Through the Looking Glass

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Our Looking Glass focuses on:

- Growth: are we there yet?
- Which way now? Central bank policy
- What will corporates do? Bondholders vs shareholders
- Where next for value, and yield?
Growth now includes all DM regions

Source: IMF and BlackRock Investment Institute, November 2013
Notes: Contributions to world GDP growth are in percentage points based on purchasing power parity GDP weights. 2013 and 2014 are IMF forecasts.
But globally remains below trend, as does inflation

Developed market growth, even if picking up, remains below trend…

… as does inflation

Sources: Charts 1, BlackRock, Deutsche Bank, data as at June 2013. Chart 2, Bloomberg, data as at April 2014.
EM growth still lagging

Sources: Bloomberg, data as at April 2014.
Central banks: changing global liquidity conditions and shifting monetary policy

- Fed
  - From QE through forward guidance to ...?

- BoE
  - BoE: first to hike?

- ECB
  - ECB: pressure for more easing?

- BoJ
  - Bazooka: more to come?

- Emerging Markets
  - Rebalancing of current accounts and growth -> diverging policies
Fed rate path: unemployment and the income enigma

Labour slack: structural vs cyclical

Key: will wages pick up?

Sources: Chart 1, BlackRock Investment Institute, data as at December 2013. Chart 2, Bloomberg, data as at April 2014.
* Total Private Non-Farm
ECB focused on the good… and the bad

Peripheral economies have been regaining lost competitiveness in labour markets…

…as the cyclical recovery in Europe continues

Disinflation - including in the core – is a major risk in Europe…

Source: Charts 1, 2, BlackRock Investment Institute, data as at January 2014. Chart 3, Bloomberg, data as at May 2014.
China’s transition brings volatility and short term stimulus expectations

China’s long-term prospects are still driven by the need for rebalancing the economy...

...and slowing down shadow credit...

... which will come at the expense of growth

Source: Thomson Reuters, DB, Barclays, RBC October 2013 and University of Groningen and OECD, April 2013
What will corporates do? Favour shareholders over bondholders

More US companies reward shareholders through buybacks and dividends....

...and through M&A

Source: Left chart, Bloomberg, data as at April 2014. Right chart, Citigroup, data as at April 2014.
… but capex remains a laggard – and a key signpost for a sustainable business recovery

Signs of a pickup in US capex…

…but Europe still at multi-year lows

Source: JP Morgan, data as at April 2014.
Search for value: many assets “priced for perfection”?
**DM equities: focus on earnings**

**Further upside contingent on earnings in 2014**

The chart on the left shows the total return for DM equities broken down by region and component: Earnings Growth, Multiple Expansion, and Dividends. The data is sourced from Thomson Reuters, BlackRock Investment Institute, March 2014.

**European EPS growth still trails leading indicators**

The chart on the right illustrates European EPS growth compared to leading indicators (G7 OECD LI, y/y (12m lag) and Europe reported EPS y/y, rhs) from 1983 to 2015. The data is sourced from BofAML, data as at February 2014.

Source: Left Chart, Thomson Reuters, BlackRock Investment Institute, March 2014. Right Chart, BofAML, data as at February 2014.
EM equities: still a consensus underweight, but signs of breakout

Consensus underweight to GEM in global funds...

GEMs Allocation in Global Funds rel. to MSCI AC World (bps)

…but broad EM showing signs of breaking out

Source: Left chart, Citigroup. Data as of July 2013. Right chart, Bloomberg, data as at May 2014.
Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index.
Fixed Income: the positive surprise of H1 2014...

Source: Bloomberg data as at May 2014.

### Fixed Income Returns 2013 (%)

<table>
<thead>
<tr>
<th>Category</th>
<th>Return 2013 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Aggregate</td>
<td>-2.67%</td>
</tr>
<tr>
<td>US Treasuries</td>
<td>-1.63%</td>
</tr>
<tr>
<td>German Bunds</td>
<td>-2.31%</td>
</tr>
<tr>
<td>UK Gilts</td>
<td>-3.94%</td>
</tr>
<tr>
<td>Italy Gov Bonds</td>
<td>-6.89%</td>
</tr>
<tr>
<td>Spain Gov Bonds</td>
<td>-11.8%</td>
</tr>
<tr>
<td>US IG</td>
<td>-1.48%</td>
</tr>
<tr>
<td>EUR IG</td>
<td>2.17%</td>
</tr>
<tr>
<td>US HY</td>
<td>6.15%</td>
</tr>
<tr>
<td>EUR HY</td>
<td>7.82%</td>
</tr>
<tr>
<td>EMD USD</td>
<td>-6.89%</td>
</tr>
<tr>
<td>EMD Local</td>
<td>-11.8%</td>
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</tbody>
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### Fixed Income Returns 2014 (%)

<table>
<thead>
<tr>
<th>Category</th>
<th>Return 2014 (%)</th>
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</thead>
<tbody>
<tr>
<td>Global Aggregate</td>
<td>3.75%</td>
</tr>
<tr>
<td>US Treasuries</td>
<td>1.78%</td>
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<tr>
<td>German Bunds</td>
<td>3.95%</td>
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<tr>
<td>UK Gilts</td>
<td>3.25%</td>
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<tr>
<td>Italy Gov Bonds</td>
<td>6.58%</td>
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<tr>
<td>Spain Gov Bonds</td>
<td>7.42%</td>
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<tr>
<td>US IG</td>
<td>5.19%</td>
</tr>
<tr>
<td>EUR IG</td>
<td>4.21%</td>
</tr>
<tr>
<td>US HY</td>
<td>4.32%</td>
</tr>
<tr>
<td>EUR HY</td>
<td>4.01%</td>
</tr>
<tr>
<td>EMD USD</td>
<td>7.22%</td>
</tr>
<tr>
<td>EMD Local</td>
<td>5.01%</td>
</tr>
</tbody>
</table>
…leaves a question for 2H - where do we go next for yield?

External EM debt still offers relative value to its developed market counterpart…

…the likes of non-US dividends and alternative yield assets could see renewed interest

<table>
<thead>
<tr>
<th>Exposure</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>European dividend payers</td>
<td>4.94%</td>
</tr>
<tr>
<td>UK dividend payers</td>
<td>4.65%</td>
</tr>
<tr>
<td>EM dividends</td>
<td>6.02%</td>
</tr>
<tr>
<td>Developed market property</td>
<td>3.62%</td>
</tr>
<tr>
<td>Global Infrastructure</td>
<td>3.88%</td>
</tr>
<tr>
<td>MSCI World</td>
<td>2.49%</td>
</tr>
</tbody>
</table>

Source: Left Chart, Bloomberg, data as at April 2014. Right Table, Index factsheets used: STIOXX Europe Select Dividend 30, FTSE UK Dividend+ Index, Dow Jones Emerging Markets Select Dividend Index, FTSE EPRA/NAREIT Developed Dividend+ Index, Macquarie Global Infrastructure Index, and MSCI World Index.
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