



2016

# **Investing in a Low Rate Environment**

**Asia Pacific Wealth Management**

September 2016

---

INVESTMENT PRODUCTS: NOT A BANK DEPOSIT. NOT GOVERNMENT INSURED. NO BANK GUARANTEE. MAY LOSE VALUE

# 2016 Market Performance

- Bonds and commodities have outperformed equities so far this year.

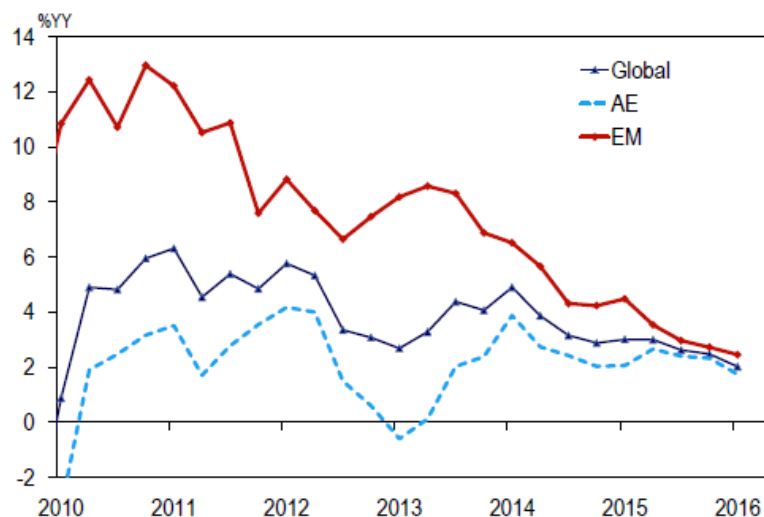
Total Return (%)	Jan	Feb	Mar	Apr	May	June	July	August	YTD
Japan	-8.0	-8.4	6.0	-0.6	3.4	-9.5	6.4	2.0	-10.3
Europe	-6.3	-2.1	2.6	1.9	2.7	-4.8	3.7	0.8	-3.2
Asia	-7.6	-0.9	10.9	-0.9	-1.3	2.7	4.9	3.4	10.9
US	-5.0	-0.1	7.0	0.4	1.8	0.3	3.7	0.1	7.8
Emerging Markets	-6.5	-0.2	12.8	0.6	-3.7	4.1	5.1	2.5	14.8
Global IG Bonds	1.1	2.0	2.6	1.0	-1.1	2.6	0.8	-0.5	8.7
Global HY Bonds	-1.8	0.6	4.6	4.1	0.7	1.1	2.5	2.2	14.9
EM Sovereigns	0.0	1.9	3.3	1.7	-0.3	3.8	1.4	1.9	14.5
Asia Sovereigns	2.0	1.4	3.1	1.7	-0.1	2.7	3.1	0.9	15.7
Gold	5.4	10.8	-1.1	4.9	-6.0	8.8	2.2	-3.1	23.4
Oil (Brent)	-6.8	3.5	9.1	21.5	3.2	0.0	-14.4	10.8	26.2

Source: Bloomberg. As of 31 August 2016. In USD. Returns for Japan and Europe are in local currency.

# Low Global Growth

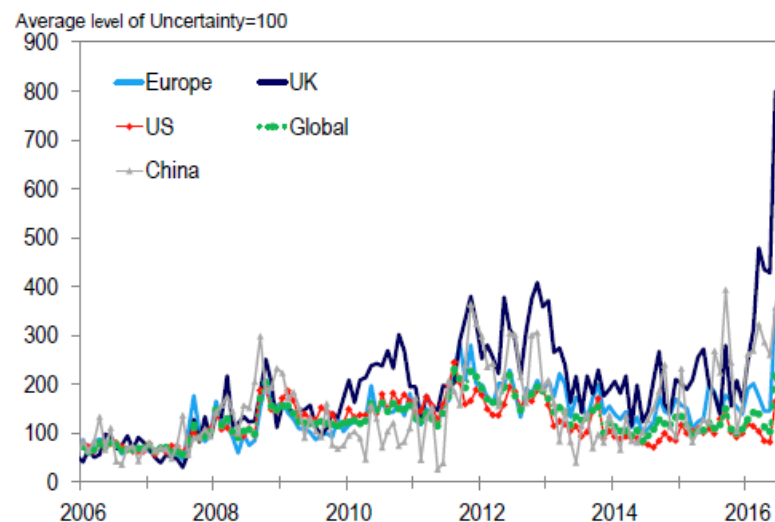
- Policy uncertainty and threats to globalisation have deterred investment spending and weighed on growth. Citi expects global real GDP growth of 2.4% in 2016 and 2.7% in 2017.

**Real Investment (% yoy) 2010 – 2016 Q1**



Note: Real Gross Fixed Investment. Sources: National Statistical Offices and Citi Research

**Economic Policy Uncertainty Index 2010 - 2016**

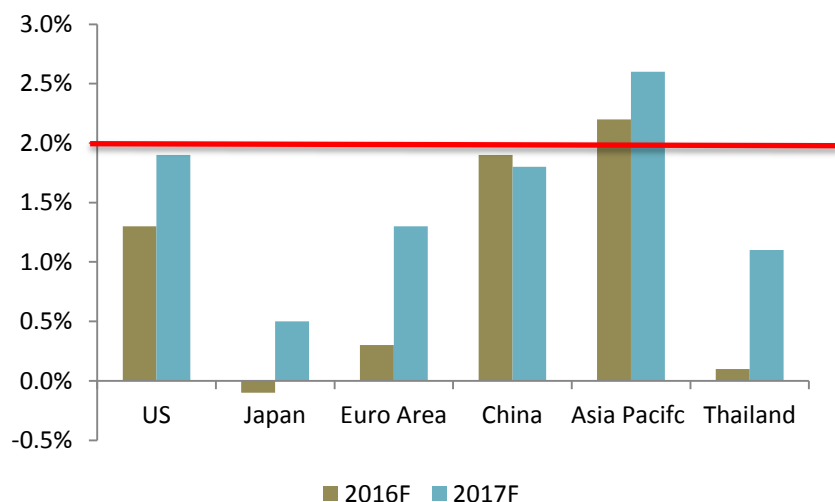


Note: Global is the GDP-weighted average of the uncertainty index for Europe, US, UK, China, Australia, India, Japan, Korea and Russia. Europe is the GDP-weighted average of the uncertainty index for France, Germany, Italy, Spain and Netherlands. Sources: PolicyUncertainty.com and Citi Research

# Inflation To Stay Contained

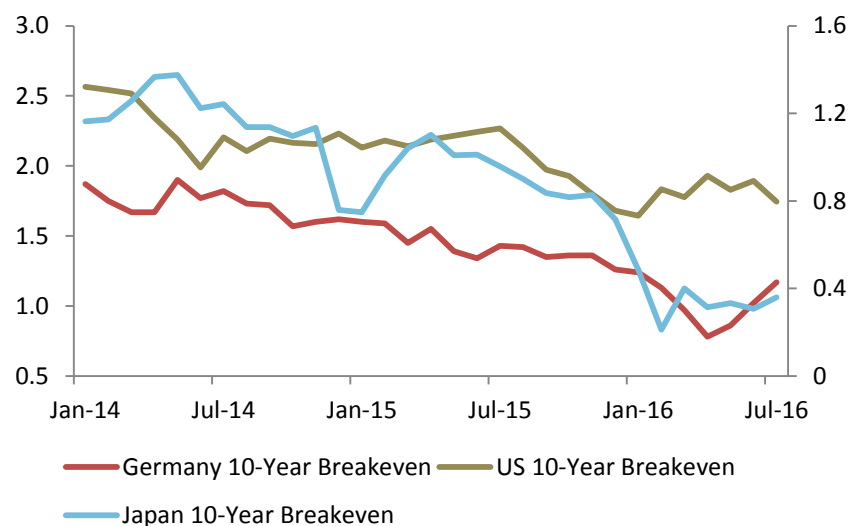
- Inflation expectations remain subdued in the developed economies.
- Citi's forecasts do not suggest that inflation will rise rapidly soon.

## Inflation Forecasts



Source: Citi Research. As of 30 August 2016

## Inflation Breakeven levels (%)

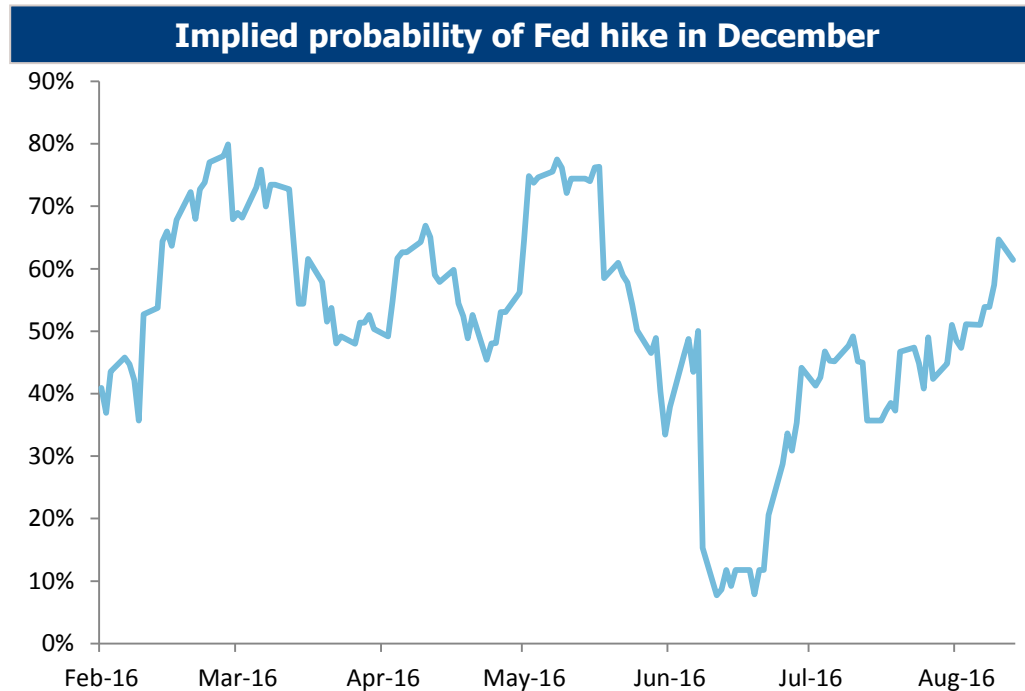


Source: Bloomberg. As of 30 August 2016

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.

## Interest Rates To Stay Low

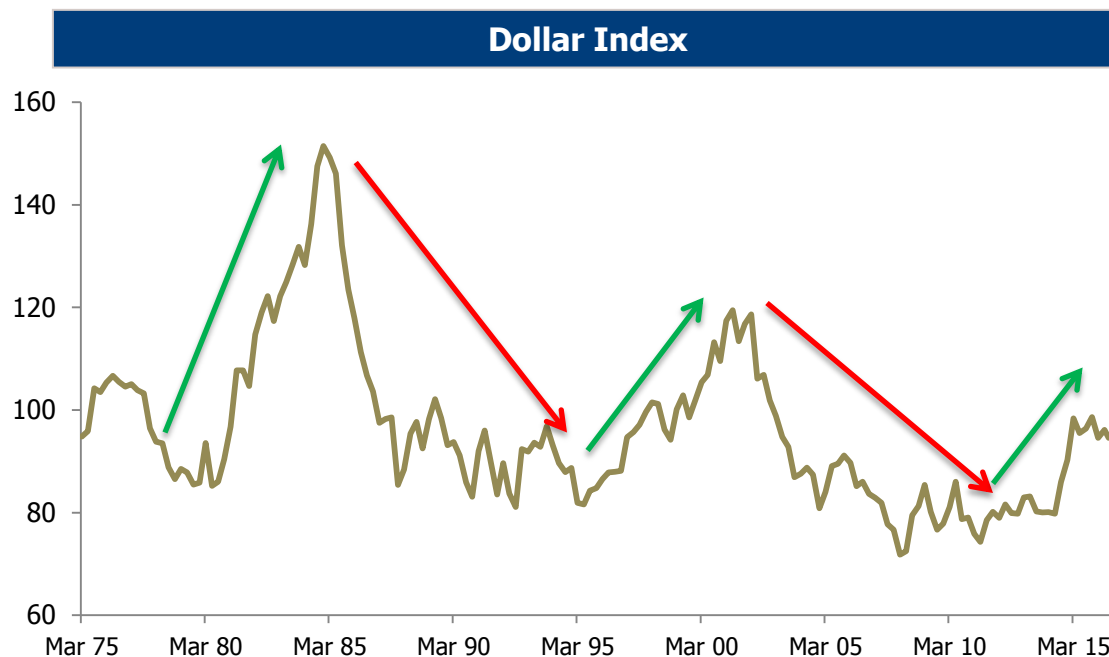
- In the US, a slower pace of rate hikes than previous rate cycles appears likely and Citi expects one rate hike in December this year.



Source: Bloomberg. As of 29 Aug 2016.

# US Dollar May Have Peaked

- Long term USD appreciation cycles tend to last about 5-6 years, suggesting that dollar strength may have peaked.



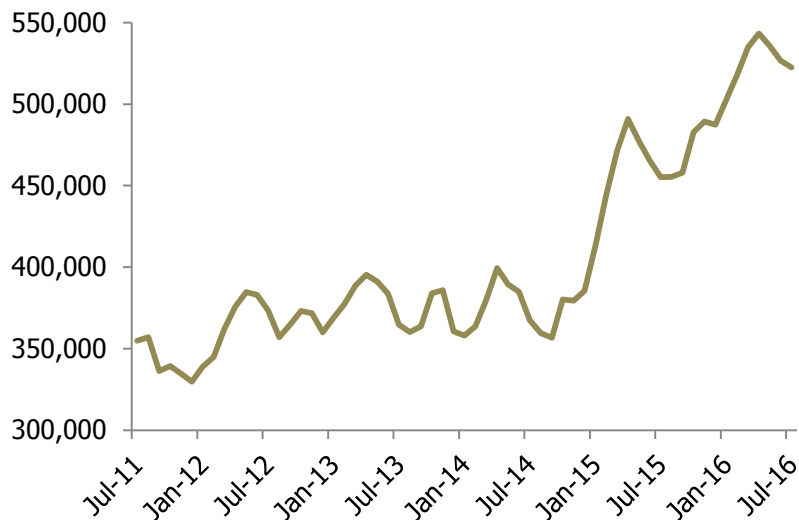
Source: Bloomberg. As of 22 August 2016.

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.

# Commodities – Turning The Corner

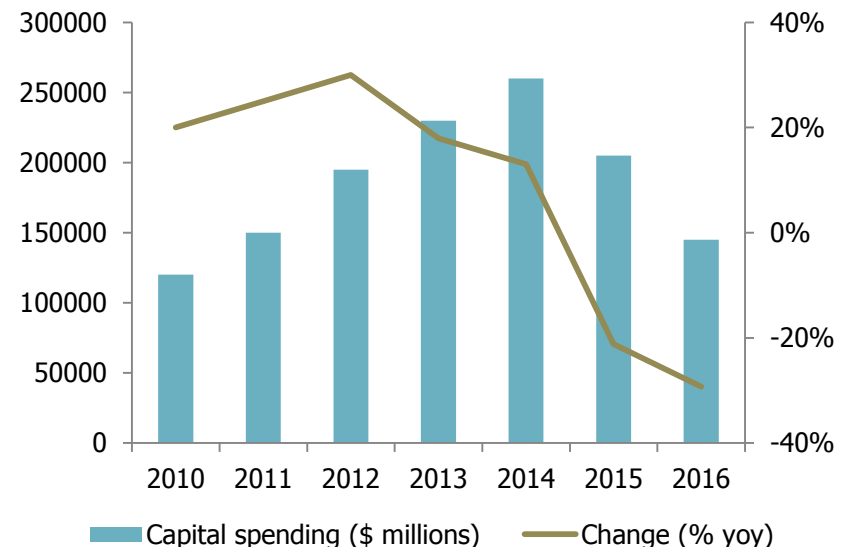
- Citi sees oil prices averaging low US\$50s in 1H17 and reaching low US\$60s by end 2017.

## US Crude Oil Inventories



Source: Bloomberg. 30 August 2016. Millions of barrels.

## US Energy Companies – Capital expenditure



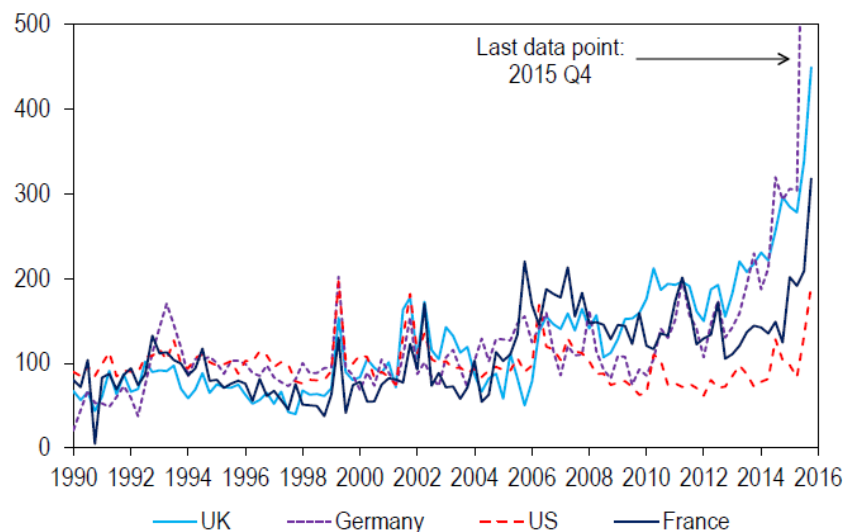
Source: DataCentral, FactSet and Citi Research – US Equity Strategy. August 2016. Includes forecasts from US Energy Companies under Citi's US Coverage.



# Volatility To Stay

- Post Brexit-related uncertainty in the UK, the US presidential election, major EU elections as well as Italy's referendum are potential sources of market volatility.

## Migration Fear Index



Note: The Migration Fear Index for Germany was 777.7 in 2015 Q3 and 1191.9 in 2015 Q4

Sources: Economic Policy Uncertainty (Policy Uncertainty.com11) and Citi Research as of 27 July 2016

## Key political events (US/Europe)

Date	Country
Oct 2016	Italy Constitutional Referendum
Nov 2017	US Presidential Election
Mar 2017	Netherlands General Election
Apr/May 2017	France Presidential Election
27 Aug -22 Oct 2017	German Federal Election

Source: Citi Research as of 24 June 2016.



# Asset Allocation Strategy For 2H16

ASSET CLASS	WEIGHT -2 -1 0 1 2
<b>Fixed Income</b>	<b>UNDERWEIGHT</b>
Global Investment Grade	UNDERWEIGHT
Global Sovereign	UNDERWEIGHT
Corporate Investment Grade	OVERWEIGHT
Global High-Yield	OVERWEIGHT
APAC ex Japan / EM	OVERWEIGHT
<b>Equity</b>	<b>NEUTRAL</b>
US	NEUTRAL
Europe	NEUTRAL
Japan	NEUTRAL
Asia ex Japan	NEUTRAL
Emerging ex Asia	OVERWEIGHT
Emerging EMEA	NEUTRAL
Emerging Latin America	OVERWEIGHT

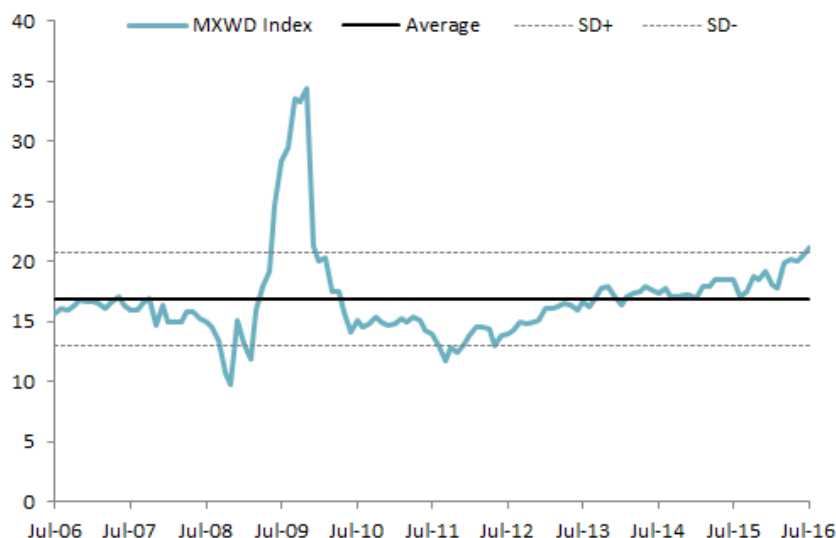
- Neutral global equities
  - OW EM ex Asia equities (Latin America)
- Underweight Fixed Income
  - Overweight Investment Grade Corporates (US)
  - Overweight High Yield Bonds (US, Europe)
  - Overweight Emerging Market Debt

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.

# Expensive Share Markets

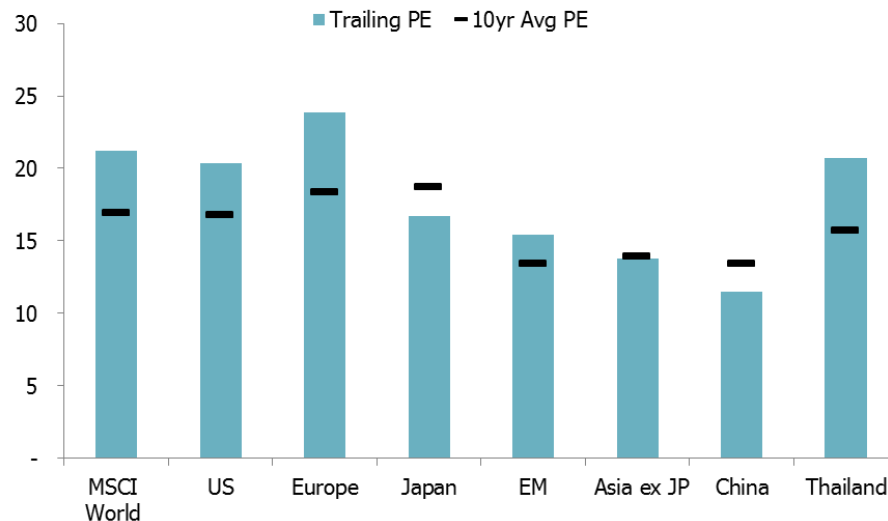
- The MSCI AC World benchmark currently trades at 20x on a trailing PE which is above the long run median of 17x.

**MSCI AC World Trailing PE**



Source: Bloomberg. As of 14 August 2016

**MSCI Regional Trailing PEs**

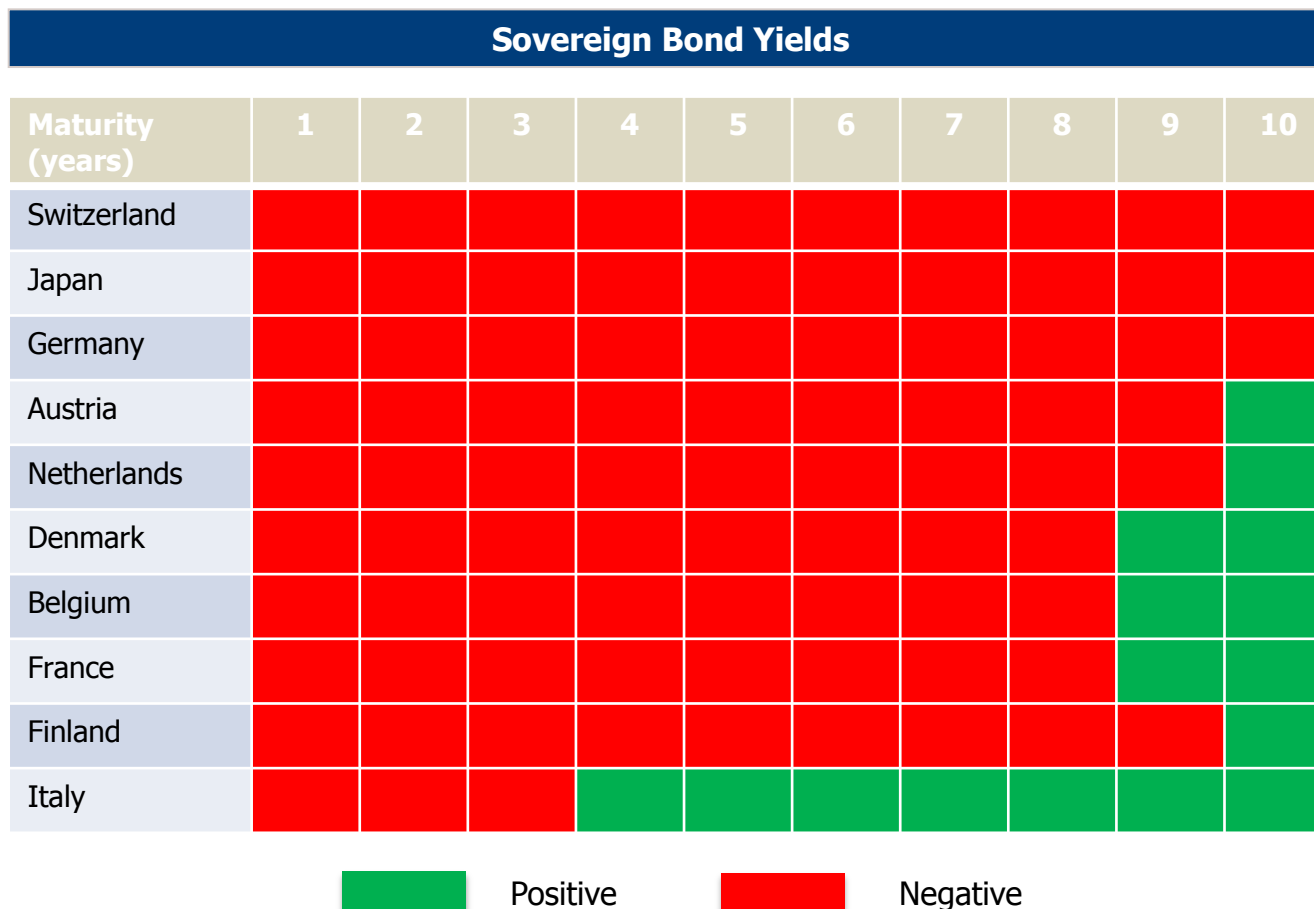


Source: Bloomberg. As of 14 August 2016

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.

# An Increasing Number of Sovereign Yields Are Negative

- Over one-third of the DM sovereign bond market yields less than zero. UK and Australia have also recorded historical lows in long-term sovereign bond yields.



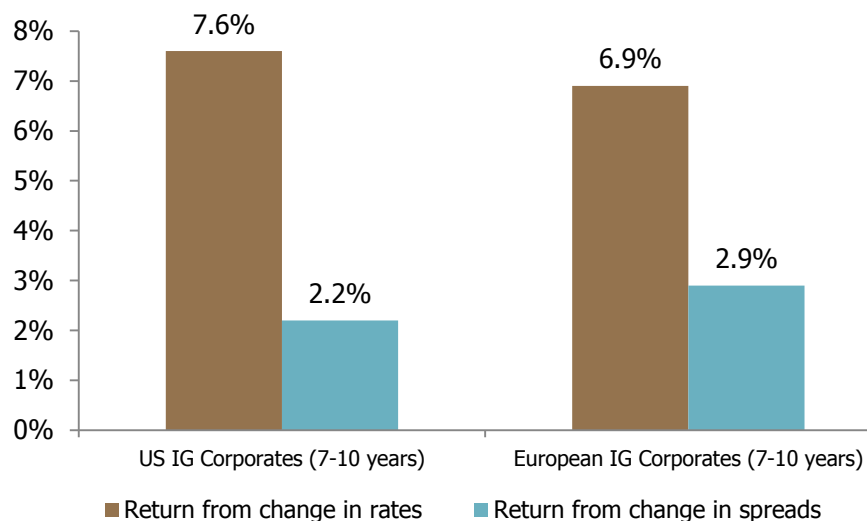
Source: Bloomberg Finance LP, Deutsche Bank Global Markets Research. As at 15 June 2016. For illustrative purposes only. \*Fitch ratings as at 27 June 2016.

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.

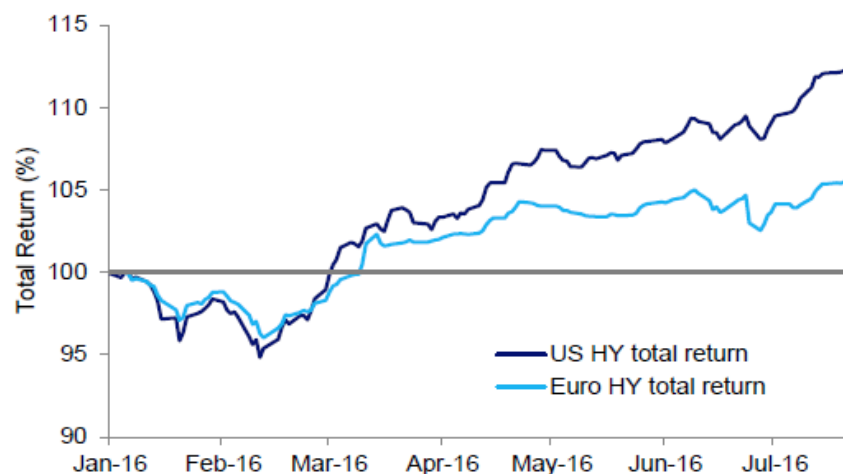
## Fixed Income – Credits Likely To Gain

- Carry supports our preference for USD Investment Grade (IG) over European IG.
- Consider select, high quality US High Yield (HY) energy bonds. European HY issuers are likely to benefit from ECB corporate bond purchases.

### Decline in yields have driven returns



### Higher yields have boosted US HY returns



Source: The Yield Book. As of 15 August 2016.

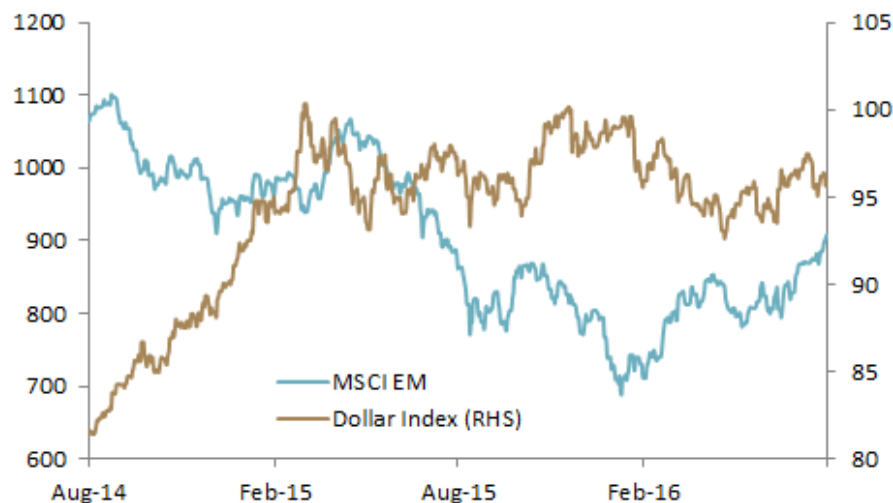
Source: FactSet, Barclays Capital as of July 25, 2016.

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.

# Dovish Fed Is Supportive Of Emerging Markets

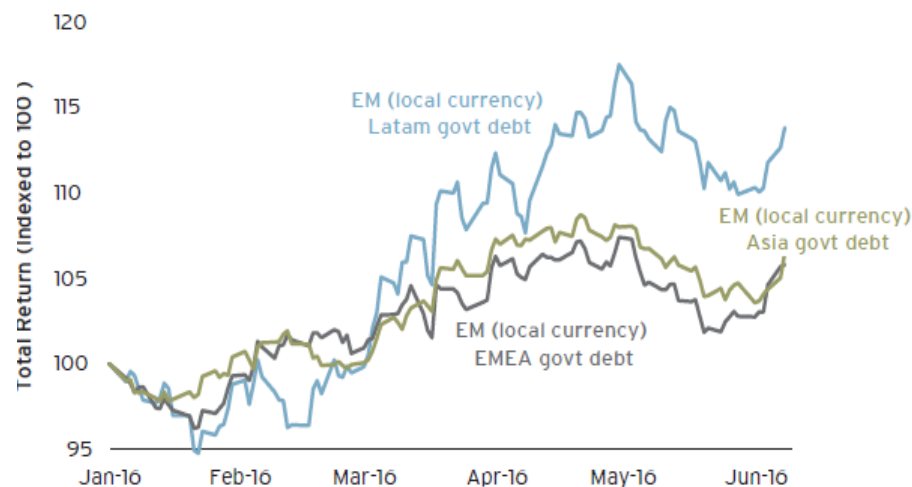
- Improving commodity prices, lower developed market sovereign bond yields and a dovish Fed policy is supportive of Emerging Market (EM) assets.

## Emerging Market Equities vs. Dollar Index



Source: Bloomberg. As of 11 August 2016

## EM Debt has benefitted from the search for yield



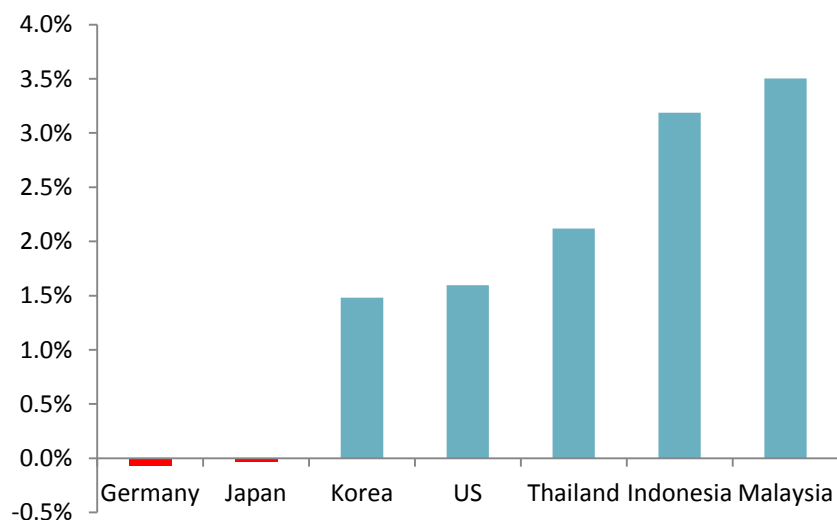
Source: Citi Private Bank, FactSet, Barclays Capital. As of June 8, 2016.

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.

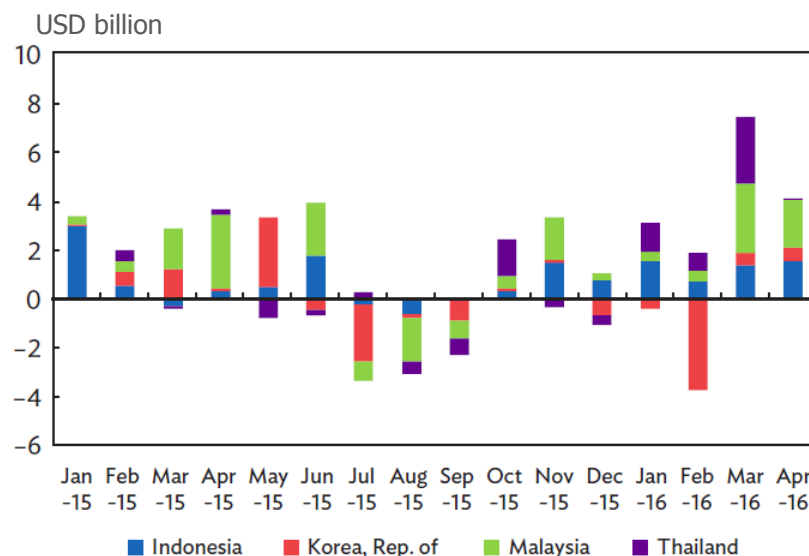
# Asian Bond Markets See Inflows

- Asian bond markets have enjoyed inflows as relatively higher yields appeal to investors.

## Asian Bonds Offer Higher Yields



## Selected Asian Bond Markets - Flows



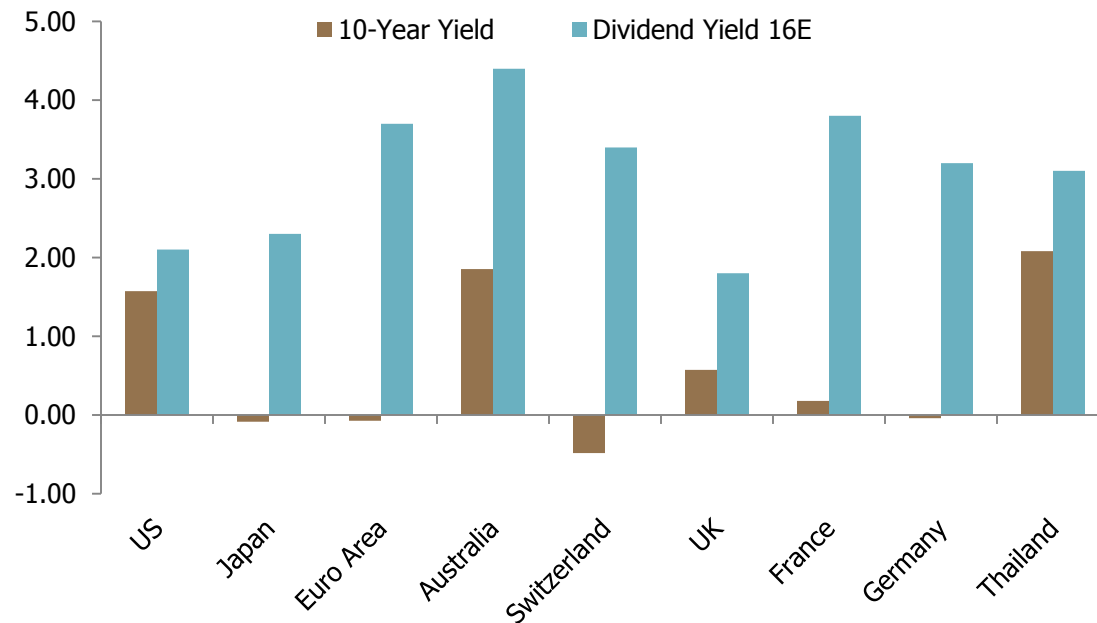
Source: 1. The Republic of Korea and Thailand provide data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows. 2. Data provided as of end-April 2016. 3. Figures were computed based on 30 April 2016 exchange rates to avoid currency effects. Sources: Directorate General of Budget Financing and Risk Management, Ministry of Finance; Financial Supervisory Service; Bank Negara Malaysia; and Thai Bond Market Association.

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.

# Attractive Equity Dividends

- Dividend yields are higher than government bonds in almost all major developed economies.
- Thai equities currently provide a dividend yield of 3.1%.

**Dividend Yield & 10-Yr Government Bond Yields (%)**



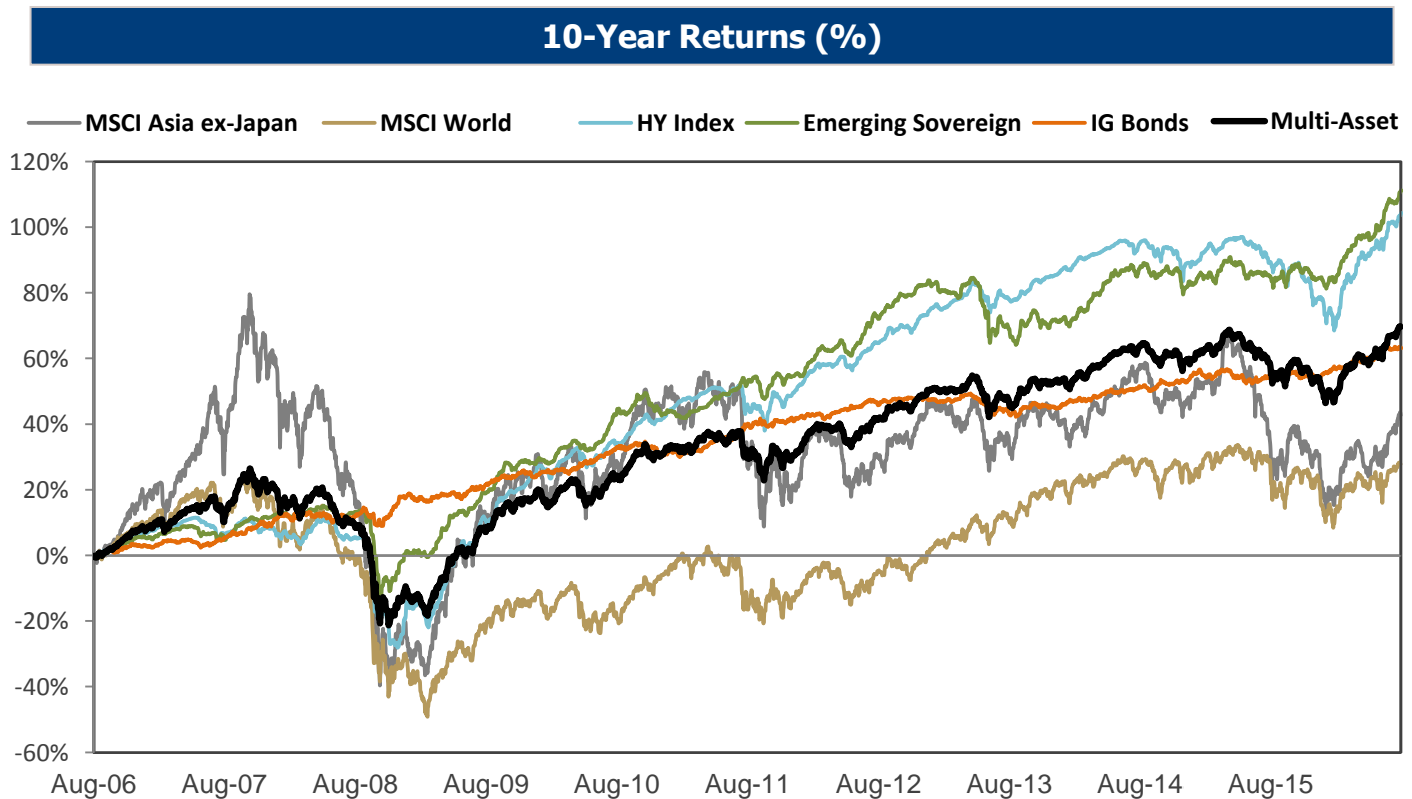
Source: Citi Research and Datastream. As of 25 August 2016.

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.



# Stay Diversified

- A diversified portfolio helps smoothen portfolio volatility, and is an efficient way to protect and grow wealth over the medium to long term.



Source: Bloomberg. As of 16 August 2016. Diversified Portfolio is equally allocated to MSCI World Index, MSCI Asia ex Japan Index, Global IG Bond Index, Global HY Index and Asian/EM Bonds Index.

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.

# Key Takeaways

- ▶ **Market volatility to continue.**
  - ▶ Stay diversified. Focus on quality in both bonds and equities.
- ▶ **Currencies – USD strength may have peaked.**
- ▶ **Commodities – Turned the corner. Oil to grind higher.**
- ▶ **Equity - Neutral.** Need support from accommodative monetary policies.
  - Slight OW in EM equities.
  - Favour sustainable dividends
- ▶ **Fixed Income – Modest inflation pressures, gradual pace of Fed tightening**
  - Longer duration strategies in US and Europe.
  - US Investment Grade credits look attractive
  - Maintain a quality bias in US and European High Yield
  - Emerging Market Debt to benefit from cautious Fed and improving commodity prices

There can be no assurance that these market conditions will remain in the future. Past performance does not guarantee future results. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices expressed are subject to change without prior notice and are expressed solely as a general market commentary and do not constitute investment advice or a guarantee of returns.

# Important Information

"Citigold Private Client" is a client segment of Citigroup Inc. ("Citigroup"), which provides its clients access to a broad array of products and services available through bank and non-bank affiliates of Citigroup. Not all products and services are provided by all affiliates or are available at all locations.

The information in this document is not intended to constitute "research" as that term is defined by applicable regulations. Unless otherwise indicated, any reference to a research report or research recommendation is not intended to represent the whole report and is not in itself considered a recommendation or research report. All views, opinions and estimates expressed in this document (i) may change without notice and (ii) may differ from those views, opinions and estimates held or expressed by Citi or other Citi personnel. The sole purpose of this document is to inform, and it in no way is intended to be an offer or solicitation to purchase or sell any security, other investment or service, or to attract any funds or deposits. It is also not an official statement of Citigroup Inc. and may not reflect all of your investments with or made through Citigroup. For an accurate record of your accounts and transactions, please consult your official statements. Investments mentioned in this document may not be suitable for all investors. Before making any investment, each investor must obtain the investment offering materials, which include a description of the risks, fees and expenses and the performance history, if any, which may be considered in connection with making an investment decision. Each investor should carefully consider the risks associated with the investment and make a determination based upon the investor's own particular circumstances, that the investment is consistent with the investor's investment objectives. Although information in this document has been obtained from sources believed to be reliable, Citigroup and its affiliates do not guarantee its accuracy or completeness and accept no liability for any direct or consequential losses arising from its use.

The information contained herein is not intended to be an exhaustive discussion of the strategies or concepts mentioned herein or tax or legal advice. Readers interested in the strategies or concepts mentioned herein should consult their tax, legal or other advisors, as appropriate.

Opinions expressed herein may differ from the opinions expressed by other businesses or affiliates of Citigroup, and are not intended to be a forecast of future events, a guarantee of future results or investment advice, and are subject to change based on market and other conditions. In any event, past performance is no guarantee of future results, and future results may not meet our expectations due to a variety of economic, market and other factors. Further, any projections of potential risk or return are illustrative and should not be taken as limitations of the maximum possible loss or gain.

Citigroup companies may compensate affiliates and their representatives for providing products and services to clients.

Neither Citigroup nor any of its affiliates can accept responsibility for the tax treatment of any investment product, whether or not the investment is purchased by a trust or company administered by an affiliate of Citigroup. Citigroup assumes that, before making any commitment to invest, the investor and (where applicable, its beneficial owners) have taken whatever tax, legal or other advice the investor/beneficial owners consider necessary and have arranged to account for any tax lawfully due on the income or gains arising from any investment product provided by Citigroup. At any time, Citigroup or its employees may have a position, subject to change, in any securities or instruments referred to, or provide services to the issuers of those securities or instruments.

If this presentation shows information coming from Citi Research, please refer to the attached link: [https://www.citivelocity.com/cvr/eppublic/citi\\_research\\_disclosures](https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures), which contains the important disclosures regarding companies covered by Citi's Equity Research analysts.

This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution may be restricted by law or regulation in certain countries. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.

# Important Information

Structured products can be highly illiquid and are not suitable for all investors. Additional information can be found in the disclosure documents of the issuer for each respective structured product described herein. Investing in structured products is intended only for experienced and sophisticated investors who are willing and able to bear the high economic risks of such an investment. Investors should carefully review and consider potential risks before investing.

OTC derivative transactions involve risk and are not suitable for all investors. Investment products are not insured, carry no bank or government guarantee and may lose value. Before entering into capital markets transactions, you should: (i) ensure that you have obtained and considered relevant information from independent reliable sources concerning the financial, economic and political conditions of the relevant markets; (ii) determine that you have the necessary knowledge, sophistication and experience in financial, business and investment matters to be able to evaluate the risks involved, and that you are financially able to bear such risks; and (iii) determine, having considered the foregoing points, that capital markets transactions are suitable and appropriate for your financial, tax, business and investment objectives.

An investment in alternative investments can be highly illiquid, are speculative and not suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include:

- loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices;
- lack of liquidity in that there may be no secondary market for the investment and none is expected to develop;
- volatility of returns;
- restrictions on transferring interests in the investment;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- advisor risk.

Individual funds will have specific risks related to their investment programs that will vary from fund to fund.