



investment strategy

Investment

Strategy

17 November 2015

At its meeting on 12 November, the Global Investment Committee reduced risk by moving the strong overweight in equities to a less pronounced overweight. In the balanced profile-3 portfolio, this amounted to a reduction in equities of 5%. The proceeds were invested in bonds, an asset class which remains strongly underweight.

The 5% reduction in equities (profile 3) was taken first from emerging markets equities excluding Asia. To come to 5%, reductions were also taken in US and European equities. The final regional positioning results in an overweight in Europe, underweight in US and a neutral allocation to emerging markets, with a preference for emerging-markets Asia.

Bond positions were increased equally in the corporate segments of investment-grade and high-yield.

Overweight in equities is maintained, but lessened

Despite a continuing favourable environment for equities, including low interest rates and moderate economic growth, some challenges are expected. In terms of earnings, moderate economic growth will translate into moderate earnings growth. While there has been price-earnings expansion over the last five or so years, the majority of the rerating has already taken place. With equities having returned to their near-term highs, the decision was made to reduce risk by trimming the equity allocation.

Bond allocation increased, but remains strongly underweight

The proceeds from the sale of equities in the balanced profiles (2-5) was added to the bond allocation, which remains strongly underweight. The decision was made to increase the current allocation to corporate investment-grade and high-yield bonds, two of the few remaining bond segments offering yields above cash. In the defensive profile-1 portfolio,

the investment in corporate bonds was made from cash, given there is no equity position.

Corporate credits are favoured (in Europe, versus peripheral eurozone government bonds, for example) as they are believed to have more to gain from the ECB's monetary policy easing, low financing rates and the unfolding economic recovery. Low energy prices and a strong US dollar versus the euro are additional positive factors for European corporate credits.

High-yield bond valuations are also now attractive, as spreads widened on earlier fears about the global recovery. We prefer Europe over the US, because of the large exposure to energy companies in the US high-yield universe.

The current bond allocation reflects the general unattractiveness of bond markets and liquidity concerns. There are no allocations to core European government bonds. The government bond allocation consists completely of eurozone periphery sovereigns.

Within alternatives, real estate is added to most aggressive risk profile

No adjustments were made to the overweight commodities or hedge funds positions. Real estate remains underweight in general, with the exception of profile 6, which is comprised mainly of equities. Due to the equity dominance of risk profile 6, it offers a relatively low level of diversification compared to the balanced profiles (2 to 5). In profile 6, equities were reduced and exposure to real estate was added, which slightly reduces risk, as there is a lower correlation between real estate and equities. There is also now more diversification within the alternatives portion of profile 6, which also includes allocations to hedge funds and commodities.

The committee's view on real estate is turning more positive since the underweight position was taken across all profiles in

June 2015, which occurred when expectations of higher rates were prevalent. There have since been improvements seen in real estate demand. Real estate also provides a good alternative to bonds through its dividend yields. Interest-rate risk has also declined in Europe. European real estate is therefore more attractive than the US due to the divergence of central bank policies.

Moderate economic recovery to continue

ABN AMRO Group Economics expects the moderate global economic recovery to continue. The global growth outlook has been adjusted slightly upward, to 3.0% in 2015 and 3.5% in 2016, which is more optimistic than current market consensus. The pillars of growth are Europe and the US, supported by strong domestic demand.

Stabilisation is expected for emerging markets. Chinese policymakers are expected to be able to manage China's transition to a more services- and consumption-oriented domestic economy, with economic growth of 6.5% expected in 2016. Emerging markets exports are also expected to pick up. The commodities market is also expected to improve, as the balance between supply and demand shifts closer to

equilibrium, as lack of investment cuts supplies. The oil (WTI) price is expected to improve, with an average price of USD 60 per barrel forecast in 2016.

Global Investment Committee

Didier Duret, Chair

didier.duret@nl.abnamro.com

Figure 1: Asset allocation across risk profiles

	Profile 1			Profile 2			Profile 3			Profile 4			Profile 5			Profile 6		
	SAA	TAA	Δ	SAA	TAA	Δ	SAA	TAA	Δ	SAA	TAA	Δ	SAA	TAA	Δ	SAA	TAA	Δ
Money market	5	41	36	5	21	16	5	14	9	5	6	1	5	2	-3	5	0	-5
Bonds	90	51	-39	70	39	-31	55	30	-25	35	18	-17	15	11	-4	0	0	
Equities	0	0		15	22	7	30	38	8	50	58	8	70	75	5	85	83	-2
Alternatives	5	8	3	10	18	8	10	18	8	10	18	8	10	12	2	10	17	7
FoHF	5	8	3	5	11	6	5	11	6	5	11	6	5	8	3	5	8	3
Real Estate	0	0		3	0	-3	3	0	-3	3	0	-3	3	0	-3	3	5	2
Commodities	0	0		2	7	5	2	7	5	2	7	5	2	4	2	2	4	2
Total exposure	100	100	0	100	100	0	100	100	0	100	100	0	100	100	0	100	100	0

Legend

SAA is strategic asset allocation

TAA is tactical asset allocation

Δ is TAA minus SAA



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