

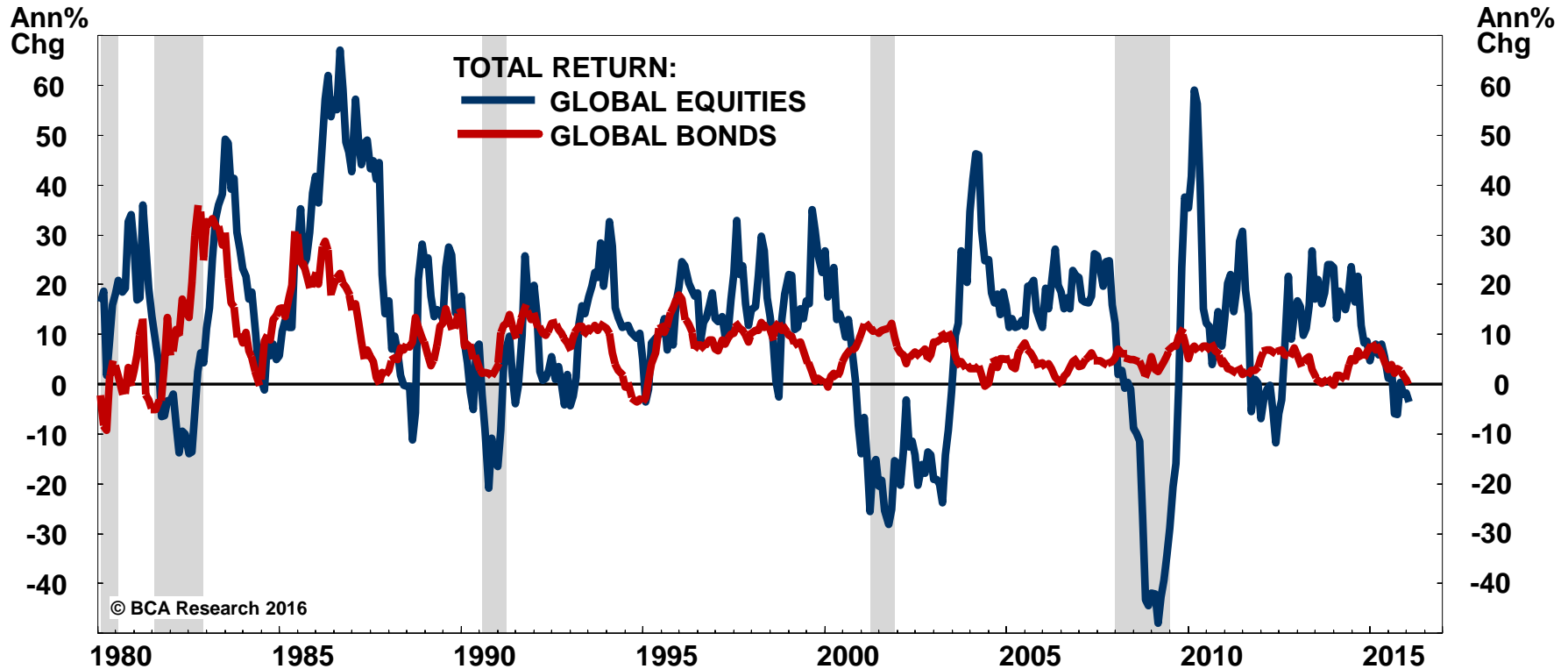
How To Find Return In A Stagnant World

Garry Evans
Managing Editor

Summary

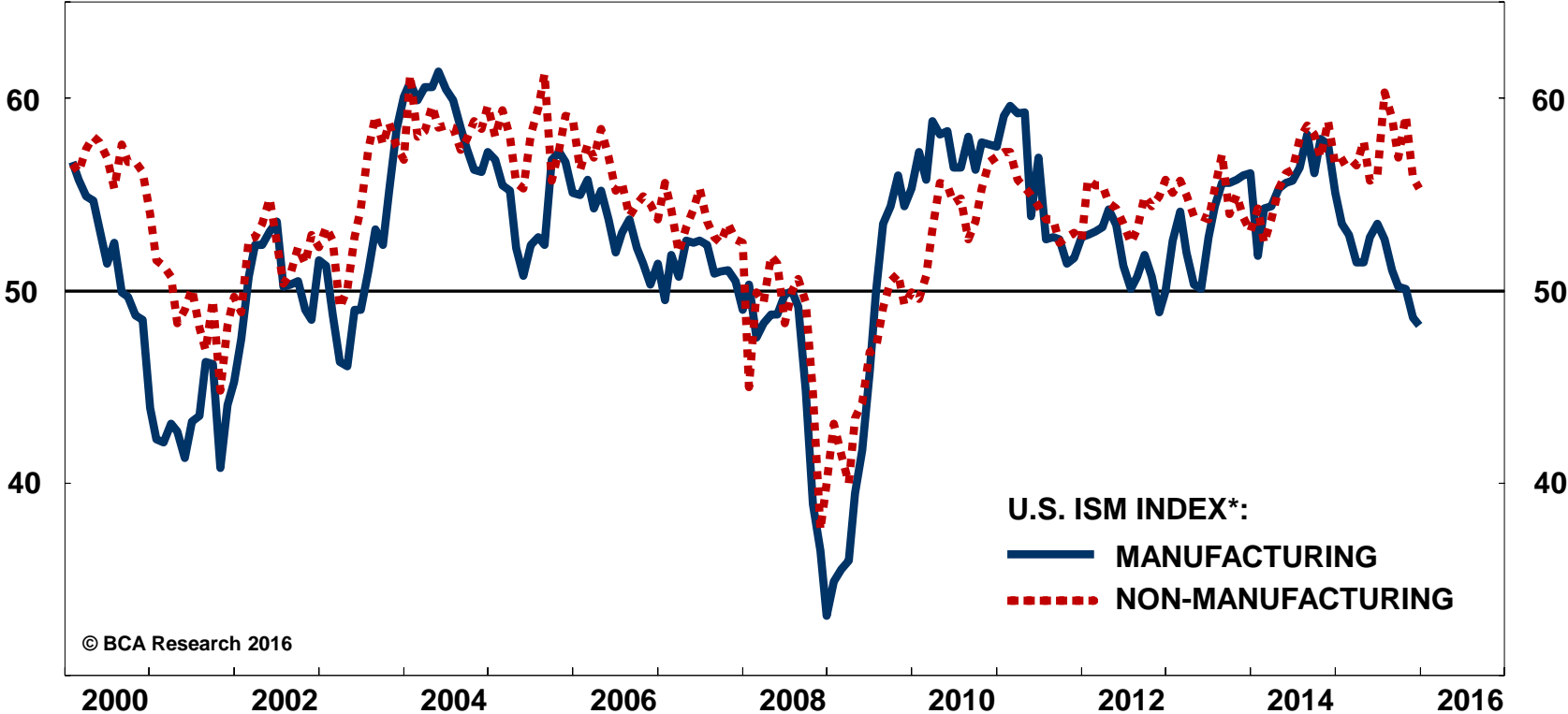
- 1. Outlook for the global economy and investment asset over the next 12 months**
 - › Weak growth, but no recession. Poor returns from most asset classes.
- 2. Put that view in a longer term context**
 - › Zero (even negative) interest rates, Fed raising rates only after six years of expansion.
- 3. How to make money (or at least avoid losing money)**
 - › Be cautious. But there is risk in not taking risk

Low Returns Everywhere



* SOURCE: MSCI INC (SEE COPYRIGHT DECLARATION).
** SOURCE: BARCLAYS.
SHADING DENOTES NBER DESIGNATED RECESSIONS.

Manufacturing Versus Services

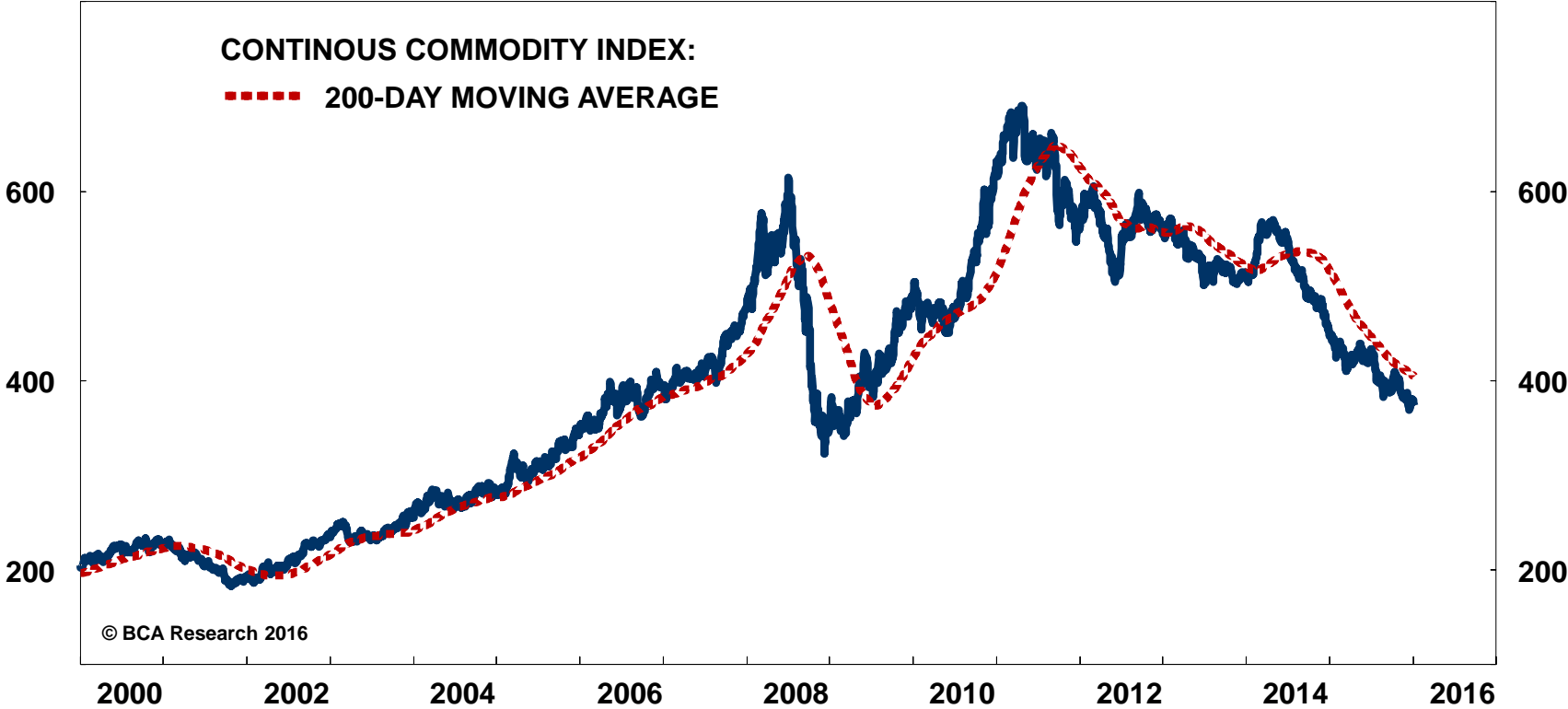


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U.S. ISM INDEX*:
— MANUFACTURING
- - - NON-MANUFACTURING

* INSTITUTE FOR SUPPLY MANAGEMENT.

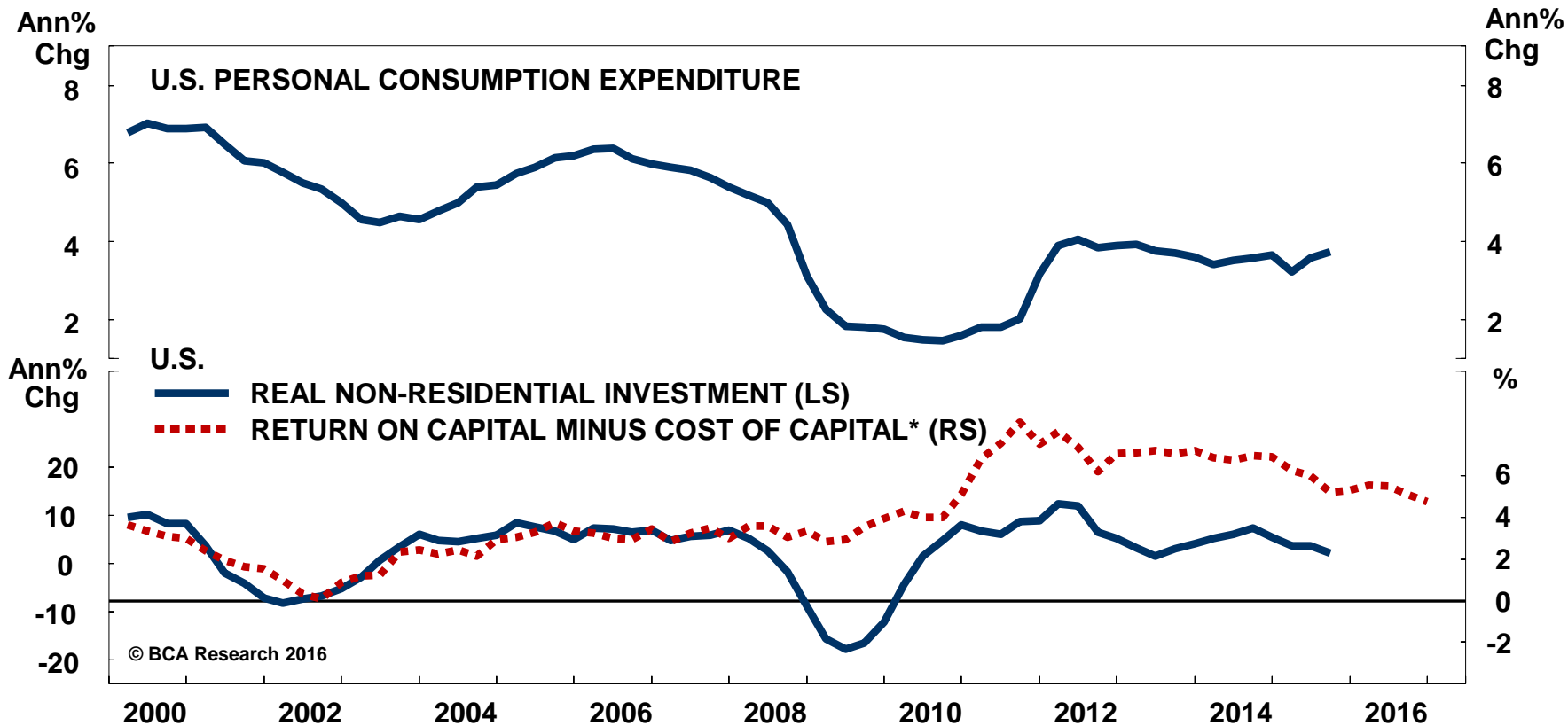
A Classic Hog Cycle



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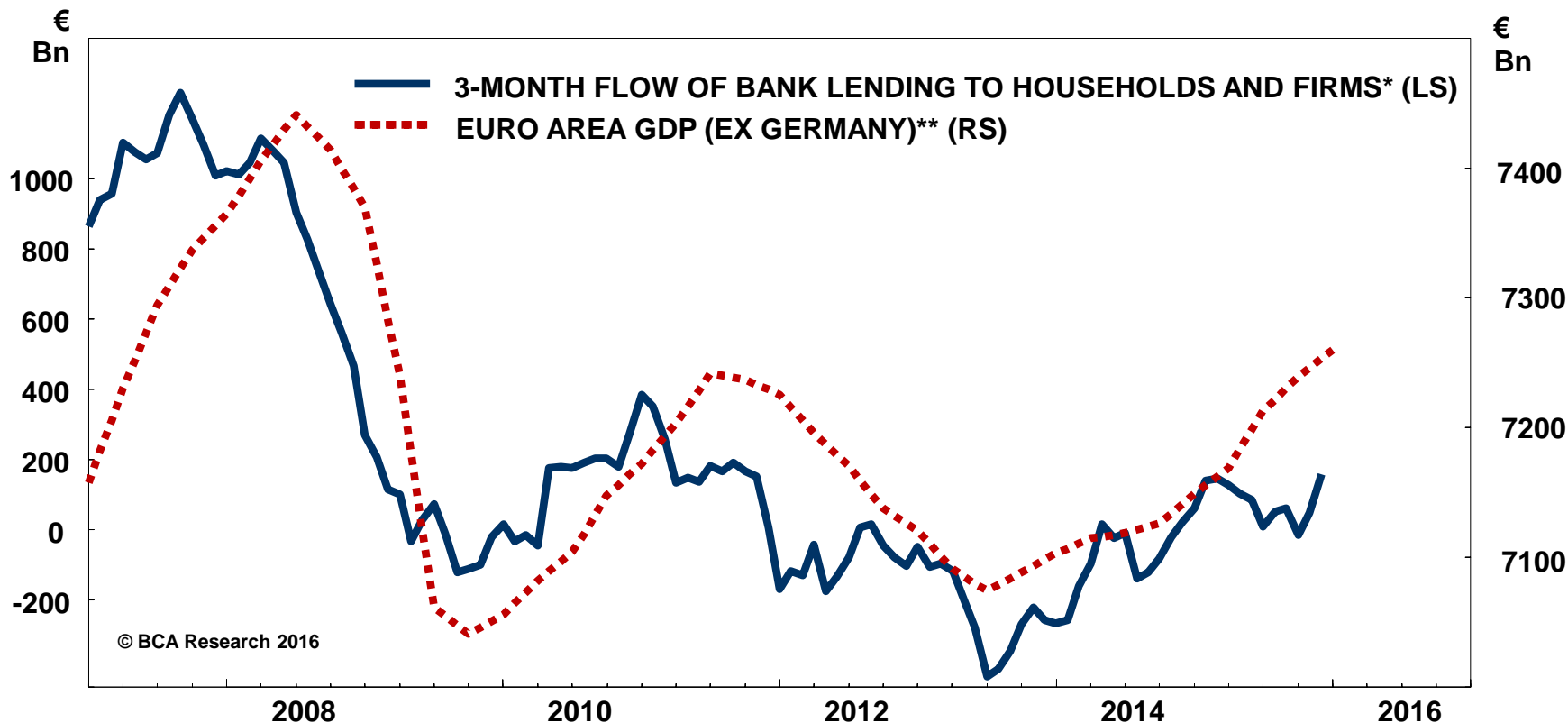
* INSTITUTE FOR SUPPLY MANAGEMENT

U.S.: Both Consumption & Capex Sluggish



* SHOWN ADVANCED.

Europe: Better But Hardly Inspiring

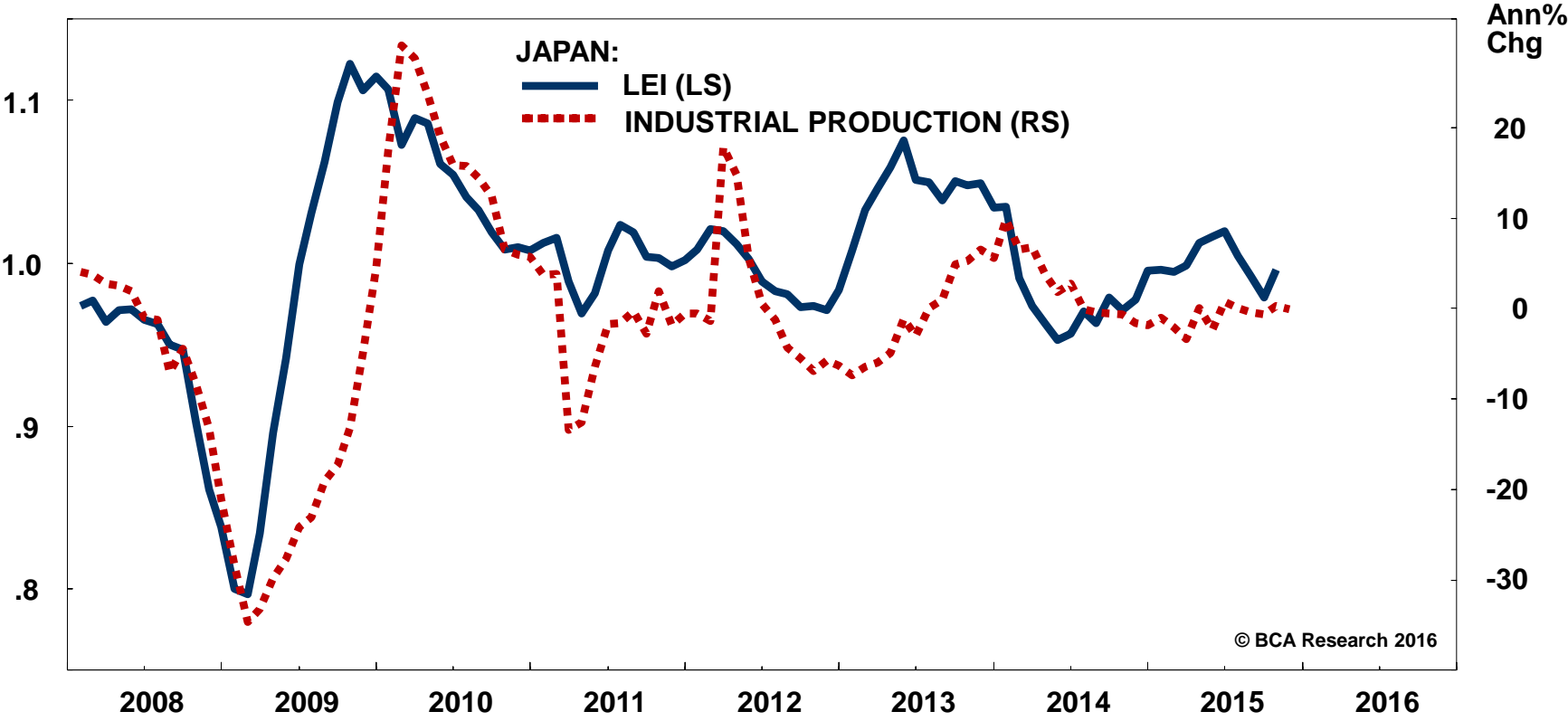


SOURCES: ECB, STATISTISCHES BUNDESAMT, EUROSTAT.

* ADJUSTED FOR SALES AND SECURITISATION.

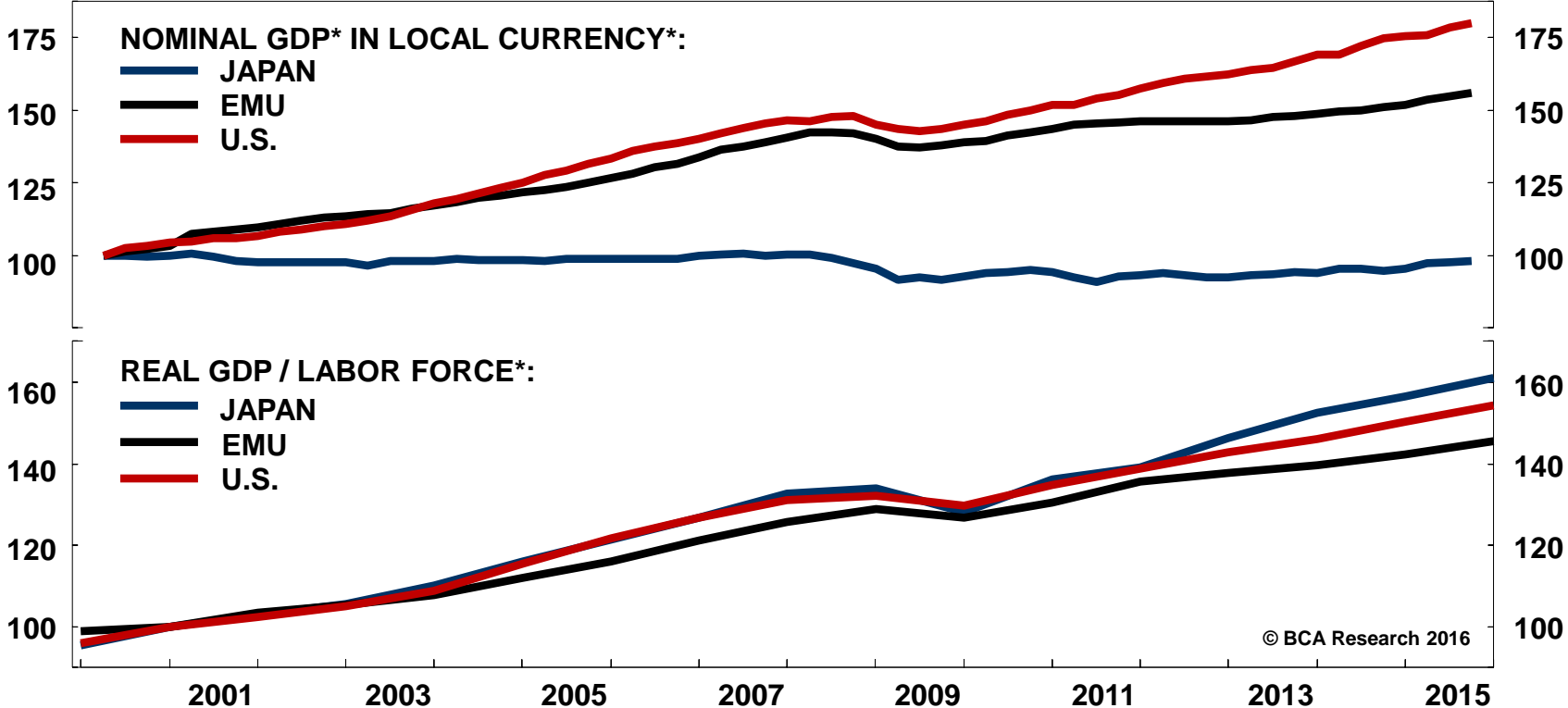
** ANNUALISED RATE.

Japan: Is Abenomics Working?



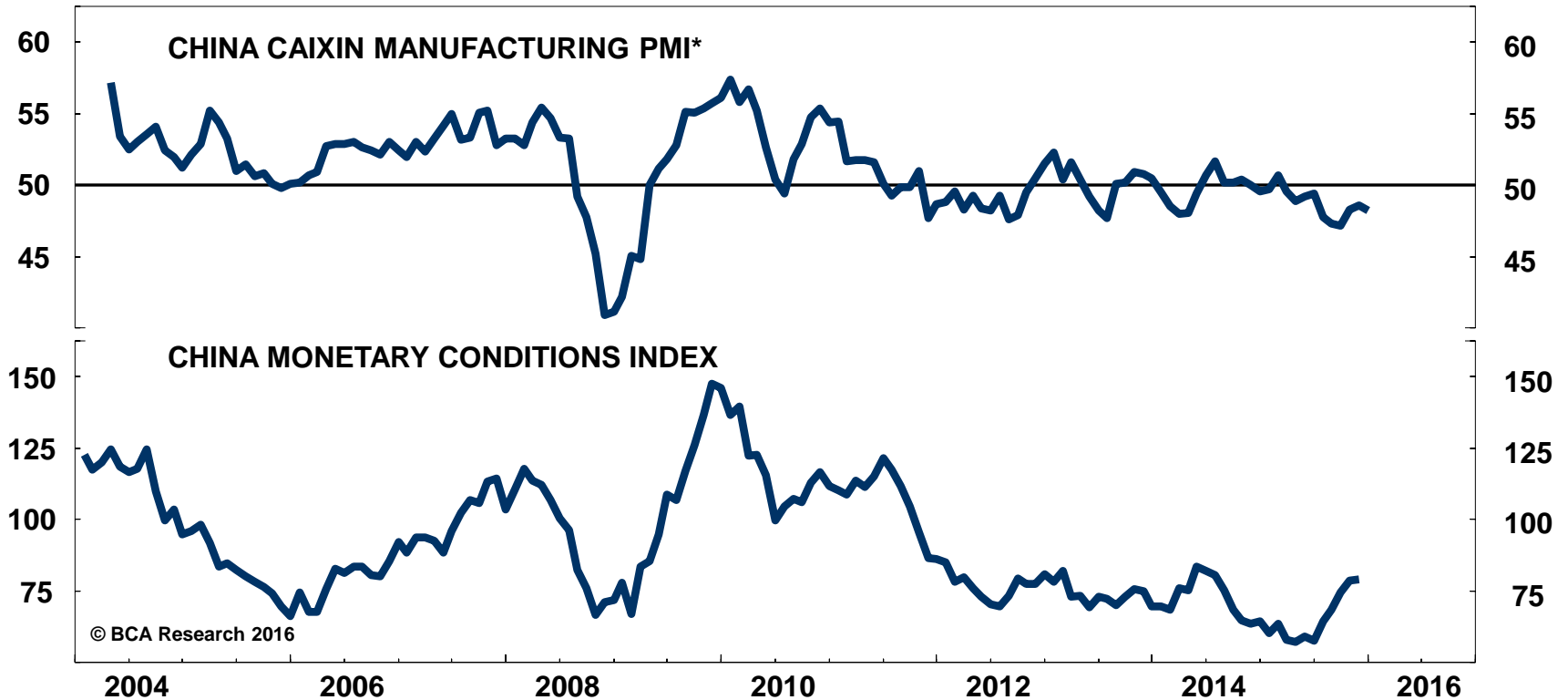
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Japan Faces Huge Structural Headwinds



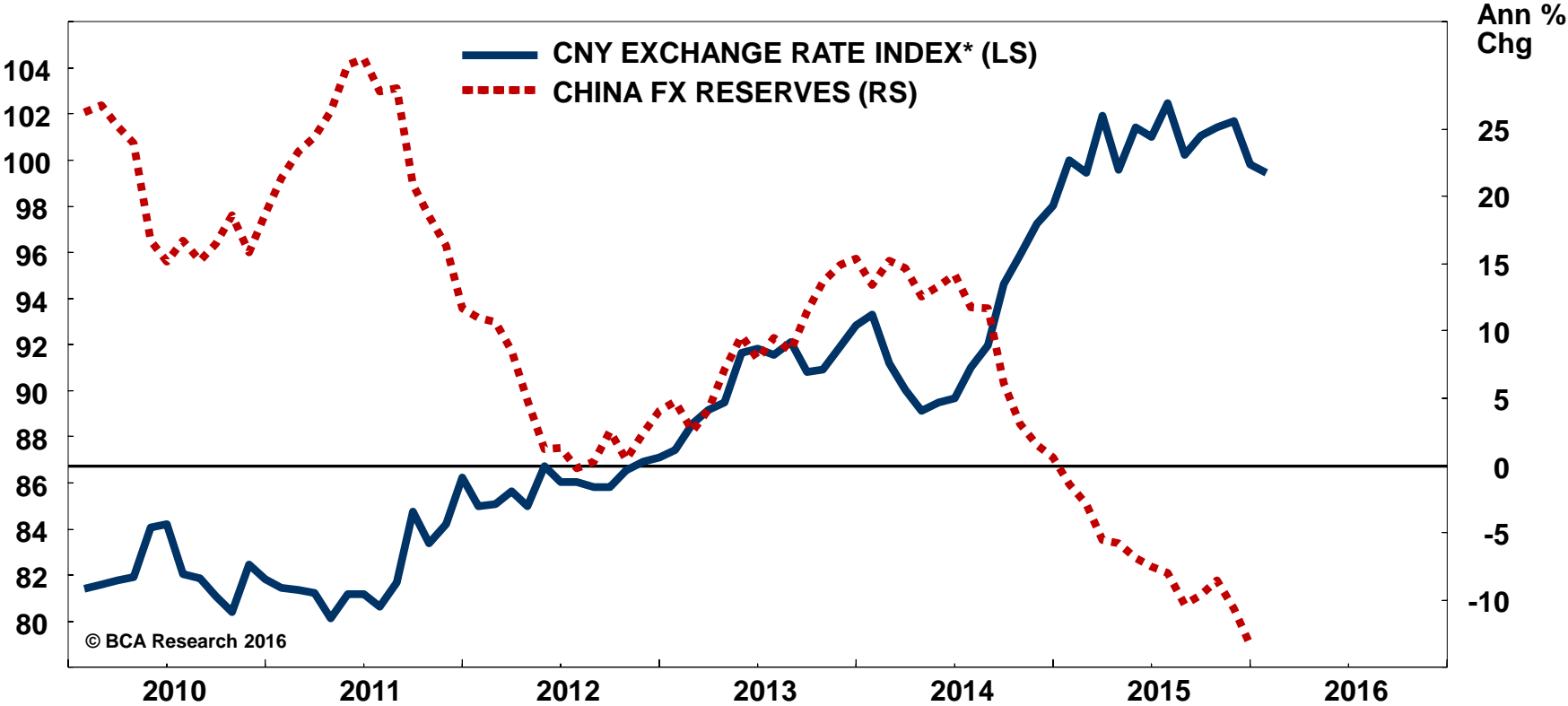
* REBASED TO 100 AT JAN 2000.

China Should Avoid A Hard Landing



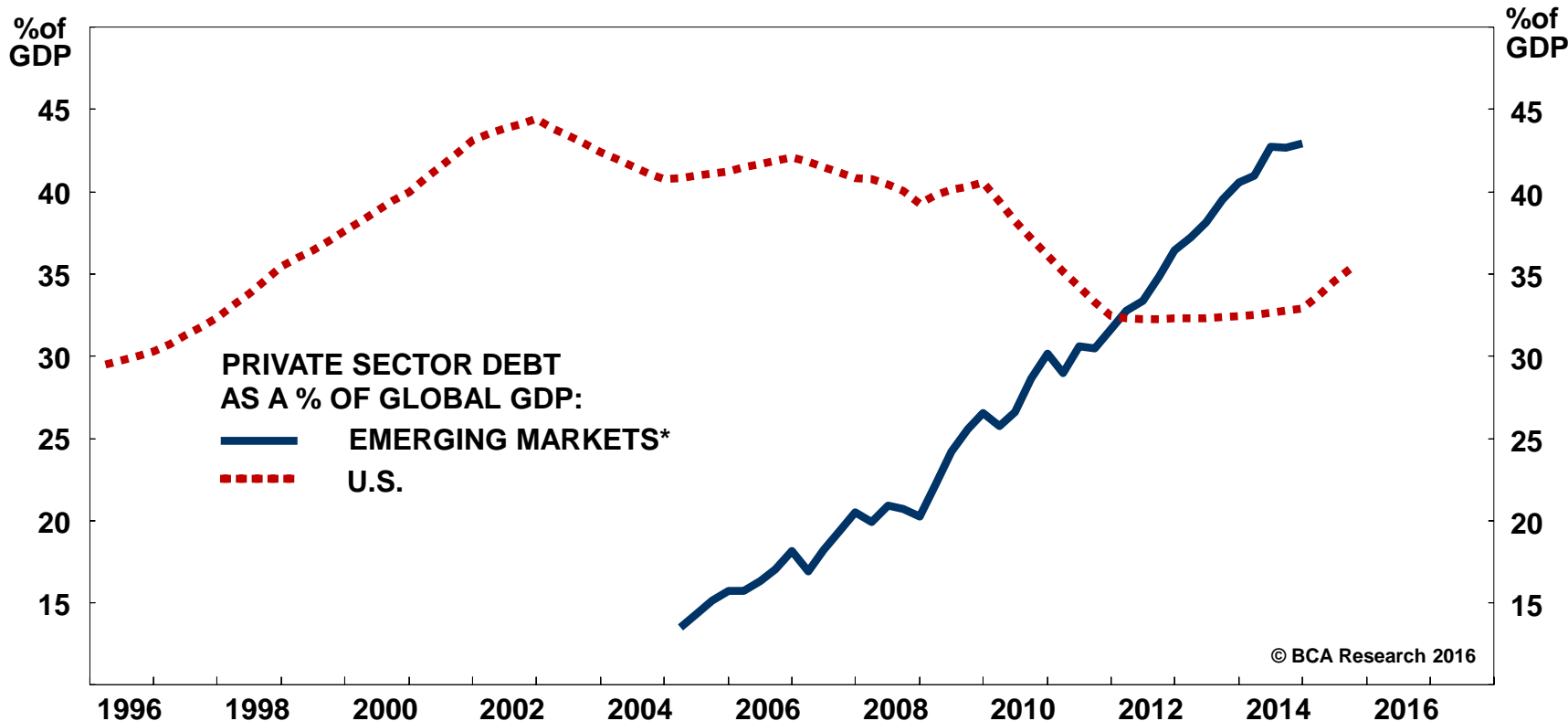
* SOURCE: MARKIT ECONOMICS.

As Long As Currency Policy Doesn't Trip It Up



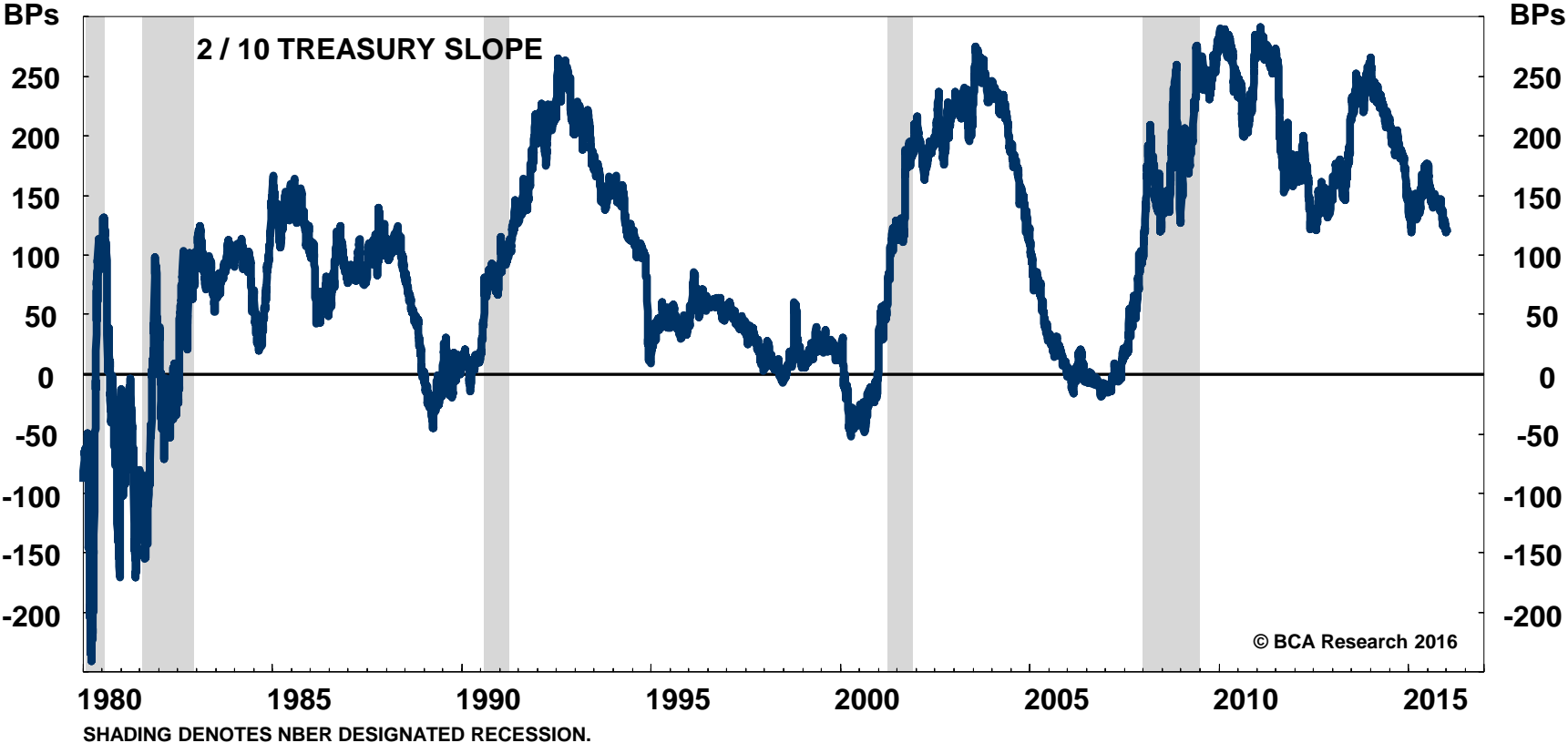
* BCA ESTIMATE BASED ON CFETS CURRENCY BASKET.

EM At The Start Of A Massive Deleveraging

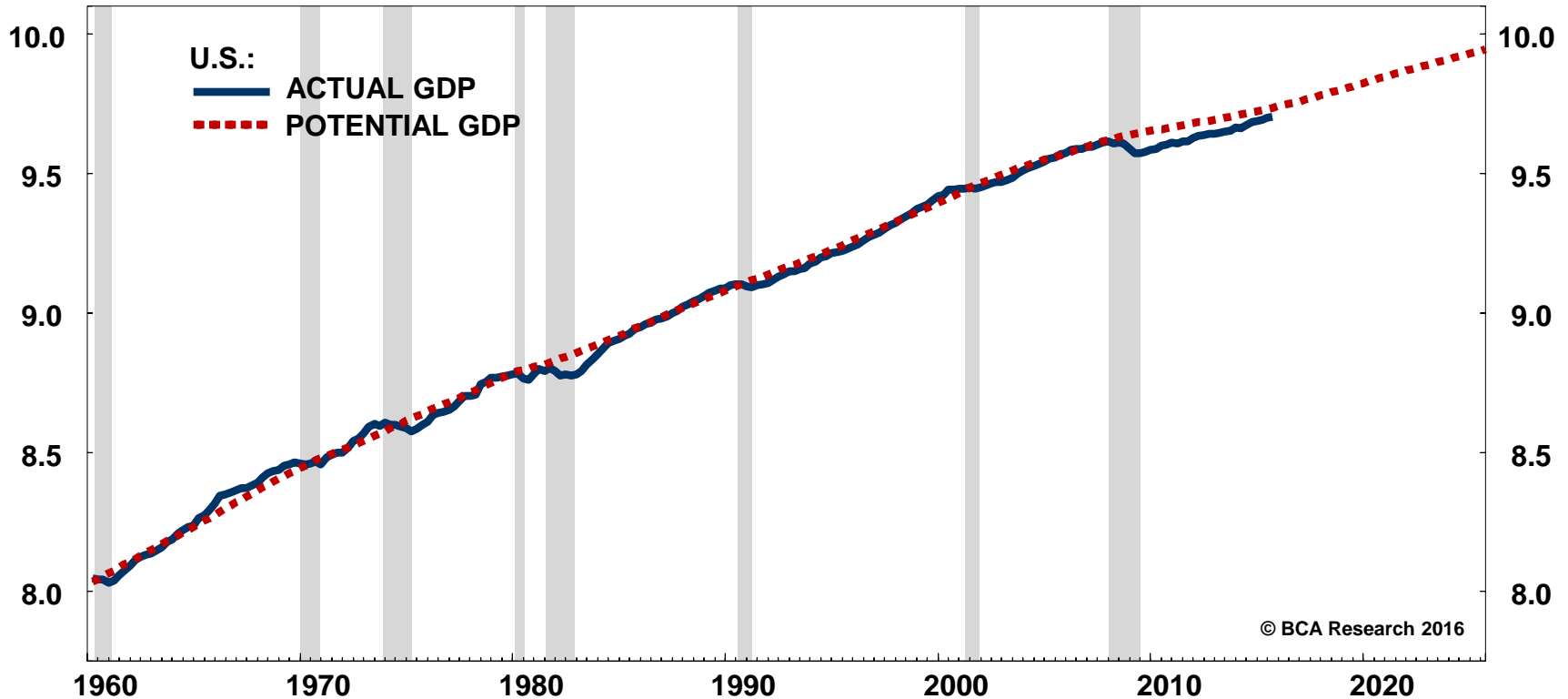


*SOURCE: IMF AND BIS; CHINA PRIVATE SECTOR IS CALCULATED AS CUMULATIVE TOTAL SOCIAL FINANCING EXCLUDING EQUITY ISSUANCE BY NON-FINANCIAL CORPORATIONS PLUS NON-BANK INTERNATIONAL DEBT SECURITIES AND FOREIGN BANK CLAIMS ON NON-BANK CORPORATE SECTOR

No Sign Of Recession Yet



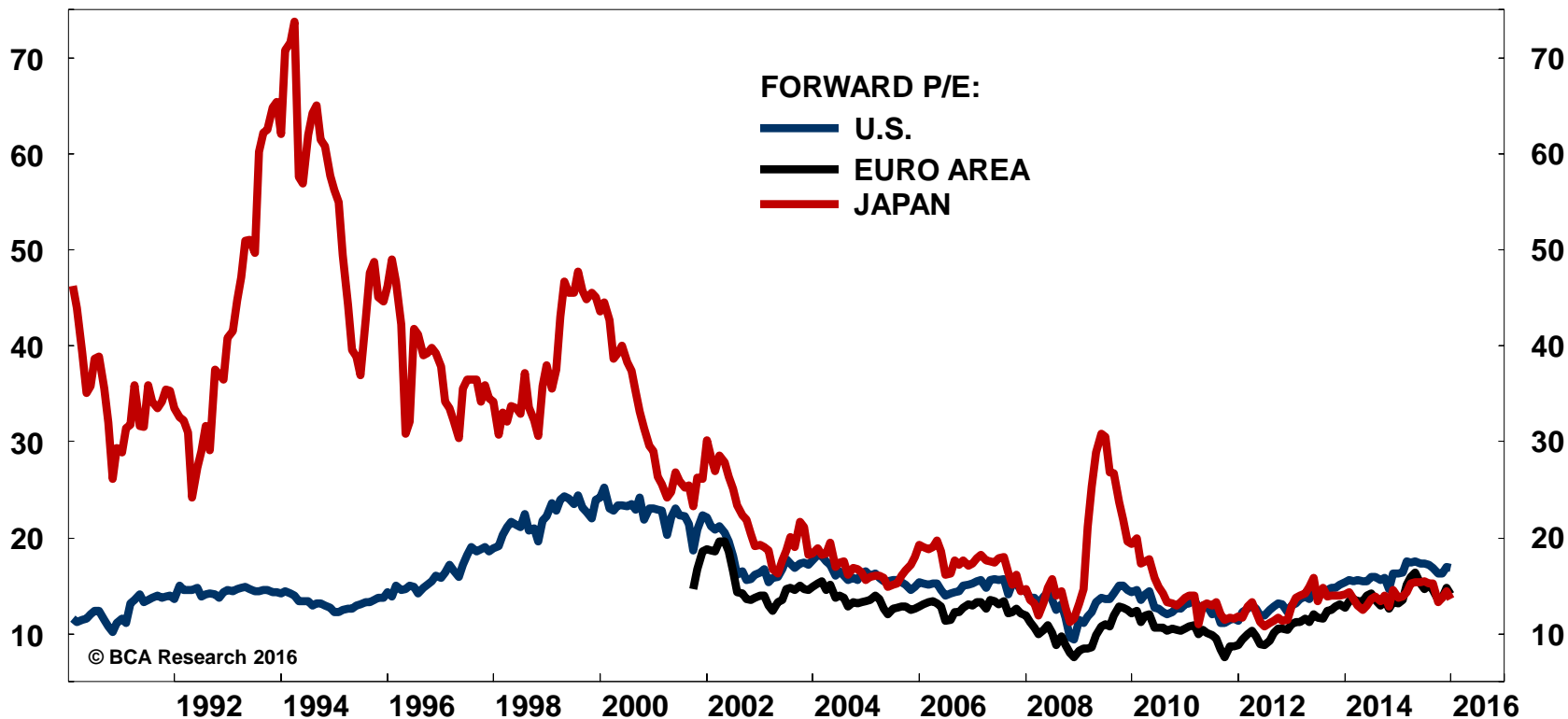
What Roadmap To Use



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14 SOURCE: CONGRESSIONAL BUDGET OFFICE. SHOWN AS NATURAL LOG.
SHADING DENOTES NBER-DESIGNATED RECESSIONS.

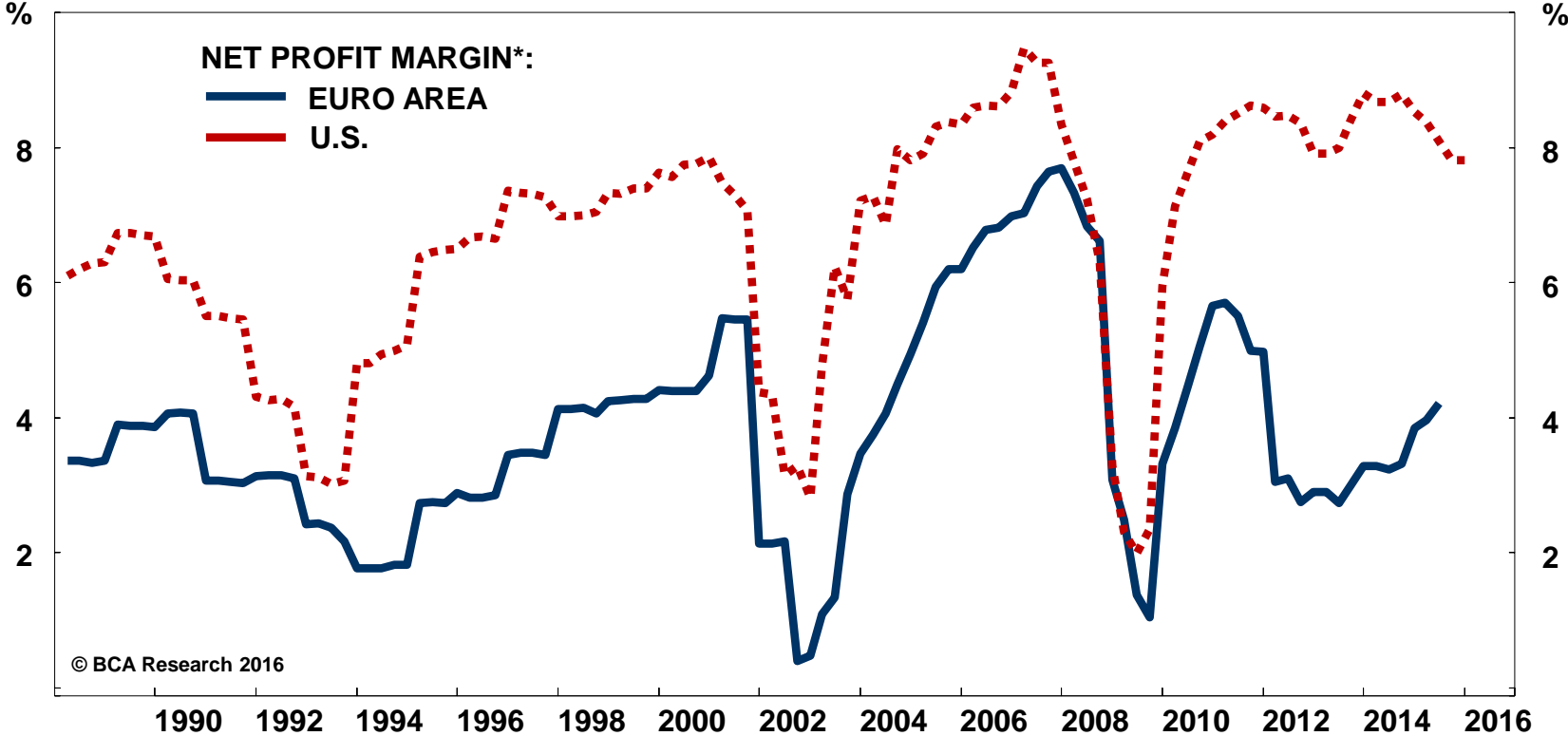
Equities Are Not Cheap



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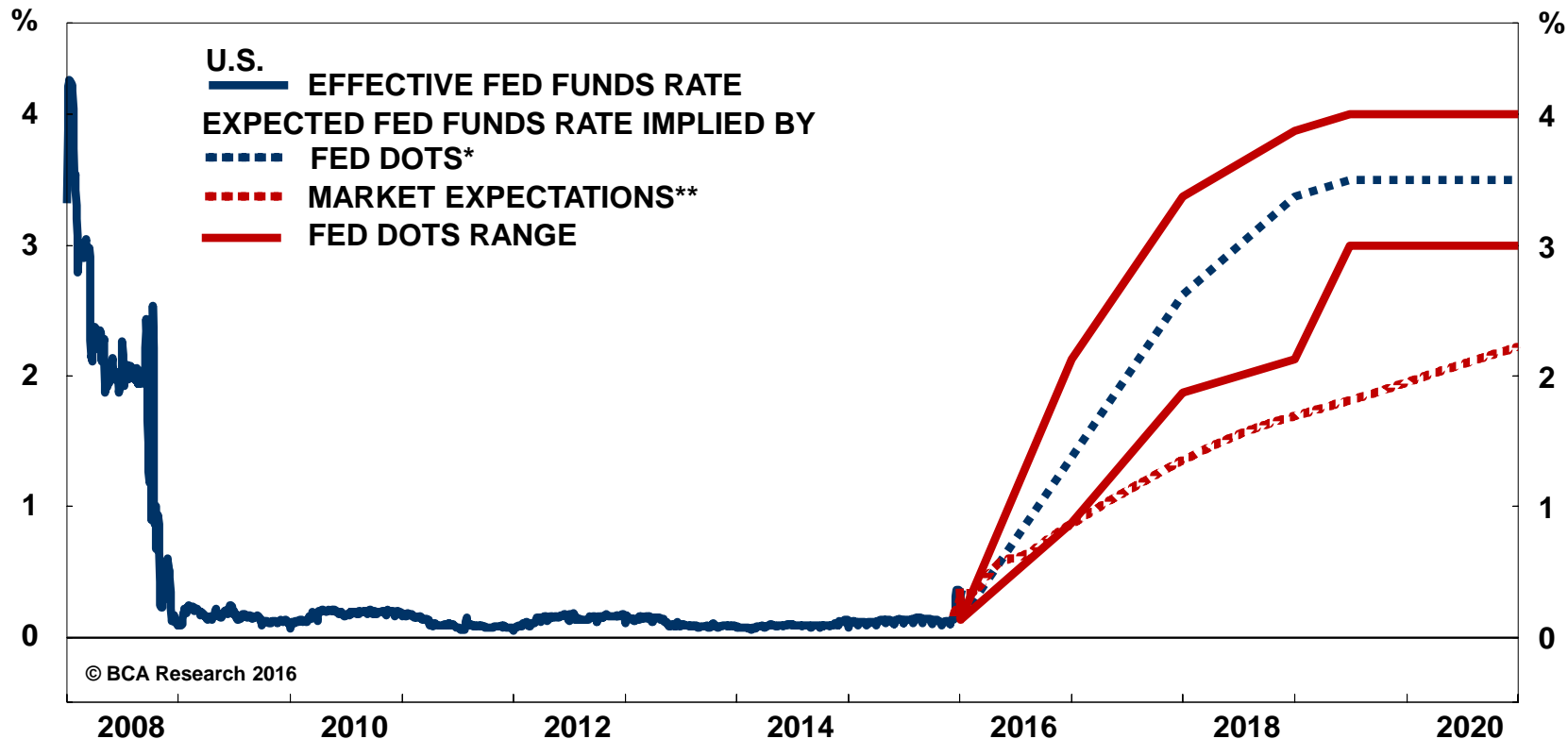
SOURCE: THOMSON REUTERS / IBES.

And U.S. Profit Margins Have Peaked



* SOURCE: DATASTREAM.

Trajectory Of Fed Price Hikes

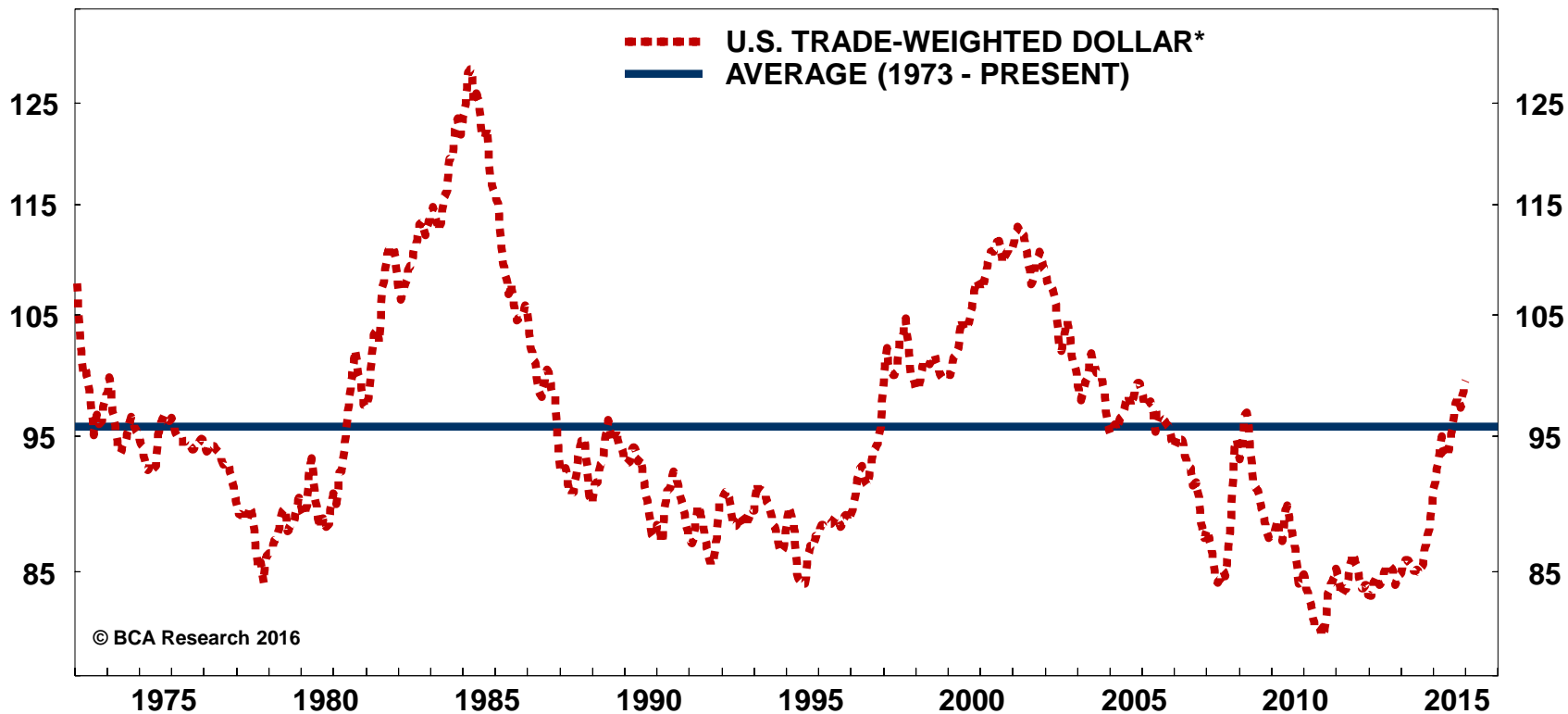


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* MEDIAN MIDPOINT TARGET FROM THE FED'S SUMMARY OF ECONOMIC PROJECTIONS (SEPTEMBER 2015).

** AS DISCOUNTED IN THE OIS CURVE AS OF JANUARY 1, 2016.

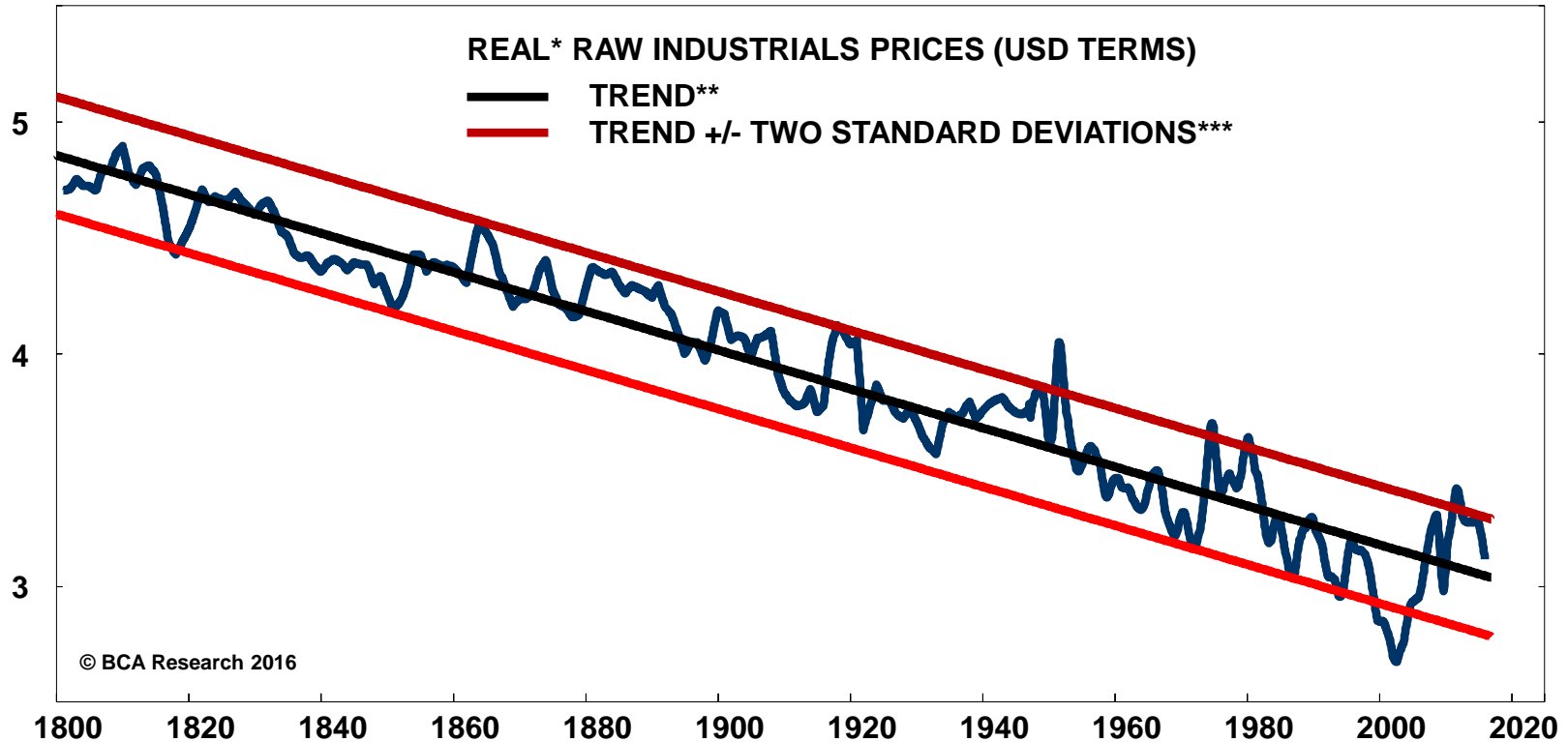
Dollar Usually Moves In Long Waves



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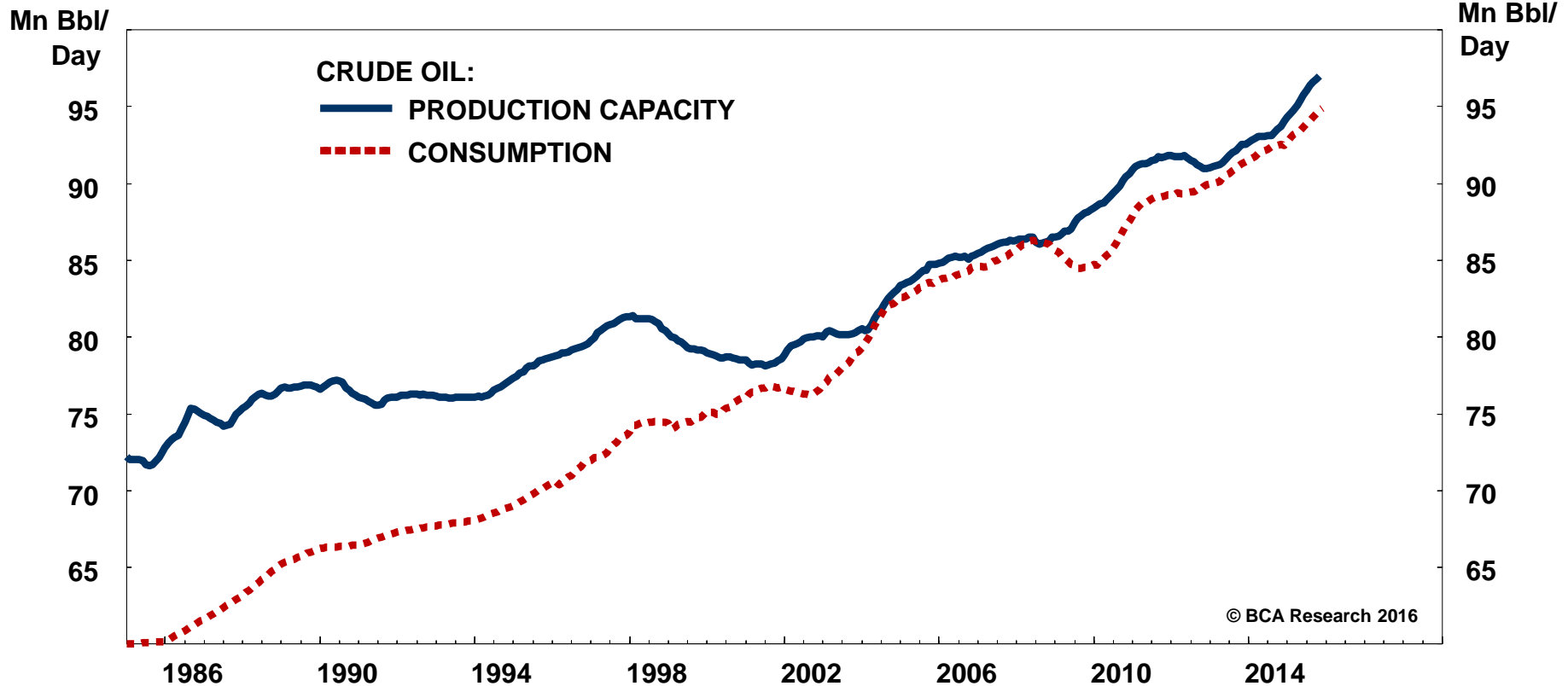
* SOURCE: REAL BROAD TRADE WEIGHTED DOLLAR INDEX J.P. MORGAN CHASE & CO.

So Do Commodities

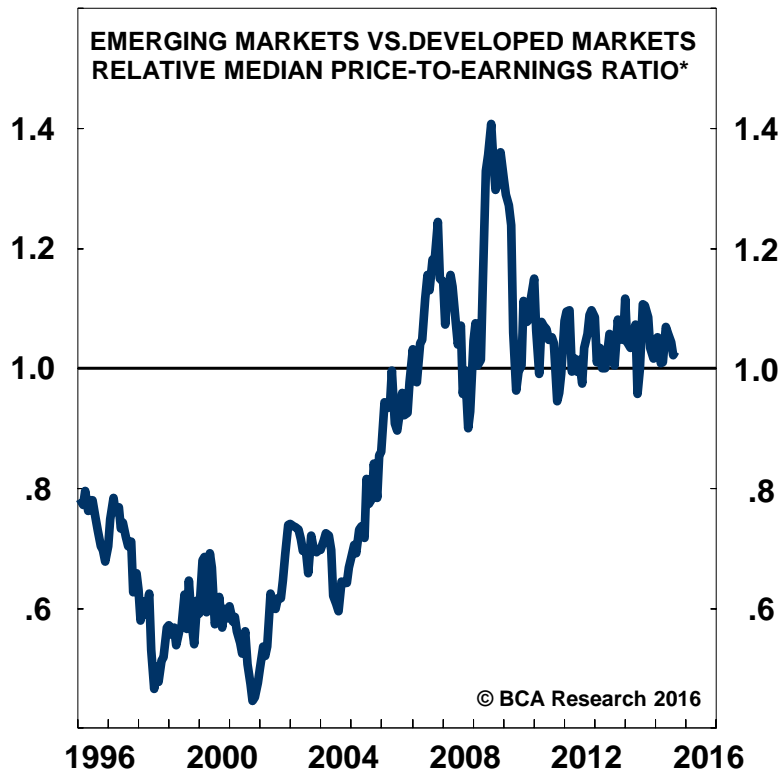


* ADJUSTED BY U.S. GDP DEFLATOR.
** TIME TREND FROM 1800 TO 2008.
*** DEVIATION FROM 25-YEAR TREND

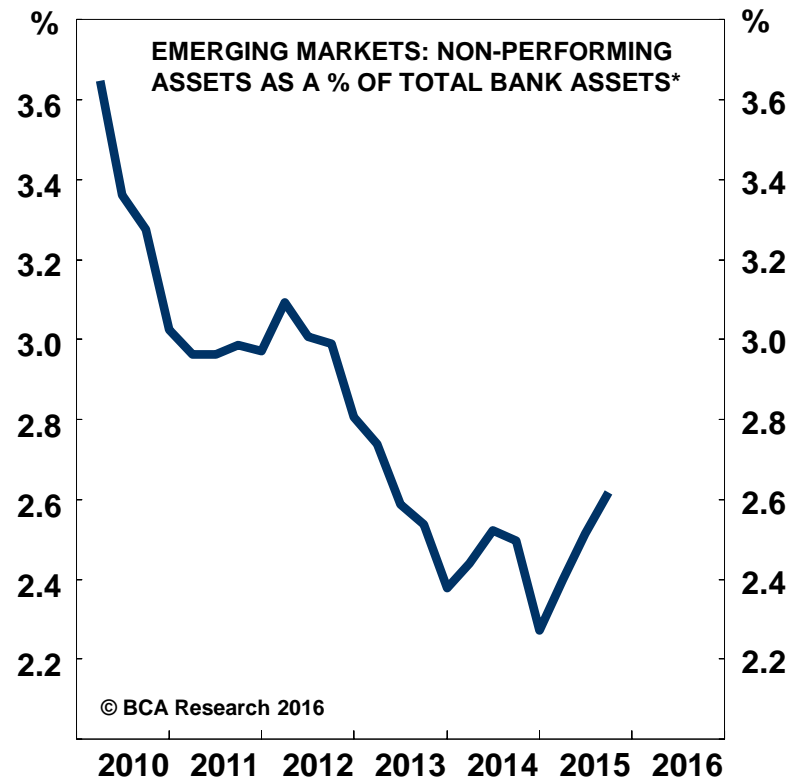
But Oil May Rebalance By Mid-2016



Avoid The Emerging Markets Trap

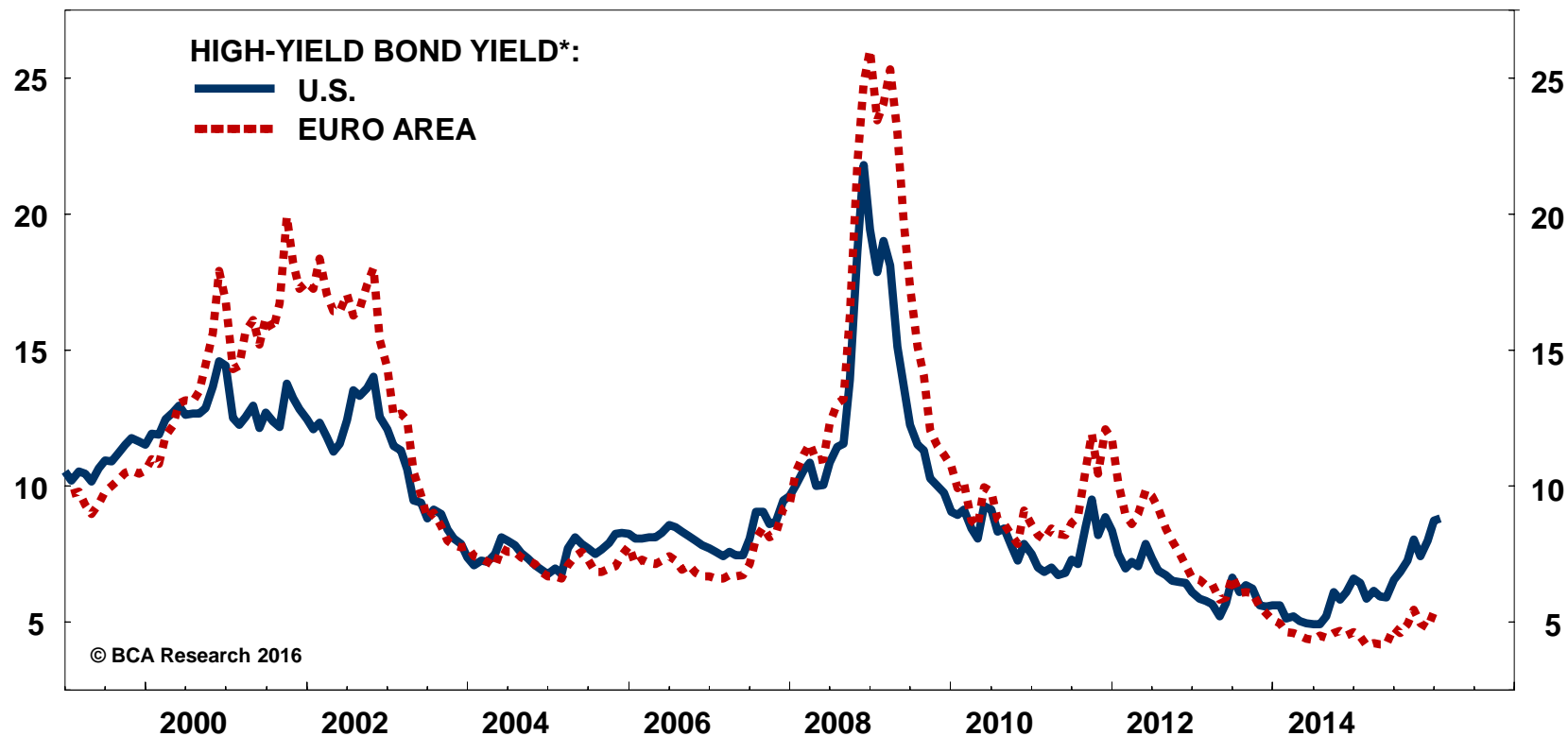


* INCLUDES 50 INDUSTRY GROUPS.
SOURCE: MSCI Inc. (SEE COPYRIGHT DECLARATION).



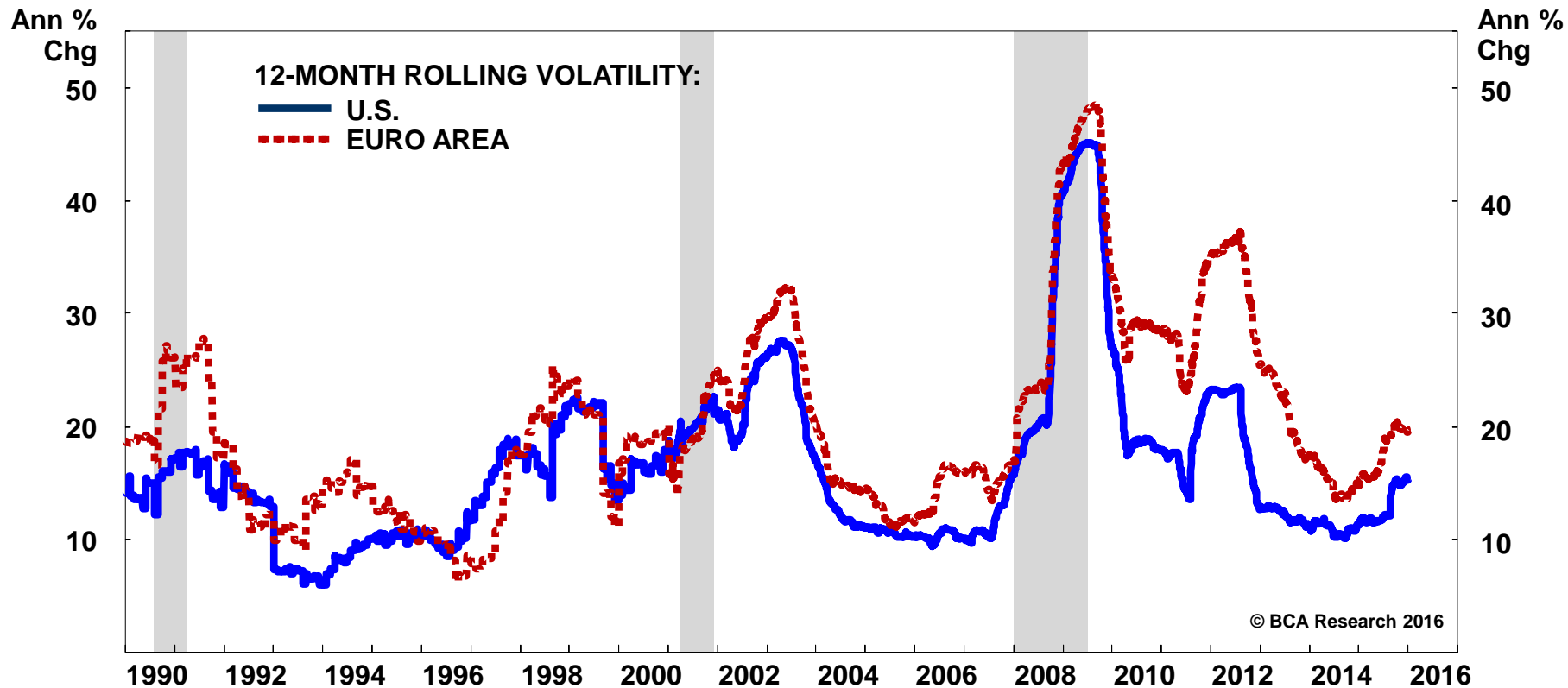
* MARKET CAP-WEIGHTED AGGREGATE OF INDONESIA, THAILAND, CHINA, MALAYASIA, TURKEY, RUSSIA AND BRAZIL.

U.S. Junks Bonds Offer Best Risk/Reward

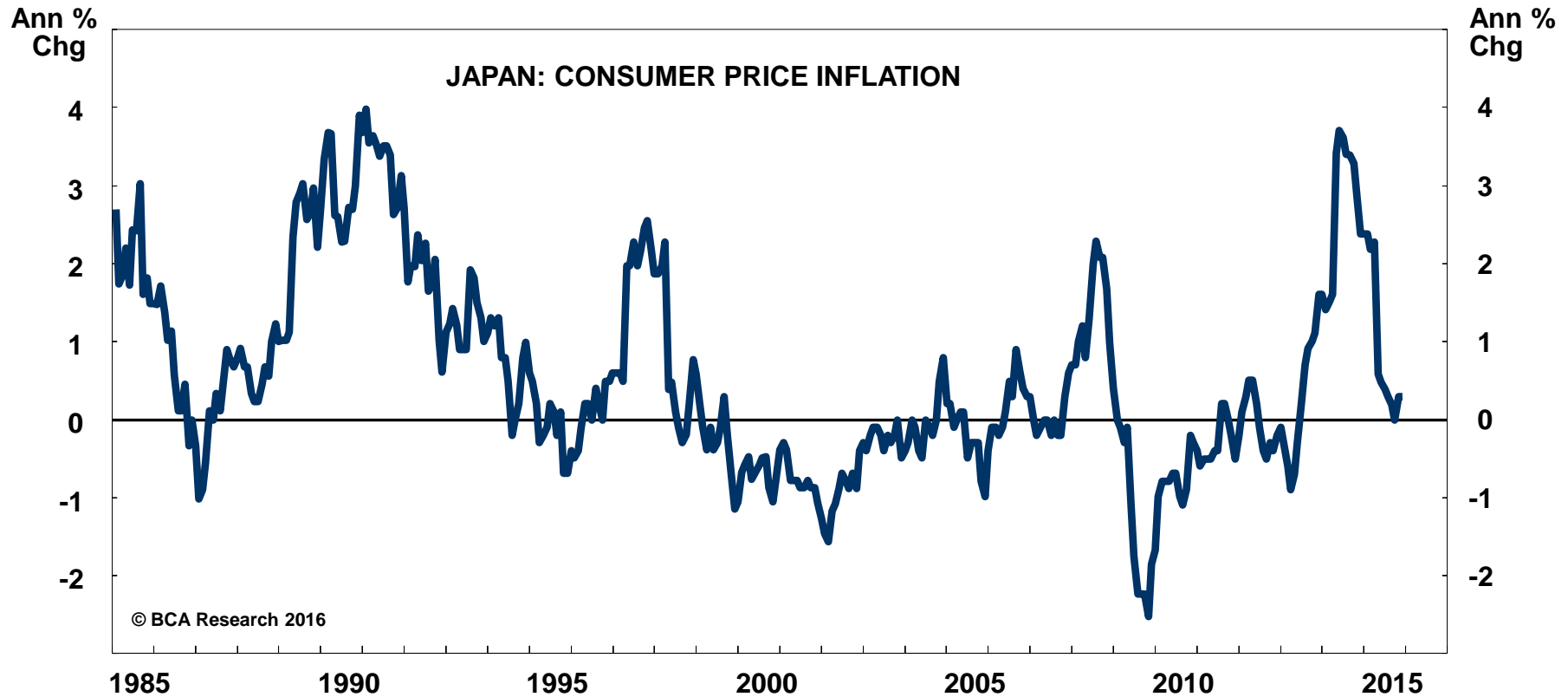


* SOURCE: BARLCAYS.

U.S. Equities Safer Than European Ones



Japan As a Trade



BCA Recommended Asset Allocation

Recommended Allocation

GLOBAL ASSET ALLOCATION	-				+
EQUITIES	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FIXED INCOME	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CASH	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
EQUITIES	-				+
U.S.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EUROPE	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
JAPAN	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CANADA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
AUSTRALIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
U.K.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CREDIT	-				+
GOVERNMENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
INVESTMENT GRADE	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HIGH YIELD*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

SECTORS	-				+
ENERGY	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
MATERIALS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
INDUSTRIALS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CONSUMER DISCRETIONARY	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CONSUMER STAPLES	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HEALTHCARE	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FINANCIAL	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
INFO TECH	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
TELECOMS	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
UTILITIES	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

CURRENT PREVIOUS

* WE RAISED TO OVERWEIGHT IN OUR SPECIAL REPORT DATED DECEMBER 11, 2015, ENTITLED "HIGH-YIELD BONDS: LOW VOLATILITY EQUITIES?" AVAILABLE AT GAA.BCARESEARCH.COM.

Conclusion

- › **Cash yields zero, government bonds 1%, and equities are expensive.**
- › **In this world, be nimble to make a positive return.**
- › **But there is risk in not taking any risk too.**
- › **The global economic expansion is likely to continue for a couple of more years.**
- › **...unless the Fed has made a mistake.**
- › **But the next global recession, when it comes, could be a nasty one.**