

Global Outlook

February 2018





Foreword



Govinda Finn
*Japan & Developed Asia
Economist*

John Maynard Keynes placed considerable weight on the role of 'animal spirits' in driving the economic cycle. Judging by recent survey data spirits are high; buoyed by a positive outlook for global activity and the prospect of substantial tax cuts in the US. In this edition of Global Outlook, Andrew Milligan, Head of Global Strategy, Standard Life Investments, discusses what this means for asset allocation decisions. Arguing for a pro-risk attitude but highlighting that the dangers which failed to materialise in 2017 continue to wait in the wings. He concludes that a return to even normal levels of volatility, driven by policy or politics, could prove an unpleasant surprise for investors.

One of the regions that has lagged previous cyclical upswings but appears to be more invigorated this time round is Europe. A supportive macroeconomic backdrop is playing out differently across sectors. We take a deep-dive into corporate activity in two industries more sensitive to changing economic and financial conditions than most. Andrew Fraser, Head of Research - Financials, Aberdeen Standard Investments, examines whether promulgations that Europe's banking sector is ripe for a dramatic round of downsizing are credible. He concludes that, while the industrial logic is sound, the regions banks are likely to remain cautious before undertaking large-scale M&A. There appear to be no such qualms among the region's real estate companies. Picking up the theme, Jon Stewart, Fund Manager, Listed Real Estate, highlights that M&A activity in the sector over 2017 returned to a level close to its 2007 peak. He runs a critical eye over some of the biggest deals and asks what are the key factors for investors to consider when assessing M&A activity. He concludes that management discipline within the sector remains sound, with acceptable levels of leverage, pricing and strategic logic.

A rising economic tide may not lift all boats. In our absolute returns article, Neil Richardson, Investment Director, Multi-Asset Investing, argues that investor enthusiasm for emerging market equities has led to a forgiving attitude to economic and political weaknesses. On a longer term view, institutional frailties can provide a nasty shock. For those investors capable of refining their exposures, he points out that Brazilian equities are expensive on an absolute and relative basis and argues that pairing this market with either the broader emerging market index or a preferred country, such as Russia, can create a diversifying strategy with good potential returns. The need to protect portfolios from shocks remains as prescient now as ever. Indeed, if we are to rely on our animal instinct then not putting all your eggs in one basket resonates most clearly in a world rich with opportunity.



Andrew Milligan
*Head of Global Strategy,
Standard Life Investments*

Global Strategy

Valuations and velocity, profits and politics

The correction in share prices is not a surprise after a long period of low volatility in markets. Strong profits growth can push equity and other risk assets higher in 2018.

Global equity markets have experienced a strong phase in this bull market, as indeed have a number of other risk assets, such as high yielding bonds and parts of the real estate market. The drivers have been very straightforward. Firstly, contrary to expectations that economic activity might stabilise, even decelerate, into the spring, led by the slowdown in China, the latest business surveys have suggested an acceleration in the business cycle globally.

Secondly, there has been a reappraisal of the outlook for corporate earnings, mainly for US companies but also for other firms with sizeable operations in the US, as the details of the \$2 trillion tax cuts package agreed by Congress are priced into the market. A variety of factors have also pushed the oil price

higher, which has a positive effect on the stock market, if less so for real economies. Lastly, the surge of interest in the tech sector, especially in the US and Asia, has continued unabated, as many investors look for sustainable growth stories or firms which will benefit from the widespread disruption involving the digital economy.

It is not a surprise to see a correction in stock markets after such a strong period. It should be noted that 2017 was a most unusual year in terms of smooth market returns. As an example, the S&P 500 index showed consecutive monthly increases throughout 2017, the first such example since the early 1950s. Volatility in other asset classes, such as government bonds and many currencies, has also fallen to unusually low levels (see Chart 1). This was aided

by central bank QE policies continuing to inject sizeable amounts of liquidity into a wide range of financial assets, as well as the steady state of the global economy continuing to reassure investors.

All in all, the probability of a correction has increased over time, which creates a good opportunity for active investors, as long as long-term drivers remain positive. Although a number of factors could bring about further market corrections (more likely a return to normal levels of volatility rather than a period of unusually high volatility and market stress) in some circumstances a variety of drivers could cause a melt-up in the price of many financial assets. The balance of growth and inflation surprises is key here.

Assessing the outlook for 2018

While stock market valuations are stretched, we do not see this preventing share prices enjoying another positive year. Certainly, on some measures, such as cyclically adjusted PE ratios (see Chart 2) markets such as the US are far advanced, although the situation is less of a concern in some developed and many emerging markets. However, valuations on their own are not sufficient to spark a major sell-off; they simply show the vulnerability to a sufficiently large shock. In addition, the relative valuations of global equities still appear favourable relative to other asset classes, especially government and corporate bond yields. The proviso remains that corporate cash flow should remain sufficiently high and that the risks of a major earnings disappointment have to stay low; pushing credit defaults, hits to share buybacks or dividend cuts well into the future.

We expect that corporate profits growth will remain solid into 2018, and indeed that the risks are to the upside rather than to the downside. Top line sales can improve further. For example, according to Consensus Economics nominal global GDP growth will move up from 6.4% in 2017 to 7.1% in 2018. At this phase of the cycle, costs control remains of considerable importance. There are sporadic signs of

wages pressures, including in German manufacturing and US transport, but by and large the combination of globalisation and automation pressures are restraining wages growth (see Chart 3). In addition, at this phase of the cycle the upturn in productivity across many firms as capacity utilisation rises will keep unit labour costs under control. Nevertheless, market sensitivity to inflation surprises is clear.

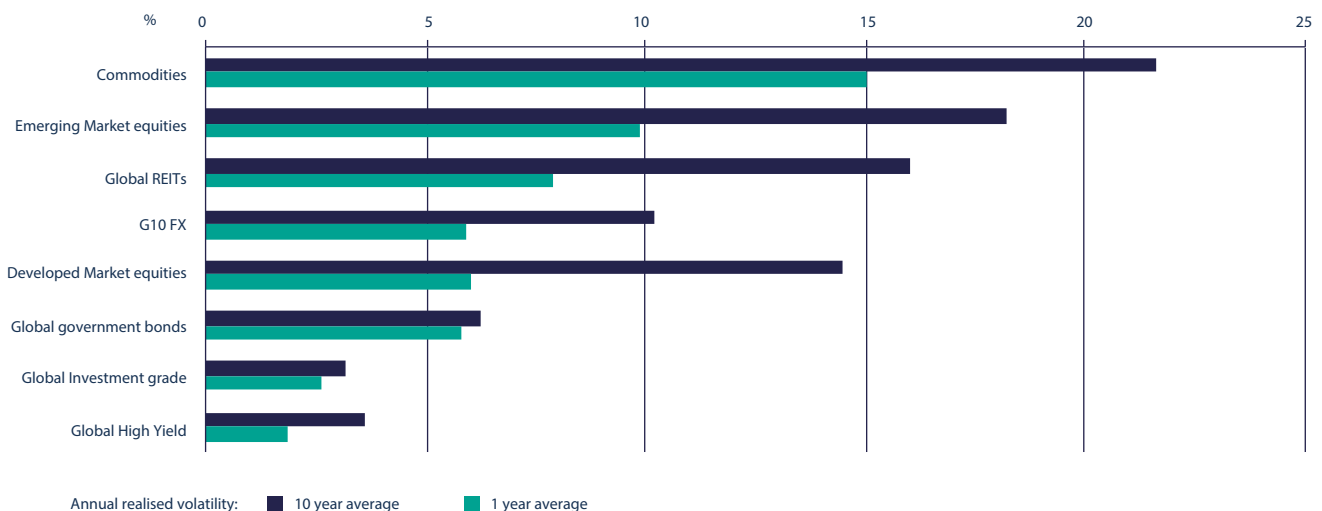
Business surveys at the beginning of the year are suggesting that the velocity of the global expansion is picking up into the spring, despite expectations that tighter credit conditions, led by China, should cause a moderate slowdown into 2018. A more positive outturn could appear if more companies decide to put cash to work through expanding their capital spending. The upturn supports the debate on when to remove some of the current rather easy-to-neutral monetary policies still being implemented by the major central banks. However, the analogy is still one of 'taking the foot off the accelerator' rather than 'putting the foot hard on the brake'. Modest tightening is expected from the Bank of England, the People's Bank of China and the European Central Bank in 2018. The key player, therefore, will be the Federal Reserve; the market place is already pricing in three to four rate hikes in the coming year.

The shape of the yield curve is attracting more attention. We consider this reflects policy and regulatory issues just as much as giving forward looking macro-economic signals. Looking ahead, unless there is a marked upturn in core inflation it is difficult for the yield curve to steepen dramatically, while an inversion traditionally requires much firmer signs of an approaching recession. Ever since the taper tantrum of 2015, investors have worried about a more aggressive stance from central banks damaging parts of financial markets as well as the real economy. Concerns about the indebted nature of households, companies and governments have been expressed for some time by, for example, the Bank for International Settlements. Examples would include UK consumer credit, US auto loans, Chinese local governments, and utilities and telecoms firms globally. Hence, we still do not expect central banks to be aggressive.

'P' is for politics

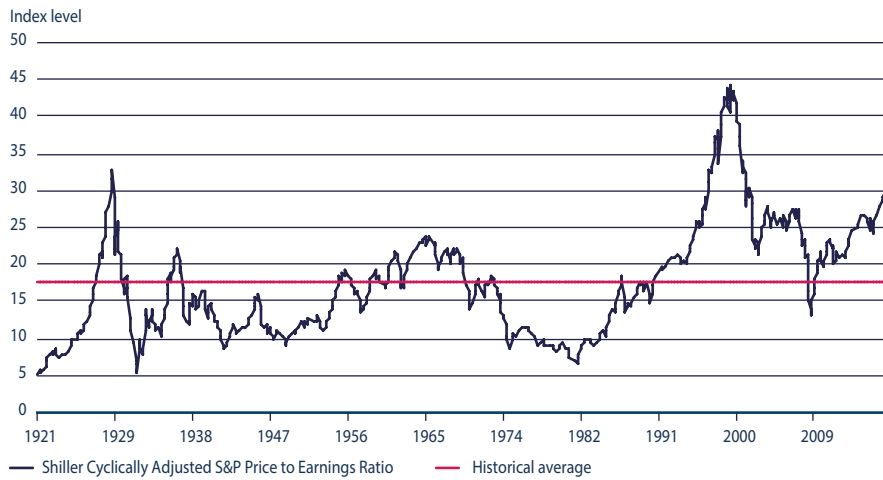
In the last 18 months, political shocks, such as Brexit, Trump and North Korea, have worried investors. Looking ahead, it is clear there are a number of issues to give investors cause for concern – and potentially spark a correction. In Italy, elections in March will be another test of anti-EU sentiment. Pressure for

Chart 1
Another year of low volatility?



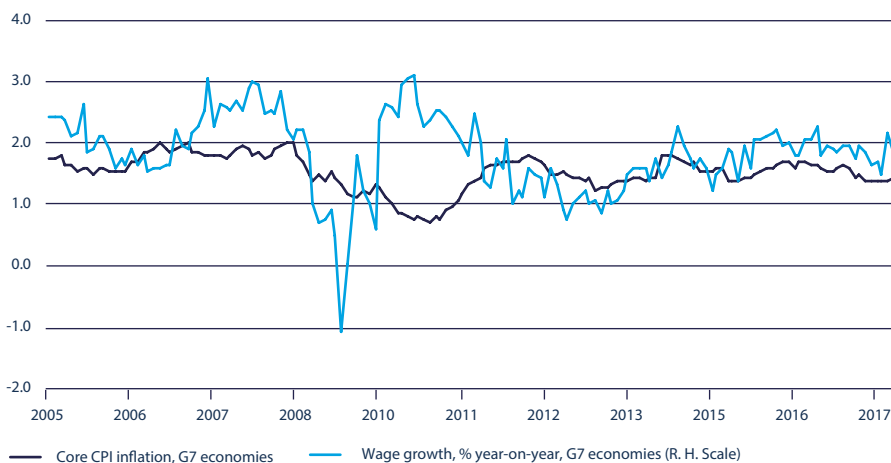
Source: Bloomberg (as of January 2018)

Chart 2
Expensive for too long?



Source: Haver, Standard Life Investments (as of January 2018)

Chart 3
Wages and inflation restrained



Source: OECD, Haver, Standard Life Investments (as of November 2017)

Catalonian independence remains an issue within Spain. Any populist shock would undoubtedly be a setback for the EU after what has been a relatively successful 2017. In Washington, uncertainty hangs over the future of trade deals like the North American Free Trade Agreement (NAFTA), as President Trump hopes to renegotiate deals he sees as unfavourable to the US. There is a risk of US trade sanctions against China if the US uses such a tool to place further pressure on China in relation to North Korea. Brexit negotiations should also be monitored closely; despite the successful UK/EU Summit in December a range of complicated transition and trade issues lie ahead. All of these factors could, at the least, aggravate currency market volatility and potentially drive cross-border capital flows into other safer assets.

It was noticeable in 2017 that the shocks which did hit markets were rather contained; there were no second round or knock on effects. The balance of probabilities does not suggest a repeat in 2018. One example of a potential risk to investor confidence in the coming year would be a very sharp rise in the oil price, perhaps due to deterioration in Middle Eastern politics, perhaps due to market dynamics. Brent has already crept up towards \$70 per barrel so further year-on-year changes would feed through into higher profits for commodity companies, but also a squeeze on consumer incomes and an unwelcome surprise for central bankers. Another aspect to monitor will be sector performance, especially whether disruption in the technology sector causes a reassessment of the recent strong fund flows.

Our positions in portfolios

In summary, there are few of the tell-tale imbalances - economic, debt leverage or market excess - which would suggest this business cycle will soon come to an end. Accordingly, at Standard Life Investments we continue to hold an overweight position in global equities, led by emerging Asia, then Europe, Japan and the US, with a neutral-to-underweight position in the UK reflecting potential Brexit shocks. The key driver will be profits rather than any noticeable revaluation. Market expectations are for 10% profits growth in 2018, so a further stream of good company news would support

Market expectations are for 10% profits growth in 2018

investor confidence. On the other hand, at today's valuations any short-term disappointment could cause a sharp reassessment of risk by investors. In normal years, monthly declines of say 5% in stock markets are quite common. Hence our portfolios include yen currency and inflation-linked bond diversifiers.

In other asset classes, the combination of stretched valuations and a less favourable monetary backdrop continue to suggest caution. We are neutral-to-underweight in most fixed income markets. Our only overweight positions are in parts of the higher yielding markets, such as local currency emerging market bonds and US high yield bonds, although in both cases the weight of money is restraining cash yields. These are funded by our underweight positions in key markets, such as Japanese government bonds. Valuations and local construction dynamics also mean that our only overweight position in commercial real estate markets are in Europe relative to the US, UK or Asia.

Global Spotlight

Time to downsize?



Andrew Fraser

Head of Research - Financials,
Aberdeen Standard Investments

The European banking industry has been profoundly impacted by the global financial crisis but radical change in the sector may just be beginning

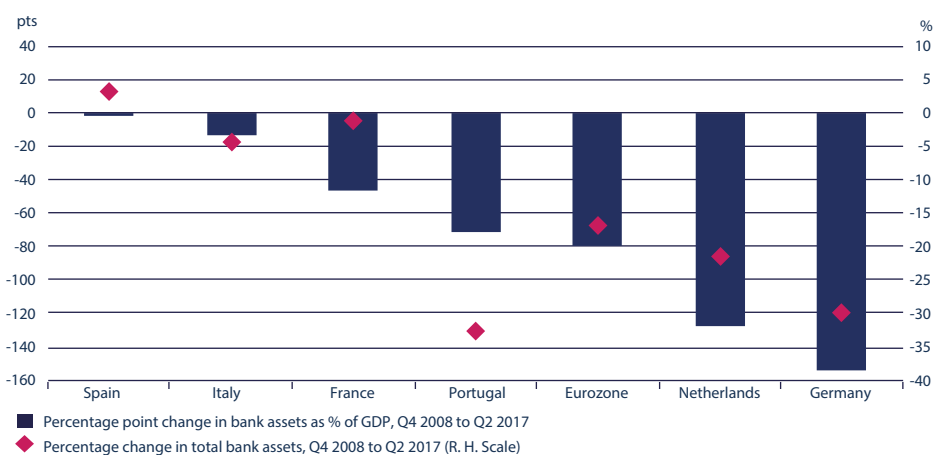
When bigger isn't necessarily better

Europe's chief financial regulator Daniele Nouy recently raised the prospect of an era of consolidation within the European banking sector. In a speech, she presented a number of well-reasoned arguments suggesting the European banking industry was too large and that, over the long term, this could damage the sector as well as the health of the wider European economy. Her prognosis included weeding out weaker banks by allowing those with a non-viable future to fail through the Single Supervisory Mechanism; as well as promoting both domestic and cross-border M&A to reduce excess capacity, improve efficiency and boost the industry's profitability. She suggested that full banking union across Europe would act as an additional catalyst to sector consolidation.

Here, we consider the reality of consolidation for an industry that has spent the last decade shrinking in size and retrenching from non-core geographies, markets and products

(see Chart 1). Firstly, we look at the recent experience of industry consolidation. We then examine the drivers of M&A activity in the sector, before exploring some of the obstacles.

Chart 1
Losing size but not importance



Source: ECB, Eurostat, Datastream, Standard Life Investments (as of Q2 2017)

Finally, we set out our view on the sector's future prospects and ask whether Ms Nouy's predictions are likely to come true.

A decade of change

The shape of the European banking industry has changed radically over the last 10 years. The number of credit institutions has fallen 22% from 2,904 at the end of 2008 to 2,259 at the end of June 2017. Concurrently, the number of bank branches has fallen by a similar amount (see Chart 2). The downsizing of the industry has varied across Europe, with the biggest reductions coming in countries that have received EU/IMF support programmes – over the last ten years, the number of Spanish banks fell by 61% to 64. Progress has been more modest in other countries; for example, over the same timeframe in Germany, the number of total credit institutions has only fallen by 11% to 1,473.

The shrinkage of the banking industry has coincided with a drop in M&A activity. On a value basis, bank M&A peaked at around €250 billion (bn) in 2007, driven by the poorly judged acquisition of ABN Amro by RBS just before the crisis. Excluding this year, the value of M&A has decreased from €54bn in 2008 to a mere €2.8bn in 2016, the lowest level since 2000 - although levels rebounded to €4.5bn in the first half of 2017. The number of transactions has fallen continuously from 122 in 2000 to around 20 in 2016. Since the onset

of the financial crisis, the number of domestic transactions remained broadly unchanged in number due to intra-group transactions in Italy and Germany as well as the restructuring of banking systems which were subject to EU or IMF support programmes. The level of cross-border transactions has historically been lower than in-market consolidation, as has the number of deals driven by a non-EU entity. The downsizing of the sector called for by Ms Nouy is clearly already advanced. However, it is worth asking how concentrated the system has become and whether overcapacity remains a structural feature of the European banking industry?

Too much of a good thing?

While this is a relatively straightforward question, answering it is more difficult as overcapacity can mean different things to different observers. Overcapacity can be defined in absolute terms, such as by the number of banks or branches, or on a relative basis, such as the number of banks or branches per population. Two of the more frequently used measures of banking industry concentration are the share of total assets held by the five largest credit institutions (see Chart 3) and the so-called Herfindahl Index¹. Using these statistics, the concentration of the European banking industry appears to have peaked in 2014, with the share of assets held by the five largest institutions falling from 48.4%

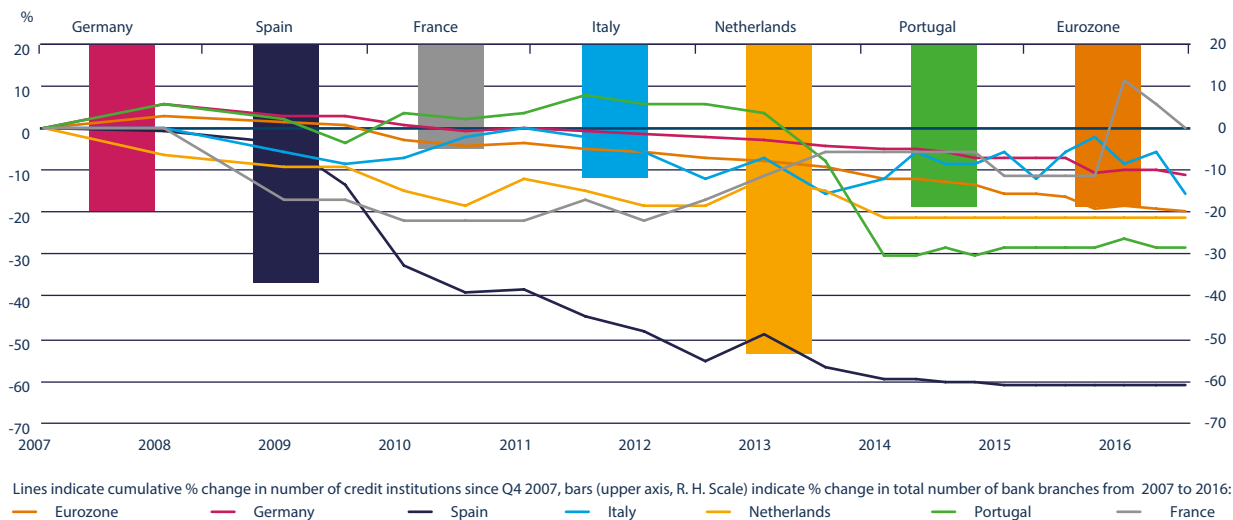
to 47.7% between 2014 and 2016 and the Herfindahl Index declining from 692 to 661. These levels point to an industry which lacks concentration and, by implication, one susceptible to overcapacity.

A brief glance at similar statistics for other large banking markets, such as the US, Japan and the UK, also shows there is less concentration and, therefore, less overcapacity. Of course, despite progress made in deepening the sector's ties through banking union and a unified approach to regulation, Europe is not a single country. Within the region, the degree of concentration also varies significantly, suggesting that overcapacity is not necessarily a pan-European phenomenon but one more prevalent in certain countries.

Come what M&A

There are many catalysts for consolidation going forward. As we saw in 2017, banks continue to fail in Europe. While Banco Popular's demise was the largest and most visible in 2017, and ultimately resulted in it being acquired by Banco Santander, there were a number of smaller banks, mainly in Italy, which were taken over by larger peers. Adapting to changing demands for banking services will bring challenges to the industry, whether this involves meeting regulatory demands on capital and liquidity or the threat from new competition from both traditional and non-traditional players. This may result

Chart 2
Reduced access



Source: ECB, Standard Life Investments (as of Q2 2017)

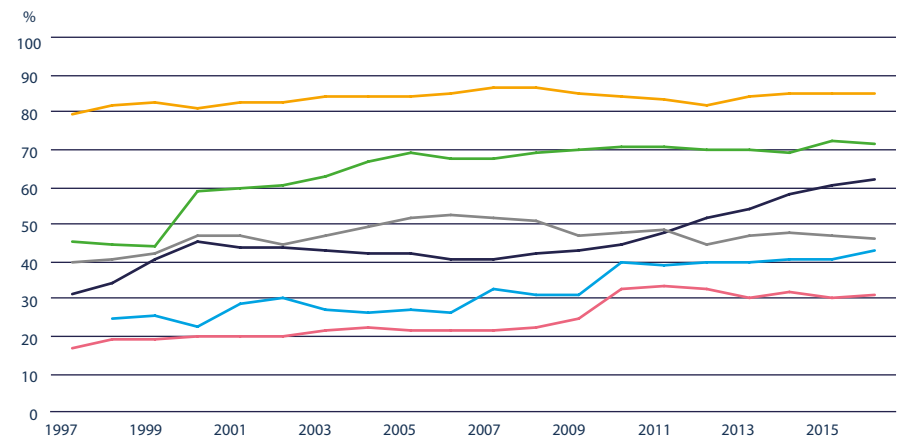
in some management teams concluding that the cost of business is too high on a standalone basis.

The rationale for industry consolidation does not always need to be negative though. M&A can provide banks with access to new geographies or products, such as asset management. Consolidation can also help improve the cost efficiency of banks involved in M&A, improving profitability and resulting in higher valuations. Finally, if a wave of consolidation occurs, this can drive out irrational competition, improving pricing for remaining participants.

While we expect consolidation efforts to continue, there are a number of obstacles which suggest the process is unlikely to be straightforward. As we have seen in many other industries, politicians are generally protective of their national champions and would rather not see their largest banks controlled by non-domestic peers, even within an economic union. There are a number of good reasons for this beyond the loss of the HQ brass plate. If a bank is no longer controlled by local management the risk of job losses may be higher, while the supply of credit may be more volatile in the event of an economic recession or financial crisis. From a regulatory standpoint, a non-domestic bank may bear higher regulatory scrutiny or requirements to maintain a more robust balance sheet, including holding more capital. This may make consolidation less attractive from a cost point of view.

At the individual bank level, there are a number of pre-requisites for management to want to participate in industry consolidation. Firstly, inorganic expansion is likely to require a change of mindset from management teams, which have arguably spent more time with an inward-looking bias since the crisis. Secondly, acquisitive banks will have to decide whether the loan portfolios being bought have been

Chart 3
Concentrated risk



Share of total assets held by largest 5 credit institutions:

Germany Spain France Italy Netherlands Portugal

Source: ECB (as of 2016)

accurately assessed by the current owner. This is an issue for the European bank sector which continues to grapple with a sizable non-performing loan problem, particularly in periphery countries. Finally, management needs to sell any M&A to its stakeholders, ensuring that it has sufficient capital in place to finance the transaction and that the assumptions made on why it will create value are plausible. Meanwhile,

for bondholders, any inorganic action should not destabilise the credit profile of the acquiring bank.

Rome was not built in a day

Given this backdrop, how prescient is Ms Nouy's analysis of the European banking sector? We agree that

overcapacity within the sector remains a problem overall, and the consolidation which has been ongoing since the financial crisis is likely to continue. However, significant barriers persist, meaning the path towards a smaller number of banks and capacity reduction is likely to be slow and unpredictable. Some countries in Europe have structures which are more conducive to in-market consolidation, such as Italy and Germany. Here, we expect the

number of banks to continue to reduce gradually. Banks in those markets where consolidation has already occurred are more likely to seek combinations across borders or in new product areas. However, the further a bank moves away from its 'home' market, the risk and cost of executing a successful transaction increases. As a result, while the industrial logic may look good on paper, we expect banks to remain extremely cautious before undertaking large scale M&A, with these types of transactions the exception to the consolidation story across Europe rather than the norm.

Notes

¹ The Herfindahl Index (HI) is defined as the sum of the squares of forms within the industry, where shares are expressed as fractions. As a general rule, HI below 1,000 signals low concentration, while above 1,800 signals high concentration. For values between 1,000 and 1,800, an industry is considered to be moderately concentrated. Note that these indicators are calculated on an unconsolidated basis, meaning that banking subsidiaries and foreign branches are considered to be separate credit institutions.

Given this backdrop, how prescient is Ms Nouy's analysis of the European banking sector?



Jon Stewart
Fund Manager,
Listed Real Estate

Real Estate

Unified ambition

European real estate companies have been quick to respond to better growth in the region but how should we judge the latest surge in M&A activity?

Quick to consolidate

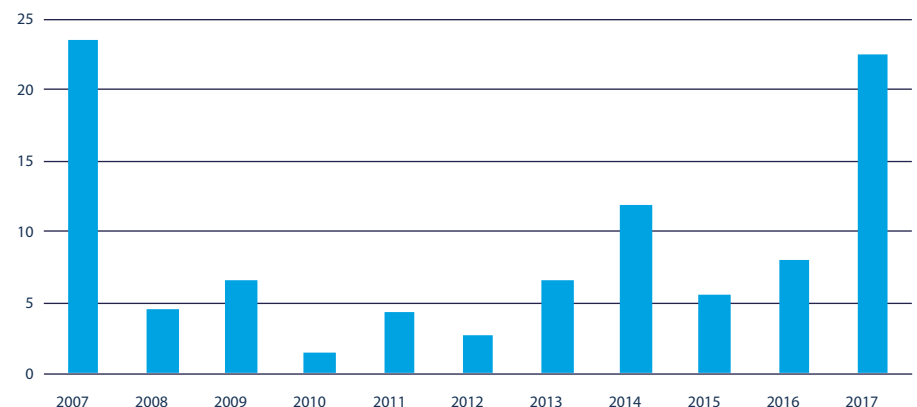
The European economy finally picked up the pace last year and the region's real estate companies were not slow to get the message. We estimate that 2017 saw almost €22 billion (bn) of takeovers announced in the Continental European listed market, a figure close to the previous peak in 2007 (see Chart 1). The deal-making surge was crowned by Unibail Rodamco's approximately €12bn bid for global shopping centre peer Westfield, a transaction that will create a new champion for the mall industry, with assets stretching from Los Angeles to Warsaw. However it was by no means the only significant deal to close, with transactions announced in all the major sub-sectors. In the offices space, Paris specialist Gecina executed a friendly takeover of Eurosic, while its Franco-Spanish peer Inmobiliaria Colonial launched a hostile raid on Axiare, a business focused mostly on value-add office properties in Madrid. German residential specialist Vonovia also continued its consolidation of the industry by buying Buwog, a transaction that helps to accelerate its development strategy.

A clear uptick in confidence...

Probably the most important read across from this wave of M&A is that corporate confidence has improved meaningfully. The fact that management teams are willing to pay premiums of up to 20% of net asset value implies that they expect the current growth environment to be sustained. Furthermore, a number of these deals are explicitly directed at increasing exposure to real estate

development, bringing more value-add potential into the portfolios of the larger companies. In our view, the development exposure of many of these businesses has been too low in recent years, and these transactions should help to redress the balance between passive, market-driven returns, and active value-add. This will become increasingly important if returns are to be sustained at attractive levels as the property cycle matures.

Chart 1
Listed M&A no longer listing



■ Volume of listed M&A deals for the real estate sector in Continental Europe

Source: Exane (as of 2017)



Moreover, we view this M&A surge as an important milestone in the recovery process for the sector. For much of the past ten years, European real estate companies have been focused on balance sheet repair. Leverage has

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real estate sector***

fallen as a result of asset sales and the recovery in values; businesses have also responded to investor demand for simpler, better-quality business models by selling non-core or weaker buildings. The last 12–18 months provides evidence of a turning point as those companies now feel able to put that hard-won balance sheet capacity to work.

The big question is discipline

We believe that M&A always merits a critical eye, and the real estate sector has its history of both good and bad deal-making. In general, there are three key risk factors we look out for in real estate acquisitions: over-leveraging late in the cycle; poor pricing discipline; and a lack of strategic consistency - where companies use M&A to take steps outside of their established markets or areas of expertise. For now, we are encouraged that the vast majority of deals show management teams staying disciplined.

On leverage, most acquirers have left pre-deal balance sheet policies in place, with any funding gap largely accommodated through fresh equity and asset sales. In terms of pricing, the premia being paid have been justifiable when set against synergy potential and direct market fundamentals. Finally, on strategy, deals have mainly been targeted at increasing scale within existing operations and restocking development pipelines rather than entering new markets, with few signs of 'empire building' as yet.

Signs of health

More broadly, the fact that listed property companies are resorting to consolidation suggests direct property markets in Continental Europe remain healthy. Strong demand for assets from low cost-of-capital buyers, such as insurers, pension funds and sovereign wealth funds, reduces the flow of buying opportunities for REITs. The rational response then is to allocate capital instead to higher yielding developments or asset management stock. M&A is a useful tool that allows companies to achieve this strategic shift more rapidly than would otherwise be possible. A further advantage of doing this by buying peers rather than greenfield sites is that it does not necessarily add to net supply, to the benefit of all market participants. Looking ahead, the improving macroeconomic environment supports our positive view on European real estate, with strengthening rental growth expected to take over from yield compression as the principal driver of returns.



Neil Richardson
Investment Director,
Multi-Asset Investing

Absolute Return Strategies

A rising tide

Emerging market equities have rallied but Brazil's Bovespa Index is expensively valued in absolute and relative terms, presenting a diversifying strategy with attractive potential returns.

Positive momentum

For emerging market (EM) equity investors, 2017 was a vintage year. However, despite the MSCI Emerging Market Index (MXEF) rising by 32%, it is far from expensive based on key valuation metrics. The overall index finished the year close to its long-run average 12-month forward price-to-earnings ratio, and at a discount to its long-run price-to-earnings ratio relative to global equities. As a classic geared play on global growth, and benefiting from firm commodity prices, this remains one of the most attractive areas within global equities in which to invest. The business cycle is not yet mature, inflationary pressures remain muted, and macro fragilities, such as elevated current account or fiscal deficits, are relatively uncommon across EM. This makes exposure to EM equity markets, such as Russia or Korea, relatively attractive.

Brazil is expensive

Brazilian equities share some of the characteristics of EM, but differ in

some important regards, most notably valuations. As measured by a variety of valuation metrics, the Bovespa Index is at a long-term peak both in absolute terms and relative to the MXEF. The positive view appears to be based on a belief that after a deep recession the economy will enjoy a typical V-shaped recovery, and a subsequent sharp uplift in earnings. We believe that the recovery will be muted relative

to previous cycles, as consumer debt remains at elevated levels and the economy is relatively insensitive to global growth, while political uncertainties may delay corporate investment. The relatively fragile nature of the recovery is evident in measures such as consumer and business confidence, and weak job creation.

Unfortunately, the prospect of supportive fiscal policy is remote. Brazil

Chart 1
Valuations favour some EM



Source: MSCI, Haver, Standard Life Investments (as of December 2017)



suffers from an alarmingly large fiscal deficit, currently 9.0% of GDP, which will require unpopular reforms and tax increases to reduce it to sustainable levels. The crucial reform, which has been eagerly awaited by investors for over a year, is that of the extraordinarily generous pension system. For example, 64% of teachers and university professors retire under 50 on full benefits, which for most is 90% of final salary index-linked for life. Brazil spends 13% of GDP on pensions, more than any member of the G7 bar Italy, which has three times the proportion of old people.

Furthermore, at a time when the country needs strong leadership, the entire political class has been tarnished by a series of corruption cases, the largest of which is centred around the oil giant Petrobras. To make matters worse, the next presidential elections are scheduled for autumn, and their proximity makes passing unpopular legislation before then highly unlikely. Finally, the two leading candidates, with a combined 55% of the projected vote, have market-unfriendly policies, with the

frontrunner, Lula da Silva, promising to abolish any reforms. The rating agencies have recognised the risks, downgrading Brazil's sovereign debt to sub-investment grade. The next president has to make some difficult and unpopular decisions, the consequences of which may be slower economic growth and a difficult backdrop for equities. While the fortunes of individual stocks may diverge from the market, in our view investors are not fully considering the challenging longer term outlook for the index, which provides us with the opportunity to take a non-consensual stance.

A brighter outlook in Russia

Given our long-term views on Brazil, there is an opportunity to refine our EM exposure still further by pairing this market off against one of our most favoured EM equity markets. Russian equities have been lowly valued for some time, and have rarely been cheaper relative to either the MXEF or the Bovespa (see Chart 1). The macro environment is analogous to that of Brazil, as the country emerges from a deep recession induced by the

collapse in commodity prices in 2014-2015. Interest rates are falling and this combined with a strong oil price has sparked an economic recovery that has led to real wage growth, an improvement in retail sales and much stronger business sentiment. Inflation has fallen below the 4% target of Russia's central bank, which is in a position to loosen monetary policy aggressively, as is the Central Bank of Brazil. It, however, is choosing to take a gradualist approach as it is determined to reset inflationary expectations and permanently lower inflation, reducing the risk premium in the process.

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*Standard Life AUM/AUA data as at 30 June 2017, Aberdeen Asset Management AUM data as at 31 March 2017, all other data as at 30 June 2017

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