LGIM Asset Allocation Views.

An eventful July led to a volatile month for most asset classes. As markets adjusted to reflect a 'Grexit' base case at the start of the month, bond yields and equity prices moved lower. The euro weakened, before reverting higher as a potential deal looked to be struck between Greece and its creditors. Meanwhile, the bursting of the Chinese equity market bubble saw Pacific markets fall as they braced for the possibility of ongoing financial turbulence in China.

NEGATIVE **OVERALL RISK POSITIONING** POSITIVE

RISKS

- Increase in risks, particularly related to US interest rates, Greece and China
- Global debt remains a concern in the medium term
- Normalising monetary policy could prove disruptive

OPPORTUNITIES

- Investor nervousness and volatility may present an opportunity to add risk at attractive levels
- Structural reform, valuations and growing investor base all support emerging market assets
- Oil price declines driven by oversupply may present opportunities to add risk on the back of market concerns

Overview	Views
Equities	◆
Govt. bonds	◆◆
Credit	◆
Real estate	◆
Commodities	◆

Equities	Views
US	◆◆
UK	◆
Europe	◆
Japan	◆◆
Emerging markets	◆

Fixed Income	Views
Nominal govt bonds	◆◆
Inflation-linked	◆
Investment grade	◆
High yield	◆
Emerging market debt	◆

We continue to be tactically short equities as a number of factors point to risks being tilted to the downside: the approaching rate hike from the US Federal Reserve, the slowdown in China continuing to put strain on commodities and related assets, and the politics around the Greek bailout, which remain volatile and unpredictable.

Though we are tactically short equities, we remain positive on risk assets in the medium term as we continue to believe that we are in a mid-cycle economic environment and expect equities to perform well over this timeframe. However, we remain vigilant to the signs of any late-cycle dynamics and a potential earlier-than-expected end to the cycle.

We made a few changes to our tactical positioning in July. We removed our residual commodity exposure and took active short positions, where applicable. Commodity prices have already dropped a long way, but we believe there to be further downside risk in oil prices as signs of oversupply in the market show no signs of abating.

We remain positive on emerging markets, with a preference for Indian assets (both equities and the rupee) over Brazil, Turkey and Singapore, where we remain tactically underweight. In addition to being positive on India's economic outlook and reforms, we believe it is a relative safe haven from the recent commodity and China-induced volatility. Progress towards a country-wide sales tax, the Goods and Services Tax (GST), is imperative to maintaining the market's belief in economic reform. To this end, political momentum appears to be picking up.

Having been relatively light in corporate credit risk over recent months, we have started to increase our US investment grade corporate bond holdings. With credit spreads back in-line with their long-term average, corporate bonds now offer better compensation for risk, though this adjustment has been more pronounced in the US compared with the UK.

Tables reflect tactical views at time of publication.
Medium-term views/biases may be different.

Legal & General
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IMPORTANT INFORMATION

Legal & General Investment Management Limited (Company Number: 02091894) is registered in England and Wales and has its registered office at One Coleman Street, London, EC2R 5AA ("LGIM").

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