Global Investment Outlook

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FOR PROFESSIONAL CLIENTS ONLY - UKRSM-0126

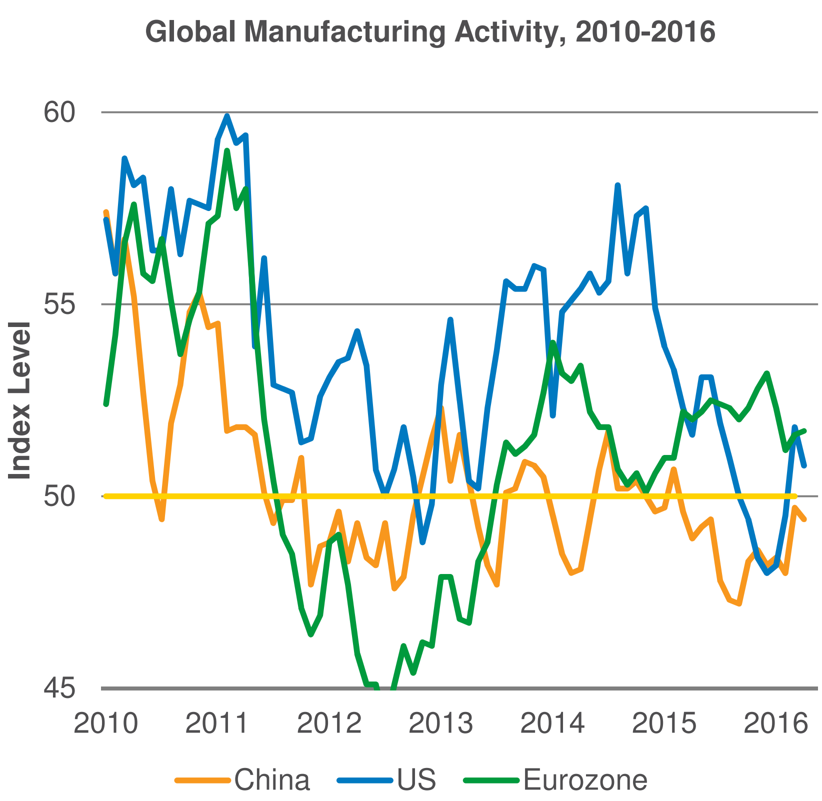
Asset performance YTD

Sterling Returns

Source: Thomson Reuters Datastream, BlackRock Investment Institute. 3 June 2016.
*Total return in sterling except currencies, gold and copper which are spot returns. Government bonds are 10-year benchmark issues.

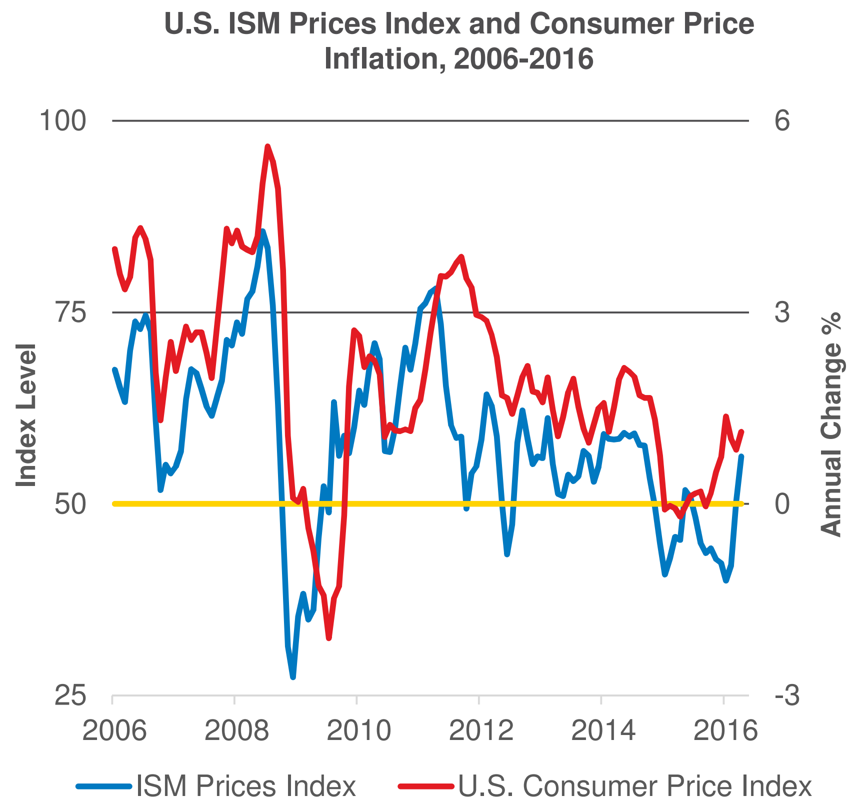
Low growth, but no recession

Manufacturing bottoming



BlackRock Investment Institute, Institute for Supply Management and Markit, May 2016.
Notes: The lines show purchasing managers' index levels. A value above 50 indicates expansion, while below 50 indicates contraction.

Deflation no longer an imminent risk

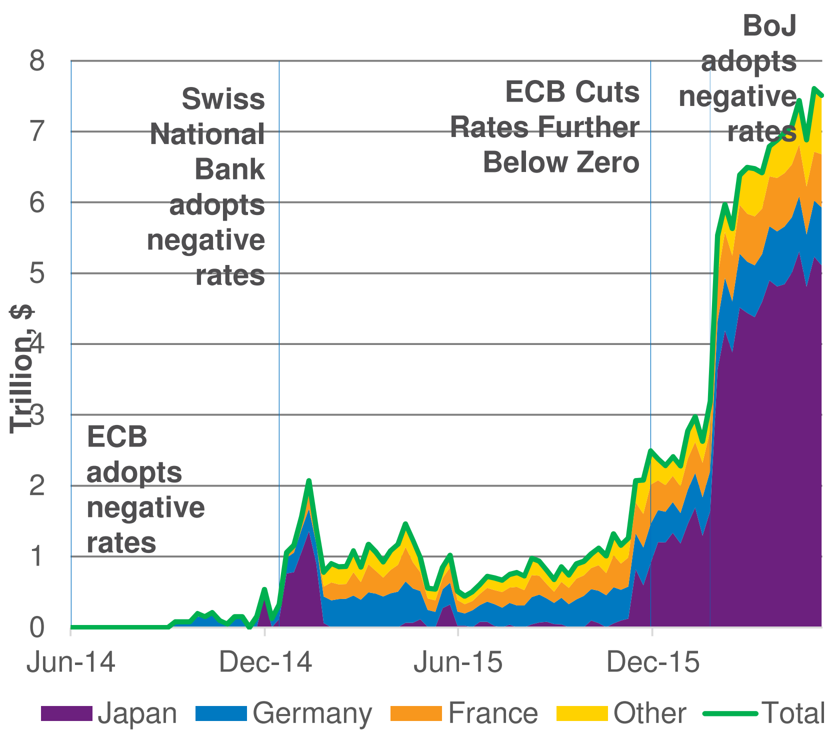


Sources: BlackRock Investment Institute, Institute for Supply Management (ISM) and Bureau of Labor Statistics, May 2016.
Notes: Notes: The ISM Prices Index is based on a national survey of purchasing managers reporting whether their organizations are paying more or less for products and services. A value above 50 indicates more respondents are reporting increased prices. The series shown is an average of the manufacturing and non-manufacturing indexes.

Low returns ahead

Negative rates driven down expected returns

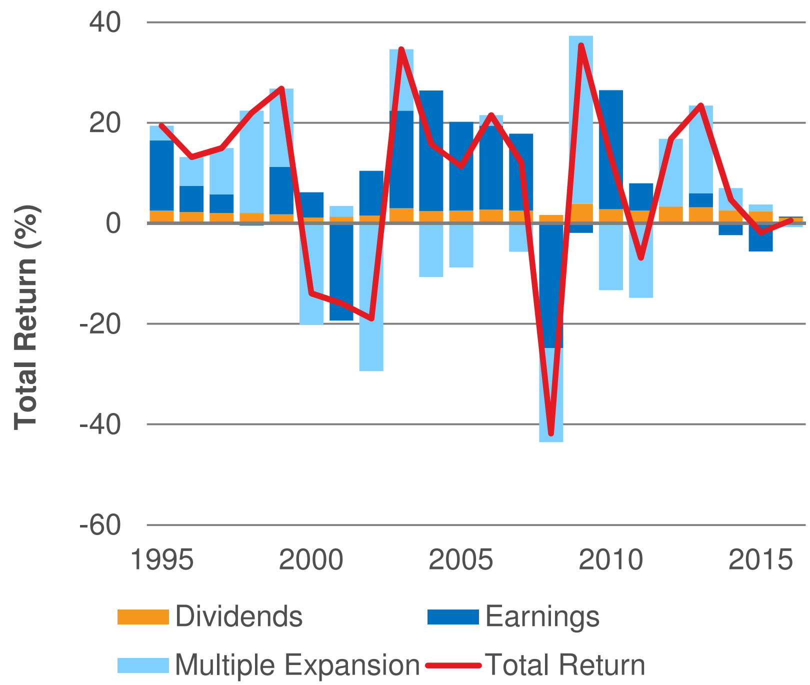
Government Bonds with Negative Yields, 2014-2016



Sources: BlackRock Investment Institute, J.P. Morgan and Thomson Reuters, May 2016.

Equity returns have borrowed from the future

Global Equity Returns by Source, 1995-2016

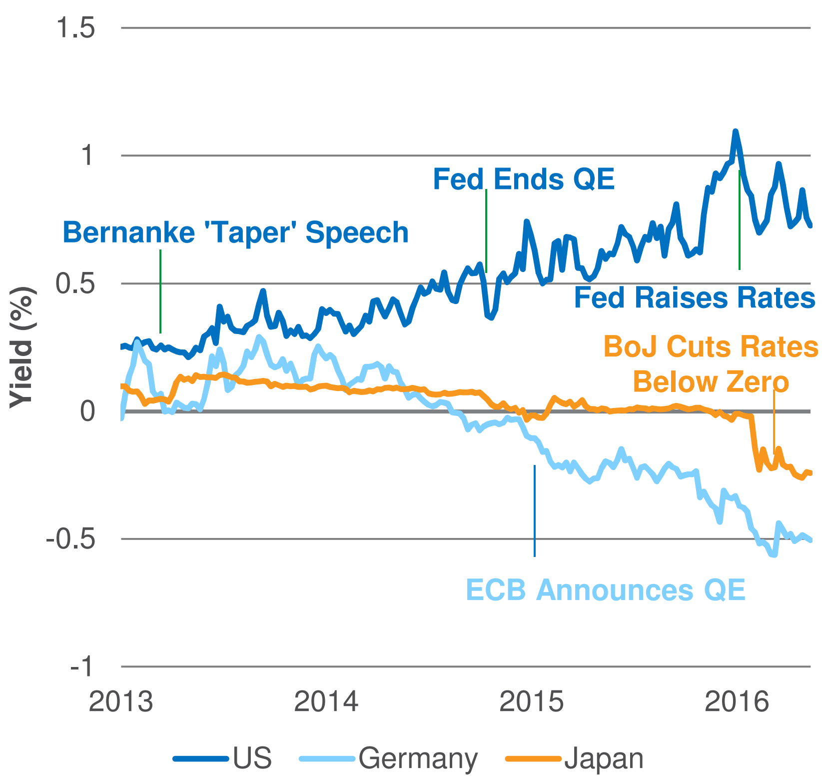


Sources: BlackRock Investment Institute, MSCI and Thomson Reuters, May 2016. Notes: Global equities are based on the MSCI All-Country World index. Earnings growth is based on aggregate12-month forward earnings forecasts. Multiple expansion is represented by the share of return not explained by earnings growth or dividends. The 2016 returns are for the first quarter only.

Divergence is slowing

Policy divergence has been material…

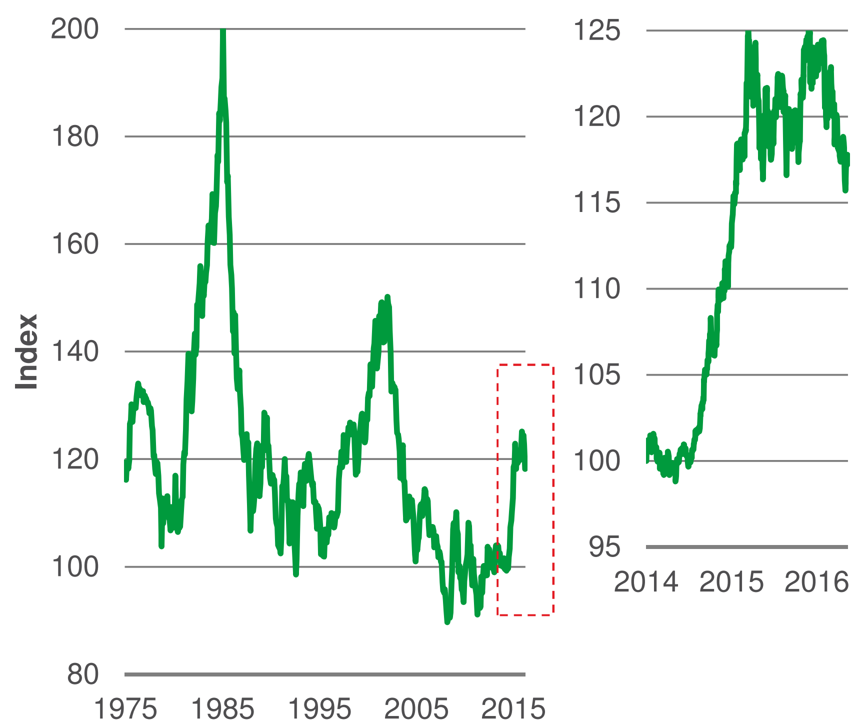
Two-Year Government Bond Yields, 2013-2016



Sources: BlackRock Investment Institute and Thomson Reuters, May 2016.
Notes: QE stands for quantitative easing. BoJ stands for Bank of Japan. ECB stands for European Central Bank.

…but is now waning – shown by easing of dollar strength

U.S Dollar Index, 1975-2016

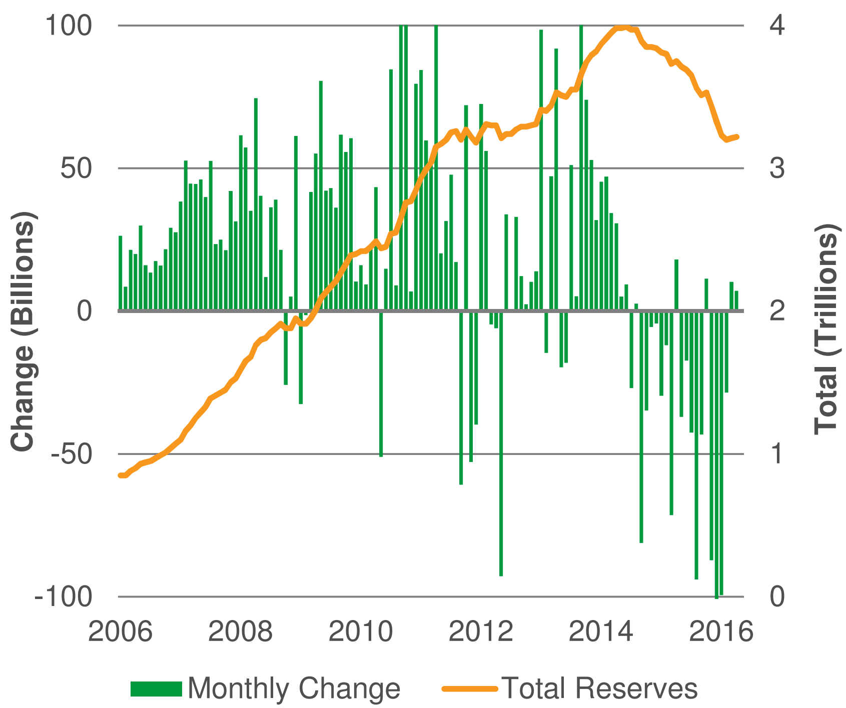


BlackRock Investment Institute and Thomson Reuters, May 2016. The chart shows the DXY Dollar Index. The lines have been rebased to 100 at 1 January 2014.

Perhaps EM risk is overestimated

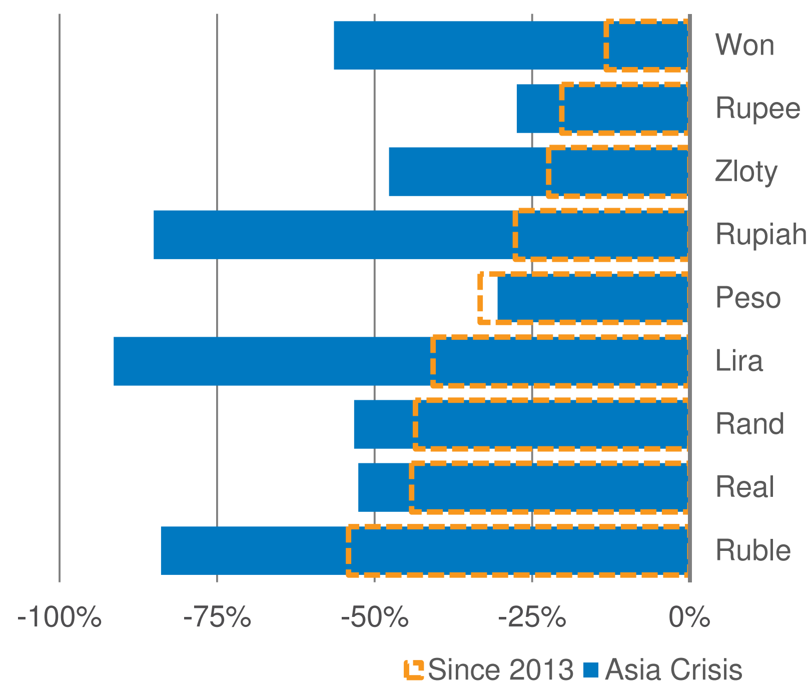
Devaluations fears diminished, but watch reserves

Chinese Foreign Exchange Reserves, 2006-2016



BlackRock Investment Institute, People's Bank of China and Thomson Reuters, May 2016.

Many EM currencies have potential to rebound in a more favourable dollar environment

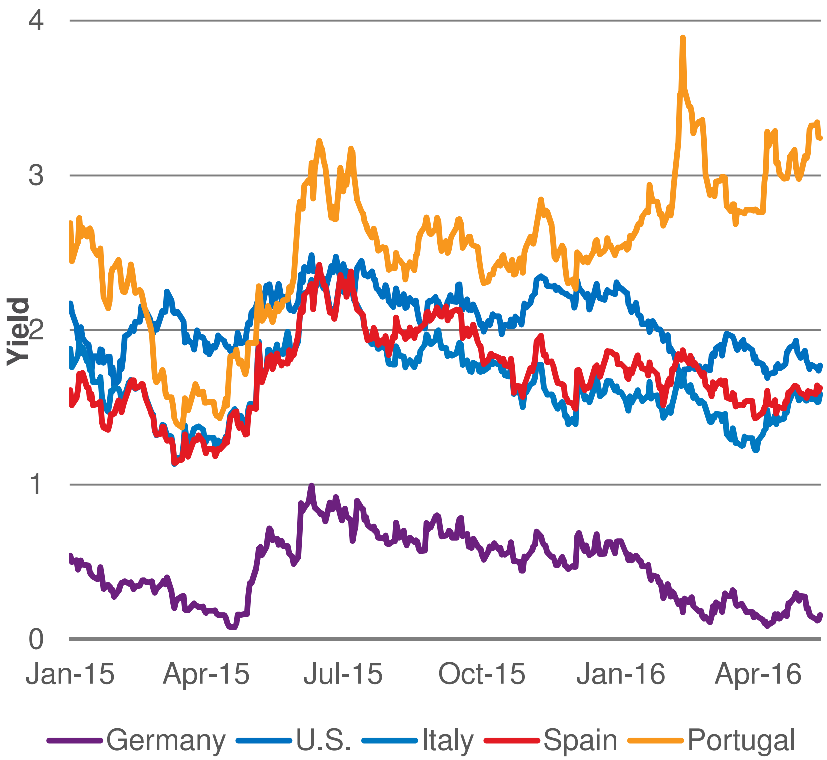


BlackRock Investment Institute and Thomson Reuters, May 2016.
The chart shows the peak-to-trough decline in currency value versus the U.S. dollar during the Asia crisis (1996-2000), compared with the decline from the peak value since the start of 2013 to today.

Sovereigns: Expensive but effective diversifiers

ECB will continue to drive compression

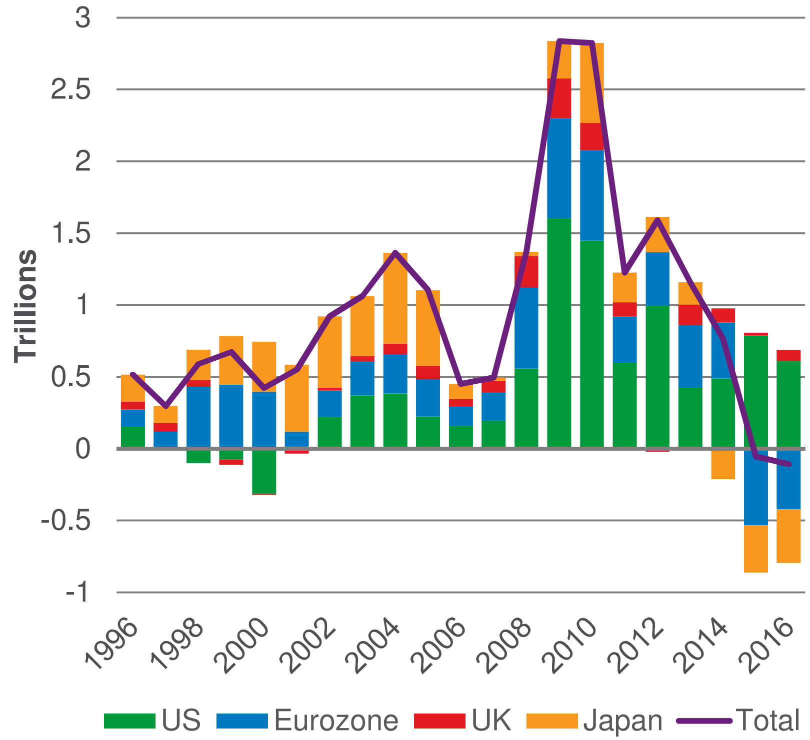
10-Year Government Bond Yields, 2015-2016



BlackRock Investment Institute and Thomson Reuters, May 2016.

Bond market set to shrink further in 2016

DM Net Government Bond Issuance after Central Bank Purchases 1996 - 2016

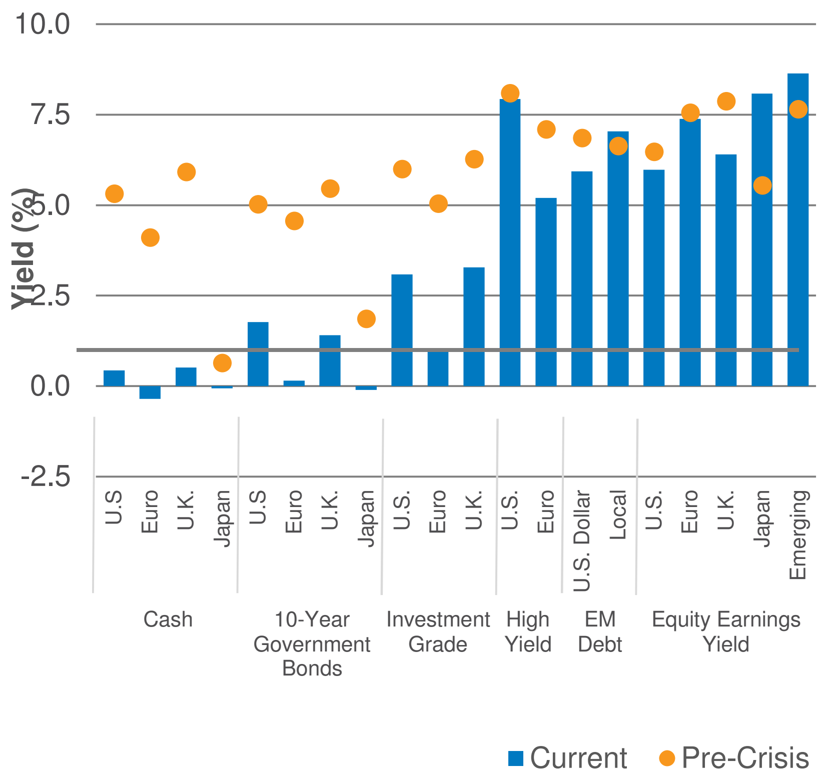


BlackRock Investment Institute and Morgan Stanley, March 2016.
Notes: The chart shows gross issuance of government bonds, minus central bank purchases and redemptions. 2016 is a Morgan Stanley forecast.

Credit: You are being paid to take credit risk

Attractive credit

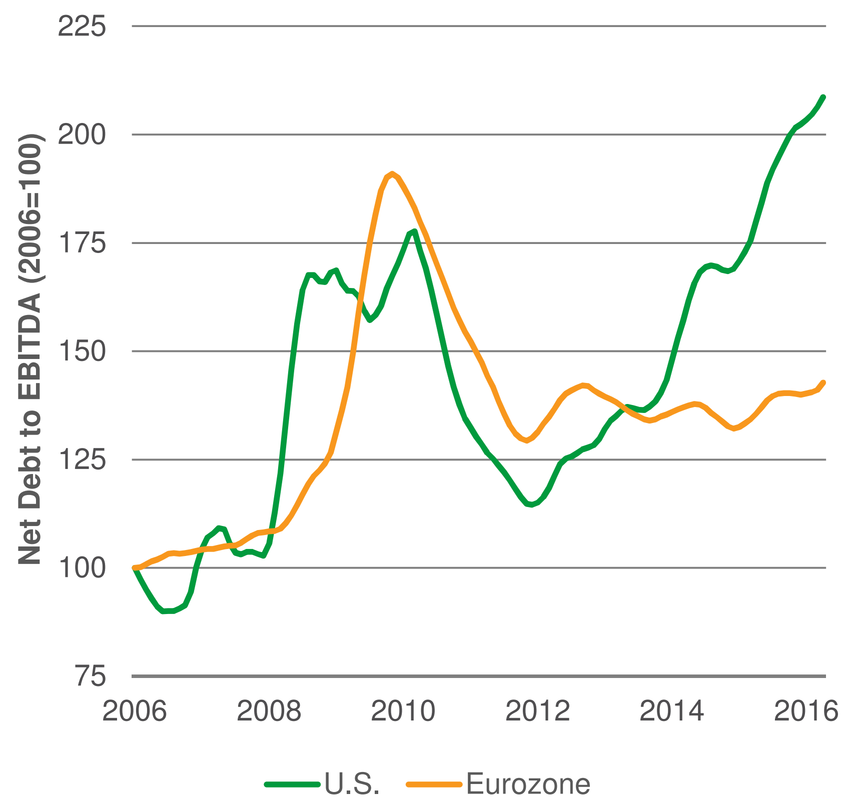
Selected Asset Yields: Current vs Pre-Crisis



Sources: BlackRock Investment Institute, Thomson Reuters, Bank of America Merrill Lynch, J.P. Morgan and MSCI, May 2016. Cash is based on one-month interbank rates. Corporate bonds are based on Bank of America Merrill Lynch index yields; U.S. dollar emerging debt is based on the J.P. Morgan EMBI; local emerging market debt is based on the J.P. Morgan GBI-EM. The equity earnings yield is based on the inverse of the 12-month forward P/E ratio for MSCI indexes.

Leverage rising

Net Debt to EBITDA for U.S. and Eurozone Equities, 2006-2016

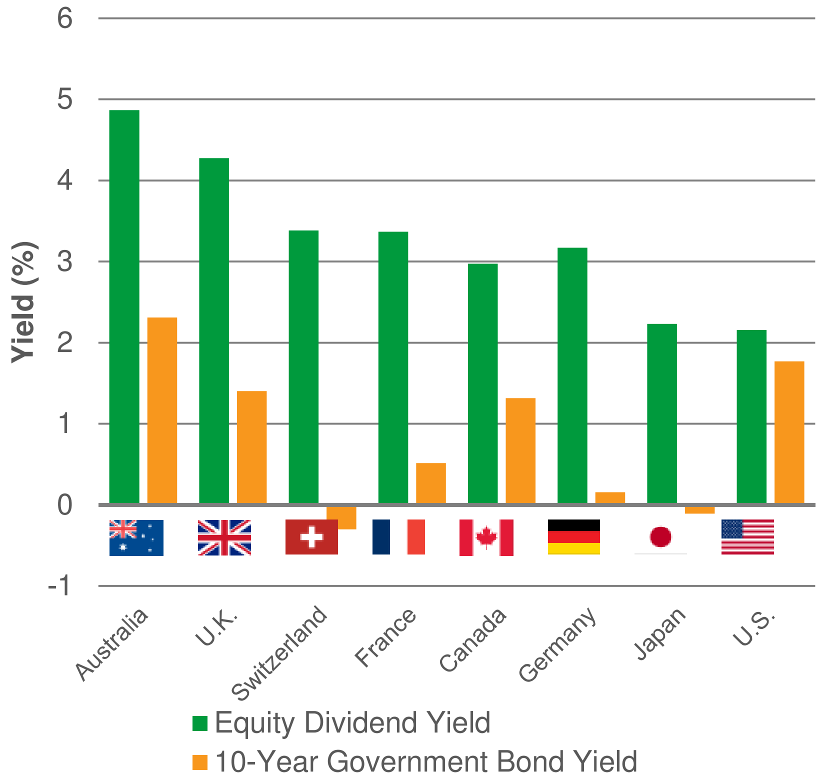


Sources: BlackRock Investment Institute and Thomson Reuters, May 2016. The chart shows the ratios of net debt to 12-month forward EBITDA for U.S. and Eurozone Datastream Total Market Index excluding financials. The ratios are rebased to 100 at the start of 2006.

Equities: There is some value here

The case for equities

Equity Dividend Yield vs. Government Bond Yields.

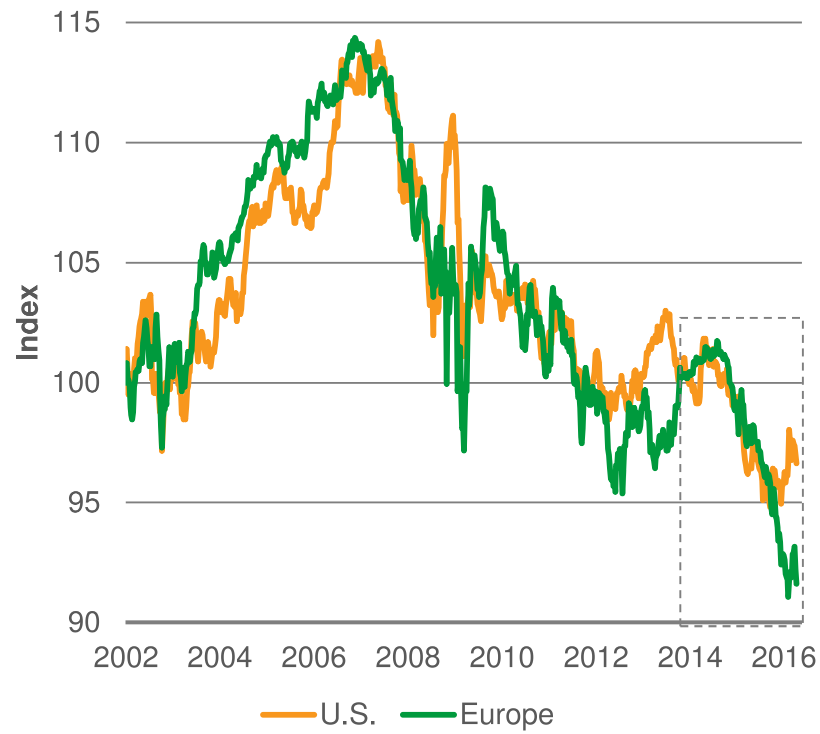


Sources: BlackRock Investment Institute, MSCI and Thomson Reuters, May 2016.

Chart shows largest 8 developed equity markets based on MSCI market capitalization.

Rediscovering value

Value Equities Relative to Overall Market, 2014-2016



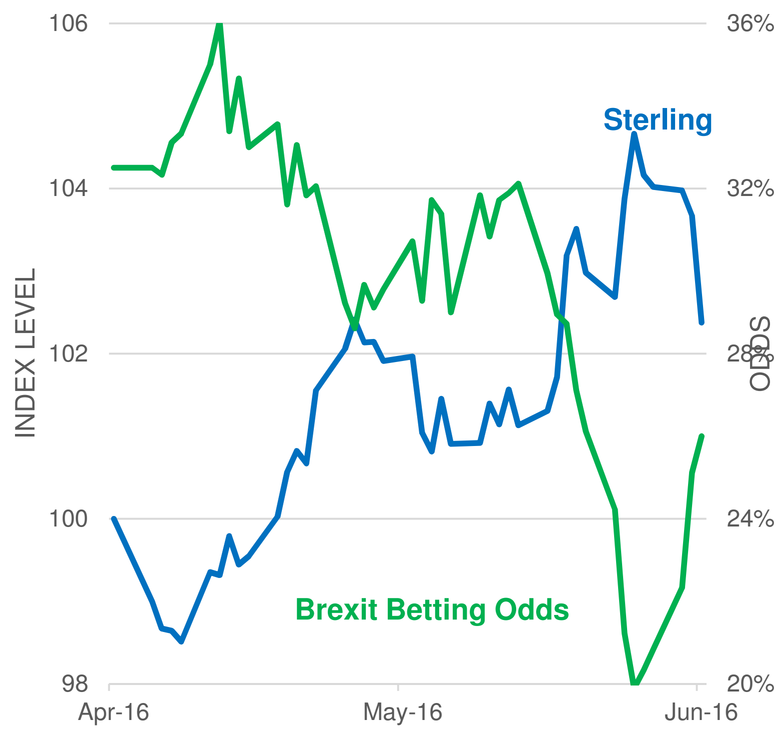
BlackRock Investment Institute and MSCI, May 2016. The lines show the MSCI value indexes divided by their respective total market indexes, rebased to 100 as of January 2002. For example, the blue line shows the MSCI Europe Value Index relative to the MSCI Europe Index.

Brexit

- June 23rd: - Binding vote, first past the post
- Core issues
  - Sovereignty/Migration
  - Economy/Jobs
- Voters undecided. Betting markets favour remain
- Potential political, economic and market impact well beyond UK

	Leave	Remain
Winners	US $ Safe haven bonds UK large cap (RV)	£ UK real estate Risk assets
Losers	£ UK real estate Risk assets	Gilts

GBP and the probability of Brexit based on betting odds



Sources: BlackRock Investment Institute, Bank of England, Predictit, PredictWise and Pvit, May 2016.
Notes: Trade-weighted sterling index - rebased to 100 at start of April 2016. Brexit betting odds based on three exchange-traded markets that trade on the outcome of events such as Brexit.

Summary

- Be cautious in the short-term
- Policy divergence continues to be a theme
- Equities beta preferred to bonds; prefer dividend growth and quality
- Now is a good time to put hedges in portfolios: Sovereign debt, inflation linked bonds, gold, FX

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