LGIM Asset Allocation Views.

Having staged a recovery in October following the summer falls, market volatility remained relatively subdued in November bar a short-lived dip in markets following the Paris attacks. Commodity prices hit new lows, with oil prices nearing $40 a barrel following reports of continued record inventory levels. This slide in prices saw net importers of raw materials outperform, with European, Japanese and Chinese stock markets moving modestly higher. In currency markets, US dollar strength continued to be the main theme, while bond market movements reflected investors' anticipation of diverging US and European monetary policy.

RISKS

- Increase in risks, particularly in Europe and China
- Global debt remains a concern in the medium term
- Normalising monetary policy could prove disruptive

OPPORTUNITIES

- Investor nervousness and volatility may present opportunities to add risk at attractive levels
- Structural reform momentum in Japan and India is positive in the near term
- 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	◆

Outlook

Continued commodity consternation
The commodity rout continued over the month, with the Bloomberg broad commodity index reaching multi-decade lows. The steep shape of most commodity futures forward curves indicates a physical supply glut which we believe is likely to be worse than the market expects in 2016. We have a zero weight in commodities in relevant long-only funds, and are short where applicable.

Getting our Asian currency hedges in a row
Chinese assets remain volatile: a sharp drop in the last week of the month, triggered by more corporate default concerns and a deepening regulatory backlash, followed this summer's equity market rout. We remain worried about the spill over effects of a two-speed China – a relatively healthy service sector and a chronically weak industrial sector – on its trading partners. We have hedges in place across a range of Asian currencies including the Australian dollar.

Sustained stimulation for the euro zone
We have closed our negative bias to the euro and in some portfolios we have even gone long using options. Market anticipation of easing by the European Central Bank (ECB) in December has seen the euro depreciate significantly against the US dollar since the October ECB meeting. Anticipation of the ECB's next easing steps are elevated, with many expecting a deposit rate cut plus an adjustment of the asset purchase program – a high bar to meet. We remain overweight across a basket of assets likely to benefit from further policy tailwinds, including EU inflation, property and peripheral sovereign debt.

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

Legal & General
INVESTMENT MANAGEMENT

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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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