

Investment Outlook | June 2017

Running on more engines



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Introduction

This Investment Outlook for the second half of 2017 remains positive for equities and real estate. Our central scenario is based on the cumulative improvement of economic and financial conditions that will make financial markets more resilient to absorb unexpected changes.

The first part of 2017 has been favourable for risky assets, as several positive trends have materialized: the recovery of the world economy has gained traction, the risk of seeing governments influenced by extreme political posturing has declined and market volatility has abated. These stabilizing forces are important for two reasons: More visibility is created for entrepreneurs and investors to invest for the medium term; and stabilization breeds market resilience to cushion unexpected events.

For the second part of the year, our investment policy is positioned for positive outcomes. This includes a self-sustaining world recovery for several quarters, as economic momentum broadens to other regions than the US. This creates more opportunities for investing in European and emerging markets equities and in real estate, which are the assets we prefer. We also suggest investing in equity themes, related to the purchasing power of middle class in emerging markets, the unstoppable trend of renewable energy and the economic consequences of an online and connected world. At the same time, opportunities have narrowed for fixed income assets. Bond yields remain low in absolute terms and we suggest reducing the sensitivity of a bond portfolio to the inevitable normalisation of monetary policies.

Any correction of risk assets triggered by events not impacting fundamentals will represent opportunities to accumulate assets with the purpose of improving medium-term performance.

ABN AMRO Private Banking's investment team, who are responsible for this Investment Outlook, provides more information on their recommendations in the pages that follow. Your Relationship Manager or local investment professionals stand ready to assist you to prepare for the rest of 2017.



Didier Duret

Chief Investment Officer,
ABN AMRO Private Banking

June 2017

Running on more engines

Europe and other economies are taking over from the US as the engines of economic growth. Despite a possible slowdown in China, the global economic recovery has become self-sustaining.

Europe and emerging markets are catching up at a time when the US economy is maturing. We believe that the progression of the world economy in the second half of 2017 will rely less on the US and more on the rest of the world. This economic momentum will exert a positive effect on corporate profits.

We are on a slow journey towards a return to normal monetary conditions, coming first in the US, and later in Europe. As a result of the improved conditions, there is less risk that European Central Bank policy tightening will slow down economic growth. Stable financial conditions are now prolonging a virtuous cycle of economic progress.

The combination of economic recovery, earnings growth and valuation discrepancies favour European and emerging-markets equities. Positive financial conditions could also lend support by luring more international investors to European and emerging markets, driven by diversification and a search for better-priced assets.

Extended Trends

- ▶ **Momentum in the world economic recovery will continue.** The economy is expected to grow this year and next at a pace of around 3.5%. The longevity of the business cycle is partly the result of the slow and uncertain pace since 2008. The rebound in world trade, despite protectionist talk, can maintain the export momentum on a broader base than US demand alone. The US may have slowed temporarily in the first quarter of 2017, but Europe, Japan and emerging economies are overcoming several years of slow growth.
- ▶ **Stable financial conditions support moderate risk-taking.** Despite political distractions, market volatility is historically low. A muted US dollar, stable

currencies and slowly rising US bond yields are constructive for risk-taking. Financial flows can then move from expensive assets towards assets where prices declined during periods of higher volatility. Stable economic conditions, positive financial conditions and pragmatic central bankers create market resilience. This resilience can absorb unexpected shocks stemming from geopolitics or nationalism. As a result, markets will return to more normal pricing for risks and opportunities.

- ▶ **Political and policy risks have declined.** The Trump administration is likely to encounter restraint and delays, including the enactment of huge public spending projects. This reduces the risk of large fiscal deficits and moderates the risk of sharply higher US Treasury yields. The path will be long and gradual toward higher US rates. Elections in Germany, the UK and Italy should generate only limited volatility.

Challenges

- ▶ **Policymakers can be out of tune with the business cycle.** The world economy would lose an important driver if Chinese authorities abruptly stopped their large fiscal stimulus, which has supported the world recovery since 2016. The Federal Reserve could also be too aggressive in hiking interest rates and the ECB could too drastically reduce its asset purchases.
- ▶ **Asset prices can turn speculative.** If asset prices become overvalued, it can make them vulnerable to a sharp correction or to punitive actions by policymakers.
- ▶ **External shocks can dent confidence.** Shocks or large currency fluctuations can abruptly dent market confidence and create market price instability. Should geopolitical tensions escalate, for example, with North

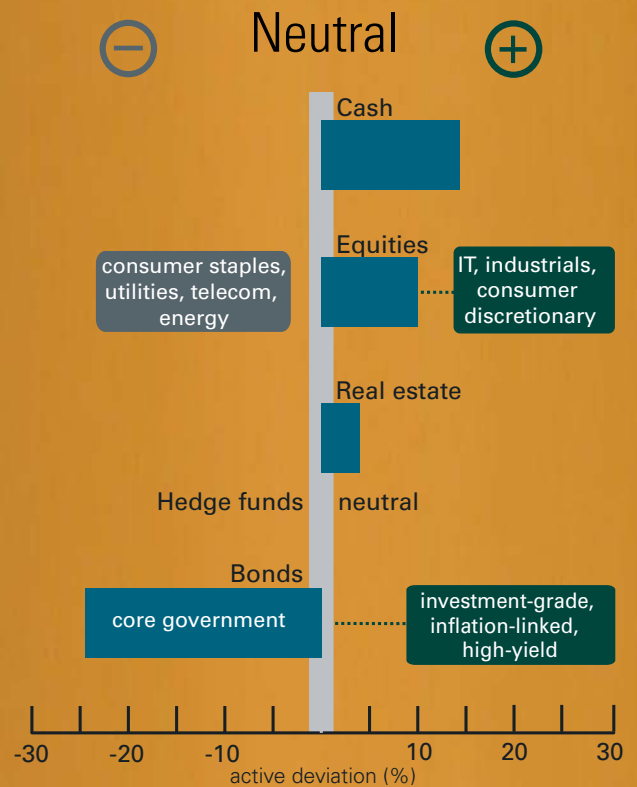
Korea, a temporary flight toward safe assets, such as bonds, could occur.

Opportunities

- European and emerging-markets equities.** Maintain an exposure to stocks and invest new cash tactically in regions that lagged the recovery and where valuations are lower. In particular, invest in Europe and emerging markets. The rationale for stock investing is revived earnings growth. The industrials and consumer discretionary sectors are well positioned for revenue improvements. Information technology (IT) remains a long-term driver of change. Earnings can grow at a double-digit rate in 2017 and 2018, justifying higher price/earnings multiples.
- Equity themes.** Focus on companies at the juncture of long-term structural changes and positive cyclical forces. Online and social-media platforms are benefiting from an acceleration in technology expenditures. Selected renewable-energy companies are entering a second life, despite negative rhetoric in the US. And the cyclical uplift of emerging-markets consumers is good for the bottom line of consumer discretionary companies.
- Corporate bonds.** A prudent and selective approach to bond markets is warranted, but attractive returns can be found in the more risky segment of corporate bonds, which are supported by cyclical improvements.
- Listed real estate.** Invest tactically in listed real estate, as an income-generating asset class, with reasonable valuations, limited financial leverage and supportive demographics.
- Sentiment-driven setbacks.** Use cash for active positioning during temporary market setbacks.

Didier Duret
Chief Investment Officer

Active strategies



Represents absolute deviation from the benchmark created by our active investment strategy. These decisions affect all the profiles. Profile 3 (balanced) is represented here.

Source: ABN AMRO Private Banking



Maintaining momentum

Domestic momentum in many important economies has picked up and is set to become the main driver of growth in the remainder of 2017. While the US had led the recovery, other growth engines, such as Europe, are now starting up.

The global economy has been characterised in recent quarters by impressively strong confidence indicators across a large number of countries. In the US, however, confidence indicators have recently weakened. This is not as bad as it may sound, as this type of indicator cannot rise without limit. And, the data still points to solid growth.

First-quarter GDP in the US was also weak, but we do not believe that it gives a true picture of underlying economic conditions. We think that the second-quarter data is bound to be considerably stronger. In the US, the labour market continues to tighten and so does the housing market. Various indicators also suggest that business investment is picking up.

The eurozone is gathering pace

In the eurozone, confidence indicators continue to strengthen, and, even more important, harder data is now also picking up. While German industrial production was recently not too impressive, output growth in other countries is more solid. This includes industrial production in Italy and manufacturing in France and the Netherlands. (See Graphic.)

And the news is not all bad in Germany, as it is encouraging that the German economy grew by 1.7% (year-on-year) in the first quarter. Construction and business investment were the strongest drivers. The data now suggests that the recovery is materialising and gathering pace in the eurozone.

Risk from China

The improvement in global cyclical conditions has been driven by a range of factors. One important factor has been improving momentum in China, translating into stronger world trade growth. Chinese policymakers, however, have begun taking measures to address potential financial instability. While this is sensible from a domestic, medium-term perspective, these measures have the potential to slow overall growth.

Various business confidence indicators for April have, indeed, shown a meaningful drop. Trade data for April also shows a loss of momentum. Import growth (in US dollars) slowed from 20.3% in March (year-on-year) to 11.9% in April. In assessing the importance of these developments, we must bear in mind that the Chinese economy grew very strongly in the first quarter and a somewhat slower pace was to be expected.

We also think that the world economy will be able to cope with a slowdown in China. Domestic momentum in many important economies has picked up and is set to take over as the main driver of growth in the remainder of 2017. Growth has thus become self-sustaining.

On the road to 'normal' central banking

In this environment, central banks are likely to gradually 'normalise' their policies. For the US Federal Reserve, this means raising rates. We think that two more rate hikes this year are likely.

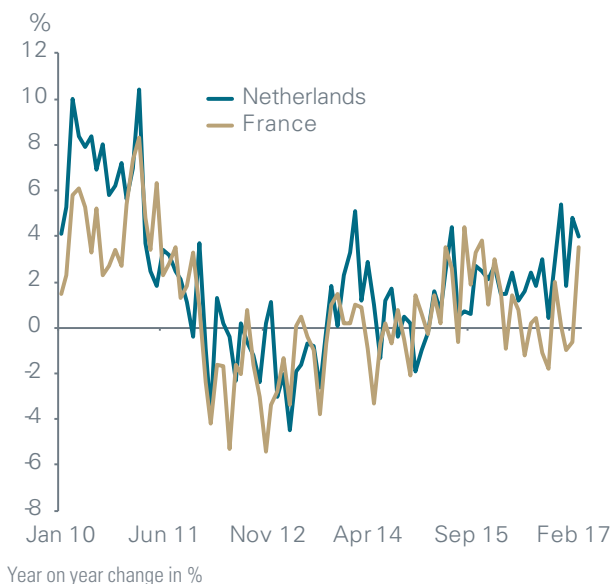
The ECB will undoubtedly finish its current asset-purchasing programme, but their guidance is likely to change in the course of the year. They will most likely soon drop their bias

toward further easing of monetary policy in their communications. This will be followed by an announcement that they will reduce and then end their asset purchases in 2018. We do not believe there will be any actual rate hike in Europe before the second half of 2018.

After being led by the US, the global economy is now strengthening thanks to growth around the world. While a slowdown in China is a risk, we believe that the global economy can handle it. New engines of growth have appeared, providing the basis for a self-sustained and synchronised global recovery.

Han de Jong
Chief Economist

Manufacturing in France and the Netherlands is picking up



Source: Bloomberg



Forecasts: Economic growth and inflation (%)¹

23 May 2017	Real GDP growth 2017		Inflation 2017	
	ABN AMRO	Market view	ABN AMRO	Market view
US	2.3	2.2	2.3	2.5
Eurozone	1.8	1.7	1.6	1.6
UK	1.7	1.7	2.7	2.6
Japan	1.0	1.3	0.7	0.7
Other countries*	2.2	2.2	1.8	1.8
EM Asia	6.1	6.0	2.8	3.0
Latin America	1.3	1.2	6.6	6.5
Emerging Europe	2.0	2.2	5.3	5.2
World	3.5	-	3.4	-

¹ All forecasts are year averages. The regions' weights are based on PPP exchange rates.

*Other countries are Australia, Canada, Denmark, New Zealand, Norway, Sweden and Switzerland.

Source: ABN AMRO Group Economics, Consensus Economics, EIU

Equities: more motors revving

We believe that the most interesting investment opportunities for stock investors are in Europe and emerging markets. This preference is driven by encouraging earnings momentum and a pronounced valuation gap with other regions.

The backdrop for equity markets continues to be supportive, driven by a synchronised global upturn, low and only softly rising interest rates and projected double-digit earnings growth. These trends were already confirmed by the first-quarter earnings season. Longer-term earnings growth expectations are also increasing, with the possibility of rising fiscal spending, which will potentially fuel higher price/earnings multiples.

A pick-up in both capital expenditures and consumer spending is increasingly translating into higher corporate profits. Meanwhile, European political risks appear to have abated. The elections in the Netherlands and France ended with market-friendly outcomes, and equity markets were not affected by increased tensions in the Middle East and the Korean peninsula. As a consequence, market volatility remains low in a historical context.

Differences in valuation and momentum make us selective

At first sight, with forward 2017 price/earnings multiples at around 16x for developed markets and around 12x for emerging markets, it appears that markets are trading at the upper end, or even above, historical or cyclically-adjusted levels. However, when taking into account the current low interest rates and our house view projecting only slowly rising rates, valuation levels are not considered stretched.

In an environment of encouraging global growth and accommodative monetary policy, corporate credit quality can further improve. This should leave further potential for equity markets to rise in line with earnings, as relative returns, compared with other asset classes, remain attractive. At the same time, we see clear regional valuation differences, which is one of the reasons that we prefer Europe and emerging-markets stocks over US stocks.

Valuation gaps between the US and other regions are narrowing



Based on price/earnings multiples of the MSCI US, MSCI Europe and MSCI Emerging Markets indexes over the past ten years.

Source: Bloomberg

Shift away from the US toward Europe and emerging markets

Benefiting from an accelerating and more stable economy, US stock markets strongly outperformed European equities in recent years. By contrast, European and also emerging-markets stocks were held back by slower growth, debt worries and currency shocks. Over the past quarters, these conditions have improved, with increasing confirmation of stronger economic growth and upwards momentum in earnings revisions. We believe these developments justify a narrowing of the existing valuation gaps between the US and Europe and the US and emerging markets. (See Graphic.)

We therefore shifted to a regional preference for Europe over the US. We also see opportunities in emerging markets, as economic and market fundamentals continue to improve. This is especially true within Asia, which is our preferred region within emerging markets. Moreover, our central scenario of a sideways-moving US dollar and only modestly higher US bond yields in 2017 should also help support emerging markets.

Importance of selection at the sector level

Based on the prolonged upturn in global growth, we believe a pro-cyclical sector stance is most appropriate. There are caveats, however, as we suggest being cautious regarding the cyclical materials and energy sectors. This is because we believe that the current wave of increasing capital expenditures and consumer spending will predominantly benefit the information technology, consumer discretionary and industrials sectors, which we favour.

At the subsector level, we believe there are interesting investment pockets in the areas of software & internet security, innovative industrial applications and segments exposed to consumers in emerging markets. We are less impressed with the potential of the telecoms and utilities sectors, or with certain areas within the consumer staples sector. This is because these traditionally more defensive sectors have the tendency to underperform broader equity markets during cyclical upturns.

Paul van Doorn
Senior Portfolio Manager, Equities

Forecasts: Equity indexes

Region	Position	Forward P/E 2017
Global equities (MSCI World All Countries)	Overweight	16.6
Developed markets		
-US (MSCI US)	Underweight	18.6
-Europe (MSCI Europe)	Overweight	15.9
-Japan (MSCI Japan)	Neutral	14.2
Emerging markets		
- Asia (MSCI Asia ex-Japan)	Overweight	13.3
- Latin America (MSCI Latin America)	Neutral	13.6
- Emerging markets EMEA (MSCI Emerging Markets EMEA)	Neutral	11.2

Source: Bloomberg, MSCI. Data as of 22 May 2017



Equity themes: crossroads of cyclical and structural forces

Our top three investment themes, based on online winners, strong consumer demand in Asia and renewable energy, are enjoying substantial underlying growth, backed by structural trends that are changing the world. Now, there is an extra “cyclical spin” on top of the structural forces, as the global economy revs up.

Profiting from the online world

As the world economy strengthens, technology expenditures are accelerating. Online platforms and cloud services platforms are benefitting from these expenditures more than traditional information technology (IT) companies. Driving the urge to invest is a corporate desire to use digitalisation to stay ahead of competitors. Companies are setting up business-to-business online market platforms, for example, to pressure supplier pricing. Firms are also investing heavily in direct sales and customer communications using online and social-media platforms. And, to save costs and to have data available anywhere and anytime, the cloud is increasingly used for IT environments and data storage.

In the “sweet spot” of these trends are the big social media, e-commerce and cloud platforms, which offer easy online access to consumers. These platform operators also use the latest artificial intelligence tools to service business clients with relevant insights into customer data. The big platforms have the unique ability to support new online business models to expand their reach worldwide. Online travel marketplace Airbnb, for example, could not have grown to having operations in almost 200 countries in just nine years without these platforms.

For more information: Clients can request a copy of “Profiting from a connected world,” February 2017.

Emerging-markets consumers keep spending

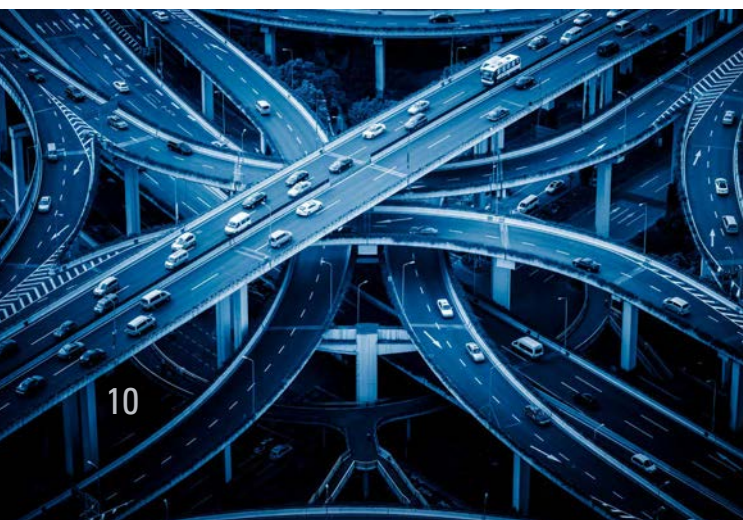
The strong growth in purchasing power of the middle class in emerging markets was barely altered by the financial crisis. The largest source of growing purchasing power is in Asia, specifically China and India. The vast majority (almost 90%) of the next billion people to reach the middle class will be in Asia, with China and India leading the way.

This long-term trend of a rising middle class in emerging markets is now being boosted by improving economic conditions. Moreover, the negative effects of the successful anti-corruption measures in China, which had hampered luxury spending, have now faded; the emerging market consumer is back to purchasing luxury goods. Specifically, there has been a strong uptick in orders from Asian Pacific consumers at online travel agencies and for cruises, hotels, premium cars and luxury goods.

For more information: Clients can request a copy of “Emerging consumers drive growth,” November 2016.

Renewable energies: stronger than expected

After the election of US president Donald Trump, many stocks related to renewable energy corrected. Investors anticipated headwinds, given Trump’s scepticism regarding climate change. But independent of the new administration’s views, companies continue to invest to cope with climate change. Customers and industries want to increase energy efficiency and reduce carbon footprints.

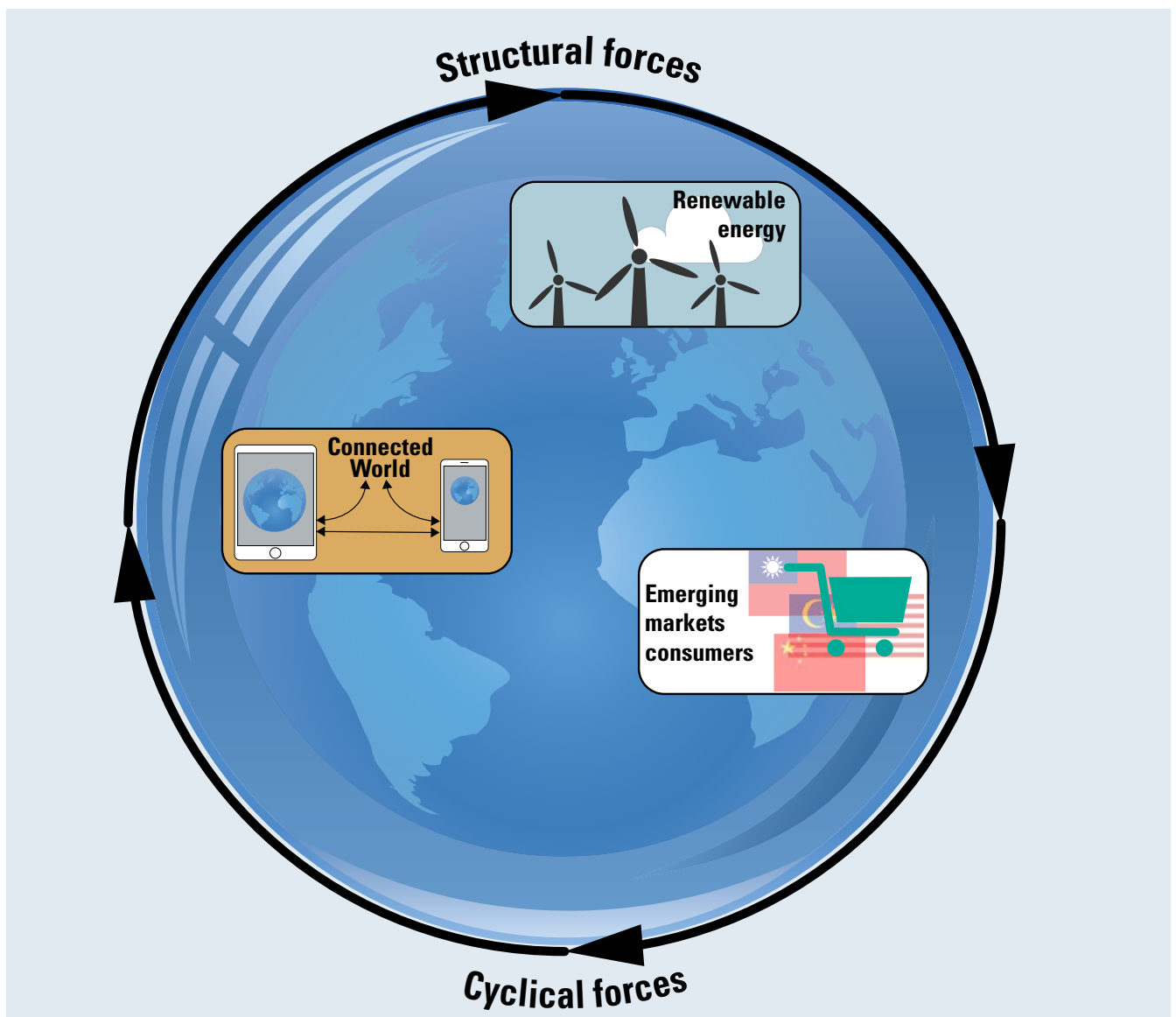


As described in our 2016 report, we expected that the cost of producing renewable energy would fall and reach such a low level that it could finally compete with fossil-based energy without government subsidies. Now, even faster than expected, the first auction for offshore wind projects in the North Sea has been successfully finalised without any financial support from the government. This was made possible by implementing the next generation of wind turbine technology. This is accompanied by strong orders for more sophisticated wind turbine producers and electrical grid infrastructure providers.

For more information: Clients can request a copy of “Renewables: tide is turning,” April 2016.

Piet Schimmel
Senior Equity Thematic Expert

Favoured equity themes



Bonds: narrow path with bumps along the way

While the path to higher interest rates may be gradual and controlled, there is no escaping that bond yields are going up. There are likely to be some bumps along the way to more normal interest rates.

After the US presidential elections in November 2016, yields jumped and bond market participants were excited by the theme of reflation. Reflation occurs when policymaker actions revive economic growth and inflation expectations, which creates conditions for interest rates to rise. But the reflation theme fizzled and US Treasury bond yields fell, after the Trump administration faltered in its first attempts to deliver on election promises (see Graphic).

Bond yields set to rise

We believe that yields will resume their path higher, particularly as they are still so low. This invites the question of what a normal yield would be for the bounce that we still see in the business cycle up until the end of 2018. Our answer is a yield of 3.2% for 10-year US Treasuries and 1.4% for 10-year German Bunds.

Higher yields are painful for bond investors. At best, we can hope to shield a portfolio from yield rate increases. We do so by maintaining a strong underweight in bonds in ABN AMRO's tactical asset allocation. Even cash is preferred, as long as the interest rate received on cash deposits is greater than what is received for a large segment of the bond universe. This remains the case in Europe, where more than 40% of government bonds have negative yields.

Reduce interest-rate sensitivity

We recommend reducing the interest-rate sensitivity (duration) of bond portfolios to one year below the benchmark clients use for their bond portfolios. Duration determines the exposure of the bond portfolio to bond yield fluctuations and is a major performance driver. Bond prices move in the inverse direction of yield by the amount of the duration. So, if the duration is, say, 5 years, bond prices will fall by 5% if yields rise by 1%. If the duration is 3.5 years, bond prices fall 'only' by 3.5%. Lowering the duration can protect the value of a bond portfolio in an environment of rising yields. This is all relative of course, as any portfolio that contains fixed-rate



bonds will suffer when yields rise. By setting the duration lower than that of the benchmark, however, a bond portfolio suffers less in an adverse yield environment.

Look for bonds with “carry”

There is a silver lining to a growth-led normalisation of interest rates. In such an environment, it is safe to look for securities that offer “carry”, that is, bonds with higher interest rate margins or coupons. We prefer corporate bonds, as they will likely benefit the most from growth. We also prefer inflation-linked bonds. Not that we are expecting inflation to pick up sharply, but because the inflation expectations priced into bonds are still low.

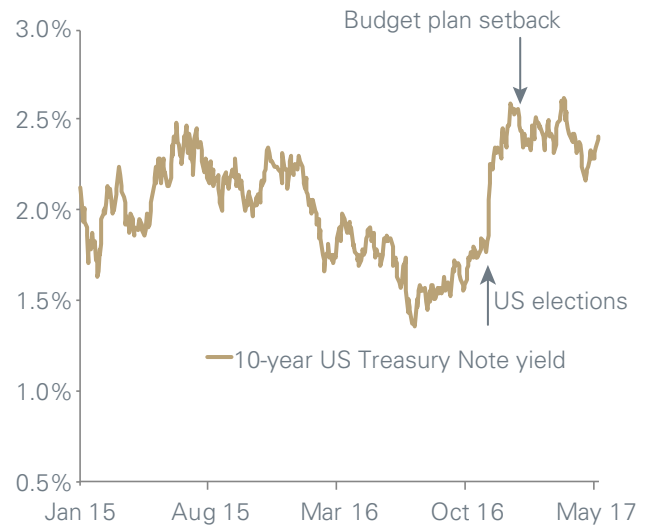
Risks to normalisation

Our views are based on a scenario of a gradual normalisation of interest rates. There is a risk that this does not occur. Interest rates, for example, could rise more quickly than we expect, if inflation picks up strongly and central banks are slow to respond. In this case, our carry positions are at risk. European investment-grade bonds, which represent a prominent exposure in our recommended portfolio, are now insulated, thanks to the European Central Bank’s corporate bond purchase programme. However, an accelerated tapering of that programme is likely if interest rates rise quickly. The other risk is that markets could be shocked by indiscriminate selling. This will lead to bonds being viewed as safe-haven assets. In this case, our underweight and short duration positions are at risk, and we would risk missing the appreciation of bond prices.

These risks, while difficult to estimate, are also unlikely. But their mere existence shows that the path for bonds is not only narrow, but could also be bumpy.

Mary Pieterse-Bloem
Global Head Fixed Income Strategy & Portfolio Management

Bond yields responded to Trump election and first setback



Source: Bloomberg





Real estate: still decent returns

We believe that real estate can produce positive total returns, but will lag equities. For investors, real estate can continue to be a source of decent performance and portfolio diversification.

Most real estate companies are enjoying healthy underlying operating performance supported by a sound economic environment. But investors should take into consideration that growth is diminished compared with earlier years. With occupancy levels at historical highs, further growth will be more difficult. Furthermore, the tailwind created by constantly refinancing existing debt at low financing rates is over. As a result, cash-flow growth in 2017 will be around half the levels of previous years.

Dividends are attractive and sustainable

The average balance sheet of a real estate company consists of about 40% debt. For the real estate segment, this is not considered aggressive debt leverage. Many enjoy BBB solvency ratings from the rating agencies with stable outlooks. The average dividend yield fluctuates at around 4%. (See Graphic.) Based on strong balance sheets, these dividends form a solid source of reliable income for investors, especially in the continued low interest rate environment.

Rising bond yields will keep a lid on valuations

The listed real estate market is sensitive to interest rates. This sensitivity is seen at various levels. Most debt for the industry, for example, is (re)financed with long-term loans or bonds. Debt costs therefore increase in tandem with rising benchmark government bond yields. Rising financing costs also affect property valuations, as it becomes more expensive to buy or develop property. Furthermore, when government bond yields reach higher levels, the relative attractiveness of real estate's high dividends is reduced, as investors

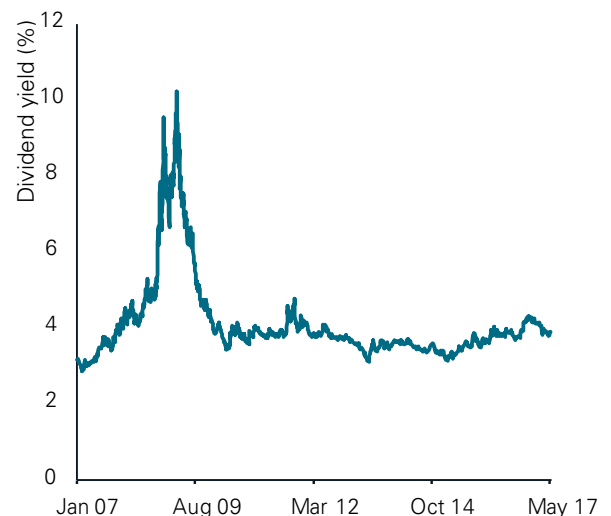
will choose government bonds over riskier real estate assets. The sector's performance therefore goes up and down with declining or rising bond-yield expectations. We expect bond yields to rise, albeit gradually, over the next few years.

Real estate stocks are currently valued at a small discount to their underlying net asset value, while on average, over the past 20 years, they had been priced at a premium. We therefore believe that much of the expectation for rising bond yields has already been priced-in to real estate stocks. Only a sharp rise in bond yields would really hurt the sector.

For the rest of 2017, we expect real estate equities to deliver a positive return, based largely on the dividend stream. The diversification of real estate assets across different locations, countries and wealth segments is valuable in a portfolio context, particularly for portfolios invested in the pro-cyclical stocks that we prefer.

Piet Schimmel
Senior Equity Thematic Expert

Dividend yield remains a reliable source of income



Based on the FTSE EPRA/NAREIT Developed Index Net Total Return in euros

Source: Bloomberg

Commodities: bottom seen for oil and gold

Oil and gold prices have been under pressure, but we believe that the bottom is near and prices should trend gradually upward through the rest of the year. Medium-term forces, however, will limit any broad-based recovery.

Gold and oil prices have been under pressure, given their interest-rate sensitivity and after a recent rise in US real yields (the nominal Treasury yield minus inflation.) As a result, they suffered from competition with other assets, such as bonds. Gold and oil were further hurt when assets with safe-haven characteristics were sold-off after political risks receded with the French election outcome. (See Graphic.)

We expect range-trading in the near term and a modest rise in gold prices later in the year, but the modest rise in US real yields and the US dollar that we expect in the short term will likely weigh on gold prices. Later in the year, we expect the US dollar to come under pressure and gold prices to rise. This is because we expect that the Federal Reserve's 2018 rate hikes to be fully anticipated by the end of this year and for investors to unwind long US dollar positions.

Oil prices have returned to the levels from before the cuts in Opec production in the fourth quarter of 2016. Although oil prices initially gained ahead of the production cut agreement, its actual implementation by the countries was not successful. Higher oil prices triggered renewed investment in and production of US shale oil. As a result, global oil supply remained unchanged, inventories remain at record-high levels and the whole exercise ended up in a shift of market share.

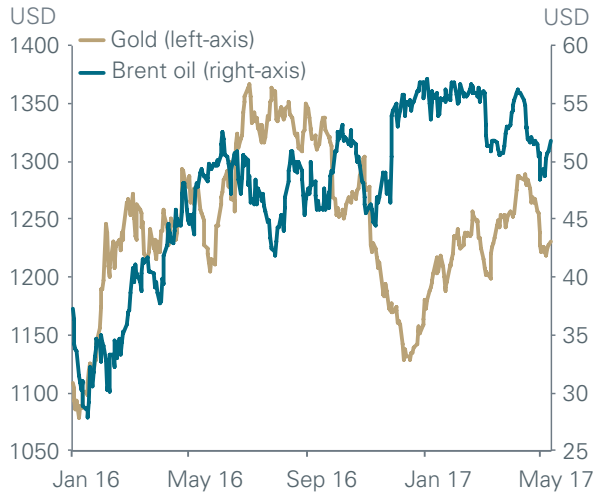
With global oil demand increasing only moderately, the market became less convinced that a balance between supply and demand at higher prices will be reached in the second half of 2017. Still, as long as Opec continues to maintain its current policy that aims for a balanced market, we see room for a recovery in oil prices towards USD 55-60/barrel in the second half of 2017. Market positioning ahead of such a supply/demand balance, as well as a weaker US dollar, could trigger some renewed support for oil prices.

While we expect oil prices to recover later this year, we believe that the risk that oil prices will be lower for longer has increased. This could be triggered by Opec returning its focus to maintaining market share over the medium term and accepting lower prices in the short term.

Hans van Cleef
Senior Energy Economist



Development of oil and gold prices

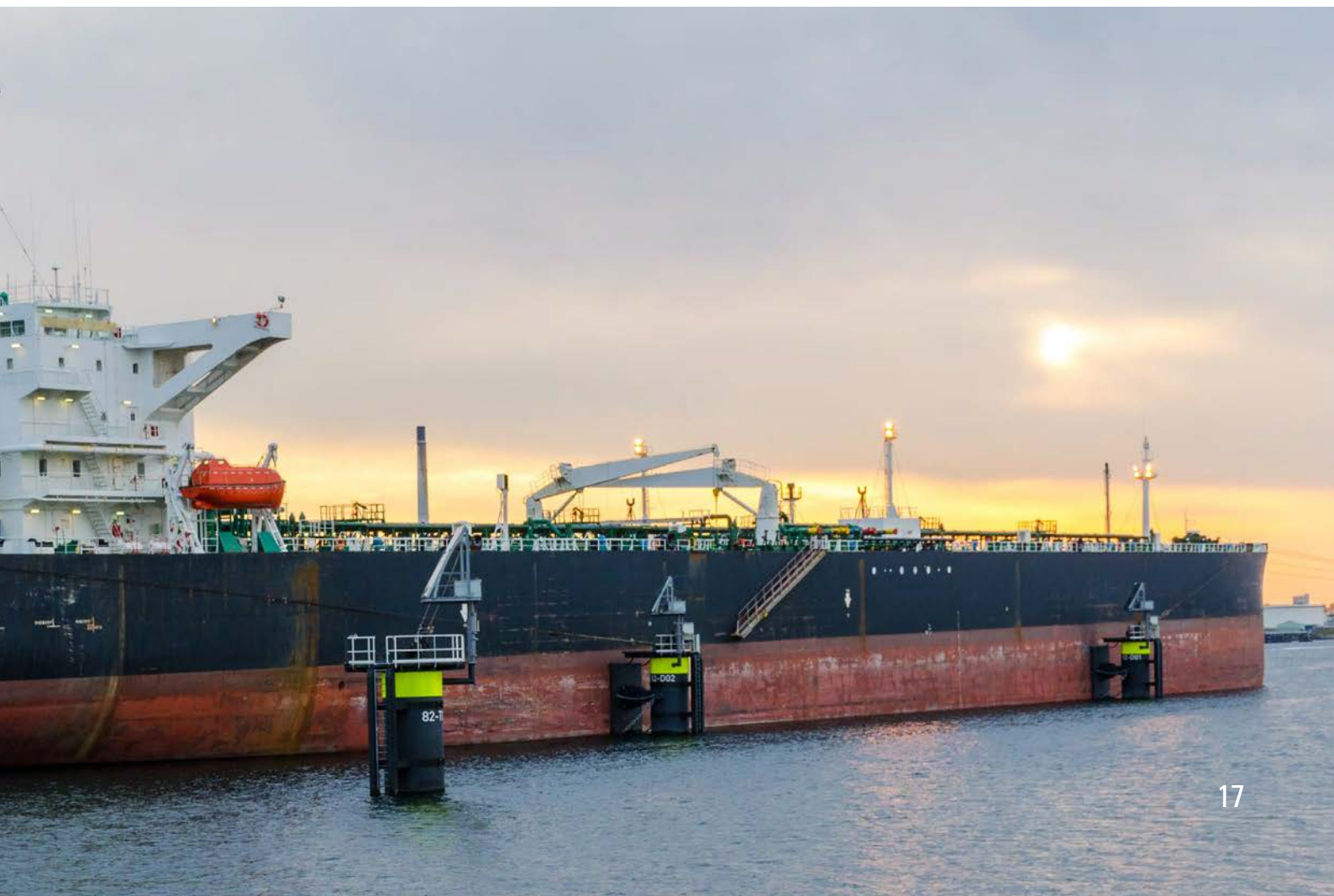


Source: Bloomberg

Forecasts: Commodities

16 May 2017	Spot price	Avg 2017
Oil		
Brent USD/bbl	52	55
WTI USD/bbl	49	60
Metals		
Gold USD/oz	1,230	1,254
Silver USD/oz	16.0	18.3
Platinum USD/oz	922	1,014
Palladium USD/oz	808	801
Aluminium USD/t	1,885	1,985
Copper USD/t	5,539	5,880

Source: ABN AMRO Group Economics



Currencies: the influence of unwinding positions

Eurozone sentiment is improving and the ECB is likely to implement a less accommodative monetary policy, which will support the euro. The US dollar is expected to weaken versus the euro and British pound through the end of 2018.

Since the outcome of the French presidential elections in early May, the euro has recovered as political risks eased. The euro versus the US dollar has risen considerably since the start of this year and broke above our year-end forecast of 1.10. Investors have scaled back expectations about fiscal policy stimulus in the US. We now expect that it will take longer to arrive and that the overall size of the stimulus will be smaller than was first expected. This will likely weigh on the US dollar. Moreover, US economic data have not met expectations recently. This has also added downward pressure on the dollar and especially against the euro and British pound sterling. Negative political headlines about the Trump administration have also weighed substantially on investor sentiment towards the US currency.

More dollar weakness ahead

We expect more dollar weakness and euro strength this year. There are a number of reasons for this. Our expectation for two more rate hikes by the Federal Reserve, for example, is unlikely to provide strong support for the US dollar. Meanwhile, the market will continue to focus on the tapering of the European Central Bank's asset purchases. This should support the euro. Moreover, the negative headlines about the Trump administration will likely continue. This will depress investor sentiment towards the US dollar and trigger more closing of speculative long positions in the US dollar.

If investors were to become more negative on the dollar because of the political developments, and if US data does not turn more positive, it is likely that long positions in the US dollar will be cut towards neutral. This could mean another 4% decline in the dollar versus a basket of currencies. Furthermore, the technical picture has turned negative.

As a result, speculative investors will look for opportunities to sell the dollar and buy the euro. What will likely dampen the upside in EUR/USD is a refocus on political uncertainty and poor fundamentals in Italy later this year.

Next year, we expect the US dollar to weaken across the board, because of lower US real yields, a deterioration in the US growth/inflation mix and other central banks moving towards more restrictive (less accommodative) monetary policies.

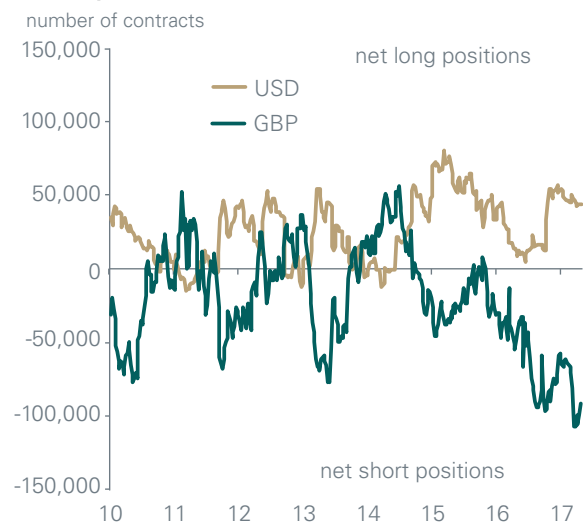
Pound has recovered, but no rally in sight

The British pound has recently recovered, mainly because investors closed some of their excessive net short positions (see Graphic). Nonetheless, there are still huge speculative short positions in the British currency. We believe that it is too early for an aggressive rally, given the uncertainty surrounding Britain leaving the EU, which will likely cap the ability of the pound to rise.

Georgette Boele

Coordinator FX & Precious Metals Strategy

Speculative positions in the US dollar and British pound



Non-commercial net positioning in number of contracts

Source: Intercontinental Exchange Inc (US), Chicago Mercantile Exchange, Bloomberg

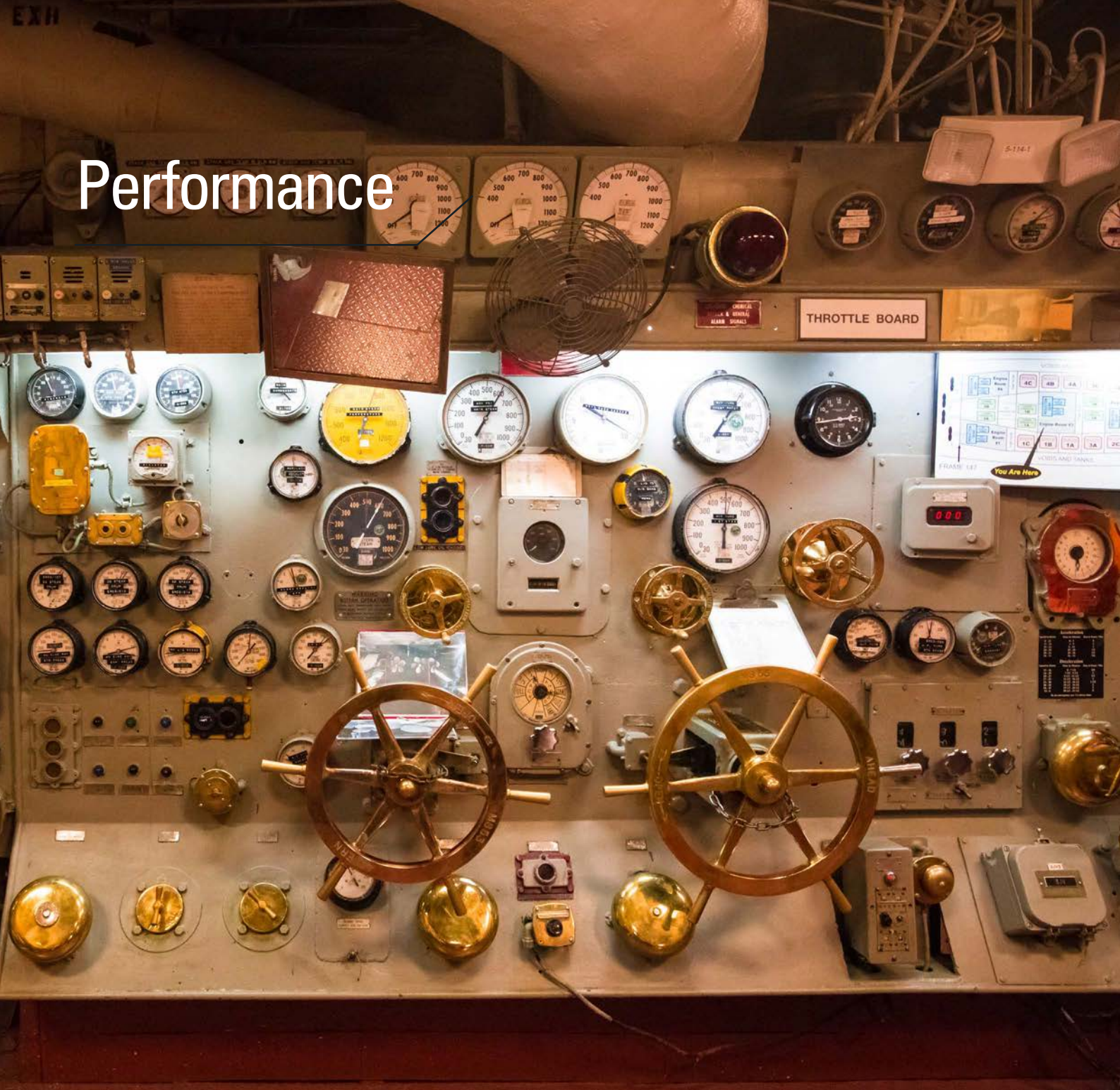


Currencies forecasts

FX pair	Spot 22 May 2017	Q4 2017
EUR/USD	1.1164	1.15
USD/JPY	111.37	110
EUR/JPY	124.33	127
GBP/USD	1.2967	1.30
EUR/GBP	0.8609	0.88
USD/CHF	0.9752	0.96
EUR/CHF	1.0887	1.10
AUD/USD	0.7451	0.76
EUR/AUD	1.4983	1.51
NZD/USD	0.6946	0.71
EUR/NZD	1.6072	1.62

FX pair	Spot 22 May 2017	Q4 2017
USD/CAD	1.3522	1.32
EUR/CAD	1.5095	1.52
USD/SEK	8.7385	8.26
EUR/SEK	9.7554	9.50
EUR/NOK	9.371	9.25
USD/NOK	8.3942	8.04
EUR/DKK	7.4438	7.46
USD/CNY	6.89	7.00
EUR/PLN	4.1914	4.20
USD/BRL	3.25	3.30

Performance



Performance (%) of the tactical asset allocation versus the strategic asset allocation

	EUR						USD					
	22 May 2003 to 28 Apr. 2017*			2017 YTD (28 Apr. 2017)			22 May 2003 to 28 Apr. 2017*			2017 YTD (28 Apr. 2017)		
	Strategic	Tactical	Excess Return	Strategic	Tactical	Excess Return	Strategic	Tactical	Excess Return	Strategic	Tactical	Excess Return
Profile 1	73.23	77.12	2.24	-0.30	0.08	0.38	61.08	77.28	10.06	1.04	1.08	0.05
Profile 2	86.55	98.83	6.58	0.55	1.39	0.84	74.58	93.47	10.82	2.08	2.78	0.68
Profile 3	114.74	144.06	13.65	1.55	2.48	0.92	105.99	134.80	13.99	3.21	4.03	0.80
Profile 4	134.57	165.25	13.08	2.89	3.76	0.84	126.64	152.58	11.44	4.72	5.49	0.73
Profile 5	163.20	203.74	15.40	4.25	4.86	0.58	154.40	186.59	12.65	6.25	6.74	0.46
Profile 6	180.48	217.19	13.09	5.28	5.55	0.26	171.99	199.50	10.12	7.40	7.48	0.08

*Profiles 1 and 2 are linked to the "old" Conservative profile, profiles 3 and 4 to the "old" Balanced profile and profiles 5 and 6 to the "old" Growth profile.

Asset allocation profiles

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ABN AMRO's Global Investment Committee model portfolio risk profiles in percent, starting with the most conservative (Profile 1) and ending with that most exposed to market risks (Profile 6).

Asset allocation	Profile 1					Profile 2				
	Strategic			Tactical	Deviation	Strategic			Tactical	Deviation
	Neutral	Min.	Max.			Neutral	Min.	Max.		
Money markets	5	0	60	44	39	5	0	70	28	23
Bonds	90	40	100	51	-39	70	30	85	39	-31
Equities	0	0	10	0	0	15	0	30	22	7
Alternative investments	5	0	10	5	0	10	0	20	11	1
Funds of hedge funds	5			5	0	5			5	0
Real estate	0			0	0	3			6	3
Commodities	0			0	0	2			0	-2
Total Exposure	100			100		100			100	

Asset allocation	Profile 3					Profile 4				
	Strategic			Tactical	Deviation	Strategic			Tactical	Deviation
	Neutral	Min.	Max.			Neutral	Min.	Max.		
Money markets	5	0	70	19	14	5	0	70	11	6
Bonds	55	20	70	30	-25	35	10	55	18	-17
Equities	30	10	50	40	10	50	20	70	60	10
Alternative investments	10	0	20	11	1	10	0	30	11	1
Funds of hedge funds	5			5	0	5			5	0
Real estate	3			6	3	3			6	3
Commodities	2			0	-2	2			0	-2
Total Exposure	100			100		100			100	

Asset allocation	Profile 5					Profile 6				
	Strategic			Tactical	Deviation	Strategic			Tactical	Deviation
	Neutral	Min.	Max.			Neutral	Min.	Max.		
Money markets	5	0	70	4	-1	5	0	60	2	-3
Bonds	15	0	40	7	-8	0	0	25	0	0
Equities	70	30	90	78	8	85	40	100	90	5
Alternative investments	10	0	30	11	1	10	0	30	8	-2
Funds of hedge funds	5			5	0	5			5	0
Real estate	3			6	3	3			3	0
Commodities	2			0	-2	2			0	-2
Total Exposure	100			100		100			100	

The tactical asset allocation reflects active strategies that account for medium- and short-term views and represents a deviation from the longer term strategic asset allocation.

Contributors

Members of the ABN AMRO Bank Global Investment Committee

Didier Duret	didier.duret@nl.abnamro.com	Chief Investment Officer Private Banking
Gerben Jorritsma	gerben.jorritsma@nl.abnamro.com	Global Head Investment Strategy & Portfolio Expertise
Han de Jong	han.de.jong@nl.abnamro.com	Chief Economist
Olivier Raingeard	olivier.raingeard@fr.abnamro.com	Head Investments Private Clients Neuflyze OBC
Bernhard Ebert	bernhard.ebert@de.abnamro.com	Head Discretionary Portfolio Management Bethmann Bank
Rico Fasel	rico.fasel@nl.abnamro.com	Director Product Management Investment Advisory Netherlands

Group Economics

Georgette Boele	georgette.boele@nl.abnamro.com	Coordinator FX & Precious Metals Strategy
Hans van Cleef	hans.van.cleef@nl.abnamro.com	Senior Energy Economist

Investment Strategy & Portfolio Expertise

Mary Pieterse-Bloem	mary.pieterse-bloem@nl.abnamro.com	Global Head Fixed Income Strategy & Portfolio Management
Roel Barnhoorn	roel.barnhoorn@nl.abnamro.com	Senior Fixed Income Thematic Expert
Willem Bouwman	willem.bouwman@nl.abnamro.com	Fixed Income Portfolio Manager
Chris Huys	chris.huys@nl.abnamro.com	Senior Fixed Income Portfolio Manager
Shanawaz Bhimji	shanawaz.bhimji@nl.abnamro.com	Fixed Income Research & Advisory Expert

Annemijn Fokkelman	annemijn.fokkelman@nl.abnamro.com	Global Head Equity Strategy & Portfolio Management
Maurits Heldring	maurits.heldring@nl.abnamro.com	Equity Research & Advisory Expert
Jaap Rijnders	jaap.rijnders@nl.abnamro.com	Equity Research & Advisory Expert
Piet Schimmel	piet.schimmel@nl.abnamro.com	Senior Equity Thematic Expert
Paul van Doorn	paul.van.doorn@nl.abnamro.com	Senior Portfolio Manager Equities
Chris Verzijl	chris.verzijl@nl.abnamro.com	Portfolio Manager Equities
Martien Schrama	martien.schrama@nl.abnamro.com	Profile Manager

Quantitative Analysis and Risk Management

Hans Peters	hans.peters@nl.abnamro.com	Head Investment Risk
Paul Groenewoud	paul.groenewoud@nl.abnamro.com	Quant Risk Specialist
Linus Nilsson	linus.nilsson@nl.abnamro.com	Investment Risk Specialist

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Offices

ABN AMRO MEESPIERSON

AMSTERDAM

Rico Fasel

rico.fasel@nl.abnamro.com

BANQUE NEUFLIZE OBC S.A.

PARIS

Wilfrid Galand

wilfrid.galand@fr.abnamro.com

BETHMANN BANK AG

FRANKFURT

Bernhard Ebert

bernhard.ebert@bethmannbank.de

ABN AMRO PRIVATE BANKING

LUXEMBOURG

Jean-Marie Schmit

jean.marie.schmit@lu.abnamro.com

ABN AMRO PRIVATE BANKING

ANTWERPEN - BERCHEM

Erik Joly

erik.joly@be.abnamro.com

ABN AMRO PRIVATE BANKING

CHANNEL ISLANDS

Andrew Pollock

andrew.pollock@gg.abnamro.com

For all enquiries, please contact one of the branches above.



This publication is produced by the Global Investment Communications team. If you have questions or comments, contact the team at I-Comms.Global@nl.abnamro.com.

www.abnamroprivatebanking.com