MARKET INSIGHTS

2018 INVESTMENT OUTLOOK: MID-YEAR UPDATE

Pro-risk tilt remains, but becoming more balanced

JUNE 2018

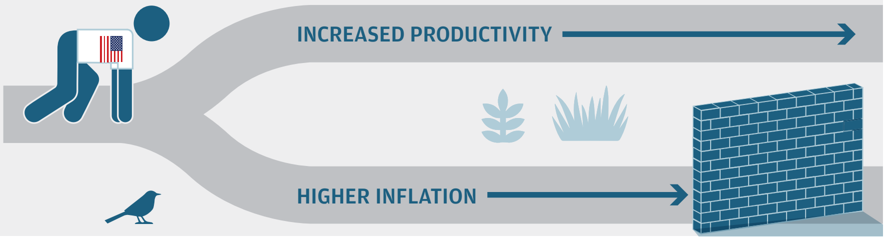
1 AN AGEING RECOVERY, BUT NOT YET INFIRM

All major economies are still growing above trend but the US has accelerated from the pack, which has pushed up the dollar exchange rate.

We expect some re-convergence although prospects of a trade war and higher oil prices are weighing on European activity

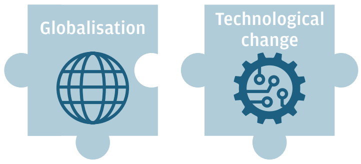
2 LATE-CYCLE PRODUCTIVITY COULD YET DELIVER UPSIDE RISK

The US labour market is now extremely tight. We need to see a recovery in productivity for the expansion to continue in the coming years.



3 THE MARKET IS INCREASINGLY NERVOUS OF HIGHER INFLATION AND INTEREST RATES

Concerns about the prospects for inflation leading to a more rapid tightening of Fed policy plagued markets in the first half of the year.



We expect technological change and global forces to keep inflation relatively benign.

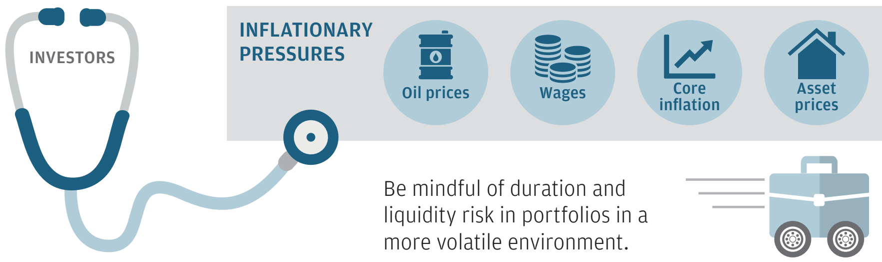
4 PRO-RISK TILT BUT MORE BALANCED

We believe the prospects for global corporate earnings remain strong and valuations are not obviously stretched.

But heightened geopolitical risk argues for a slightly more cautious approach and a smaller overweight to equities.

5 NIMBLE PORTFOLIOS WILL BE PREPARED FOR CONTINUED GOOD TIMES OR A TURNING TIDE

While the picture may look positive, investors will be wise to monitor inflationary pressures and central bank communications carefully for signs of change.



Be mindful of duration and liquidity risk in portfolios in a more volatile environment.

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