



# keeping a balanced view

Investment Outlook  
September 2015



# Contents

Cyclical uplift on its way	1
Keeping a balanced view	2
Summary of active strategies	3
Europe in the lead	4
China: historical transition is underway	5
Equities: strong fundamentals	6
Bonds: scant reward for the risk	7
Currencies: policy shifts	8
Commodities: closing in on the bottom	9
Forecasts	10
Asset allocation profiles	11
Contributors	12

This is an international ABN AMRO publication. Risk profiles and the availability of investment products may differ by country. Your local advisor will be able to provide more information.

# Cyclical uplift on its way



*Didier Duret*

**Didier Duret**

Chief Investment Officer,  
ABN AMRO Private Banking

September 2015

We are convinced that the fear of a global slowdown stemming from China is exaggerated. Chinese policy-makers have the resources and the will to stabilise their economy. The last months of the year will see a cyclical uplift in the US and Europe, which will extend to emerging-Asia economies in the course of 2016. We expect central banks to remain on guard for eruptions of market volatility, while the US Federal Reserve pursues a prudent path of slow and gradual rate hikes.

In this environment, we stand by our asset allocation, consisting of an overweight in equities, an underweight in bonds and overweights in commodities and hedge funds. The following convictions are the basis for our outspoken views:

- The direction of equity markets will be more sensitive to monetary policy actions than company news. Such market distractions create opportunities to build positions in companies with good cash flow and earnings-growth potential, especially for clients underexposed to equities.
- The global recovery, attractive valuations and earnings fundamentals support European stocks. Large differences in valuation make European stocks and those of emerging Asia more attractive than US stocks.
- Bond markets will remain vulnerable because of liquidity concerns. There is, however, a second chance to build positions in inflation-linked bonds. Investment-grade and high-yield bonds will be supported by improving economic conditions.
- The heavy correction in commodities is not an indicator of upcoming deflation. We expect that the commodities market will reverse over the next few months.
- Hedge funds continue to offer diversification and the ability to soften the blows of short-term market volatility.

ABN AMRO Private Banking's investment team, who are responsible for this Investment Outlook, provide 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 what is ahead in the last months of 2015 and beyond.



# Keeping a balanced view

**The slowdown in China and rising interest rates in the US are a concern, but are not risks to global growth. We believe that the cyclical uplift that is underway in Europe and the US will be strong enough to overcome negative market sentiment. We remain in favour of investing in stocks, commodities and hedge funds.**

At a time when the crisis in China is leading many forecasters to revise downward their growth predictions for China, the US, and emerging economies, ABN AMRO is reaffirming its conviction that a cyclical uplift will unfold in the last months of the year, driven by improving consumer demand and an industrial recovery in developed economies. With this view, we stand apart from consensus opinion, and we stand by our conviction in overweight allocations to European and emerging-markets Asian equities.

We believe that the low oil price is already having a negative impact on energy producers and curbing their investments in infrastructure. This lack of investment will progressively erode future supply. In the meantime, lower commodity prices are benefiting consumers, while boosting corporate margins and earnings. A slight economic acceleration, together with central banks acting to spur inflation, will stabilise equities and support credits.

## Progressive trends, despite uncertainty

- ▶ **A cyclical uplift can be expected in the last months of the year**, based on improving domestic demand in the euro-zone and the US and prolonged low prices for energy and commodities. The volatility in Chinese markets is not expected to have a significant negative wealth effect in mainland China or to unsettle world economic prospects. A recovery of world trade in 2016 will follow.
- ▶ **The financial crisis in China is prolonging the emergency duties of central banks.** They remain vigilant in providing financial liquidity and supporting economic growth. A slow and gradual path back to more normal interest rates in the US is more important than the timing of the first rate hike.
- ▶ **Positive earnings and margin trends remain the key fundamentals for investors.** Low input prices, created by low commodity prices, and the domestic recoveries in Europe and the US are positive drivers.

## Challenges linked to the path back to "normal"

- ▶ **Volatility has obscured the value of equities.** Short-term fears, as experienced with China and Greece over the summer, have eroded market confidence. They also distract from the long-term drivers supporting company earnings and margins.

- ▶ **The volatility in developed equity markets will abate.** It will respond more to policy measures than to company fundamentals. The lag between an uptick in Chinese data and policy measures may rekindle bouts of volatility. Central banks are back to extinguishing fires, which will delay the normalisation of monetary policies.
- ▶ **Liquidity in bond markets remains critical** and can lead to technical corrections. Low bond yields are a poor reward for the risk of bond investing.

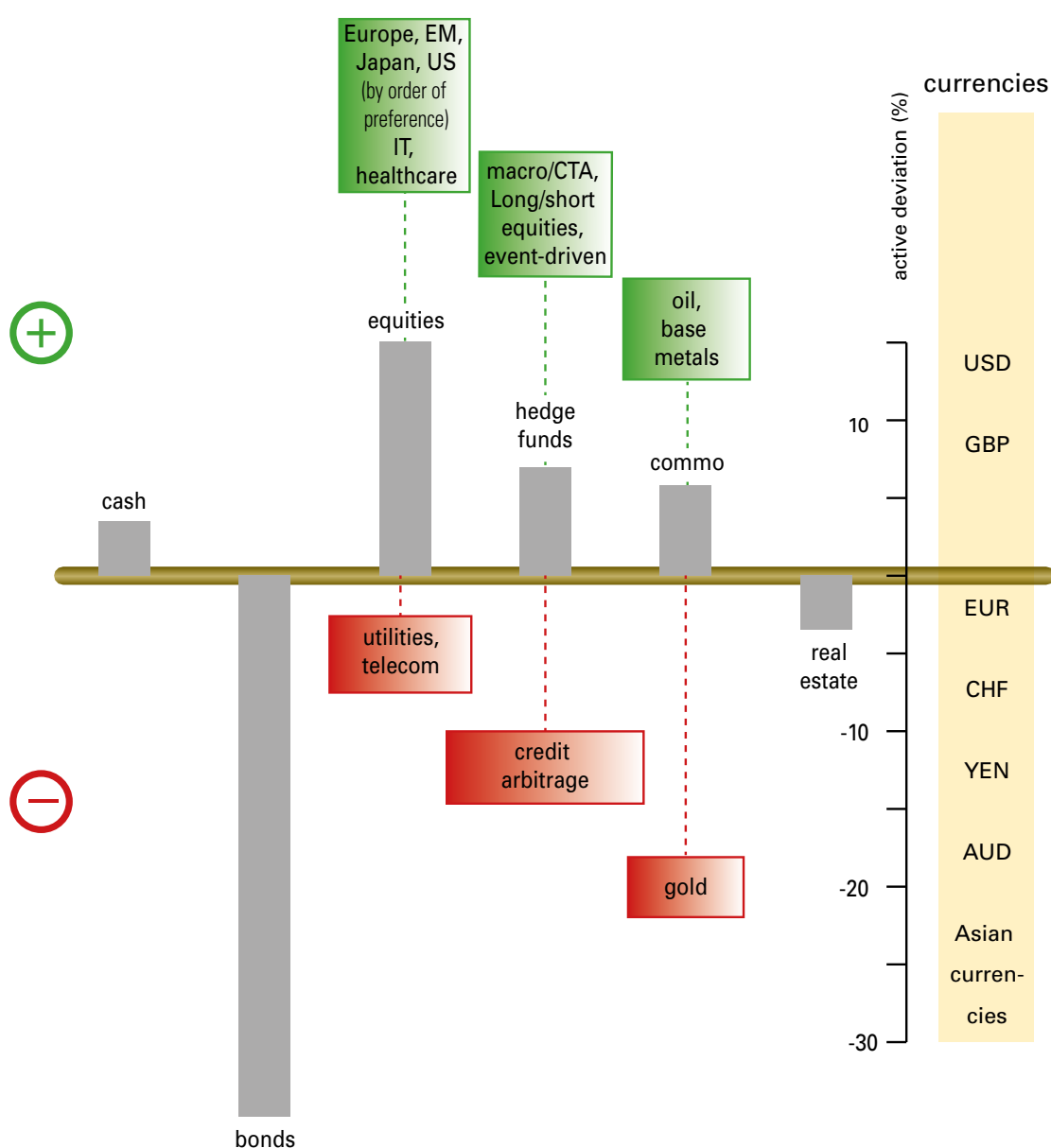
## Opportunities to re-enter markets

- ▶ **Short-term market jitters are making industry leaders attractive**, as it is less likely that market sentiment will affect their earnings prospects. "Buying on dips," is relevant for clients underexposed to stocks. The equity markets correction and positive prospects favour building exposure in selected sectors tied to economic growth, such as IT and health care, especially in Europe, where earnings trends are positive.
- ▶ **Yields on investment-grade and high-yield corporate credits are being supported** by the prolonged soft recovery.
- ▶ **Hedge fund managers offer less cyclical but diversifying exposure.** Select those with the skill to implement short positions (long/short equity) or the agility to play trend reversals (CTA/managed futures).

Didier Duret – Chief Investment Officer

# Summary of active strategies

- The active, diversified allocation shown below is in line with our convictions: 75% of the model portfolio deviates from its benchmark.
- The gray bars display the direction and magnitude of the overweight (+) or underweight (-) allocation to the respective asset classes in a balanced portfolio.
- The boxes highlight the preference (green) or underrepresentation (red) within each asset class



Source: ABN AMRO Private Banking

# Europe in the lead

- Chinese policymakers will handle the transition to more sustainable growth levels
- Industrial activity will strengthen in the fourth quarter
- Economic recovery is continuing in the US and eurozone

Concerns over the outlook for the global economy have risen, in particular in relation to China. While China is slowing, this is a necessary consequence of the transition to more balanced, sustainable growth. We continue to believe that the authorities can handle the transition and that a hard landing will be avoided. Barring continued and even more intense turmoil on financial markets, the outlook for the US and European economies is actually improving.

## Industrial activity in line for a cyclical uplift

While global economic growth disappointed in the first half of the year, we expect the global industrial cycle to strengthen and for a cyclical uplift to occur in the fourth quarter. In contrast to recent years, Europe is in the lead. Total economic demand in eurozone economies is increasing. Austerity is easing, the credit channel is unclogging and the region is benefitting from lower oil prices, a weaker euro and low interest rates. The European Commission's Economic Sentiment Index reached its highest level since 2011 in July. Germany's Ifo business confidence index beat expectations in July after disappointing in May and June. And, eurozone car registrations rose by 14.7% in June compared with a year ago. This is the highest growth rate since 2009. (See Graphic.) Growth is increasingly driven by domestic demand, reducing the potential vulnerability to developments elsewhere in the global economy.

There is also good news in the US, where comparable indicators are encouraging. The US labour market is improving steadily, and the housing market continues on a modest upward trajectory. We expect these trends to continue.

## China: moving toward slower, but more sustainable, growth

It is a different picture in emerging economies, which are generally struggling. As China glides to a lower, more sustainable, pace of economic growth, it is affecting other Asian economies, which also have had to cope with the sharp depreciation of the Japanese yen in recent years. China's growth is also relying less on commodities at a time when supply in many commodities is still expanding. As a result, commodity prices have been under pressure for some time, which is bad for commodity exporters, but, obviously, positive for commodity importers. We believe that Chinese policymakers will be successful at managing the shift to a more domestic-oriented economic model, while they address problems in the real-estate and financials sectors and implement anti-corruption and environmental reforms.

## Best-flagged Federal Reserve rate hike ever

The first rate hike by the US Federal Reserve is coming closer.

This is set to happen in the next few months. It will be the first increase in US official interest rates in over nine years. Many commentators are worried that such a move will lead to additional volatility in financial markets and affect the economy negatively. We are less concerned. The upcoming tightening cycle is undoubtedly the best-flagged ever. It cannot surprise anyone.

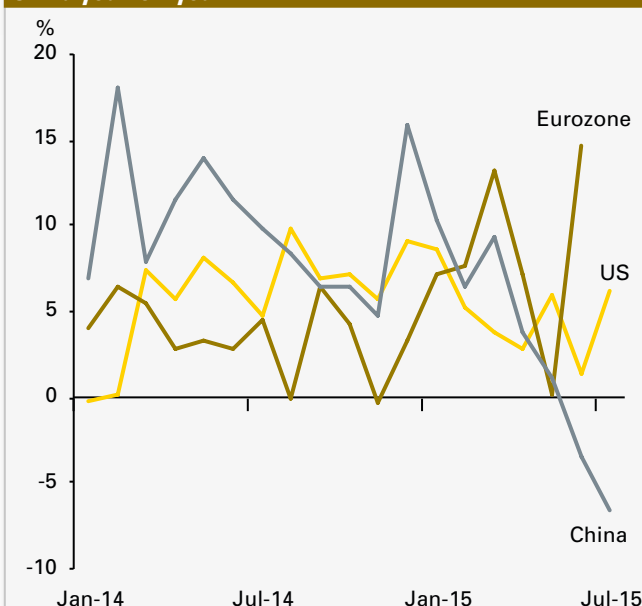
What is more important is how rapidly the Fed will continue raising rates. There are several reasons to expect the Fed to be cautious and gradual. First, the data on economic activity and inflation does not suggest the Fed should tighten aggressively. Second, several members of the policymaking committee believe that monetary tightening is premature. And third, the Fed does not want to cause disruptions in financial markets or in the real economy.

## The ECB should be satisfied

The European Central Bank (ECB) is committed to its current asset-purchasing programme until September 2016. We think the ECB is probably very satisfied with the recent trends in the eurozone economy. Growth has picked up, the credit channel is improving and core inflation is edging higher. There is little reason for the ECB to change its policy any time soon.

Group Economics  
Han de Jong – Chief Economist

Growth in car sales in the US, eurozone and China year-on-year



Source: Thomson Reuters Datastream

# China: historical transition is underway

- China growth to slow to 7% in 2015
- Services sector growing more than manufacturing
- Yuan devaluation will support competitiveness

China saved the world when western countries were deeply entrenched in the financial crisis. It was China's industrial growth and huge fiscal stimulus that kept the world economy going. It managed to accomplish what no developed economy could. But now, China is encountering the results of its own successful development and its ambition to be a leader among the world's great powers. The recent instability seen in China can be viewed as a by-product of the rapid and profound changes that have been undertaken. They are leading to an intense period of policy action and adjustment.

## Gradual slowdown, as the government keeps adding support

We expect China's overall slowdown to remain gradual, with growth falling to 7% this year from 7.4% in 2014. Services sectors are generally outperforming industrial sectors, although the stock market's correction will impact financial services.

While easing measures often work with some lag, monetary conditions have started to ease, and house prices are bottoming out thanks to improvements in larger cities. We expect the authorities to continue to add stimulus to keep growth close to the 2015 target of 7%. The authorities, for example, cut the policy rate by another 25 basis points in late August, marking the fifth such move since November 2014. Bank reserve requirements were also lowered by another 50 basis points. We expect more easing to come. We also expect more targeted fiscal stimulus, such as by providing banks with additional resources to finance infrastructure spending.

## Divergence between industrial and services sectors widens

China's weakness is concentrated in the industrial and real-estate sectors, which suffer from oversupply and need to undergo structural adjustments. After showing some improvement in June, China's industry seemed to have lost momentum in July. Special factors, such as the explosion at the container storage station at the Port of Tianjin, might hurt momentum. The slowdown of China's industry hit imports this year, including commodity imports (despite a rebound in recent months). Hence, Chinese growth has become somewhat less commodity-intensive. Meanwhile, services sectors, which accounted for 48% of the economy in 2014, are in much better shape. This divergence is also reflected in the Purchasing Managers Indices for manufacturing and services (see Graphic).

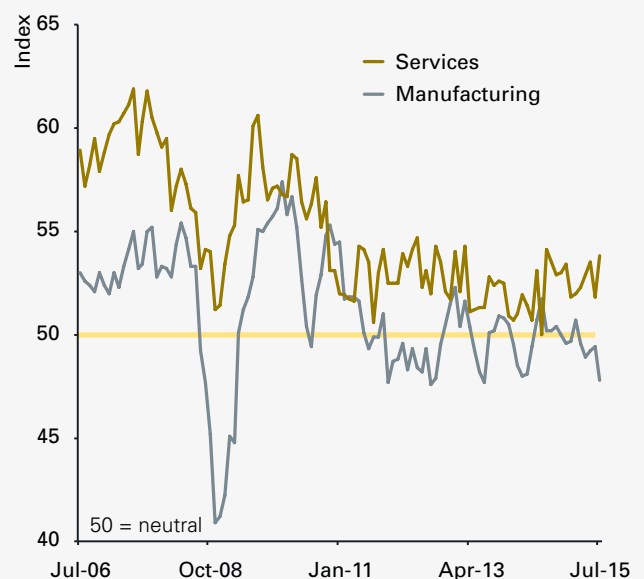
## No currency war expected

The devaluation of the yuan that occurred in mid-August made economic sense. We expect that the authorities will allow more weakness for the currency in the future. Pegging the yuan to a strong US dollar was hurting China's external competitiveness. Some currency depreciation will not only help to restore competitiveness, but it can also help to push inflation a bit higher. Although we expect some more moderate weakening of the yuan in 2015 and 2016, we do not think that the yuan devaluation will trigger a full-blown currency war. The steps taken so far are not aggressive. It will likely remain a heavily managed currency.

Group Economics

Arjen van Dijkhuizen - Senior Economist Emerging Markets

## Divergence of Chinese manufacturing and services industries



Source: Thomson Reuters Datastream, CAIXIN

# Equities: strong fundamentals

- Overweight in equities maintained
- Preference for Europe, China and India
- The IT and health care sectors should benefit from investment inflows and innovation

Recently, global equities wiped out the gains achieved during the first half of the year. The Greek debt crisis and worries about Chinese growth have fuelled a surge in stock market volatility. We expect stable economic fundamentals will prevail over short-term market volatility. We remain overweight in equities. Our macroeconomic scenario of a cyclical uplift is clearly positive for equities, and it has not yet been priced-in to valuations. Growing final demand in the Western economies is taking over from other positive factors, such as liquidity and low interest rates, that have been supporting equity markets for some time. But while liquidity remains ample, interest rates will not remain so low forever. The US is already on a slow and gradual path to higher rates.

## Positive earnings season supports stocks

The first sign of a cyclical uplift was seen in second-quarter earnings reports, which were largely better than expected. In the US, it was companies that were tied to domestic demand that did better than analysts had forecast, while exporters were hurt by the slowdown in China and a stronger US dollar. In Europe, earnings surprises were found mainly among companies in cyclical sectors, including information technology (IT) and industrials, which were supported by falling oil prices and a weak euro.

## European companies have further to go

We continue to recommend European companies over US companies because we believe they have more earnings potential. One reason is that Europe is in an earlier stage of the economic cycle. Earnings yields are also higher in Europe (see Graphic). European companies are benefiting from a weaker euro, improving earnings expectations and the liquidity provided by European Central Bank policies.

Although US economic growth and company earnings continue to be robust, further US earnings could be limited given elevated margins. In addition, valuations have become demanding and a stronger US dollar could remain a drag on earnings.

## Still positive on emerging markets, mainly China and India

Our preference for emerging markets focuses on Asia, mainly China and India, and is based on growth prospects. This is despite recent lower growth data. We believe that Chinese policymakers will control the deceleration of their economy, which we expect to grow by 7% this year. It may be lower growth compared with the past, but the economy is also now much larger. Within emerging Asia, we avoid

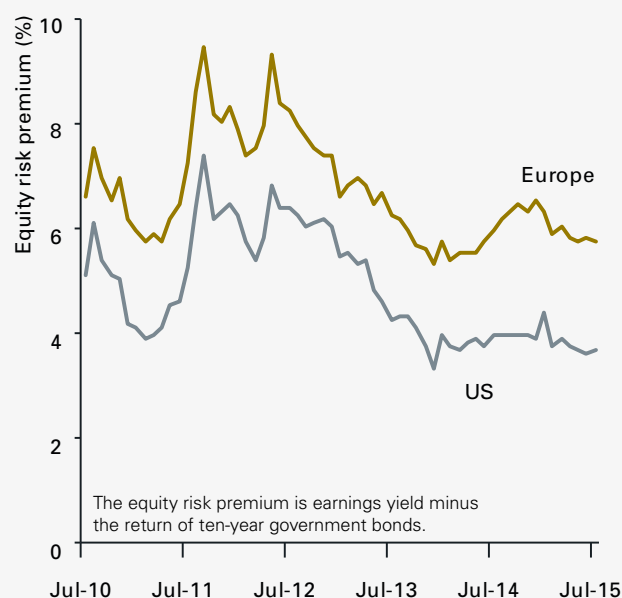
commodity-exporting countries such as Indonesia, Malaysia and Thailand, given weak commodity prices. In China there was a sharp market correction that has had the effect of resetting valuations, which keeps us positive on Chinese equities traded in offshore markets.

## IT and health care companies will benefit from growth

As the global economy further improves, we expect the IT sector to benefit from investment inflows. The earnings outlook for IT companies also remains favourable, although valuations are rising. The health-care sector is also expected to do well, based on continued innovation and growing demand, driven by an aging population. We are not in favour of some sectors that typically do well as the business cycle progresses, such as the industrials and materials sectors. This is because of the effect of risks seen in emerging markets and the turmoil in commodities markets.

Investment Strategy & Portfolio Expertise  
Annemijn Fokkelman – Global Head Equity Strategy & Portfolio Management

## Earnings yield is higher in Europe than in the US



Source: FactSet, MSCI



# Bonds: scant reward for the risk

- There has been a limited and temporary rush to bonds as safe-haven assets.
- Core eurozone government bonds have very low yields, while corporate bonds remain attractive
- A minimum allocation to bonds is recommended

The periods of volatility in financial markets triggered by the crises in Greece and China have created a mild demand for safe-haven assets, such as US Treasuries. The agenda to return to normal interest rates in the US may be delayed, but will return, and fixed-income markets will be affected by improving economic fundamentals in the US and Europe. Based on our positive macroeconomic outlook for these regions, we expect yields to slowly return to higher levels. Given a scenario of gradually rising rates, bond returns are expected to be marginal. For core government bonds, they may even be negative. We therefore continue to recommend a minimum allocation to fixed-income assets.

## Rate hikes in the US and continued support from the ECB

We expect the US Federal Reserve to hike rates along a slow and gradual path, once financial market volatility abates. In Europe, we expect the European Central Bank (ECB) to maintain its bond-buying programme through September 2016. The ECB's bond buying has negative consequences for market liquidity. This is illustrated by ten-year German Bund yields, which rose from 0.05% to 1% within a matter of weeks in May and June. The ECB was the only buyer of core eurozone government bonds, as institutional investors remained side-lined by the artificially low interest rates. Volatility from low market liquidity is expected to last.

Our expected returns for the next 12 months (see the forecast on page 10) factor in a gradual increase in interest rates in both Europe and the US. This implies negative returns for core eurozone government bonds, as current yields are not sufficient to absorb higher interest rates.

## Inflation-linked bonds and credits remain attractive

We continue to see value in European inflation-linked bonds, where the coupon and principal are indexed to inflation. This is because we are confident that the ECB will achieve its official inflation target of 2%. In line with our positive outlook for Europe, we expect inflation to pick up toward this goal. We also expect more of a pick-up than the market consensus. (See Graphic.) The additional 1.25% of inflation that we expect through the end of 2016 will flow directly to inflation-linked bond holders.

After the uncertainty about Greece and with the prospect of higher rates in the US, investment-grade companies from the US are issuing bonds in Europe to diversify funding for share buybacks and acquisitions.

The ECB's government bond purchases are also creating investor interest in corporate credits. We are positive on this segment of the bond market, as we expect default rates to stay low and balance sheets to remain solid. This view is based on an improvement in corporate earnings as industrial activity lifts the economy in the fourth quarter.

In the high-yield bond segment, we expect default rates to increase, but to stay below their long-term average. The reason for more defaults is owing to the relatively large exposure of the US high-yield market to the oil sector, which is suffering from oversupply and low prices.

## Investment Strategy & Portfolio Expertise

Roel Barnhoorn - Senior Fixed Income Thematic Expert

Henk Wiersma - Senior Fixed Income Research & Advisory Expert

## European inflation expectations



Inflation as measured by the European Consumer Price Index excluding tobacco. Based on indexed data where 2005 = 100.

Source: Bloomberg, ABN AMRO Private Banking

# Currencies: policy shifts

- A regime shift in the Chinese yuan surprised markets in August
- The euro held steady during the Greek financial crisis
- The US dollar should continue to strengthen

The Chinese yuan weakened by around 3.5% in mid-August, when the People's Bank of China shifted its daily yuan reference-rate pricing mechanism to better reflect market forces. This move shocked the market and resulted in weaker Asian foreign-exchange trading. We believe it was a logical step from the viewpoint of Chinese policymakers. A weaker currency is needed to support the economy.

A weaker yuan will help China to restore export competitiveness (see Graphic) and boost lacklustre export performance. It also adds some upward pressure on inflation. A more market-based daily reference-rate mechanism also supports China's aim for the yuan to be included in the International Monetary Fund (IMF) Special Drawing Rights (SDR) group. The IMF recently indicated that the decision to include the yuan in the SDR basket is postponed to next year. It is therefore likely that Chinese authorities will continue to accelerate financial liberalisation.

We expect the Chinese currency will weaken further this year and next versus the US dollar. The pace of depreciation, however, will not be aggressive, given concerns over capital outflows. In addition, the Chinese central bank will likely prevent a disorderly depreciation to avoid speculators seeing the weakness in the yuan as a one-way bet.

## US dollar gaining upward momentum

The US dollar peaked in March and then gave back gains, as investors adjusted downwards their expectations about Fed rate hikes and took profits in long US-dollar positions and short euro positions. The euro was relatively stable versus the dollar during the escalation of the crisis in Greece. This was mainly because the Greek crisis was not seen as endangering the euro. It illustrated that a modest deterioration in investor sentiment was not sufficient to propel the US dollar. Currently, the buck is driven by cyclical forces, such as US economic performance in comparison with the rest of the world and the outlook for US central-bank policy. Since mid-May, investor sentiment towards the US dollar has improved. This led the dollar versus the Japanese yen to break through key resistance levels.

We expect the US economy to strengthen in the months ahead and to lay the groundwork for higher interest rates in the US. Money market futures have a pattern of underestimating future rate moves and an upward adjustment in interest rate expectations for 2015 and 2016 should give a strong boost to the dollar this year. We expect the euro and the dollar to test parity in the coming months, mainly because of the monetary policy divergence between the US and eurozone.

We maintain our bearish view on the yen. This is based on additional monetary policy stimulus by the Bank of Japan, a widening difference in interest rates with the US and less interest in the yen as a safe-haven currency.

Group Economics

Georgette Boele - Coordinator FX & Precious Metals Strategy

Roy Teo - Senior FX Strategist

## Forecasts for major emerging-markets currencies

FX pair	1 Sept 2015	Q4 2015	Q4 2016
USD/CNY (onshore)	6.36	6.55	6.75
USD/CNH (offshore)	6.42	6.55	6.75
USD/INR	66.3	66	68
USD/KRW	1,172	1,240	1,300
USD/SGD	1.40	1.46	1.52
USD/THB	35.75	36.40	37.30
USD/TWD	32.41	33.40	34.00
USD/IDR	14,098	14,300	15,000
USD/RUB	65	60	55
USD/TRY	2.92	3.10	2.90
USD/ZAR	13.32	13.50	12.50
EUR/PLN	4.23	4.15	4.00
EUR/CZK	27.50	27.50	26.75
EUR/HUF	314	315	310
USD/BRL	3.62	3.70	3.50
USD/MXN	16.89	17.00	16.00

Source: ABN AMRO Group Economics

## The yuan's peg to the US dollar became expensive



Source: BIS

# Commodities: closing in on the bottom

- Temporary effects pushed commodities prices lower
- Strengthening of the global economy should result in stronger demand for industrial commodities
- Despite oversupply now, lack of investment could drive oil prices up in the medium term

Oversupply and China have been the dominant factors in the commodities market for some time. Negative sentiment for the sector is reflected in the downward pressure on already-low commodity prices. While the commodities market is often viewed as an alternative source of investment return, it remains a small market that is the first to be sold when worries or risk aversion increase, resulting in heavily oversold prices.

## Cyclical commodities prices to appreciate

We believe that the downward correction in commodities prices, in part driven by lower Chinese demand for base metals, has gone too far. During the cyclical uplift which we expect to materialise in the coming months, we expect prices to appreciate for cyclical commodities, such as copper, nickel and zinc.

The precious metals platinum and palladium should also appreciate, based on growing demand and profit-taking on recent downward moves in the market. Negative sentiment regarding gold, however, could limit the increase expected for precious metals. We remain negative on the prospects for gold, as we expect investors to liquidate positions when the US dollar appreciates and US interest rates rise, especially in an environment where inflation expectations are muted and investor sentiment is positive.

## Too much oil is keeping prices low

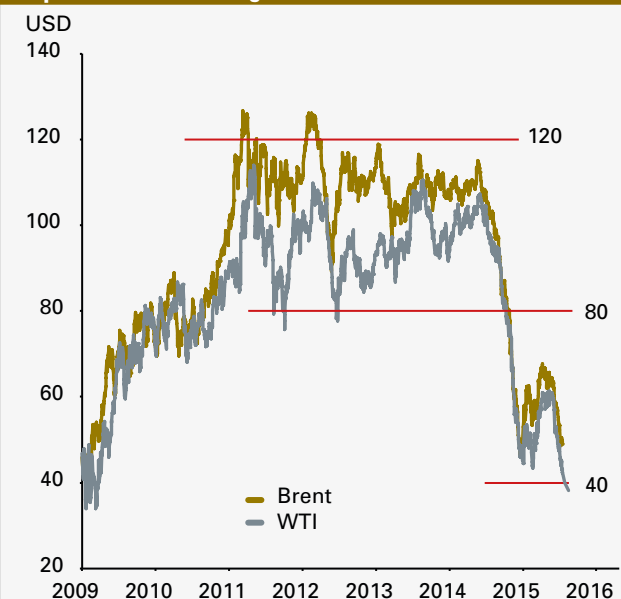
Oversupply of oil has negatively affected prices. (See Graphic.) Yet despite the low prices, US crude production remains close to record levels. Production by the Organisation of the Petroleum Exporting Countries is also at record levels. As a result, there is an exceptional oversupply situation. And even more supply is expected when Iran returns to the market with the lifting of Western sanctions. As a result, oil prices are expected to trade lower for longer. We expect that the market will try to find a bottom that will take into account longer-term risks.

Investments in the oil sector were ramped up when oil prices were over USD 100 per barrel. This led to production of more expensive oil, such as from US shale and Canadian tar sands. As more oil entered the market, a glut was created. Traditional oil-producing countries, such as Saudi Arabia and Russia, however, did not use the high price to invest in oil infrastructure. Instead, they directed the additional cash flow into public budgets. As a result of the lack of investment by these major suppliers, there is a significant risk of a supply shortage in the medium term, which we define as three to five years.

Although increased energy efficiency is leading to declining demand in Europe and relatively stable demand in the US, global oil demand is still expected to increase gradually. Therefore, the situation of oversupply is likely to fade. While triple-digit oil prices are not expected to return soon, oil prices could start to appreciate towards USD 70-80 per barrel in the medium term, as the market anticipates an improved supply/demand balance. Despite today's state of oversupply, lack of investment could result in shortages in just a few years. In the meantime, the low oil price is creating an "oil dividend" for oil-consuming economies.

Group Economics  
Hans van Cleef - Senior Energy Economist

## Oil prices in a new range



Source: Thomson Reuters, ABN AMRO Group Economics

# Forecasts

## Macro indicators (%)<sup>1</sup>

27 August 2015	Real GDP growth 2016		Inflation 2016	
	ABN AMRO	Market view	ABN AMRO	Market view
US	3.1	2.8	2.4	2.2
Eurozone	2.2	1.8	1.5	1.3
UK	2.6	2.4	1.9	1.6
Japan	1.2	1.7	1.4	1.1
Other countries*	2.3	2.2	1.8	1.8
EM Asia	6.4	6.3	3.1	3.1
Latin America	1.3	1.6	11.9	14.3
Emerging Europe**	1.9	1.8	5.5	6.1
World	3.8	3.6	3.8	3.7

## Equity indexes

	Spot 27 Aug 2015	Active strategy	Forward P/E 2016
MSCI ACWI	396.95	Overweight	13.86
S&P 500	1,981.55	Underweight	15.13
Euro Stoxx 50	3,280.78	Overweight	12.82
FTSE-100	6,192.03	Overweight	13.65
Nikkei 225	18,574.44	Neutral	15.96
DAX	10,315.62	Overweight	11.79
CAC 40	4,658.18	Overweight	13.58
AEX	443.36	Overweight	14.12
Hang Seng Index	21,838.54	Neutral	9.97
Shanghai SE Comp.	3,083.59	Overweight	11.34
Straits Times Index	2,945.43	Neutral	11.54

## Interest rates and bond yields (%)

	29 Aug 2015	Q4 2015	Q4 2016
<b>United States</b>			
US Fed	0.25	0.50	1.50
3-month	0.33	0.60	1.60
2-year	0.71	0.90	2.00
10-year	2.14	2.40	2.80
<b>Germany</b>			
ECB Refi	0.05	0.05	0.05
3-month	0.05	0.00	0.00
2-year	-0.20	-0.20	-0.20
10-year	0.72	0.70	1.60

## Forecasts for major developed-markets currencies

FX pair	1 Sept 2015	Q4 2015	Q4 2016
EUR/USD	1.1269	1.00	1.10
USD/JPY	119.93	128	135
EUR/JPY	135.11	128	149
GBP/USD	1.5342	1.49	1.49
EUR/GBP	0.7345	0.67	0.74
USD/CHF	0.9622	1.10	1.05
EUR/CHF	1.0844	1.10	1.15
AUD/USD	0.7082	0.70	0.64
NZD/USD	0.6328	0.63	0.58
USD/CAD	1.3194	1.36	1.45
EUR/SEK	9.5149	9.50	9.50
EUR/NOK	9.3855	9.00	8.00
EUR/DKK	7.4632	7.46	7.46

## Commodities

28 August 2015	Spot index	2015 average	2016 average
Brent USD/bbl	47.56	60	65
WTI USD/bbl	42.56	55	60
Gold USD/oz	1,125.31	1,137	900
Silver USD/oz	14.48	16.0	16.0
Platinum USD/oz	1,001	1,078	1,100
Palladium USD/oz	559.50	700	631
Aluminium USD/t	1,557	1,730	1,840
Copper USD/t	5,124	5,800	6,450

<sup>1</sup> All forecasts are annual averages of quarterly year-on-year changes.

\* Australia, Canada, Denmark, New Zealand, Norway, Sweden and Switzerland.

\*\* Belarus, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Slovenia, Turkey, Ukraine.

Source: ABN AMRO Group Economics, Consensus Economics, EIU.



# Asset allocation profiles

ABN AMRO's Global Investment Committee model portfolios showing EUR/USD risk profiles in percent, starting with our most conservative (Profile 1) and ending with that most exposed to market risks (Profile 6).

Asset allocation	Profile 1					Profile 2				
Asset class	Strategic			Tactical	Deviation	Strategic			Tactical	Deviation
	Neutral	Min.	Max.			Neutral	Min.	Max.		
Money markets	5	0	60	46	41	5	0	70	21	16
Bonds*	90	40	100	46	-44	70	30	85	35	-35
Equities	0	0	10	0		15	0	30	26	11
Alternative investments	5	0	10	8	3	10	0	20	18	8
Funds of hedge funds	5			8	3	5			11	6
Real estate	0			0	0	3			0	-3
Commodities	0			0	0	2			7	5
Total Exposure	100			100		100			100	

Asset allocation	Profile 3					Profile 4				
Asset class	Strategic			Tactical	Deviation	Strategic			Tactical	Deviation
	Neutral	Min.	Max.			Neutral	Min.	Max.		
Money markets	5	0	70	14	9	5	0	70	6	1
Bonds*	55	20	70	25	-30	35	10	55	13	-22
Equities	30	10	50	43	13	50	20	70	63	13
Alternative investments	10	0	20	18	8	10	0	30	18	8
Funds of hedge funds	5			11	6	5			11	6
Real estate	3			0	-3	3			0	-3
Commodities	2			7	5	2			7	5
Total Exposure	100			100		100			100	

Asset allocation	Profile 5					Profile 6				
Asset class	Strategic			Tactical	Deviation	Strategic			Tactical	Deviation
	Neutral	Min.	Max.			Neutral	Min.	Max.		
Money markets	5	0	70	2	-3	5	0	60	0	-5
Bonds*	15	0	40	5	-10	0	0	25	0	
Equities	70	30	90	81	11	85	40	100	88	3
Alternative investments	10	0	30	12	2	10	0	30	12	2
Funds of hedge funds	5			8	3	5			8	3
Real estate	3			0	-3	3			0	-3
Commodities	2			4	2	2			4	2
Total Exposure	100			100		100			100	

\*Recommended duration: **Neutral**. Benchmark: Bank of America, Merrill Lynch Government Bonds 1-10 years.

# Contributors

## Members of the ABN AMRO Bank Global Investment Committee

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

## Group Economics

<b>Georgette Boele</b>	<a href="mailto:georgette.boele@nl.abnamro.com">georgette.boele@nl.abnamro.com</a>	Coordinator FX & Precious Metals Strategy
<b>Hans van Cleef</b>	<a href="mailto:hans.van.cleef@nl.abnamro.com">hans.van.cleef@nl.abnamro.com</a>	Senior Energy Economist
<b>Arjen van Dijkhuizen</b>	<a href="mailto:arjen.van.dijkhuizen@nl.abnamro.com">arjen.van.dijkhuizen@nl.abnamro.com</a>	Senior Economist Emerging Markets
<b>Roy Teo</b>	<a href="mailto:roy.teo@sg.abnamro.com">roy.teo@sg.abnamro.com</a>	Senior FX Strategist

## Investment Strategy & Portfolio Expertise

<b>Roel Barnhoorn</b>	<a href="mailto:roel.barnhoorn@nl.abnamro.com">roel.barnhoorn@nl.abnamro.com</a>	Senior Fixed Income Thematic Expert
<b>Henk Wiersma</b>	<a href="mailto:henk.wiersma@nl.abnamro.com">henk.wiersma@nl.abnamro.com</a>	Senior Fixed Income Research & Advisory Expert
<b>Annemijn Fokkelman</b>	<a href="mailto:annemijn.fokkelman@nl.abnamro.com">annemijn.fokkelman@nl.abnamro.com</a>	Global Head Equity Strategy & Portfolio Management
<b>Edith Thouin</b>	<a href="mailto:edith.thouin@nl.abnamro.com">edith.thouin@nl.abnamro.com</a>	Senior Equity Thematic Expert
<b>Ralph Wessels</b>	<a href="mailto:ralph.wessels@nl.abnamro.com">ralph.wessels@nl.abnamro.com</a>	Equity Research & Advisory Expert
<b>Maurits Heldring</b>	<a href="mailto:maurits.heldring@nl.abnamro.com">maurits.heldring@nl.abnamro.com</a>	Senior Equity Research & Advisory Expert
<b>Javy Wong</b>	<a href="mailto:javy.wong@hk.abnamro.com">javy.wong@hk.abnamro.com</a>	North Asia Equity Strategist

## Quantitative Analysis and Risk Management

<b>Hans Peters</b>	<a href="mailto:hans.peters@nl.abnamro.com">hans.peters@nl.abnamro.com</a>	Head Investment Risk
<b>Paul Groenewoud</b>	<a href="mailto:paul.groenewoud@nl.abnamro.com">paul.groenewoud@nl.abnamro.com</a>	Quant Risk Specialist

## Investment Communications

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](mailto:I-Comms.Global@nl.abnamro.com).

## Disclaimers

© Copyright 2015 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO"), Gustav Mahlerlaan 10, 1082 PP Amsterdam / P.O. box 283, 1000 EA Amsterdam, The Netherlands. All rights reserved. This material was prepared by the Investment Advisory Centre (IAC) of ABN AMRO. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to in this material may not be appropriate or suitable for the specific investment objectives, financial situation, knowledge, experience, or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. ABN AMRO or its officers, directors, employee benefit programs or co-workers, including persons which were involved in preparing or issuing this material, may from time to time hold long- or short-positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. ABN AMRO may offer and render at any time investment banking-, commercial banking-, credit-, advice-, and other services to the issuer of any security referred to in this material. Pursuant to offering and rendering such services, ABN AMRO may come into possession of information not included in this material and ABN AMRO may prior or immediately after publication thereof have acted based on such information. In the past year, ABN AMRO may have acted as lead manager or co-lead manager with regard to a public offering of securities from issuers as mentioned in this material. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither ABN AMRO nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without ABN AMRO's prior express consent. This document is solely intended for dissemination amongst private/retail customers in a PC country. Distribution to private/retail customers in any jurisdiction that would require registration or licensing of the distributor which the distributor does not currently have, is not permitted. Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

### US Securities Law

ABN AMRO Bank N.V. is not a registered broker-dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 Act") and under applicable state laws in the United States. In addition, ABN AMRO Bank N.V. is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, absent specific exemption under the Acts, any brokerage and investment advisory services provided by ABN AMRO Bank N.V., including (without limitation) the products and services described herein are not intended for U.S. persons. Neither this document, nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person.

### Other jurisdictions

Without limiting the generality of the foregoing, the offering, sale and/or distribution of the products or services described herein is not intended in any jurisdiction to any person to whom it is unlawful to make such an offer, sale and/or distribution. Persons into whose possession this document or any copy thereof may come, must inform themselves about, and observe, any legal restrictions on the distribution of this document and the offering, sale and/or distribution of the products and services described herein. ABN AMRO can not be held responsible for any damages or losses that occur from transactions and/or services in defiance with the restrictions aforementioned.

### Sustainability Indicator Disclaimer

ABN AMRO Bank N.V. has taken all reasonable care to ensure the indicators are reliable, however, the information is unaudited and subject to amendment. ABN AMRO Bank is not liable for any damage that constitute from the (direct or indirect) use of the indicators. The indicators alone do not constitute a recommendation in relation to a specific company or an offer to buy or sell investments. It should be noted that the indicators represent an opinion at a specific period of time considering a number of different sustainability considerations. The sustainability indicator is only an indication regarding the sustainability of a company within its own sector.

### Company disclosures

ABN AMRO may beneficially hold a major shareholding or a significant financial interest of the debt of this company. ABN AMRO currently maintains a market in the security of this company and otherwise purchases and sells securities of this company as principal. ABN AMRO has received compensation for investment banking services from this company, its subsidiaries or affiliates during the previous 12 months. All disclosures made herein refer to ABN AMRO and its affiliates, including ABN AMRO Incorporated, which is regulated in the United States by the NYSE, NASD and SIPC.

### Personal disclosures

The information in this opinion is not intended as individual investment advice or as a recommendation to invest in certain investments products. The opinion is based on investment research of ABN AMRO IAC. The analysts have no personal interest in the companies included in this publication. Their remuneration for this work is not, was not and will not be related directly or indirectly to the specific recommendations or views expressed in this opinion.



## Europe

**ABN AMRO MeesPierson**  
**Amsterdam**  
Rico Fasel  
[rico.fasel@nl.abnamro.com](mailto:rico.fasel@nl.abnamro.com)

**ABN AMRO Private Banking**  
**Antwerpen - Berchem**  
Tom Van Hullebusch  
[tom.van.hullebusch@be.abnamro.com](mailto:tom.van.hullebusch@be.abnamro.com)

**ABN AMRO Private Banking**  
**Luxembourg**  
Nicolas Deltour  
[nicolas.deltour@lu.abnamro.com](mailto:nicolas.deltour@lu.abnamro.com)

**Bethmann Bank AG**  
**Frankfurt**  
Bernhard Ebert  
[bernhard.ebert@bethmannbank.de](mailto:bernhard.ebert@bethmannbank.de)

**Banque Neufilze OBC S.A.**  
**Paris**  
Wilfrid Galand  
[wilfrid.galand@fr.abnamro.com](mailto:wilfrid.galand@fr.abnamro.com)

**ABN AMRO Private Banking**  
**Jersey**  
Stephan Geissmar  
[stephan.geissmar@uk.abnamro.com](mailto:stephan.geissmar@uk.abnamro.com)

**ABN AMRO Private Banking**  
**Guernsey**  
Andrew Pollock  
[andrew.pollock@gg.abnamro.com](mailto:andrew.pollock@gg.abnamro.com)

## Middle East

**ABN AMRO Private Banking**  
**Dubai (DIFC)**  
Coen Verheij  
[coen.verheij.uae@ae.abnamro.com](mailto:coen.verheij.uae@ae.abnamro.com)

## Asia

**ABN AMRO Private Banking**  
**Hong Kong**  
William Tso  
[william.tso@hk.abnamro.com](mailto:william.tso@hk.abnamro.com)

**ABN AMRO Private Banking**  
**Singapore**  
Peter Ang  
[peter.ang@sg.abnamro.com](mailto:peter.ang@sg.abnamro.com)



The Investment Advisory Centres are built around the work of investment specialists who provide financial advice and support for your key investment decisions. These specialists are assisted by a dedicated team of research & strategy analysts who provide in-depth coverage of the major financial markets and investment categories – currencies, equities, bonds and alternative investments. For all enquiries, please contact one of the branches above.

If you are interested in our Private Banking iPad Research app, please send an email to [iResearch@nl.abnamro.com](mailto:iResearch@nl.abnamro.com).

[www.abnamroprivatebanking.com](http://www.abnamroprivatebanking.com)