

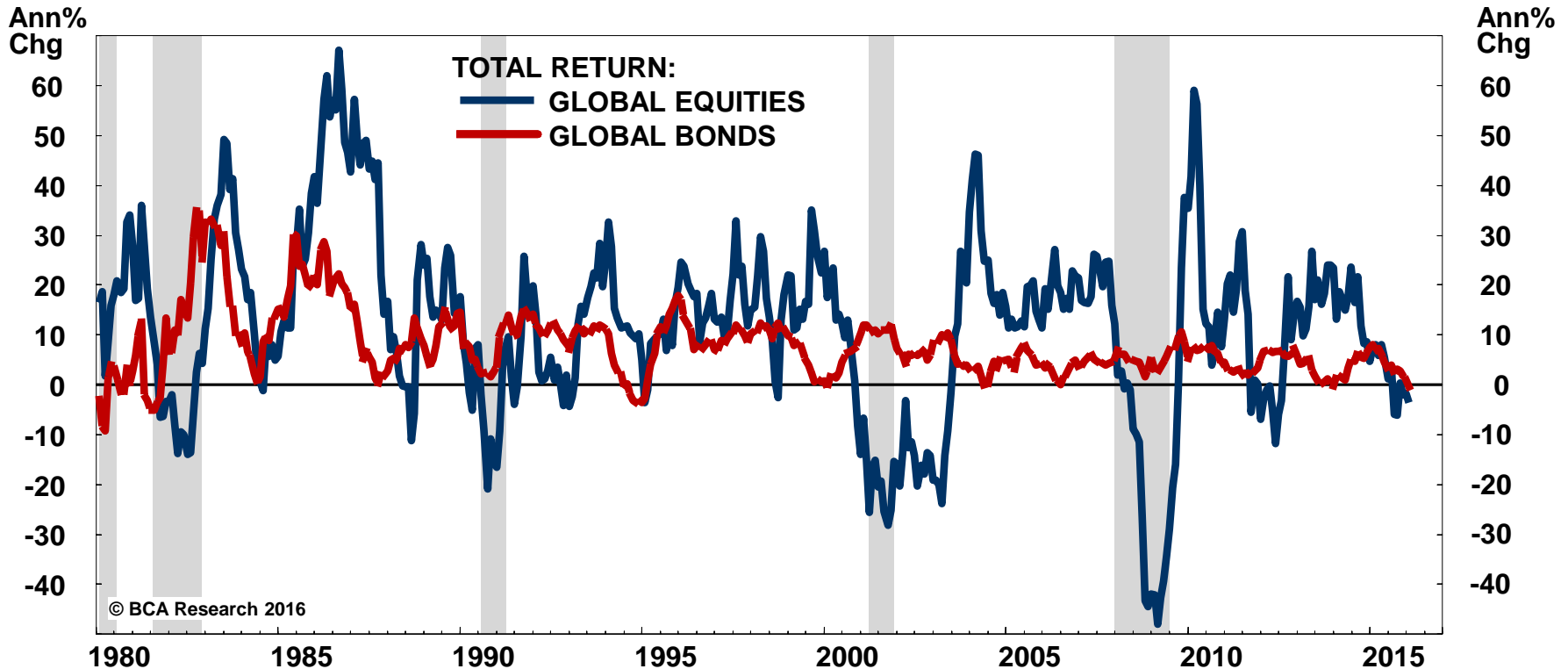
# How To Find Return In A Stagnant World

**Garry Evans**  
Managing Editor

# Summary

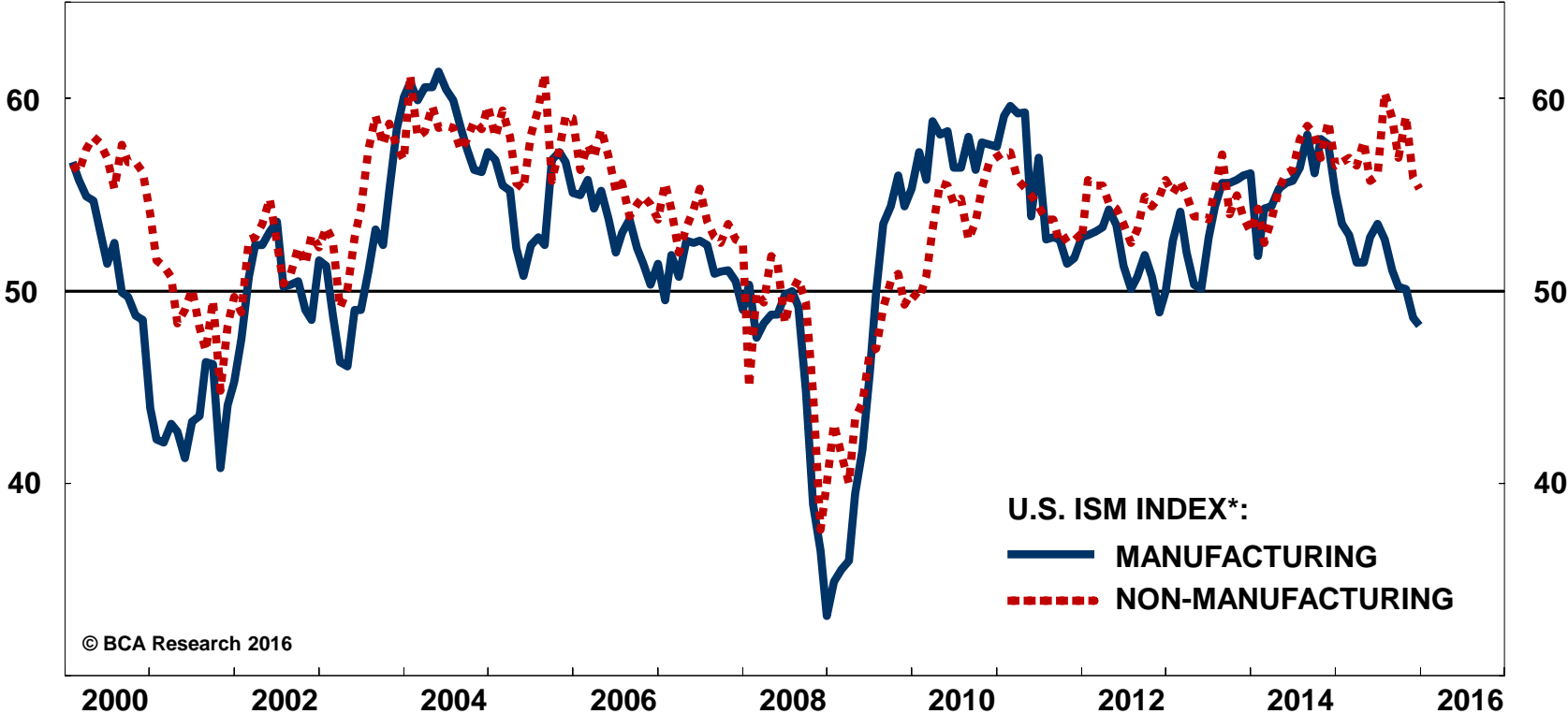
- 1. Outlook for the global economy and investment asset over the next 12 months**
  - › Weak growth, but no recession. Poor returns from most asset classes.
- 2. Put that view in a longer term context**
  - › Zero (even negative) interest rates, Fed raising rates only after six years of expansion.
- 3. How to make money (or at least avoid losing money)**
  - › Be cautious. But there is risk in not taking risk

# Low Returns Everywhere



\* SOURCE: MSCI INC (SEE COPYRIGHT DECLARATION).  
\*\* SOURCE: BARCLAYS.  
SHADING DENOTES NBER DESIGNATED RECESSIONS.

# Manufacturing Versus Services

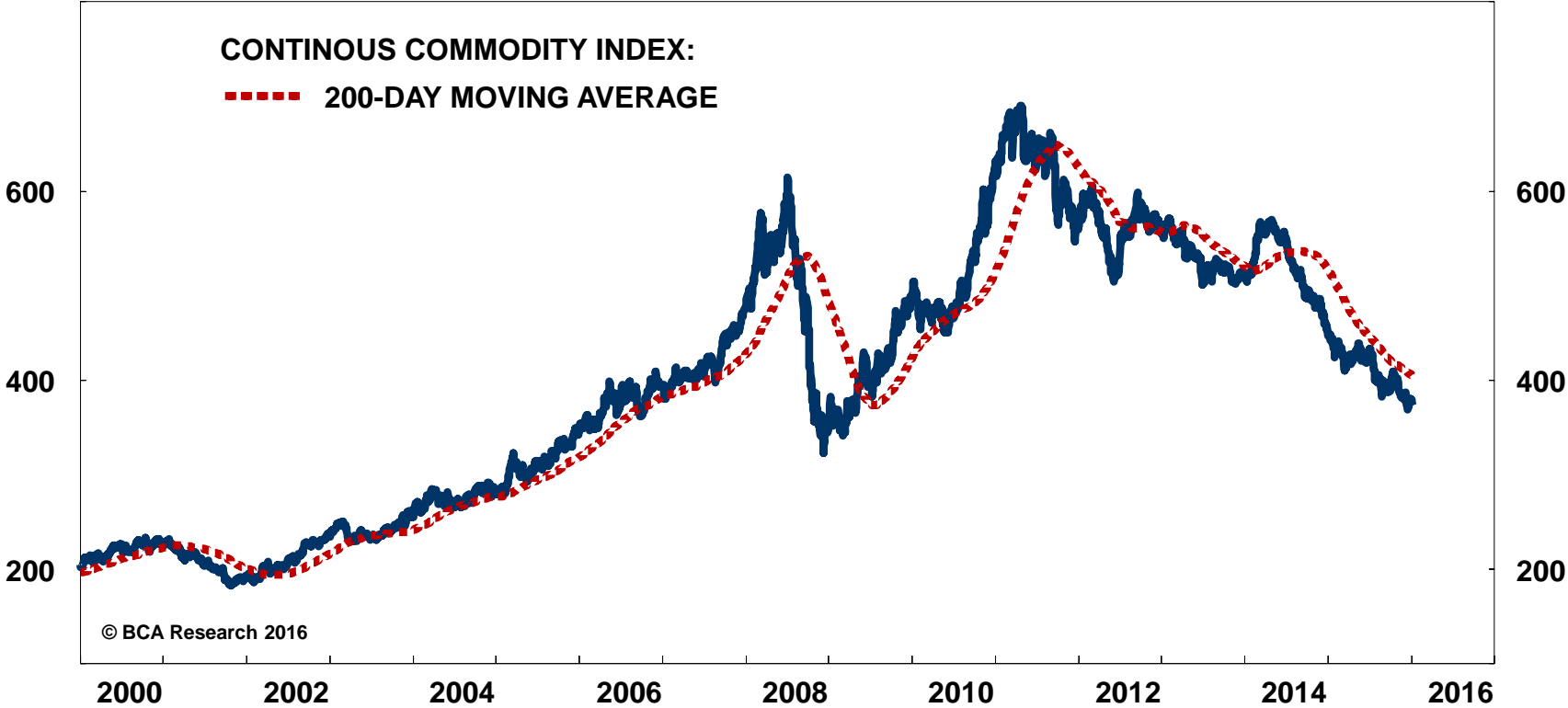


© BCA Research 2016

U.S. ISM INDEX\*:  
— MANUFACTURING  
- - - NON-MANUFACTURING

\* INSTITUTE FOR SUPPLY MANAGEMENT.

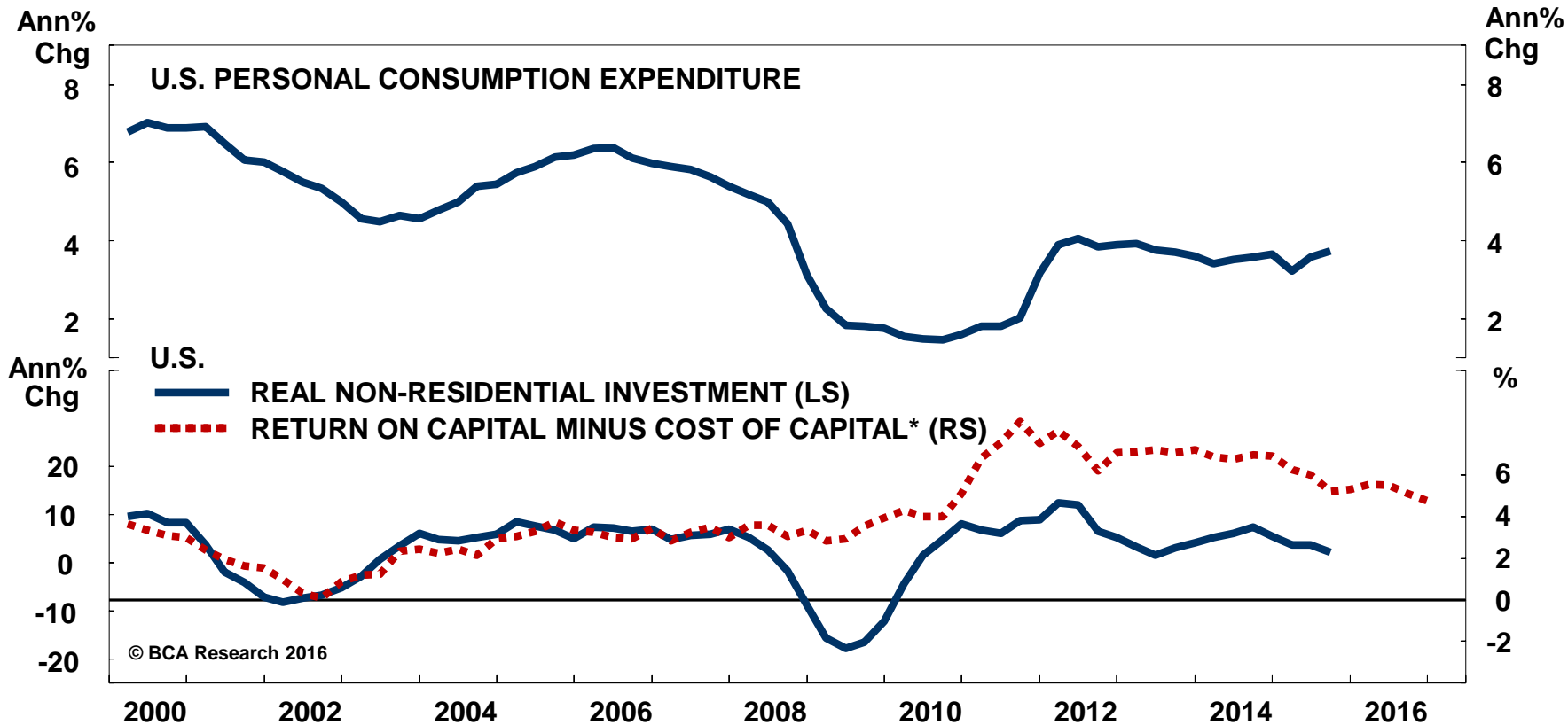
# A Classic Hog Cycle



© BCA Research 2016

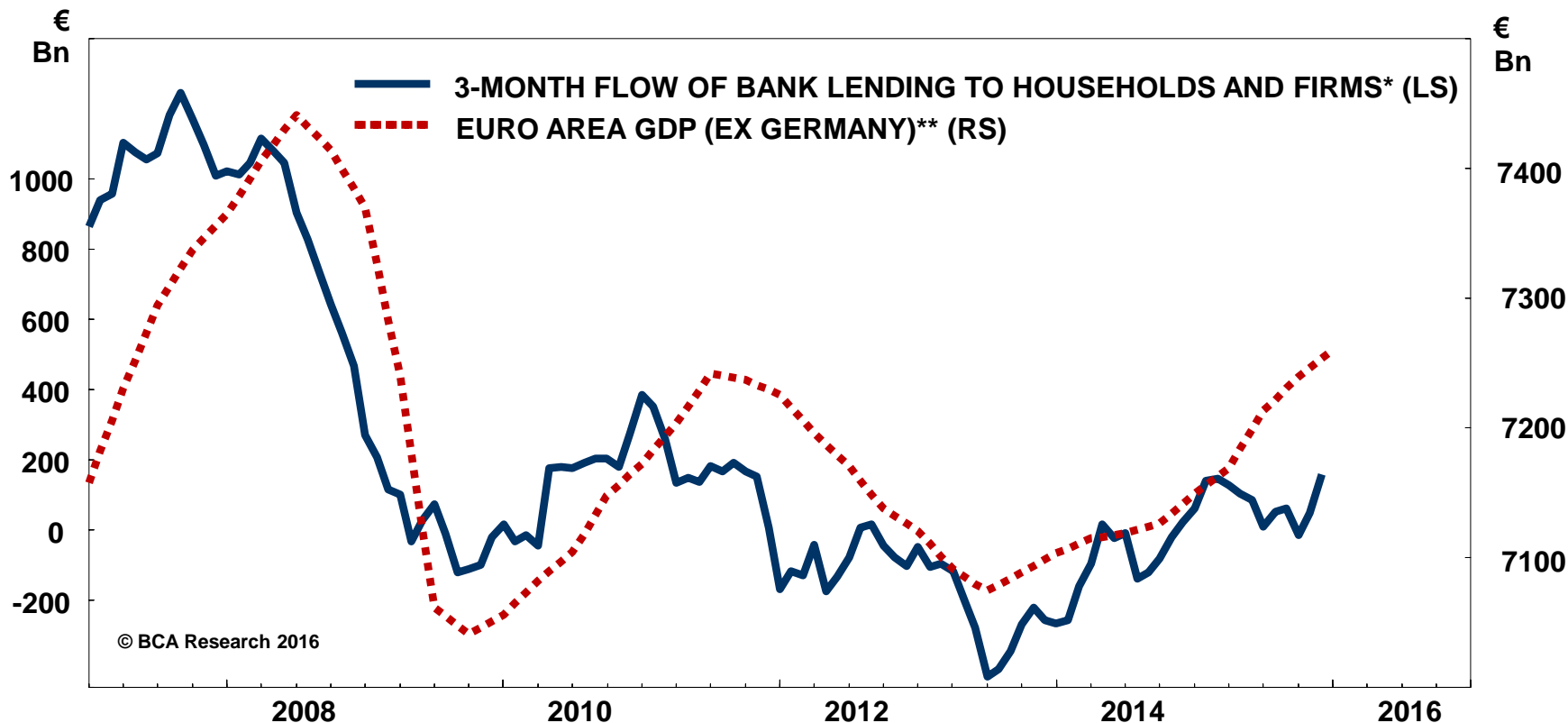
\* INSTITUTE FOR SUPPLY MANAGEMENT

# U.S.: Both Consumption & Capex Sluggish



\* SHOWN ADVANCED.

# Europe: Better But Hardly Inspiring

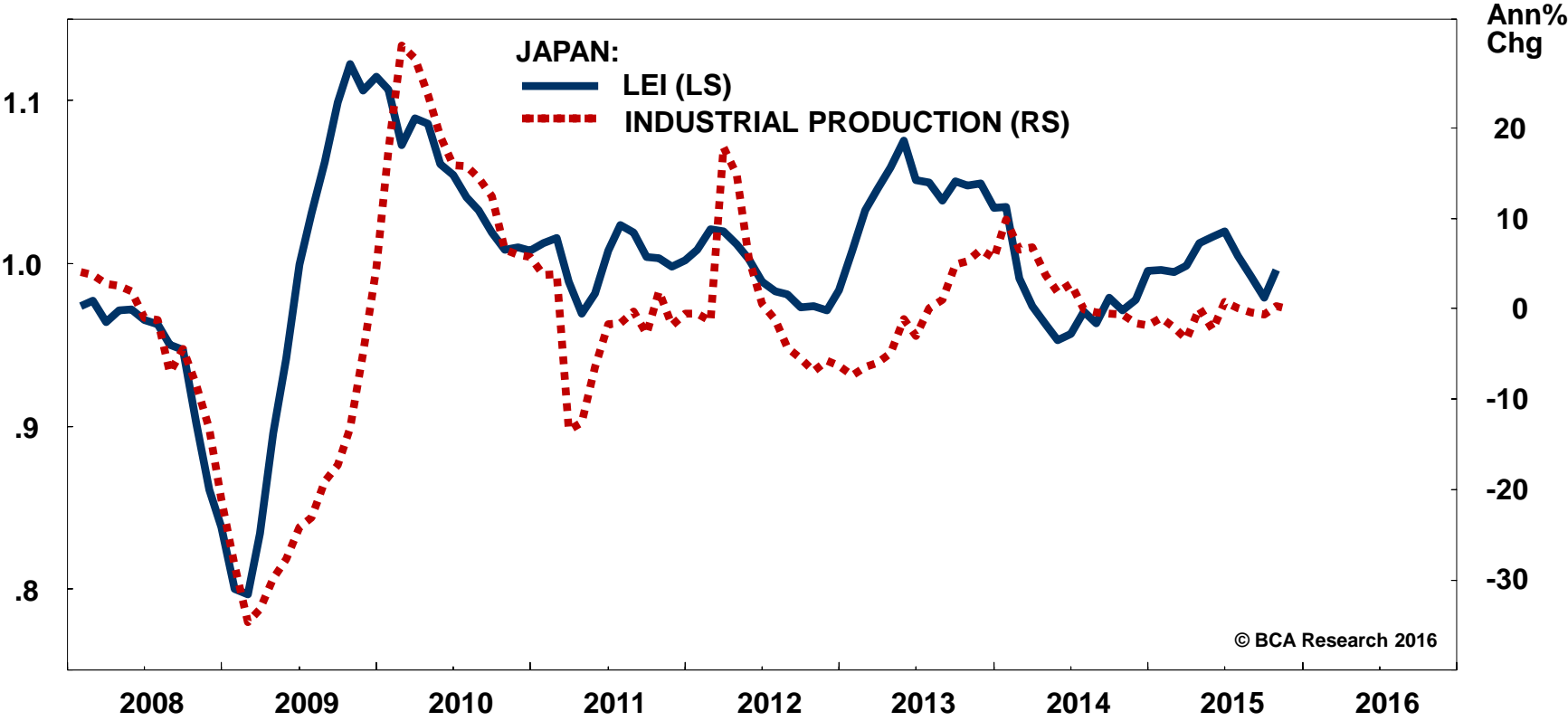


SOURCES: ECB, STATISTISCHES BUNDESAMT, EUROSTAT.

\* ADJUSTED FOR SALES AND SECURITISATION.

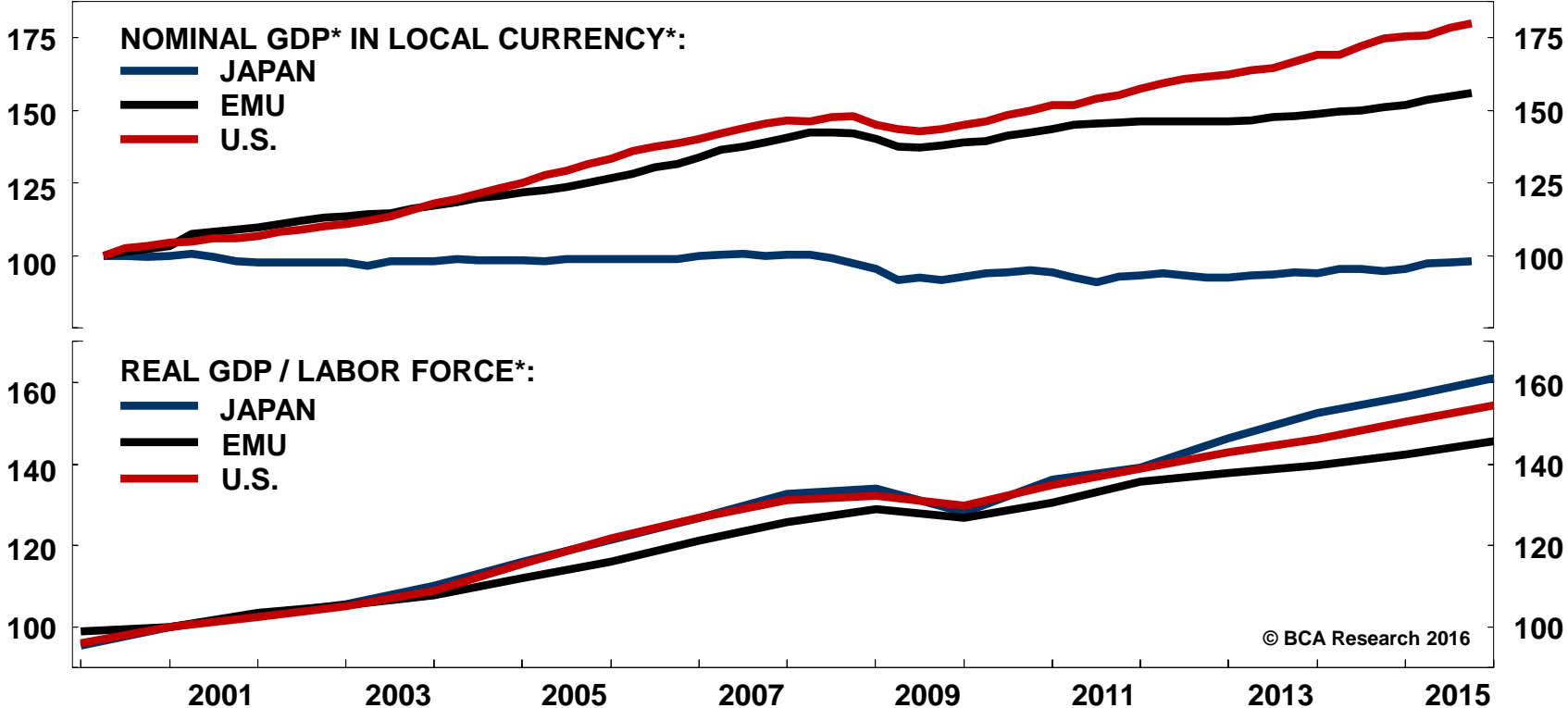
\*\* ANNUALISED RATE.

# Japan: Is Abenomics Working?



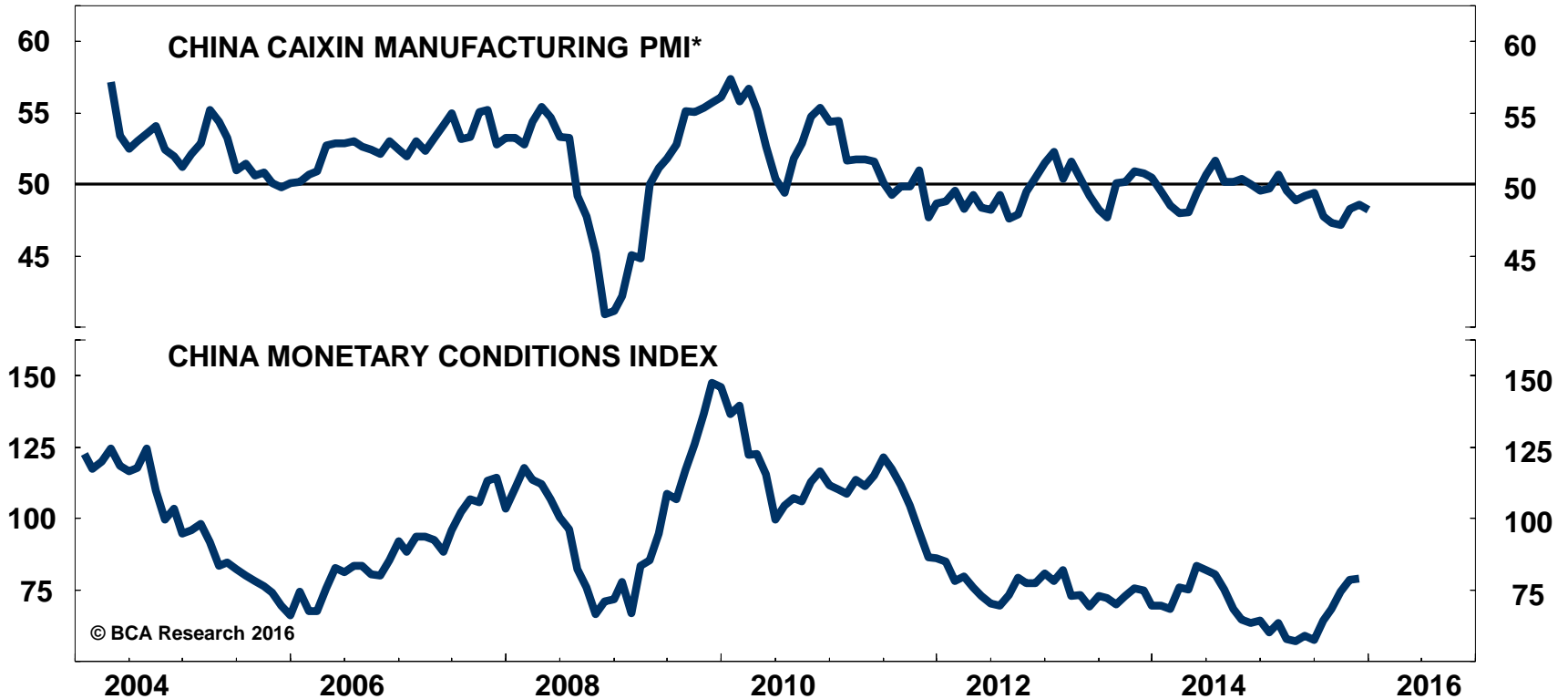


# Japan Faces Huge Structural Headwinds



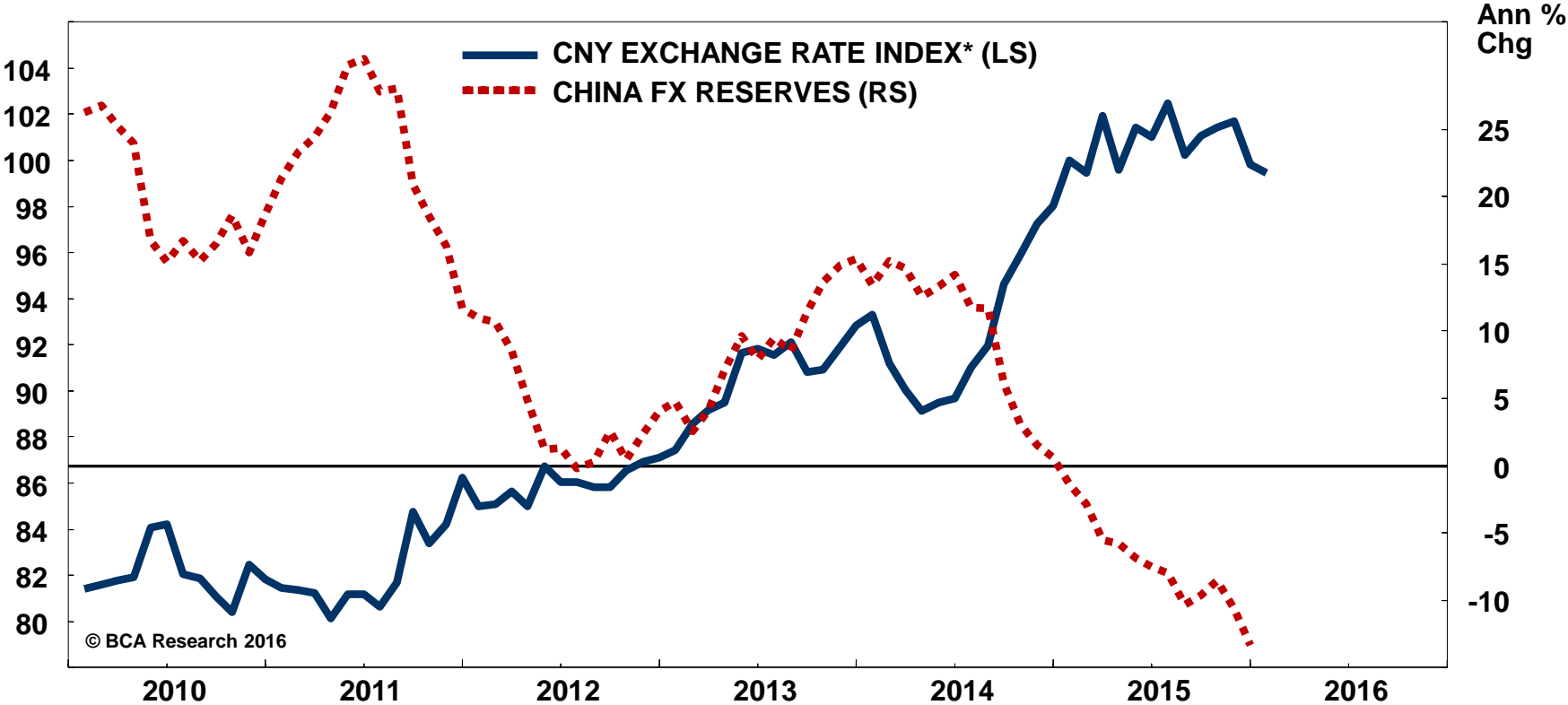
\* REBASED TO 100 AT JAN 2000.

# China Should Avoid A Hard Landing



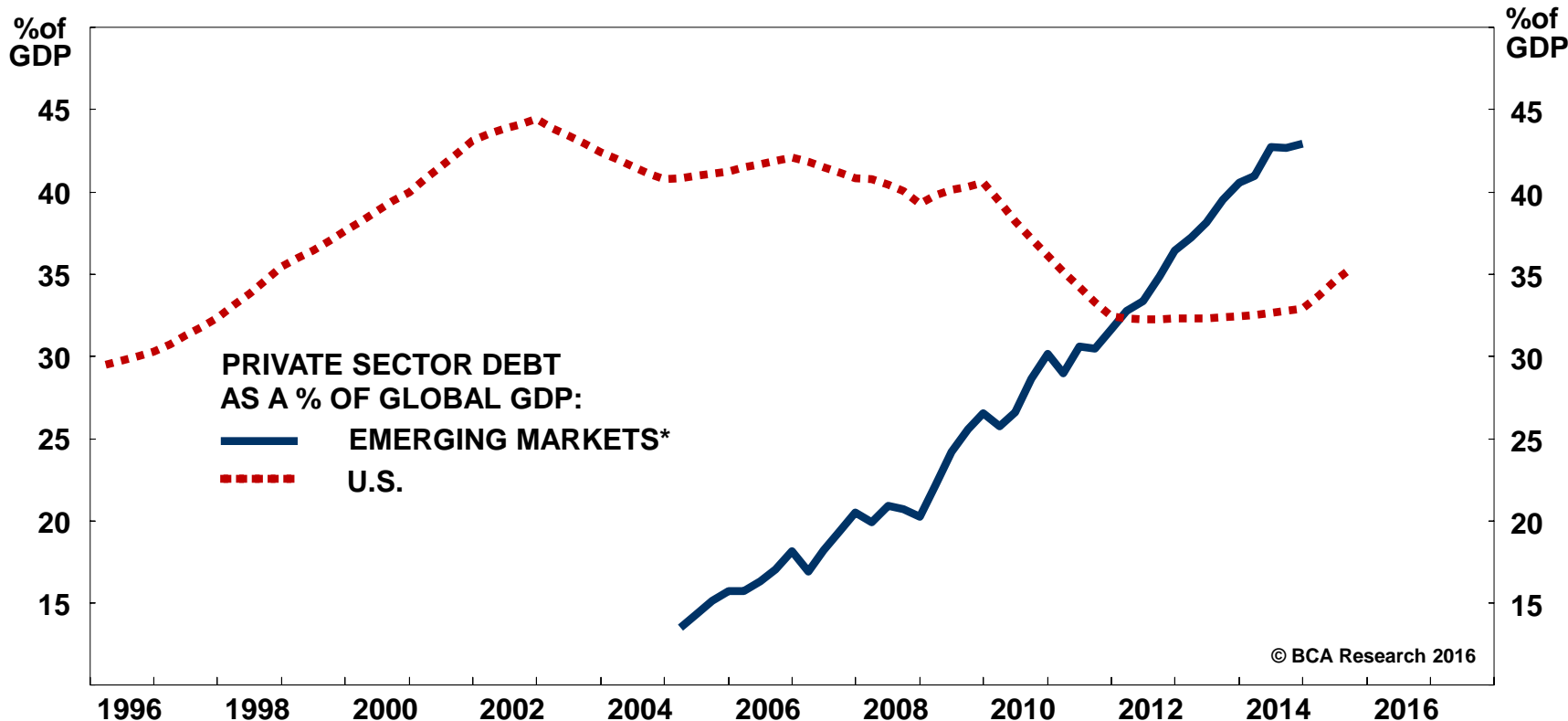
\* SOURCE: MARKIT ECONOMICS.

# As Long As Currency Policy Doesn't Trip It Up



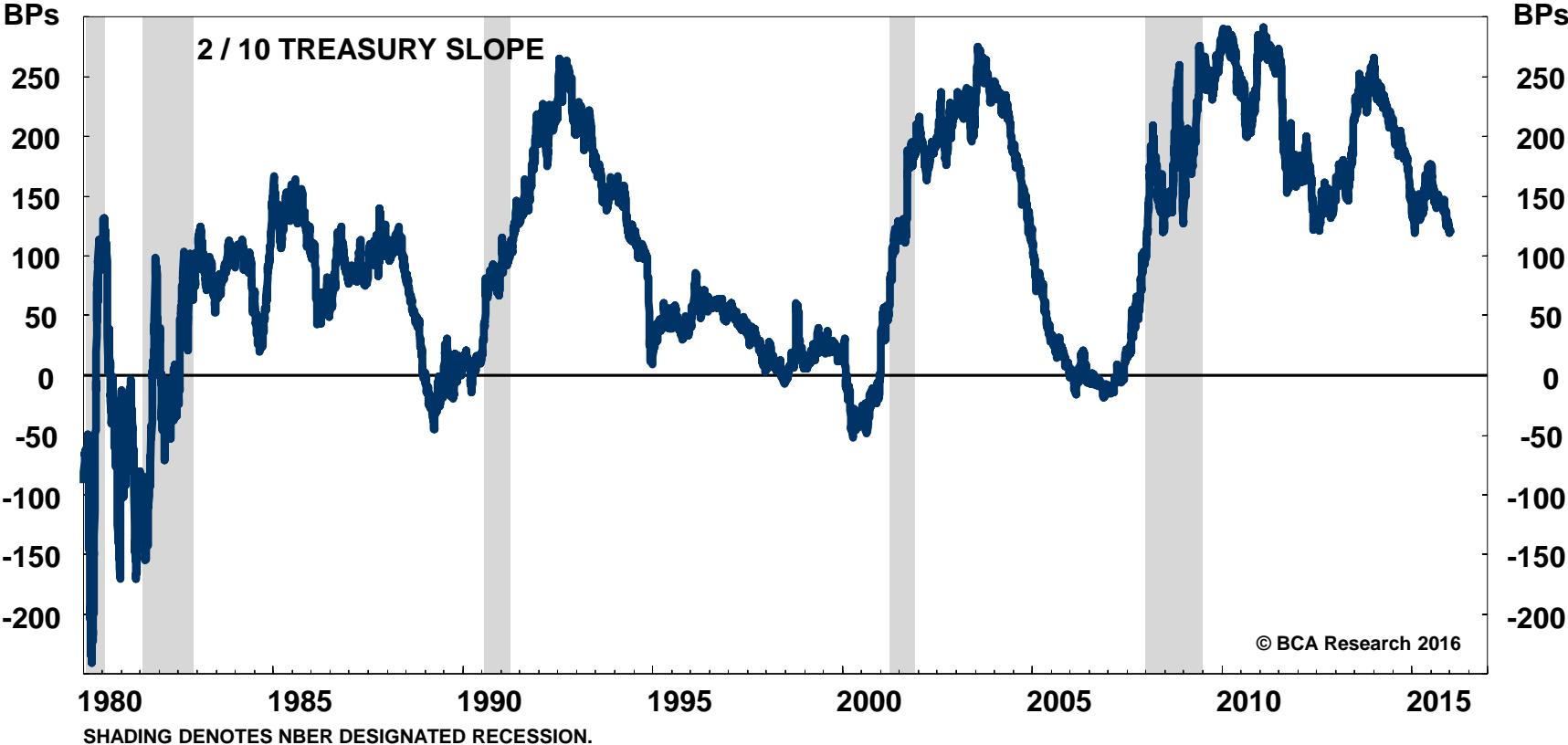
\* BCA ESTIMATE BASED ON CFETS CURRENCY BASKET.

# EM At The Start Of A Massive Deleveraging

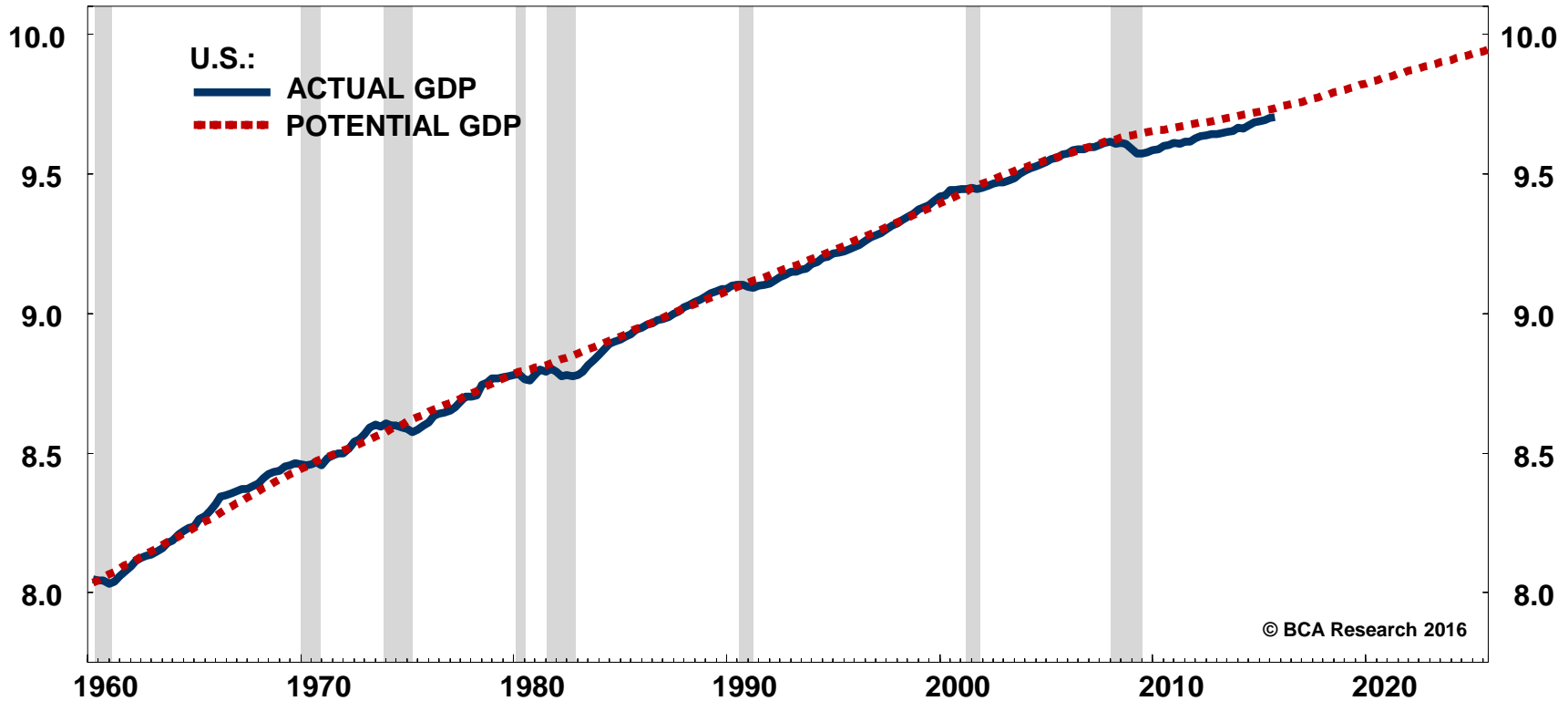


\*SOURCE: IMF AND BIS; CHINA PRIVATE SECTOR IS CALCULATED AS CUMULATIVE TOTAL SOCIAL FINANCING EXCLUDING EQUITY ISSUANCE BY NON-FINANCIAL CORPORATIONS PLUS NON-BANK INTERNATIONAL DEBT SECURITIES AND FOREIGN BANK CLAIMS ON NON-BANK CORPORATE SECTOR

# No Sign Of Recession Yet



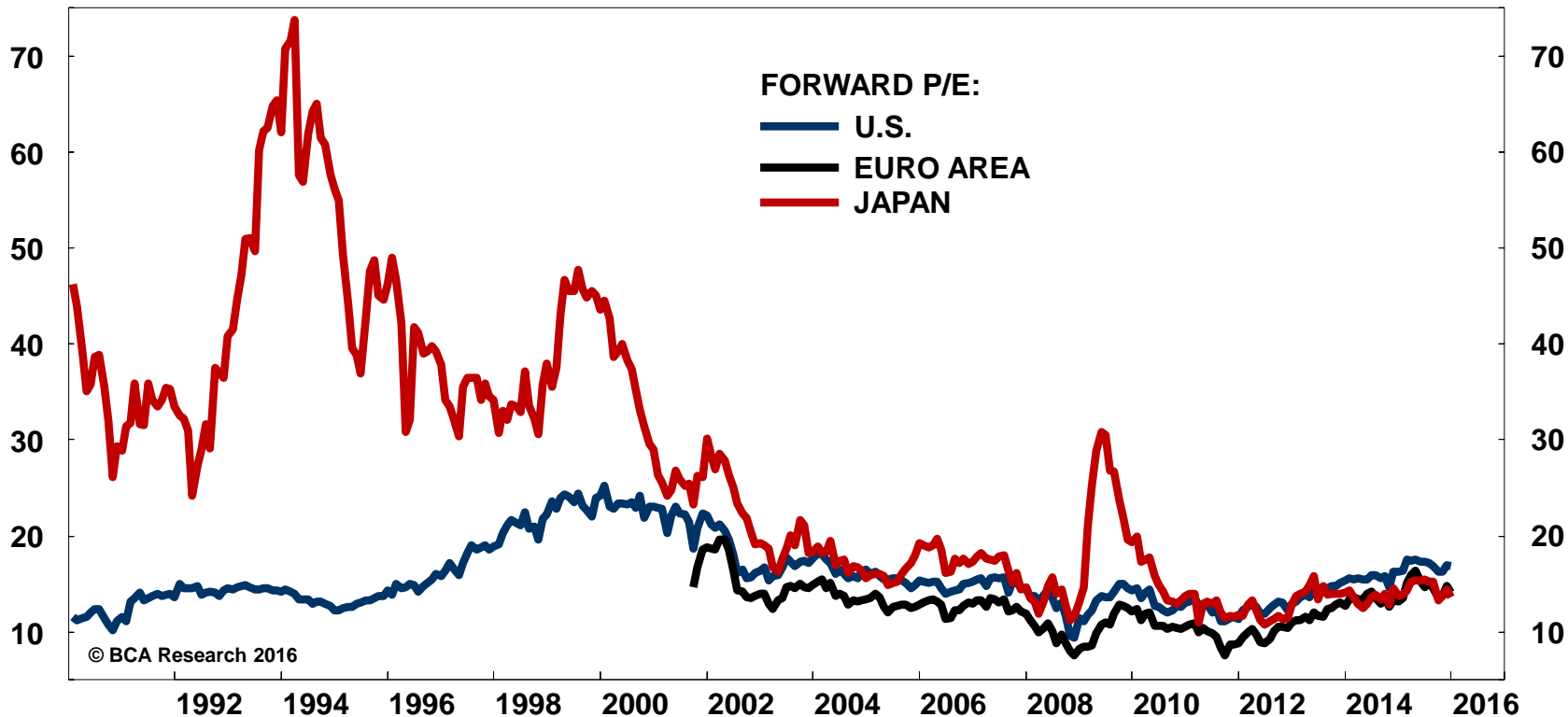
# What Roadmap To Use



© BCA Research 2016

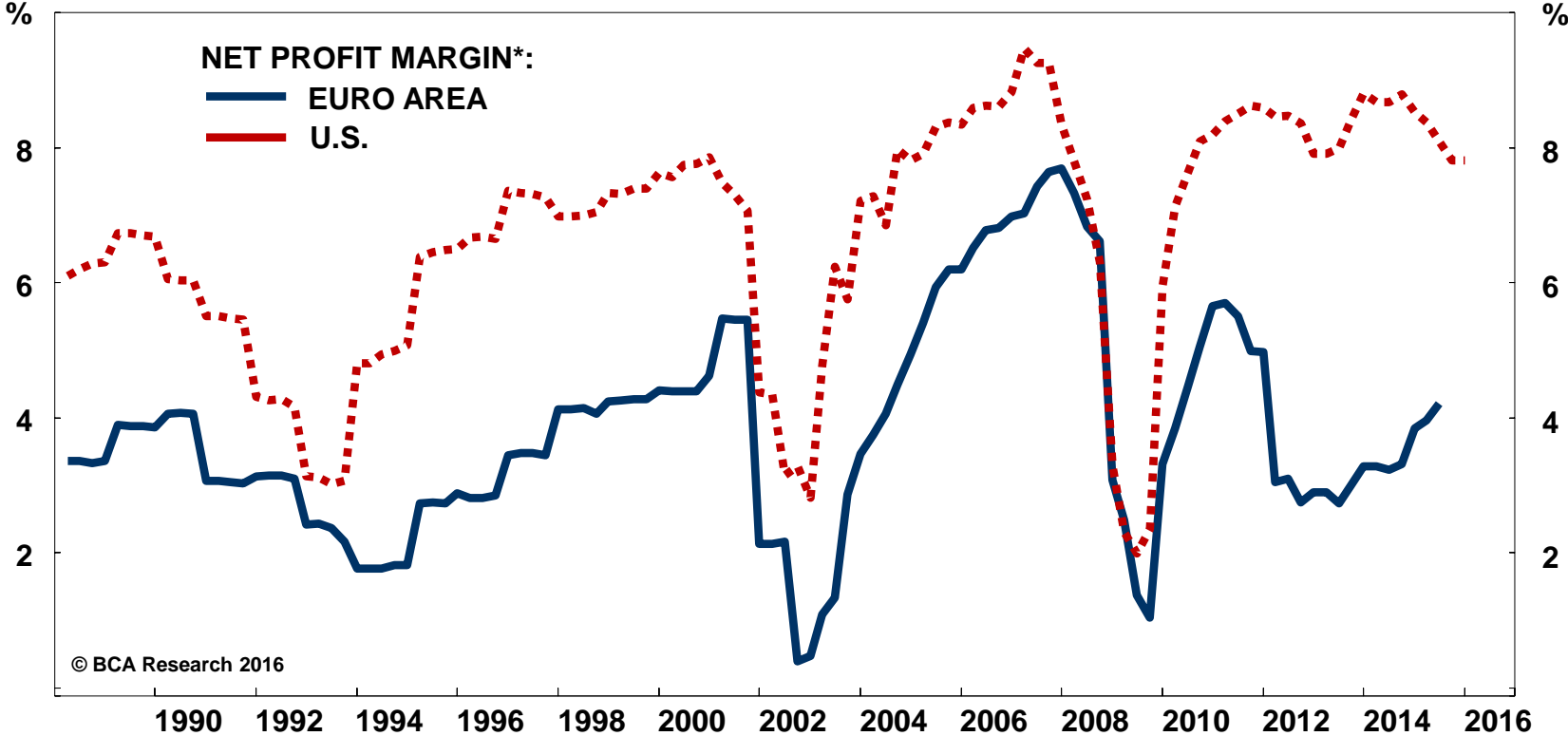
14 SOURCE: CONGRESSIONAL BUDGET OFFICE. SHOWN AS NATURAL LOG. SHADING DENOTES NBER-DESIGNATED RECESSIONS.

# Equities Are Not Cheap



SOURCE: THOMSON REUTERS / IBES.

# And U.S. Profit Margins Have Peaked

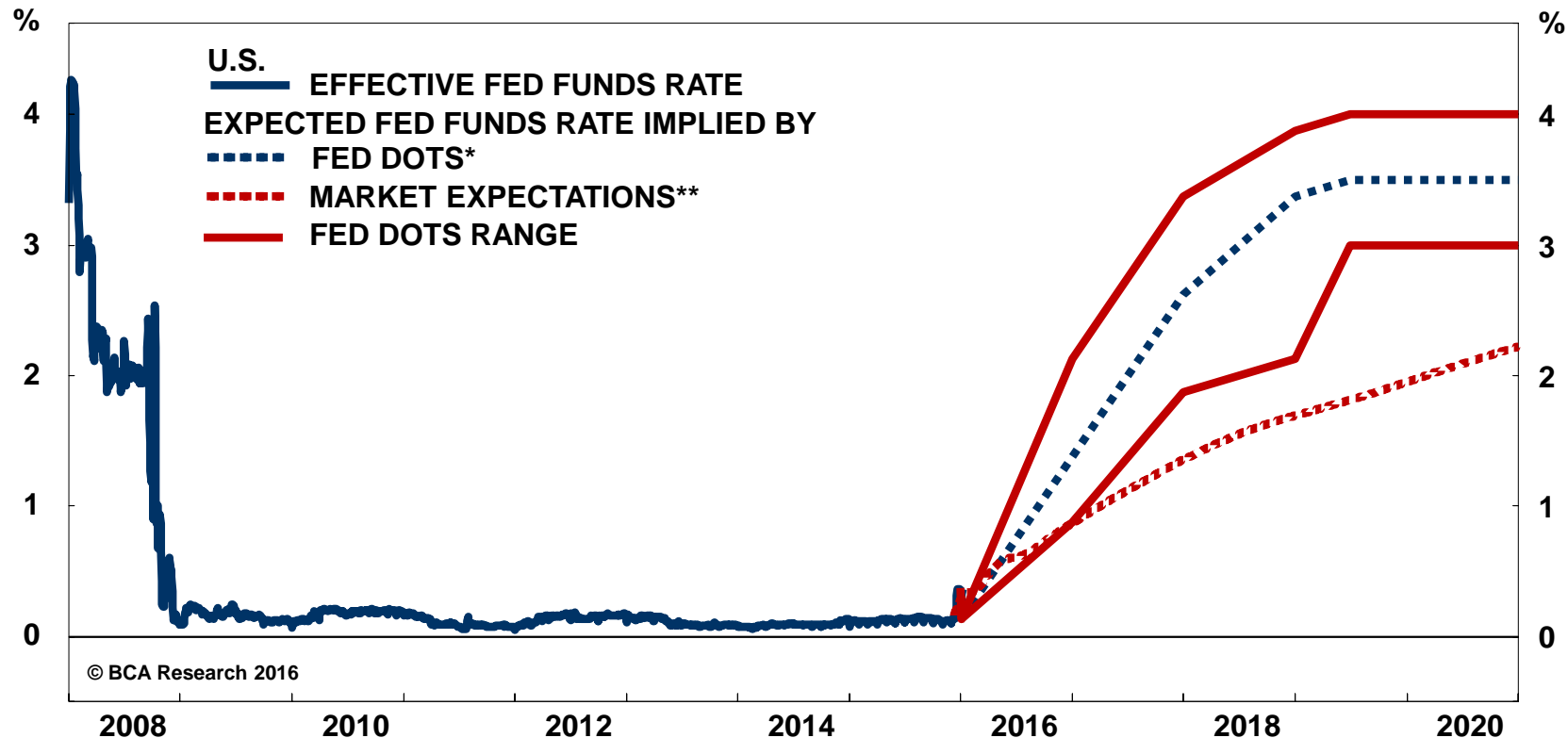


© BCA Research 2016

\* SOURCE: DATASTREAM.



# Trajectory Of Fed Price Hikes

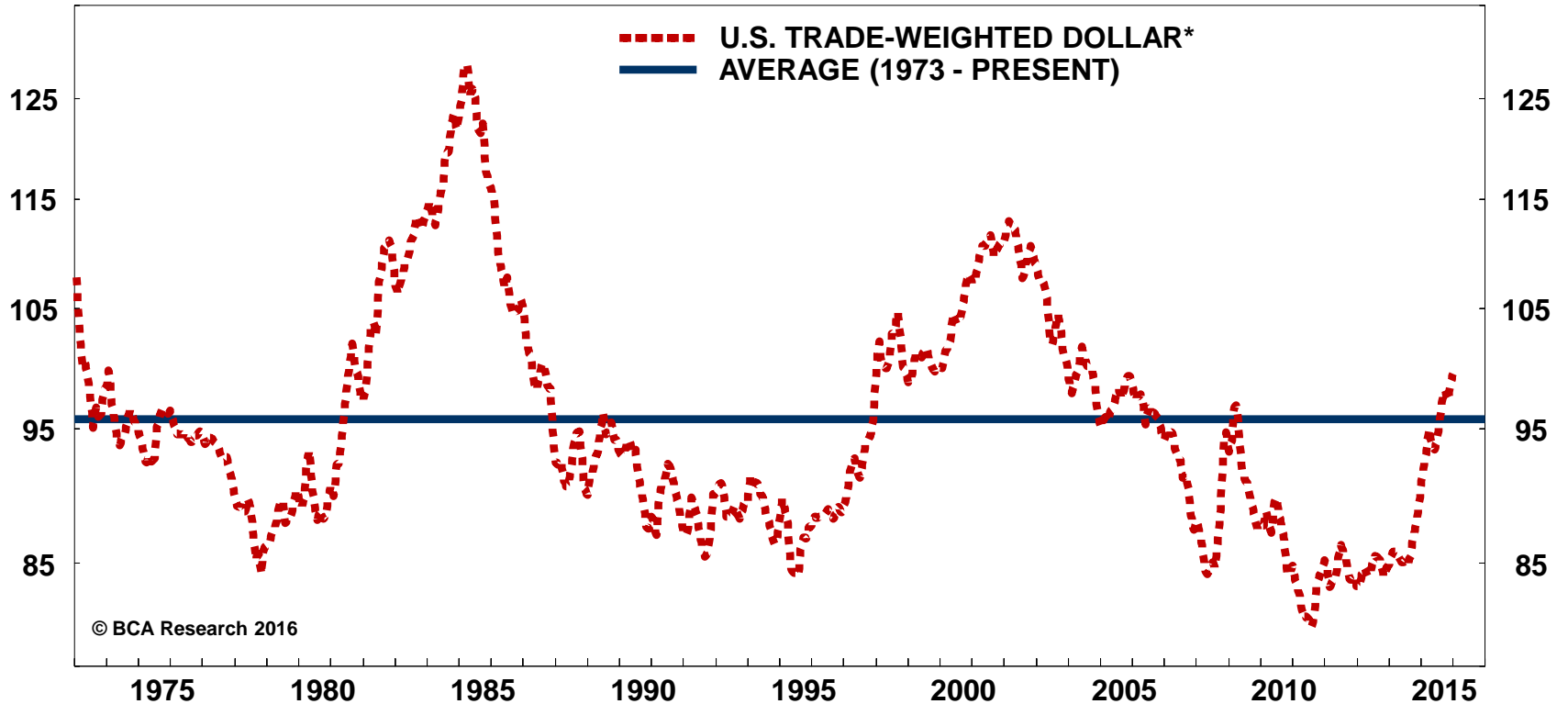


© BCA Research 2016

\* MEDIAN MIDPOINT TARGET FROM THE FED'S SUMMARY OF ECONOMIC PROJECTIONS (SEPTEMBER 2015).

\*\* AS DISCOUNTED IN THE OIS CURVE AS OF JANUARY 1, 2016.

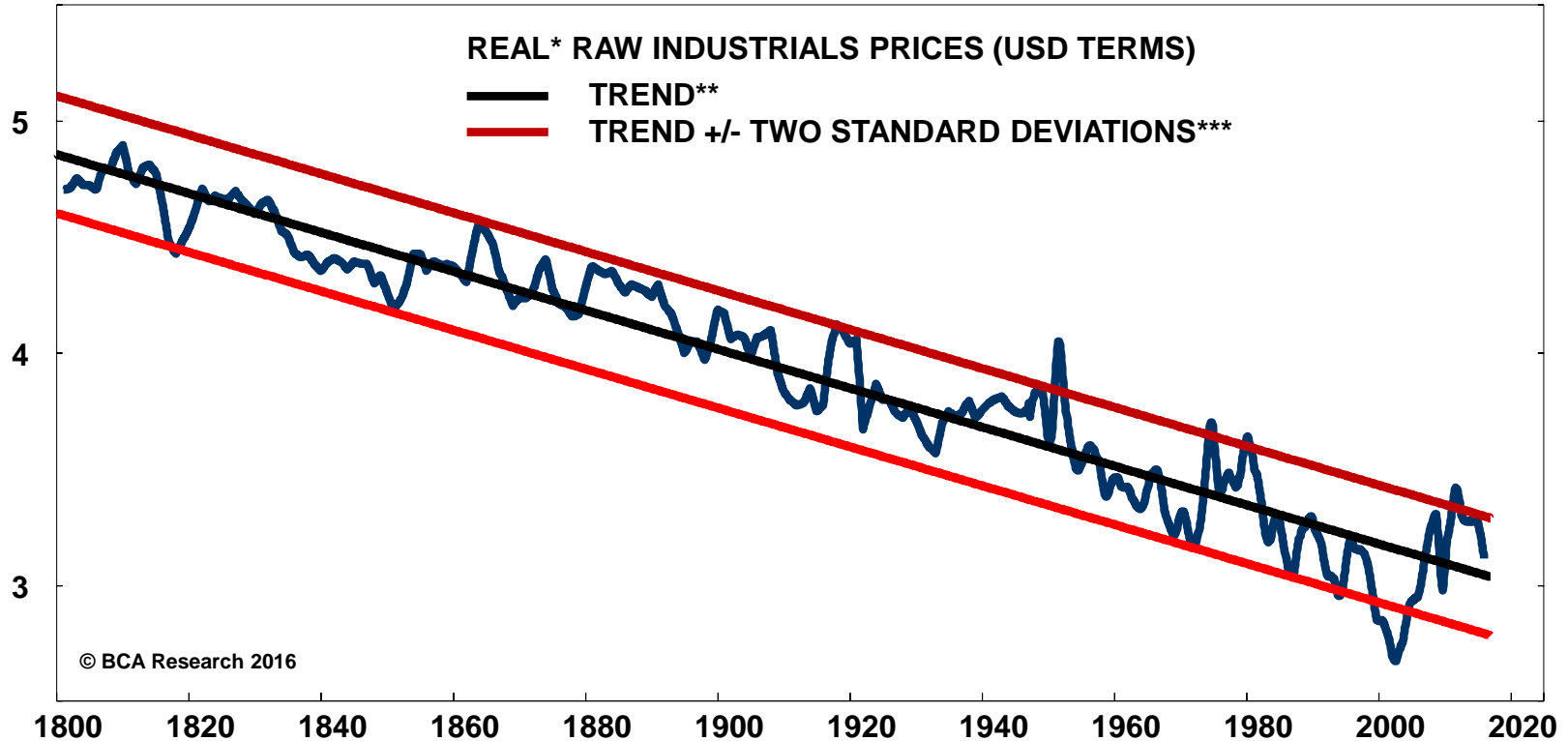
# Dollar Usually Moves In Long Waves



© BCA Research 2016

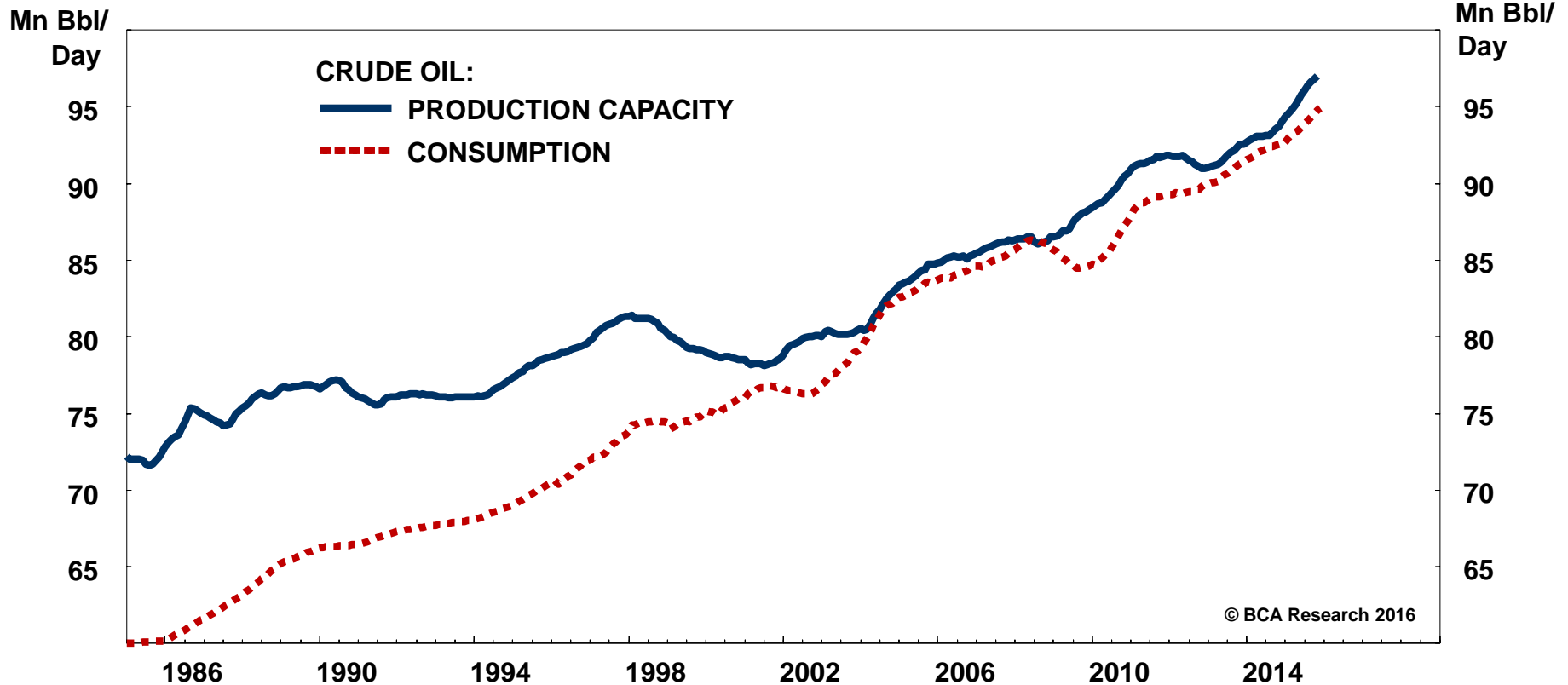
\* SOURCE: REAL BROAD TRADE WEIGHTED DOLLAR INDEX J.P. MORGAN CHASE & CO.

# So Do Commodities

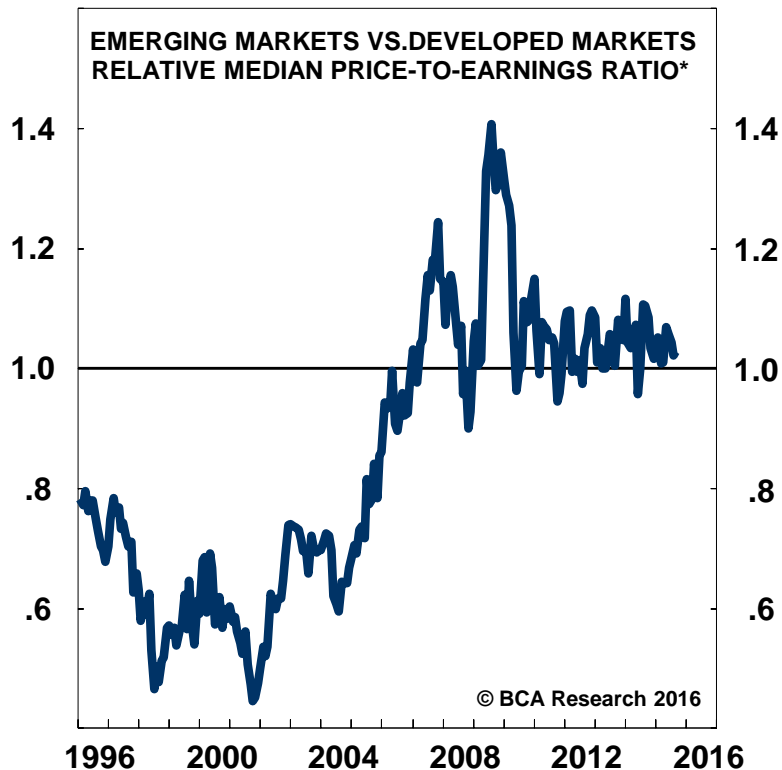


\* ADJUSTED BY U.S. GDP DEFLATOR.  
\*\* TIME TREND FROM 1800 TO 2008.  
\*\*\* DEVIATION FROM 25-YEAR TREND

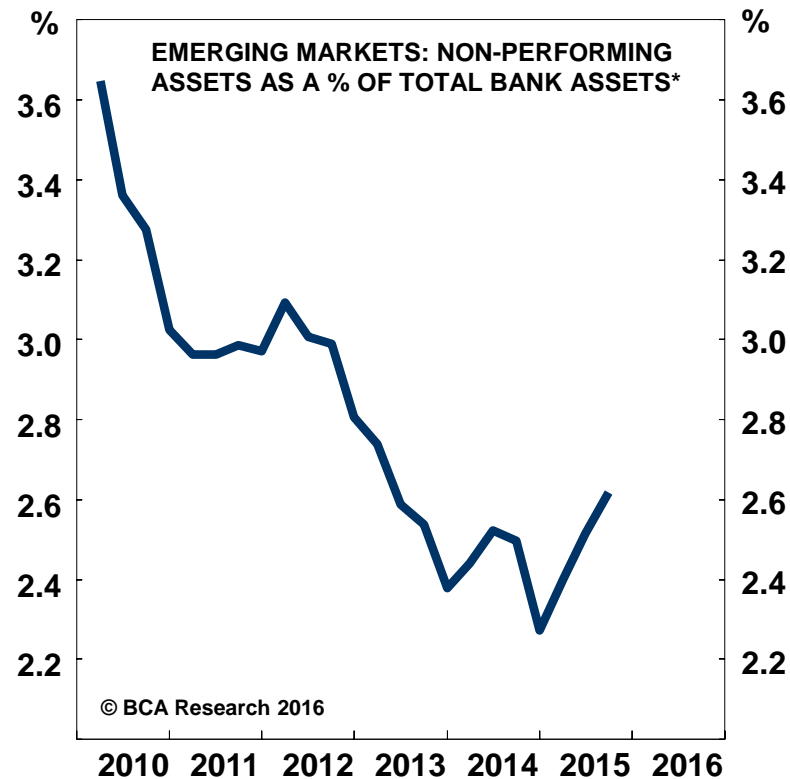
# But Oil May Rebalance By Mid-2016



# Avoid The Emerging Markets Trap

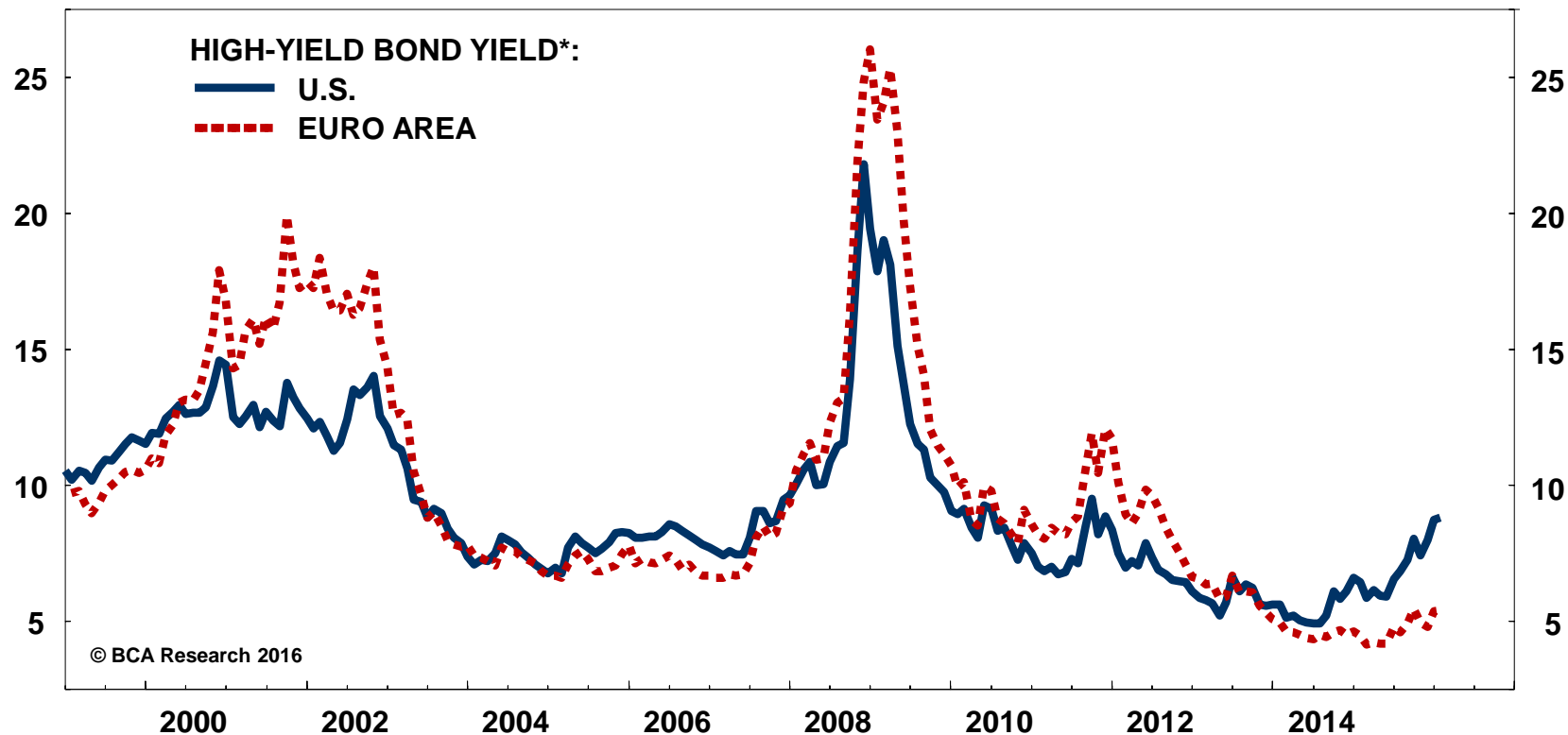


\* INCLUDES 50 INDUSTRY GROUPS.  
SOURCE: MSCI Inc. (SEE COPYRIGHT DECLARATION).



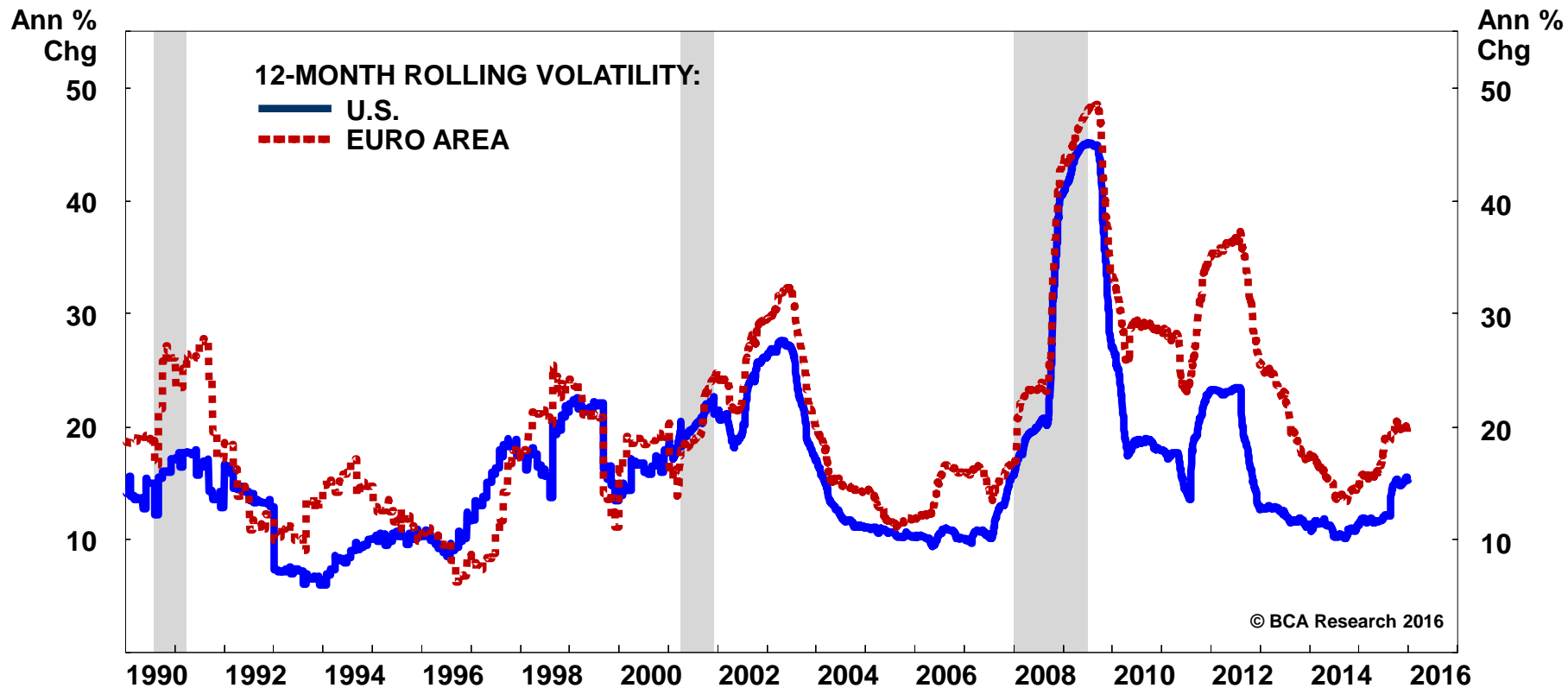
\* MARKET CAP-WEIGHTED AGGREGATE OF INDONESIA, THAILAND, CHINA, MALAYASIA, TURKEY, RUSSIA AND BRAZIL.

# U.S. Junks Bonds Offer Best Risk/Reward

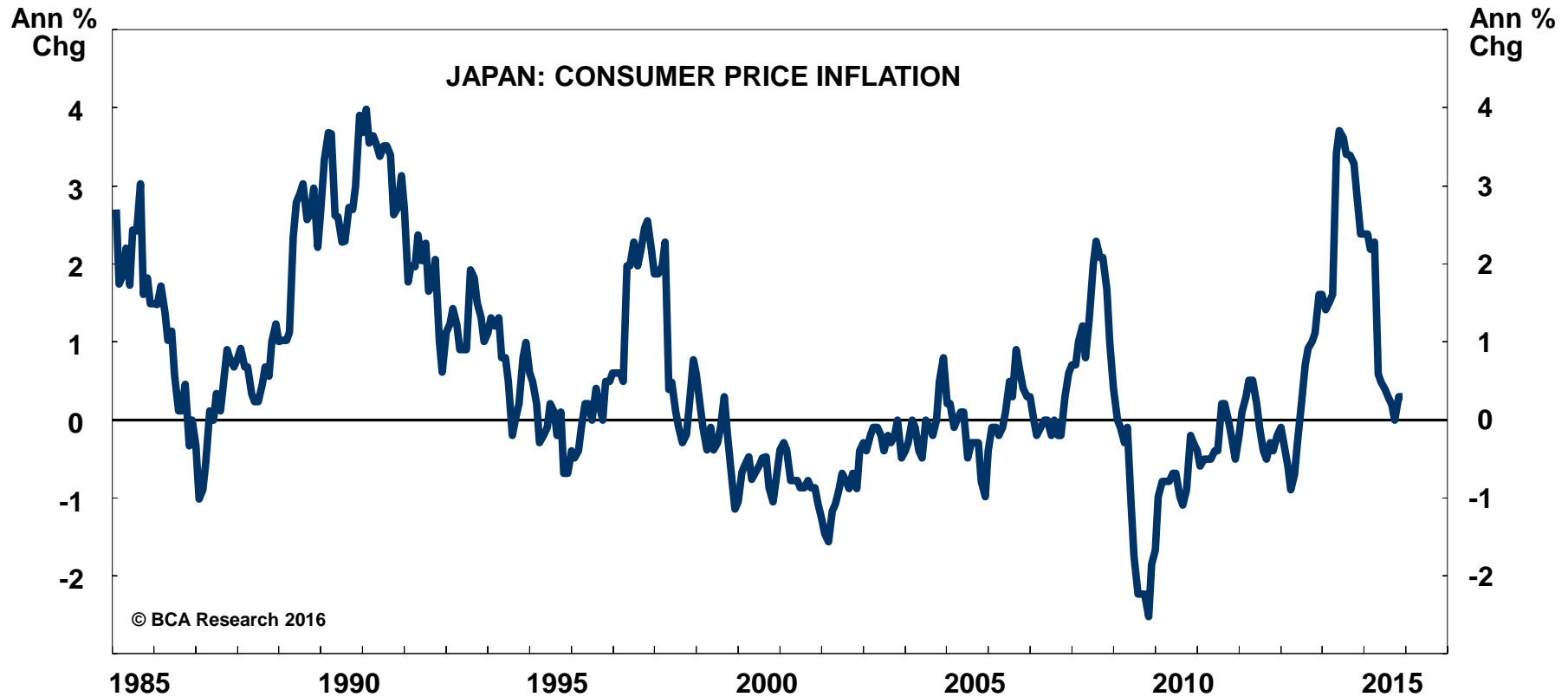


\* SOURCE: BARLCAYS.

# U.S. Equities Safer Than European Ones



# Japan As a Trade





# BCA Recommended Asset Allocation

## Recommended Allocation

GLOBAL ASSET ALLOCATION	-	+
EQUITIES	<input type="checkbox"/>	<input checked="" type="checkbox"/>
FIXED INCOME	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CASH	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EQUITIES	-	+
U.S.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EUROPE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
JAPAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CANADA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
AUSTRALIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
U.K.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CREDIT	-	+
GOVERNMENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>
INVESTMENT GRADE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HIGH YIELD*	<input type="checkbox"/>	<input checked="" type="checkbox"/>

SECTORS	-	+
ENERGY	<input type="checkbox"/>	<input checked="" type="checkbox"/>
MATERIALS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
INDUSTRIALS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CONSUMER DISCRETIONARY	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CONSUMER STAPLES	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HEALTHCARE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
FINANCIAL	<input type="checkbox"/>	<input checked="" type="checkbox"/>
INFO TECH	<input type="checkbox"/>	<input checked="" type="checkbox"/>
TELECOMS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
UTILITIES	<input type="checkbox"/>	<input checked="" type="checkbox"/>

CURRENT       PREVIOUS

\* WE RAISED TO OVERWEIGHT IN OUR SPECIAL REPORT DATED DECEMBER 11, 2015, ENTITLED "HIGH-YIELD BONDS: LOW VOLATILITY EQUITIES?" AVAILABLE AT [GAA.BCARESEARCH.COM](http://GAA.BCARESEARCH.COM).

# Conclusion

- › **Cash yields zero, government bonds 1%, and equities are expensive.**
- › **In this world, be nimble to make a positive return.**
- › **But there is risk in not taking any risk too.**
- › **The global economic expansion is likely to continue for a couple of more years.**
- › **...unless the Fed has made a mistake.**
- › **But the next global recession, when it comes, could be a nasty one.**