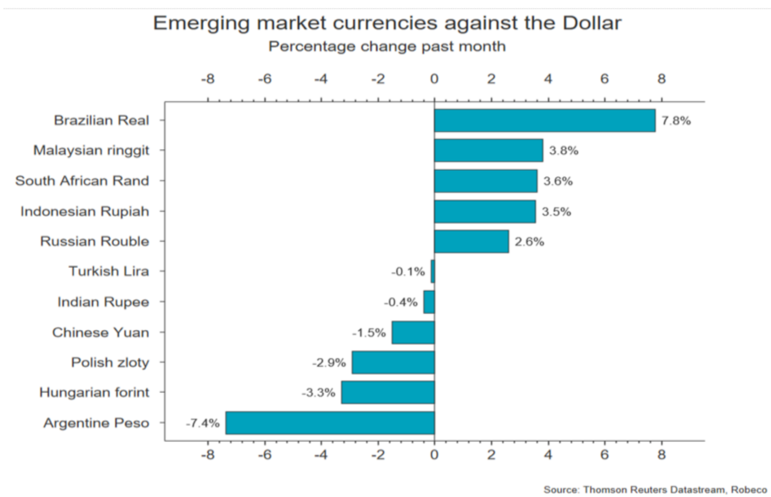
Fixed Income

Emerging Market Debt (I)

Emerging market debt spread based on the 5-year US Treasury yield



Emerging currencies vs. the US dollar



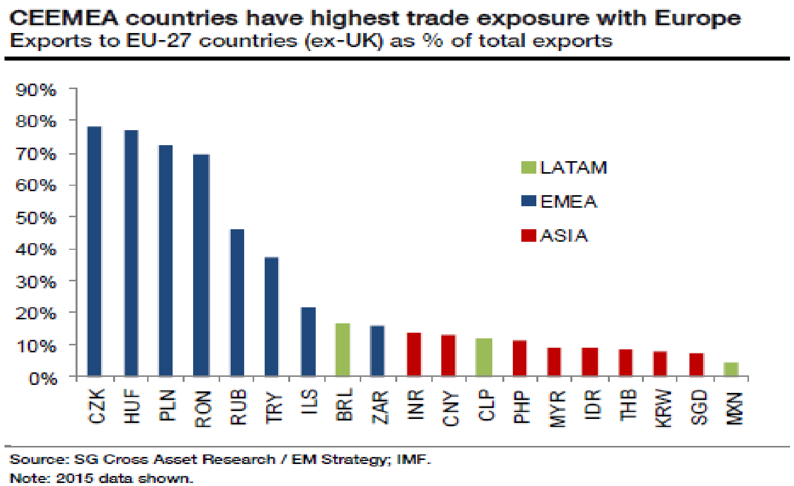
- June was a very strong month for emerging market debt. The asset class returned more than 5% in the month, which propelled it to the top of the list of best-performing asset classes. The spread was basically unchanged, but lower bond yields in developed markets and currency appreciation contributed to the big June return.

- On average, emerging currencies gained roughly 4% against the US dollar. But the chart at the bottom left reveals that differences within the emerging markets universe are massive. This neatly demonstrates the risk that comes with this asset class. That said, with everything that is going on in developed markets, emerging currency risk is currently comparable to that of developed markets.

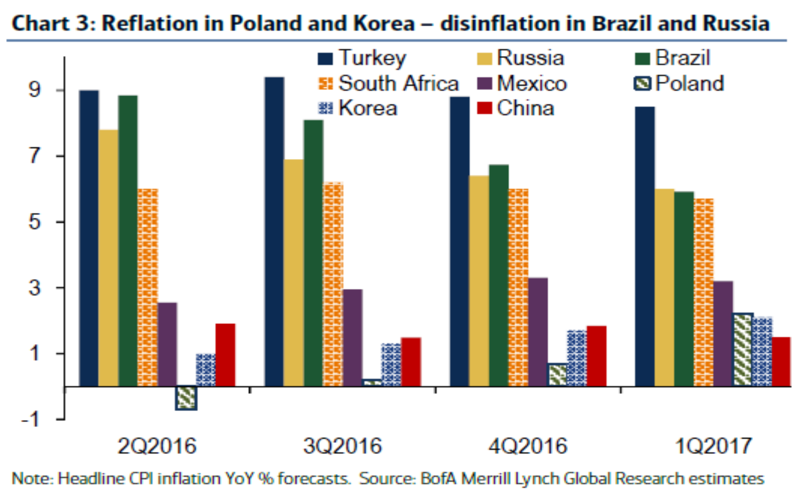
- Emerging currencies profited from a total capitulation on the Fed raising rates. No hike is now expected until at least 2018. This is a massive change from one or two months ago and has hit the value of the US dollar. Although investors got a bit carried away here, the chance of a Fed rate hike this year has clearly declined. That does not automatically imply a lower dollar going forward, however. We expect demand for the dollar to remain given the relatively high bond yields and the possible increase of risk aversion going forward.

Emerging Market Debt (II)

South Africa – Yield to Maturity



Yields of Emerging Market debt vs. High Yield



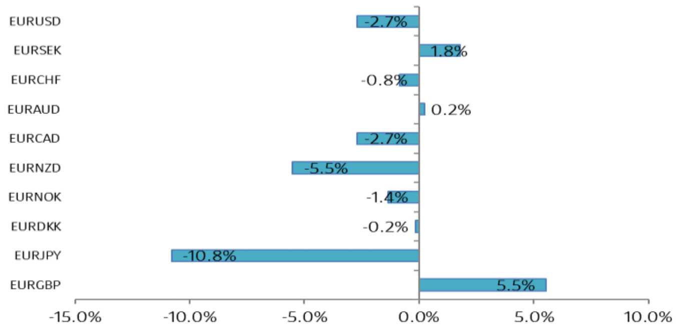
– A Brexit will impact the European emerging countries most. As the chart on the left shows, the European Union is by far the most important trading partner for countries like Hungary, Poland and Russia. Together, European emerging countries make up more than 30% of the Emerging Market Debt index, which is considerably more than in the MSCI Emerging Markets Index. That said, at this point a Brexit is more likely to hit equities than government debt.

– Massive liquidity provides room for emerging countries to lower rates. For Asian countries the 'quiet' weakening of the Chinese yuan pressures other governments to act. Indonesia has already lowered rates recently. On average the inflation outlook has improved, especially now that Europe and Japan are stuck in deflation. For some of the bigger countries, however, inflation risk is not of the table. Any renewed weakness will push inflation expectations higher.

– We remain neutral on emerging market debt. We see value in the yield to maturity that the asset class offers, especially when compared to the extreme levels of (negative) yields in Europe and Japan. But unexpected inflation disappointments and currency volatility are sources of caution for now.

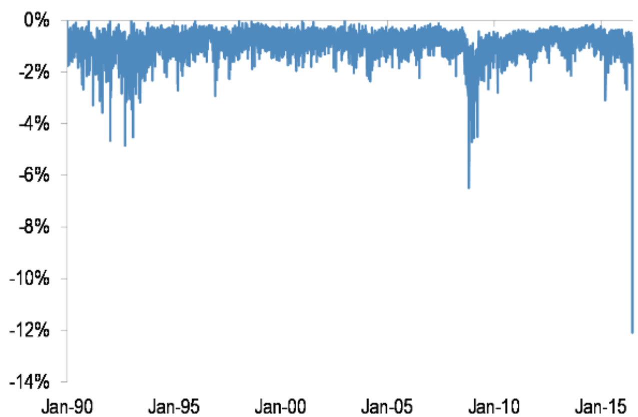
FX (I)

The yen appreciated massively after the Brexit vote



Source: Bloomberg

The British pound suffered its biggest intraday slide



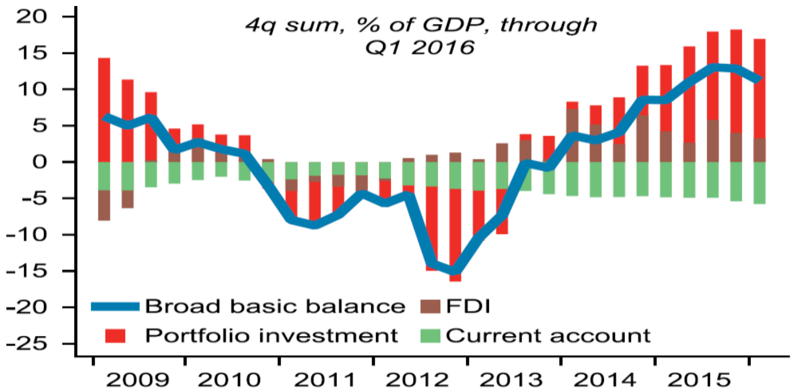
- In June, the UK voted to leave the EU. As was the case with many of our peers, this wasn't our base scenario. It would have been a lot more logical for the electorate to keep the status quo alive rather than take a leap into the unknown. Given that the final outcome was not the base scenario of most market participants, the reaction of financial markets was brutal. Given the proximity to the event it should be no surprise that European currencies in general suffered. The biggest gainer within the G10 was the yen.

- At the beginning of June we entered into a long position on sterling as we thought the market offered us a good risk/reward ratio to position for Bremain. As the day of reckoning came closer, we became less convinced that the Leave camp would win: it looked like a toss of the coin. This not only prompted us to close our long sterling position, but also to start thinking how we could shield our overall portfolio from a Brexit fallout if it should happen. Given that a Brexit impact would be mostly felt in the UK and Europe, we opted to underweight sterling and euros in favor of the US dollar.

- Given the political crisis that the UK suddenly finds itself in, it is currently completely unclear how, when (and according to some, even if) the political establishment is going to implement the will of the people.

FX (II)

The UK BBP is still positive but will FDI and portfolio flows remain after Brexit?

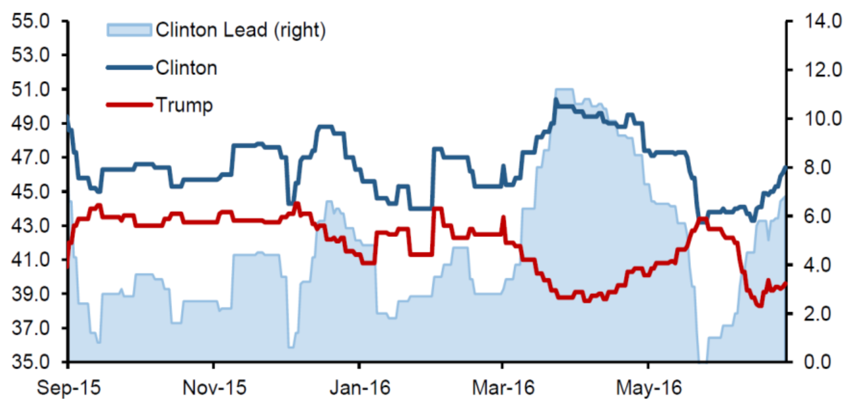


Clinton is leading in the US Presidential race

Source: BNP

Figure 8: Clinton lead in the poll is high; may be space for correction lower

Real Clear Politics average of voter preference for US presidential election (percentage points)



Source: Credit Suisse, Real Clear Politics

- What trade-off will be made between the degree of access to the single market and the degree of free movement of labor? As long as this is unclear, uncertainty will remain. This means that the only institution able to try and stabilize the situation will be the Bank of England, which we think will keep pressure on sterling. We are therefore comfortable holding on to our underweight position in sterling. While we definitely think it is positive that Europe so far has kept its ranks close, and actually has been airing a consistent message, it can't be ruled out that disintegration risk will start to resurface at some point. This risk will for now keep pressure on the euro.

- We chose to be overweight the US dollar as this has proven several times to be a great store value in times of crisis or massive uncertainty. The fact that the Fed is further down the monetary cycle than other major central banks also makes it an attractive currency. We do recognize that the same anti-establishment movement that is sweeping across Europe and led to the Brexit vote is also visible in the US (Trump and Sanders). While this is currently not a major risk for the dollar, it is something we will monitor closely. Even if Hillary Clinton wins the US Presidency, the risk of protectionism looms, given her election program.

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