ALLOCATION PERSPECTIVE

Document intended for professional clients

Key takeaways

December 2017

- Global growth acceleration should continue into 2018 thanks to the passing of the US fiscal reform.
- The main risk to this bullish scenario is a spike in US long term bond yields due to the rebound in inflation, a more hawkish Fed and a ballooning fiscal deficit.
- Tensions on US rates could be compounded by the formulation of their QE exit strategies by the ECB and BoJ around mid-year.
- The subsequent rebound in the dollar (Fed hikes, higher LT rates) would be amplified by a potential global shortage of Eurodollars (Fed's quantitative tightening, HQLA demand, offshore fund repatriation by US corporates, rising T-bill issuance).
- Higher rates and dollar exchange rate would reveal the overvaluation of US assets (equity, real estate, HY credit) and would question the dynamic of wealth effect at the core of household consumption growth.
- The recession in the Chinese construction sector is underway. The dollar spike and falling Chinese demand will weigh on commodity prices and commodity-exporting emerging markets, even more so if they are importers of foreign capital (Latin America, South Africa).
- Euro area growth appears the most resilient in this environment, notably because the euro would depreciate in case of a risk-off episode, unlike the yen.
- But European and Japanese banks are the most exposed to the potential shortage of Eurodollars and bursting of housing bubbles in case of a shock on G10 long term interest rates (Canada, Australia, New Zealand, Sweden, Norway, UK).
- Still favor equities (euro area, Japan, Switzerland, emerging Asia) and credit (euro area only) versus sovereign bonds, cyclical commodities (metals) and cash. Preference for USD versus EUR, CHF, AUD.

Raphaël Gallardo
Multi-asset strategist
Investment and Client Solutions

Tactical views

GLOBAL	--	-	=	+	++
Equities				•○	
Fixed income		•○			
Money Market		○•			
EQUITIES	--	-	=	+	++
US			•○		
Europe				○•	
Japan				○•	
Asia ex Jap		•	○		
EM			•	○	
FIXED INCOME	--	-	=	+	++
Sovereign		•○			
Euro IG				•○	
Euro HY				•○	
EM Debt			•○		

○ : monthly views
• : views of the previous month

Editorial: the dollar and US tax reform

The US House of Representatives has eventually approved the latest version of a sweeping change to the US tax code, Trump administration's main legislative initiative and a massive "Christmas gift" for US tax payers. The tax overhaul represents $ 1,450 bn in tax cuts over the next 10 years, but it is also highly unequal, insufficiently funded and clearly not decided at the most convenient time.

In an economy running on full employment, these tax cuts should only have a limited effect on the economy in 2018-2019, and are in danger of merely serving to trigger higher inflation, push up the twin deficits (trade and budget) and accelerate the Fed's interest rate hikes, all of which could push the country into a recession. The Republican party's motivations behind this move is primarily electoral, aimed at keeping donors happy and notching up a legislative victory before the mid-terms. But beyond the domestic political aspects, the reform on the taxation of corporate profits generated abroad in itself will have major consequences for the major international financial balances in 2018.

The bill voted in Congress outline rules for retroactive taxes on all corporate profits generated by multinationals operating outside the US, and the amounts involved are substantial: the pile of cash built up is close to 3 trillion dollars, and would be taxed at between 7% and 14% (profits reinvested or hoarded), payable over a period of eight years. This should have a hefty impact on the currency markets as only half of these liquid assets are already invested in dollars, according to figures from the Congressional Research Service.

The tax amnesty on repatriation of internationally generated profits contributed to a strong surge in the dollar in 2005, and today's context would be similar, with a combination of capital repatriation and an acceleration in Fed rate hikes.

Furthermore, the move to a worldwide tax regime on corporate profits means that US companies will no longer derive benefits from relocating part of their dollar-denominated cash management. Dollars held by US multinationals in non-US banks will therefore be moved to the New York interbank market. This move will not involve the forex market, but the nature of these dollars will change as they move from Eurodollars, or off-shore dollars, to on-shore dollars. The difference is absolutely crucial when set into the context of a potential shortage of eurodollars in 2018.

The dollar plays a key role in the financing of world trade and the intermediation of international surplus savings. World trade growth, which has recovered to 5%, is creating increased dollar-denominated working capital requirements, particularly as value chains are fragmented (WCR increase with the square of the value chain length).

Large international banks' intermediation of world savings exposes their balance sheets to a structural currency mismatch as world surplus savings are primarily denominated in currencies from countries with positive current accounts (euro area, Switzerland, Japan, Northern Asia, Scandinavia, etc.), while high yield international assets are largely issued in dollars (emerging debt, US corporate bonds and S ABS, etc.). The banking heavyweights that intermediate these flows, primarily European and Japanese, need to hedge long dollar positions, which requires them to raise dollar-denominated debt. The increasing rarity of petrodollars in 2014-2015 (largely held in the form of eurodollar deposits), followed by the US money market fund reform in 2016 had already considerably reduced non-US banks' sources of dollar funding. The Fed's balance sheet pruning in 2018 ($420bn), the US Treasury's moves to rebuild its cash reserves and the de facto sterilization of part of the dollar monetary base in the shape of HQLA as part of Basel III (LCR) should combine to further heighten this shortage. The repatriation of multinationals' cash is poised to further impair the situation. The basis for cross-currency swaps could further widen to the extent that non-US banks would be forced to liquidate dollar-denominated assets, sometimes on illiquid markets.

So the Fed will be faced with a dilemma: repatriation of capital housed abroad will ease domestic financial conditions (debt paydown, share buybacks, investment in corporate bonds), with the risk of overheating the economy. If the Fed reacts by implementing a more restrictive policy, it will worsen the short squeeze on the dollar in the rest of the world. 2018 will tell us whether the Fed will be as attentive to the international situation under the leadership of Jerome Powell as it was under Janet Yellen (2011, 2015).

Asset allocation: *American vertigo*

November's leading indicators show a fresh **short-term acceleration in the world economy** beyond the 4% mark. This growth pace is well above potential (3.5%) and should lead to **renewed inflation** and validate **the tougher stance on monetary** policy across most developed markets. The economists' consensus is for a gradual normalization in yield curves in the G7 under the cautious leadership of central banks. Against this backdrop, our **asset allocation** remains **resolutely offensive**, but includes some selective plays reflecting the highest risks (overvalued markets) and our doubts on the likelihood of a soft landing for global monetary expansion.

It is worth remembering that the strong and synchronized growth we are witnessing worldwide is the result of a successful adjustment by emerging markets after large devaluations in 2014-2015 (external adjustment, then disinflation and interest rate cuts, recovery in consumer spending), Chinese banking stimulus in 2015, reasonable oil prices (US shale) and lastly, monetary abundance from Europe and Japan, which is spilling over into the rest of the world via capital outflows by their institutional investors. Yellen's Fed has admittedly implemented some faint-hearted monetary tightening, but capital inflows have fueled euphoria on US asset markets (equities, High Yield credit, real estate) to the extent that this has cancelled out the effects of key rate hikes on financial conditions. The strength of the global recovery automatically means a turnaround in all these factors.

The emergence of bubbles (real estate, bonds), which threaten social stability, has already forced **China** to put the brakes on bank liquidity. The consequences of this shockwave have rippled out across the entire **Pacific Ring of Fire** as we expected, with a contraction in the building sector in China, a decline in commodities prices (coal, iron ore, industrial metals), a shift in real estate bubbles in Australia, New Zealand, Canada and the US West coast, and a hit on exports in Peru and Chile. A number of large emergings that seemed to be dragging themselves out of their rut in 2017 could be hit by another recessionary shock due to the drop in commodities prices (Brazil, Indonesia, South Africa). Oil will also act as a recessionary factor for developed countries in 2018 if prices remain above $60 as OPEC hopes.

Lastly, excessive monetary stimulus is almost spent out in Europe and Japan. In the euro area, the ECB is coming close to the issue share limits it set itself to avoid accusations of monetization of public debt. Tapering of the PSPP should come to an end in late 2018 in our view. In Japan, the BoJ's monetary artillery (qualitative and quantitative easing, negative interest rates and yield curve control) is running up against technical limitations (drying-up of JGB liquidity, lack of equity ETF), the virtual insolvency of regional banks (flat yield curve), the risk of bubbles (commercial real estate) and the likely return to positive core inflation. We expect the 10-year yield target to be raised from 0 to 0.15% in 1H, once US tax reform has been ratified. This will involve a fresh slowdown in JGB purchases by the issuing institution. Synchronized tapering by both the BoJ and the ECB should resteepen the yield curves in the euro area and Japan, with a knock-on effect for the US 10-year yield, as the G3 bond markets are inter-connected.

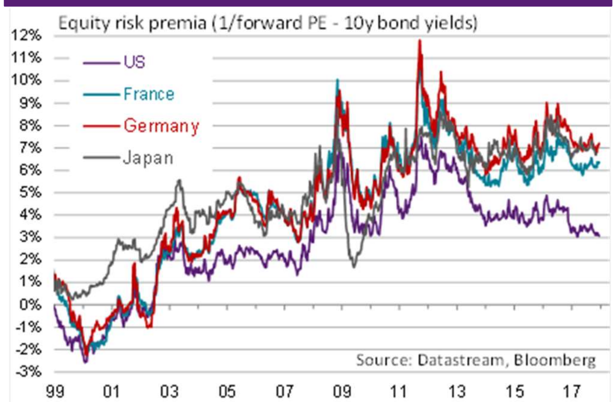
In the US, the stimulus provided by tax reform is set to be drowned out by a rise in inflation, a soaring trade deficit, rate hikes from the Fed and the surge in the dollar. The rise in long-term rates triggered by tapering in Japan and Europe will dent valuations for both equities and real estate. The shock on long-term rates should only be temporary as domestic long-term investors (insurers and pension funds) have already changed their marginal inflows away from equities and into bonds (equity weighting target reached as a result of market rally), and the increase in mortgage rates will soon dry up the source of fixed-rate MBS issues. The combination of high rates and rising budget deficit will particularly accentuate the shortage of dollar-denominated liquidity across the rest of the world, which is already dented by Basel III, with the risk of triggering a short squeeze on emerging markets' external debt. This US policy mix profile harks back to the Reagan/Volcker era, after which the Third World debt crisis followed hot on the heels.

We maintain our **overweight stance on risky assets** via equities in the euro area, Japan and emerging Asia, along with European credit (IG and HY) and European peripheral debt, but maintain our underweight position on assets exposed to Chinese real estate risk and the dollar's rise (emerging debt, Latin-American equities, industrial metals). Our currency positions (long USD vs. EUR, CHF, AUD) are a telling reflection of our view of a world where the dollar's exchange rate has superseded the VIX as the synthetic risk aversion indicator.

Equities: Favor euro area, Japan and emerging Asia

- In light of neutral valuations and a cloud-free macroeconomic outlook, our equity allocation still focuses on the **euro area** and **Japan**. Stretched valuations and a restrictive phase for monetary policy prompt caution in the **US.** We though maintain a neutral stance on the US market in light of its defensive and systemic profile along with fiscal policy stimulus (tax reform) in the short term.
- **European** PMI indices ended the year on a high. Political risk is dwindling in **Spain** as Catalan independence parties announced a change in strategy ahead of the elections in December. Investors seem unconcerned by the prospects of **Italy's** failure to vote in a parliamentary majority in March. Recent patterns (Spain in 2016, Netherlands in 1H17, Germany currently) seem to indicate that an absent government is no cause for concern as long as economic growth remains robust. The most likely scenario remains a vast, albeit fragile, coalition of pro-European parties, but the markets are unlikely to punish Italy as long as legislation to clean up the banking sector remains in place (budget voted for recapitalizations and liquidity facilities, legal framework for the sale of NPL and mergers of *popolare* banks) and the PSPP keeps Italian rates low.
- In **Japan**, the Tankan survey flagship index hit its highest since 2007. Household confidence continues to improve, despite geopolitical tensions in the region with North Korea, and this points to ongoing steady consumption growth. Meanwhile, the solid world investment cycle continues to drive exports.
- In the euro area, as well as Japan, wage pressure should however force **central banks** to give greater details on the content and timing of their **exit strategies** towards the middle of the year. In **Japan**, higher labor market participation, immigration and the development of part-time work have glossed over job market tension for a long time. However, the acceleration in part-time wages indicates that the number of workers waiting in the wings is almost depleted, which will force companies to raise salaries. We expect a rise in core inflation towards 0.5% in 1H, which should combine with fears of a commercial real estate bubble and concerns on regional banks' solvency to prompt the BoJ to raise its 10-year yield target by 10-15bps. The BoJ will proceed with caution as it does not wish to trigger a sharp surge in the yen, but the weakening correlation between the yen and the equity markets is a moderating factor for this risk on the Topix. Meanwhile, in the **euro area**, core inflation is poised to gather speed to 1.5% in 1H. Draghi is coming under pressure from the Nordic countries and will have to agree to a fairly abrupt end to PSPP in 4Q 2018, with the resulting severe repricing of the German yield curve (Bund at 0.6%). The equity markets should be able to take it on the chin given the extensive cushion created by the equity risk premium over bonds (from 6% to 7% on the CAC and the DAX). In both cases, the positive currency impact should be cancelled out by factors driving the dollar as outlined on the previous page. However, the yen remains a sound hedge on world cycle risk.

Attractive relative valuations in Japan and the euro area



Tactical views

Equities	--	-	=	+	++
Developed Markets					
US			○●		
Europe				●○	
Japan				●○	
Asia ex Jap			●○		
Emerging Markets					
Asia				●○	
Europe			○●		
LatAm		○●			

○ : monthly views

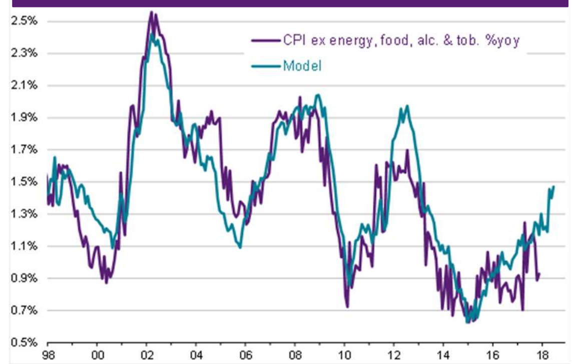
● : views of the previous month

- We mitigate our overall overweight on the euro area (overweight equities and IG+HY credit) with an overweight of **Switzerland** vs. the **UK**. The Swiss market boasts a defensive profile and will benefit from a weaker Swiss franc to the euro. Conversely, the UK market has a high concentration of dollar-exposed cyclical stocks (materials), while political uncertainty (Brexit, early election) is bad news for banking stocks.
- We maintain our overweight stance on **emerging Asia** on the back of strong consumer spending in China, an expected acceleration in the **Indian economy** and ongoing positive prospects for the semiconductor cycle (**Korea, Taiwan**). We overweight **Russia**, which reaps the benefits of undemanding valuations, rising oil prices and the positive effects of interest rate cuts and fiscal easing on consumption ahead of the presidential elections in March next year. We still underweight **Latin America:** the recovery in the Brazilian economy is fragile in our opinion (services PMI has just moved back into recessionary territory) and uncertainty on NAFTA is hampering investment in Mexico, while political risk should rear its head again next year ahead of presidential elections in these two countries.

Bonds: dangerous normalization

- Just like every year since 2014, the consensus of economists' 12-month forecasts expects a normalization in US long-term rates towards the 3% mark. And just like every year, forecasts will probably be downgraded again throughout 2018, although prevailing economic theory is incapable of providing any insight into this failure to normalize the yield curve in an economy running on full employment. Beyond the usual economic ups and downs, our assessment of the inter-temporal imbalance in the US economy is that the yield curve cannot normalize towards its traditional equilibrium points without pushing the system into a phase of liquidation of the excess capital inherited from the crises of 2000 and 2008. Contrary to some commentators' claims, a flattening of the US yield curve is not a leading indicator of a forthcoming recession, but rather the automatic reaction by this habitual stabilizer mechanism to avoid one. Despite Congress passing a tax reform bill that will increase deficits against a backdrop of full employment, we think that the curve will have to flatten over a 12 month-horizon to ward off the recessionary risks caused by rising inflation, increasing short-term rates and a surging dollar.
- Admittedly in the short term, everything seems to point towards higher bond yields. The tax reform program voted by Congress involves a series of massive unfinanced tax cuts. In other words, the Republicans are staging an electoral hold-up ahead of the forthcoming mid-terms. The budget deficit should still increase by around 1% GDP each year, from a starting point of 3.8%. The Republicans' posturing is particularly questionable when we consider that the primary deficit (excluding interest) increased by 1% GDP over the past year, and at the cycle peak to boot. Stimulation of the real economy, even if it is restricted to 0.5% GDP next year (the multiplier effect of tax cuts is low, particularly when households already save little and investment is easily financed) should bolster inflation against a backdrop of full employment, forcing the Fed to take a more aggressive stance. Meanwhile, the market will have to deal with the increase in public issues at a time when the Fed is putting a stop to its reinvestments. Lastly, the US market could be infected by the upward repricing on German and Japanese yields when the BoJ and the ECB outline their strategies to end QE (probably in 2Q).
- However our scenario is for this rise in long-term rates to 2.8-3.0% to be only temporary as it would destroy household part of the purchasing power on the real estate and automotive markets, push the high yield credit market and the leveraged loans segment into a painful correction (balance sheet deterioration) in a context of stretched liquidity (disproportionate presence of ETF and mutual funds), with the risk of a spread to the high yield emerging corporate debt market, which itself is hit by the stronger dollar. The equity market would also be affected by the decline in M&A and share buybacks (which are financed using credit) and the de-rating of growth sectors (including the Nasdaq). So a move for long-term rates towards their so-called equilibrium value would destroy wealth effects (housing, equities) and trigger a painful repricing of corporate credit risk. Suffice to say, long-term rates would automatically return to their initial value in view of the collapse in the supply of duration on the bond market (corporate credit, MBS and ABS across the board). We maintain our **tactical neutral stance** on **US long-term rates**.
- The range of debt eligible for QE is evaporating like the dew, and we maintain our **underweight position on euro area** sovereign debt, but sharply cut back underexposure in duration via our **overexposure to European credit** (the CSPP should continue longer than the PSPP) and **peripheral debt** (easing of tensions on Catalan independence).

Rebound in core inflation in the euro zone



Source: Datastream

Tactical views

Fixed income	--	-	=	+	++
Sovereign bonds					
Euro Core		●○			
Euro Periph			●	○	
UK			●○		
US			●○		
Japan			●○		
Inflation			●○		
Credit					
Euro IG			●	○	
US IG			●○		
€ High Yield				●○	
$ High Yield			●○		
EM Debt			●○		

○ : monthly views
● : views of the previous month

Commodities: OPEC in headlong rush

- We maintain our underweight opinion on **industrial metals** due to our negative scenario on the Chinese building sector. Home loan take-up and housing sales have been falling since 3Q in China and pressure on the 5-10 year swap rate suggests that this trend is poised to continue. The PBOC will be forced to follow the Fed's monetary tightening trend if it is to avoid renewed capital outflows. Lastly, the strong dollar will drag down industrial metals prices. Copper looks especially exposed as it is highly correlated with the world construction sector, which could be hit by a number of bubbles bursting in Canada, Australia, New Zealand, Sweden and Norway. Stock on the remain high (Chicago, London and Shanghai) and hedge funds' positions are still long on the Comex and the LME.

- **Oil** prices were propped up by the extension of the OPEC+ agreement to restrict production, along with the temporary closure of a British pipeline in the North Sea (400,000 b/d). As expected and pre-announced by OPEC ministers, oil-producing countries that met in Vienna decided to extend the oil production cut until December 2018. Extending the agreement by nine months is in itself an admission of failure after the latest summit decided to bring the agreement to an end in March 2018, by which time the world market was supposed to have made it back on an even keel. However, the IEA's mid-December report expects the market to maintain a production surplus throughout the first half of the year: demand growth was revised down to 1.3m b/d, while non-OPEC production is to rise by 1.5m b/d over the full year. The upgrade to non-OPEC supply is a result of optimism on the latest statistics from the Permian Basin and other US shale plays. The number of horizontal derricks is rising, but the soaring number of drilling permits in the Permian Basin and the Rockies (+50% yoy) is really the reason behind this fresh boom, while CEOS of independent oil producers keep insisting that they are focusing on profitability and not volumes.

Rebound in drilling in the US

Source: Datastream

Tactical views

Commodities	--	-	=	+	++
Oil			●○		
Industrial metals		○●			
Gold				○●	

○ : monthly views
● : views of the previous month

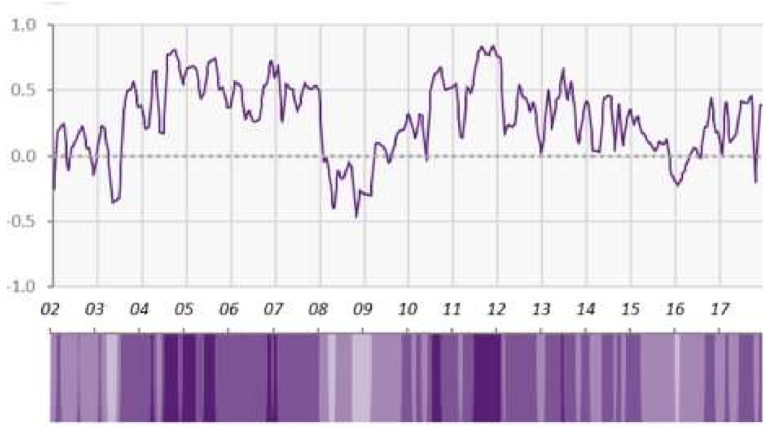
- The sharp rise in long speculative positions on the Nymex is often seen as a sign of hedge funds' optimism on oil prices. But these positions are in fact merely a reflection of swap dealers' short futures positions to hedge positions by US frackers. So the transposition of the 1-3 year portion of the WTI forward curve above $50 (despite moving to backwardation) enabled producers to hedge most of their 2018 production and lock in profitability on marginal fields where breakevens range from $27/bbl (East Eagle Ford) to $52/bbl (Denver-Julesburg Basin). Doubts are admittedly beginning to emerge on the profitability of marginal fields in the most drilled regions, but for now, after a boom in equity issuance in 2016, frackers continue to have substantial access to the high yield credit market (sector spread stands at 340bps, its lowest this year).

- Frackers are poised to continue raising production for such times as the bubble on US High Yield persists. OPEC seems to have waved the white flag in the war against shale oil: in its latest projections, it expects a rise in US production of 60% in five years (to 8m b/d in 2022). After some risky budgetary efforts in Saudi Arabia (gasoline prices will rise by 80% in 2018), the kingdom will need oil to trade at $70 if it is to balance its budget – at that price, the Texas Tea Party will keep on going. In the short term, the country is triumphantly boasting its strategy, as the IPO for Saudi Aramco is slated for next year. Some members of the cartel that are running into a potential liquidity crisis (Angola, Algeria), share Saudi Arabia's short-term approach, but the same cannot be said of Russia, which remains the key partner in the agreement. Russian private companies have made no secret of their aversion to a fresh production cut agreement, and Putin seems to have gained a concession that the agreement be revised in June. In the meantime, Putin could rule in favor of Rosneft and Lukoil, particularly as the presidential election (March) will be over and the Syrian situation will have less of an impact on the Russian budget. We therefore expect the production reduction agreement to collapse during the year, which would push oil prices down sharply. In the short term, we maintain our tactical neutral position given the disruptions to supply from the Forties field pipeline closure.

- We maintain a slight overexposure on **gold** to hedge both geopolitical and cyclical risks (correlation with US long rates). In the short term, gold should also benefit from the recovery in jewelry demand in India.

Quantitative Indicators

ECONOMIC SITUATION

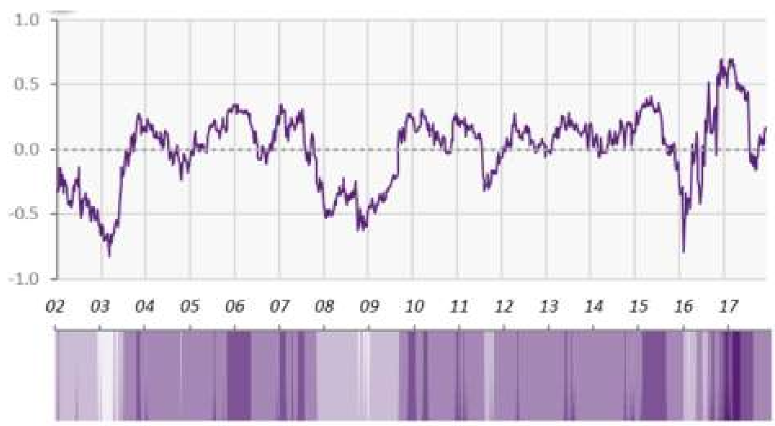


Poor 1 2 3 4 5 Good

This continuous indicator, which stands between -1 and +1, allows us to assess the world economic outlook. It is based on the level and/or momentum of a range of macroeconomic data (growth, inflation, valuation, earnings).

▶ ***The higher this indicator, the more we favor risky assets.***

MARKET TRENDS

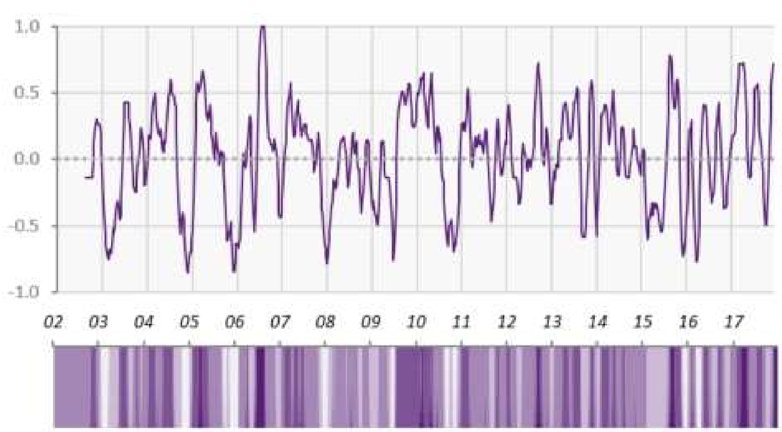


Downtrend 1 2 3 4 5 Uptrend

This continuous indicator, which stands between -1 and +1, reflects medium-term momentum on the equity markets relative to the fixed income markets. It is based on moving averages of variable length, defined on the basis of volatility.

▶ ***If the indicator is positive, we prefer risky assets.***

RISK APPETITE

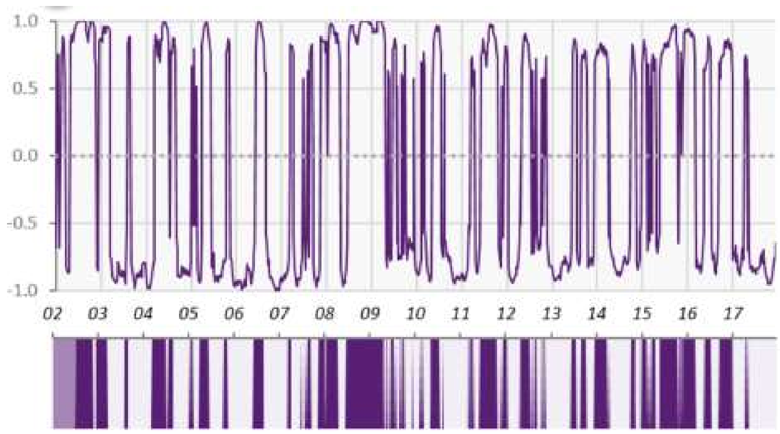


Low 1 2 3 4 5 High

This continuous indicator, which stands between -1 and +1, shows the extent to which various market players are looking for risk in the short term. It is based on an analysis of the level of risk (measured by volatility) and how it is remunerated by the market (measured by premiums or spreads).

▶ ***The higher this indicator, the more we favor risky assets.***

FLOW

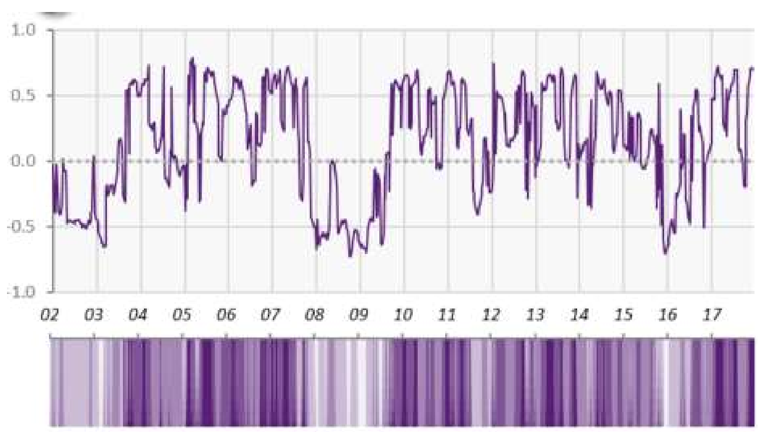


Outflow 1 2 3 4 5 Inflow

This flow indicator measures the investor sentiment for equities, bonds and money markets, calculated using investor flows (data from EPFR) and volumes. The indicator is continuous and lies between -1 and 1.

▶ ***How to interpret this indicator: When the indicator enters into positive territory, we favor risk assets***

AGGREGATED INDICATOR



Risk OFF 1 2 3 4 5 Risk ON

Our proprietary aggregated indicator is a measure of the equiweighted average of our 4 signals: Economic Outlook, Market Trend, Risk Tolerance and Flow. The indicator is continuous and lies between -1 and 1.

▶ ***How to interpret this indicator: When the indicator enters into positive territory, we favor risk assets***

Model portfolio

Asset classes	Benchmark	Current portfolio	Deviation/ benchmark	Change/ previous month
Cash	**10.0%**	**2.0%**	-8.0%	↓
Eonia	10.0%	2.0%	-8.0%	↓
EUR / USD	-	-5.0%	-5.0%	
USD / CHF	-	2.5%	2.5%	
EUR / AUD	-	2.5%	2.5%	
Governement bonds	**40.0%**	**34.0%**	-6.0%	↑
Euro	32.0%	25.0%	-7.0%	
Euro Inflation	4.0%	-	-4.0%	
US	4.0%	4.0%		
Gilt	-	-		
Spain	-	2.0%	2.0%	↑
Italy	-	3.0%	3.0%	↑
Spreads	**15.0%**	**23.0%**	8.0%	
Euro Credit	15.0%	17.0%	2.0%	
Euro High Yield	-	4.0%	4.0%	
US High Yield	-	-		
CB Euro	-	2.0%	2.0%	
Emerging bonds	**-**	**-**		
EMD $	-	-		
Developed equities	**20.0%**	**24.5%**	4.5%	↑
EMU	2.0%	5.5%	3.5%	
Europe ex-EMU	3.0%	1.0%	-2.0%	
North America	12.0%	10.0%	-2.0%	
Japan	2.0%	4.0%	2.0%	↓
Pacific ex-Japan	1.0%	1.0%		
Switzerland	-	1.0%	1.0%	↑
Euro SmCap	-	1.0%	1.0%	
SmCap-US	-	1.0%	1.0%	↑
NASDAQ	-	1.0%	1.0%	↑
Emerging equities	**10.0%**	**10.5%**	0.5%	↑
Emerging Asia	7.0%	8.5%	1.5%	↓
Latam	1.5%	0.5%	-1.0%	
EMEA	1.5%	0.5%	-1.0%	
Russia	-	1.0%	1.0%	↑
Commodities	**5.0%**	**5.0%**		
Energy	2.5%	2.5%		
Industrial Metals	1.3%	0.3%	-1.0%	
Precious Metals	1.3%	2.3%	1.0%	
	100.0%	100.0%	-	-

Contributors

Coordination by the multi-asset allocation department: the Investment and Client Solutions division of Natixis Asset Management

Franck Nicolas – Head of Investment and Client Solutions

Raphael Gallardo – Multi-asset strategist - Investment and Client Solutions

Written on December 18, 2017

Click here to view the Natixis Asset Management financial glossary

Natixis Asset Management

Limited liability company - Share capital €50,434,604.76
Regulated by AMF under no. GP 90-009 RCS Paris n°329 450 738
Registered Office: 21 quai d'Austerlitz – 75634 Paris Cedex 13 - Tel. +33 1 78 40 80 00
This document is intended for professional clients only.

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

In the E.U. (outside of the UK): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. France: Natixis Investment Managers Distribution (n.509 471 173 RCS Paris). Registered office: 21 quai d'Austerlitz, 75013 Paris. Italy: Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via Larga, 2 - 20122, Milan, Italy. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. Netherlands: Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: World Trade Center Amsterdam, Strawinskylaan 1259, D-Tower, Floor 12, 1077 XX Amsterdam, the Netherlands. Sweden: Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Spain: Natixis Investment Managers, Sucursal en España. Registered office: Torre Colon II - Plaza Colon, 2 - 28046 Madrid, Spain.

In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the U.K.: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258). This material is intended to be communicated to and/or directed at persons (1) in the United Kingdom, and should not to be regarded as an offer to buy or sell, or the solicitation of any offer to buy or sell securities in any other jurisdiction than the United Kingdom; and (2) who are authorised under the Financial Services and Markets Act 2000 (FSMA 2000); or are high net worth businesses with called up share capital or net assets of at least £5 million or in the case of a trust assets of at least £10 million; or any other person to whom the material may otherwise lawfully be distributed in accordance with the FSMA 2000 (Financial Promotion) Order 2005 or the FSMA 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "Intended Recipients"). The fund, services or opinions referred to in this material are only available to the Intended Recipients and this material must not be relied nor acted upon by any other persons. Registered Office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East, a branch of Natixis Investment Managers UK Limited, which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients as defined by the DFSA. Registered office: Office 603 - Level 6, Currency House Tower 2, PO Box 118257, DIFC, Dubai, United Arab Emirates.

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C . Registered address: 16F-1, No. 76, Section

2, Tun Hwa South Road, Taipei, Taiwan, Da-An District, 106 (Ruentex Financial Building I), R.O.C., license number 2012 FSC SICE No. 039, Tel. +886 2 2784 5777.

In Singapore: Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Natixis Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 10 Collyer Quay, #14-07/08 Ocean Financial Centre, Singapore 049315.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only .

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A.

In Chile: Esta oferta privada se inicia el día de la fecha de la presente comunicación. La presente oferta se acoge a la Norma de Carácter General N° 336 de la Superintendencia de Valores y Seguros de Chile. La presente oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Superintendencia de Valores y Seguros, por lo que los valores sobre los cuales ésta versa, no están sujetos a su fiscalización. Que por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de estos valores. Estos valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente.

In Uruguay: Provided by Natixis Investment Mangers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, oficina 102B, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Mexico: Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores). Any use of the expression or reference contained herein to “Investment Managers” is made to Natixis Investment Managers and/or any of the investment management subsidiaries of Natixis Investment Managers, which are also not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as investment managers.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance.
Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.