

# Global Strategy Quadrant

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## Fear of the Month Club

*Stay brave, stay bullish, but stay diversified across regions and asset classes*

- US equity prices rose more than earnings in the last two years. This has set the stage for some valuation compression amid strong earnings growth in 2018. Nonetheless, **we expect US corporate profits to rise about 20% year-on-year in the 1Q 2018 reporting period which begins in less than a month. This should support recovery in US equities.**
- Across the world, share prices are now trailing behind earnings gains. As such, the Citi Private Bank Global Investment Committee maintained our 4% overweight in Global Equities, concentrated in non-US markets, with global valuations at a discount to the US.
- US President Donald Trump campaigned in 2016 on tax cuts and domestic protectionism, and is now poised to deliver on both. As cross-border trade has long risen as a proportion of world economic activity, trade disruptions would now pose a larger economic risk.
- There is much room to negotiate and mitigate impact, as recent exceptions from steel and aluminum tariffs for particular countries illustrate. But how far some world leaders may go in retaliatory trade measures against the US is unclear. The next few months might see heightened concerns, particularly in relation to trade between the US and China.
- Seeing higher-value-added industries lose out to protect lower-valued inputs would be an unfortunate step backwards. However, **only very severe trade restrictions and consequent financial upheaval would undermine the solid world economic recovery.**
- In February, before the latest “fear of the month,” both Global Equities and Global Fixed Income fell together. We do not expect this sharp rise in correlation to be sustained. Nonetheless, scenario analysis can help us prepare for such a future event.
- **Simultaneous full-year declines in both equity and fixed income markets have typically occurred only in periods of high inflation** when the US CPI has averaged about +5%. The US economy was also contracting during half of those periods. We see the present outlook very differently. However, the GIC has made small portfolio changes to shift our fixed income allocations back to their traditional role in dampening portfolio risk. In the process, we give up relatively little yield.
- With US yields rising relative to global yields, investment grade (IG) corporate debt has cheapened year-to-date. IG corporate returns (and muni debt for US taxpayers) should only trail US high yield fixed income modestly in the year ahead, with less volatility and a lower correlation to equities. We shifted between the two (already overweight) allocations in an effort to reduce portfolio volatility. We remain 4% underweight Global Fixed Income overall.
- We remain overweight Emerging Market (EM) Equities in anticipation of long-term outperformance. Changes in the composition of EM indices to lower commodities and raise sectors such as IT and Consumer Discretionary add to our constructive view.

## GIC – March 14<sup>th</sup>

The Citi Private Bank Global Investment Committee today left in place its asset allocation of +4% to Global Equities. Global Fixed Income remains underweight by 4%. Within fixed income holdings, we raised our overweight to US investment grade debt (munis for US taxpayers) 0.5% by reducing our overweight to US high yield an equal amount. The move comes as US interest rates have risen sharply relative to other global yield opportunities. The small step aims to gradually reduce portfolio volatility looking forward.

In February, both global stock and bond markets declined together on concerns over higher US interest rates. Subsequently, additional growth fears were stoked by trade protectionist measures. Such steps could potentially threaten growth while stoking inflation. Following the drop, we would not expect high quality fixed income and equity markets to maintain such a strong positive correlation looking forward. Inflation is well below typical thresholds for severe, sustained declines in both major asset classes at the same time.

With the rise in US interest rates driving a revaluation of all global bond market segments, US investment grade yields have risen to cycle highs compared to sub-investment grade debt. Meanwhile, IG has a historically lower level of absolute volatility and correlation to equity markets. For US tax payers, municipal debt shows an even lower correlation, and now averages a 4.25% taxable-equivalent yield across all maturities.

We expect decent positive returns in US high yield debt when viewed as a single asset class. We remain overweight US high yield within global allocations. However, we prefer to now gradually shift bond holdings to their defensive function within multi-asset-class portfolios.

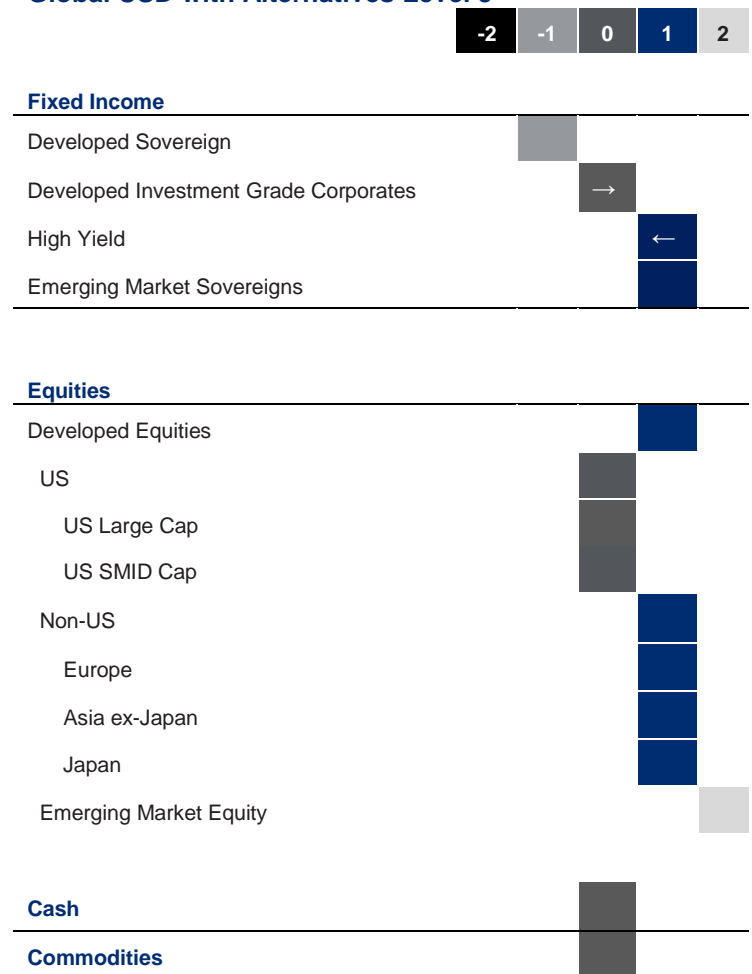
Global equities have predictably been more volatile after 2017's record low volatility level. Equities lead corporate earnings trends, and valuations rose during the past two years in anticipation of EPS gains. However, we expect very strong earnings results to support returns as valuations compress. In the US, **the first quarter US corporate earnings reporting season is likely to show large cap EPS rose 20% from a year ago. Global earnings gains still remain somewhat under-estimated for 2018 in our view.**

Interest rate pressures remain a key concern for all markets as US funding needs rise on tax cuts, higher government spending, and a reduction in Federal Reserve bond holdings. However, the Fed's tightening steps have helped contain inflation expectations, and foreign central banks have added to US Treasury holdings in each of the last six weeks.

Risks to global trade remain elevated as the US intends to confront China's trade practices in coming weeks or months. However, only a severe breakdown in trading relations would threaten the global economic expansion in our view.

On the fears we have noted above, global equity markets have stalled while corporate earnings continue to grow strongly. We believe valuation pressures and growth fears will be resolved with further moderate gains in global equities over the year to come.

### Asset Classes – Global USD with Alternatives Level 3



#### Allocations as of [March 14, 2018](#)

-2 = very underweight; -1 = underweight; 0 = neutral

1 = overweight; 2 = very overweight

Arrows indicate changes from previous GIC meeting

## A Club for the Co-Dependent, Bipolar

It could perhaps be considered yet another step in the long-awaited “return to normality”: Potential investors sitting in cash fear missing out (so-called “FOMO”). At the same time, the fully invested are fearful of staying in.

By comparison, 2017 was the year that couldn't go wrong. Investors experienced no more than a 2.8% drawdown in US equities at any point. While few individual years conform to long run averages, the record low equity market volatility of 2017 was a mere 1/4<sup>th</sup> that of an average year. As stinging as it was, the 10% correction in US shares and 9% drop in global shares within February 2018 was less than a one standard deviation event (meaning statistically insignificant).

As we've long highlighted, investors in 2018 need to consider multiple conflicting issues: Accelerating economic growth, a transition in monetary policy, and both global and local political risks. The net impact we expect is for positive returns, but less robust than 2017.

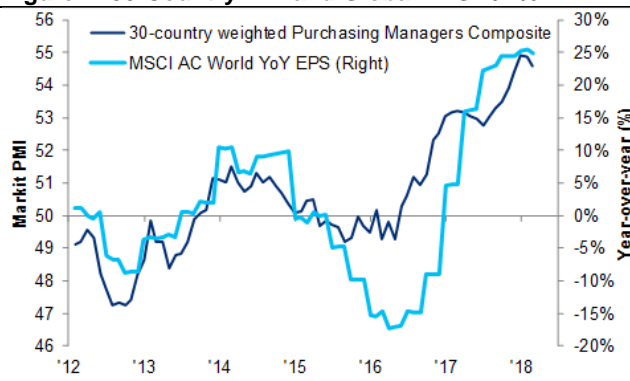
In the coming month, we expect US firms to report an above-consensus 20% year/year gain in operating profits. Without corporate tax rate cuts elsewhere, we now expect a 15% gain in EPS across the world in 2018. Yet amid these double-digit gains in expected EPS this year, the +8% USD total return for global equities we estimated in [Outlook 2018](#) still feels about right. The drop in valuation (as earnings go up more than share prices) reflects rate pressures and a reduction of the Fed's crisis-era bond portfolio. This adds to the financing requirement of the US government from private sources (see figures 1-4).

Our estimate of fixed income returns across all global market segments of +2% (the so-called “multiverse” index) now seems slightly high. While making small underlying changes this month, the conflicting positives and negatives persuaded the Citi Private Bank Global Investment Committee to keep its overall allocations to global equities at +4.0% and fixed income at -4.0%. (Note: Allocations target 12-18 month returns ahead, not calendar periods.)

Should we assume our +8% (USD) expected total return for global equities in 2018 is wrong?

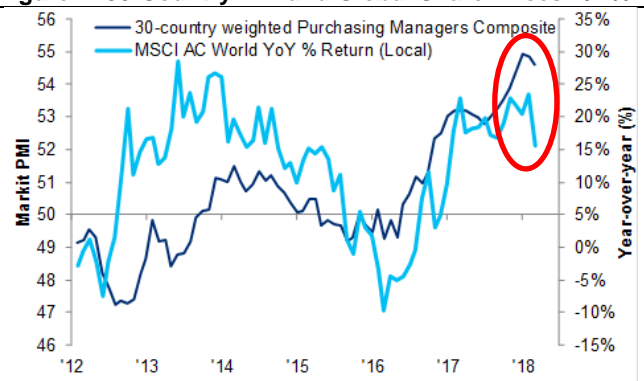
The 2% return estimate for global fixed income and credit is looking a bit further off the mark.

**Figure 1: 30-Country PMI and Global EPS Y/Y%**



Note: Purchasing Managers' Indexes (PMI) are economic indicators derived from monthly surveys of private sector companies. Above is a GDP weighted average across 30 different country PMI reading Source: Haver Analytics and Factset as of March 13, 2018.

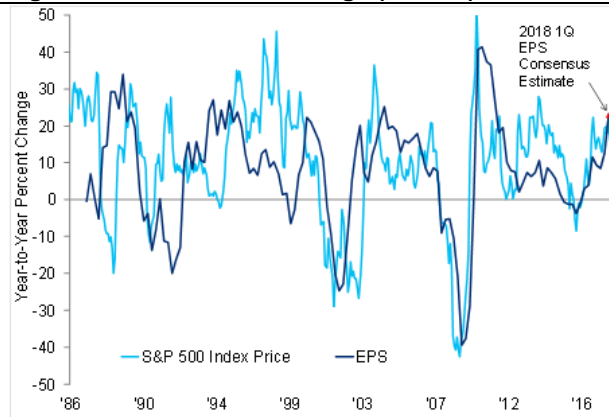
**Figure 2: 30-Country PMI and Global Share Prices Y/Y%**



Source: Haver Analytics as of March 13, 2018.

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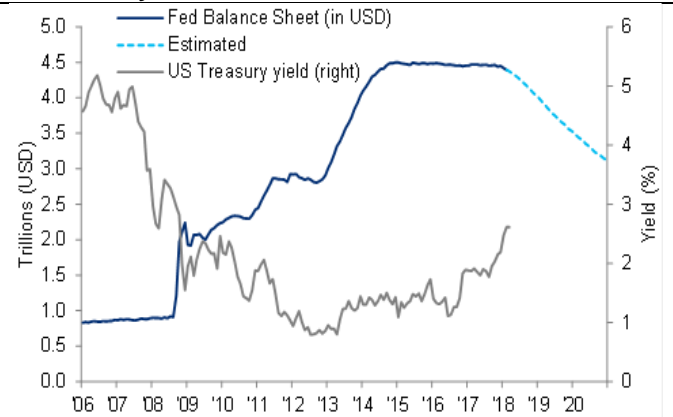
**Figure 3: S&P 500 and Earnings (Growth)**



Source: Haver Analytics and Factset as of March 13, 2018.

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**Figure 4: Federal Reserve Balance Sheet and US Treasury Yields**



Source: Haver Analytics and Citi Private Bank as of March 13, 2018.

Will the US successfully win export concessions with tariffs when it admits it's a negotiating tool?

Why should the Chinese leadership retaliate against the US on trade when Europe can do it for them?

## We are Fully Invested. So What Risks Do We See?

As noted, we still expect US and global economic growth to be stronger in 2018 than the year before and to endure into 2019. However, to ignore the risks to a forecast would be irresponsible.

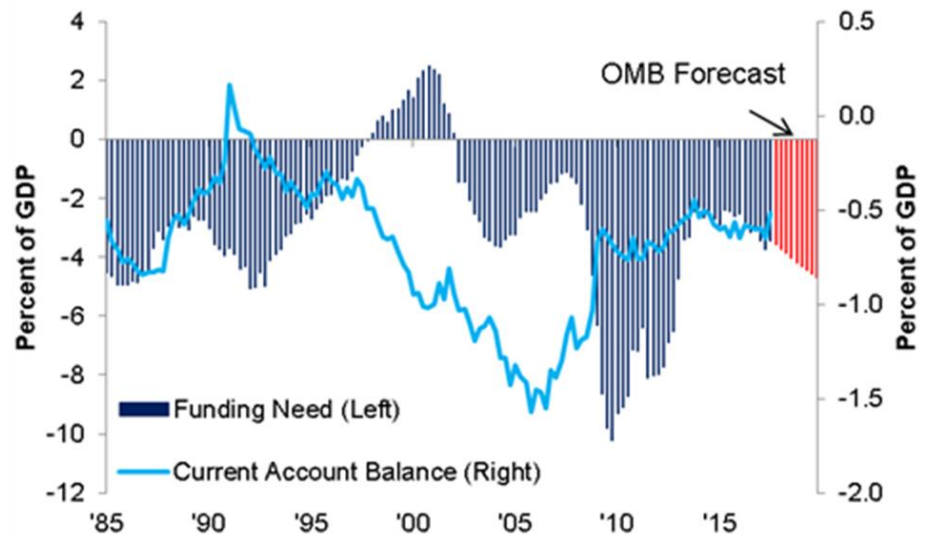
There are local policy and political risks to consider every year. They mostly have *local* ramifications for markets (please see our sections on Brexit and Italian election results below). Mexico, for one, will soon be subject to greater political scrutiny ahead of Presidential elections in July.

At a more global level, however, world financial markets this year have been coming to grips with some of the significant risks associated with changing US policies.

### Many Goals, Potential Self-Isolation for the US

As we've long discussed, the US is experimenting with a "late cycle stimulus," cutting taxes and raising spending at a time when the US economy is strong, with limited spare capacity. This requires *imports of foreign savings* to finance larger budget deficits (see figure 5 and [Read the February issue of Quadrant](#)). Now the US is simultaneously imposing tariffs to compel others to offer better trade terms.

**Figure 5: US Current Account Deficit as % of GDP and Net US Treasury Issuance as % of GDP with Forecast through 2019.**



Source: Haver Analytics and the Office of Management and Budget (OMB) as of March 9, 2018.

All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

We are among the optimists in viewing the US as able to strengthen non-inflationary growth in the near-term. Yet the relative strength of real US economic growth vs rising inflation is a question of the day. The potential for increased tariffs may aggravate the “growth vs inflation balance” for the US while negatively impacting economic growth elsewhere.

As noted previously, it is important to acknowledge the strong economic growth backdrop in which to absorb incipient threats. The global financial system is positioned in a far different way than in 2007 after massive increases in the equity capital of most banks. Stimulus itself, a growth positive, is the cause of interest rate pressures in the US. Yet markets are correct to fear that an escalation of trade tensions is a rising global economic risk.

If several of the world’s largest economies fall into a trap of ever-escalating trade sanctions or self-imposed embargoes, there is some modest probability (perhaps 10%-20%) that global growth will be truly undermined.

## No “Zero Sum” Game

As figure 6 shows, cross-border trade has long been growing faster than world GDP. Thus, with a high and generally rising trade component of national economies, a trade disruption is a larger, more potent economic risk than in earlier periods. For this reason, we highlighted global trade risks above domestic political risks in our Outlook (*please see 2018 [Outlook for discussion](#)*).

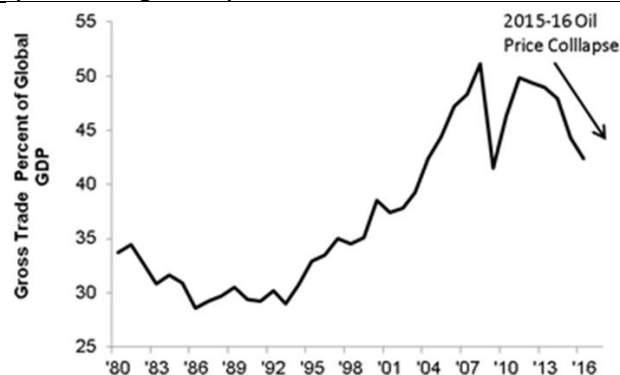
Even perfectly fair, private market competition would yield economic winners and losers (both externally and internally in economies). Yet overall, the rise in trade enables a larger, more efficient world economy. As an example, US industries that depend on steel for an input account for a 24X larger share of US economic output than the domestic US steel industry does itself (see figure 7).

The world economy is more durable than a decade ago and likely better able to withstand policy experiments that run off course...

...Still, watch US/China trade developments before signaling “all clear” on the world trade front.

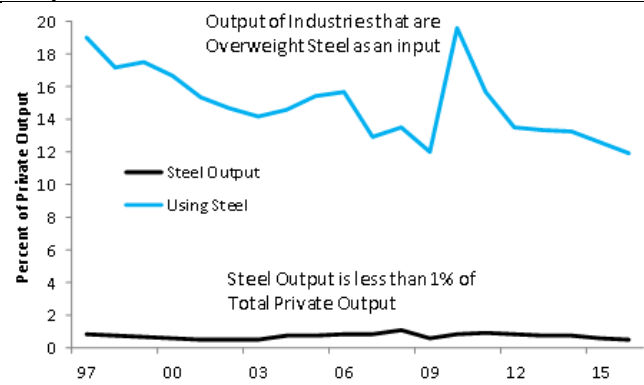


**Figure 6: Gross Trade as a Share of Global GDP**  
(data through 2016)



Source: Haver Analytics as of March 8, 2018.

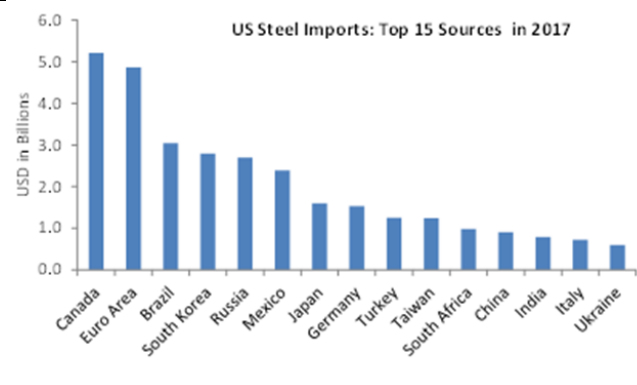
**Figure 7: US Industries that Use Steel vs US Steel Output as a % of Private GDP**



Note: Industries are counted as "Overweight" steel if they use more steel as a percentage of their output than the US produces as a percentage of output.  
Source: Haver Analytics, Citi Private Bank and YieldBook as of March 8, 2018.

In a significant trade development, the US has stepped up its evaluation of protections for particular industries on national security grounds. With steel widely available from many global sources, it is not clear why the commodity would need to be an important strategic, domestic industry (see figures 8-9). One might easily argue that the use of steel imports or artificially cheap solar panels (recently subject to heightened US import tariffs) could be used to the importer's economic advantage.

**Figure 8: Largest Sources of US Steel Imports by Country**



Source: Haver Analytics as of March 8, 2018.

**Figure 9: US Steel Industry Employment as % of Total and Number of Workers per ton produced**



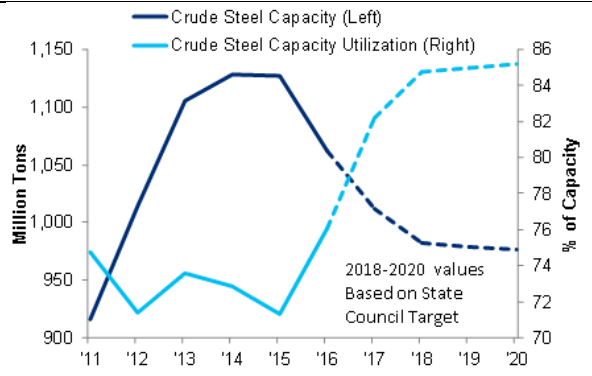
Source: Haver Analytics as of March 8, 2018.

In some cases, China is vacating industries the US is trying to recover.

The US confrontation of Chinese intellectual property protections and state support for industry are legitimate concerns shared by many of China's other trading partners. Yet one of several ironies is that China has been shuttering steel industry capacity for three years now, and intends to go further looking forward (see figure 10).

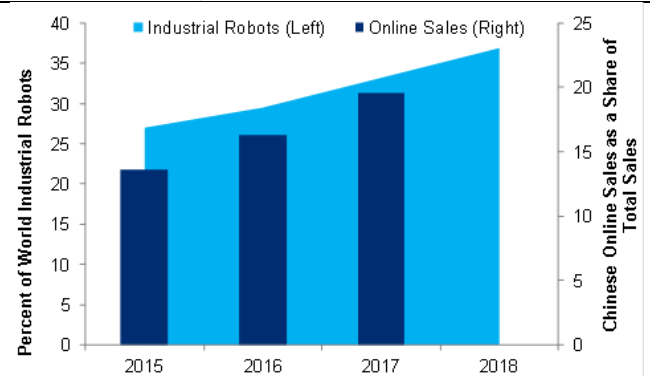
In essence, China is trying to move away from an inefficient, centrally planned economy dominated by low value added industries (see figure 11). It's only a small stretch to say that US protectionists are trying to move the US economy back in the direction China is vacating.

**Figure 10: China Steel Industry Capacity and Planned Reductions**



Source: Haver Analytics as of March 8, 2018.

**Figure 11: Information Technology Focus in Chinese Economic Activity**



Source: Haver Analytics as of March 8, 2018.

Multi-lateral approach is sidelined in confronting China's own trade protections.

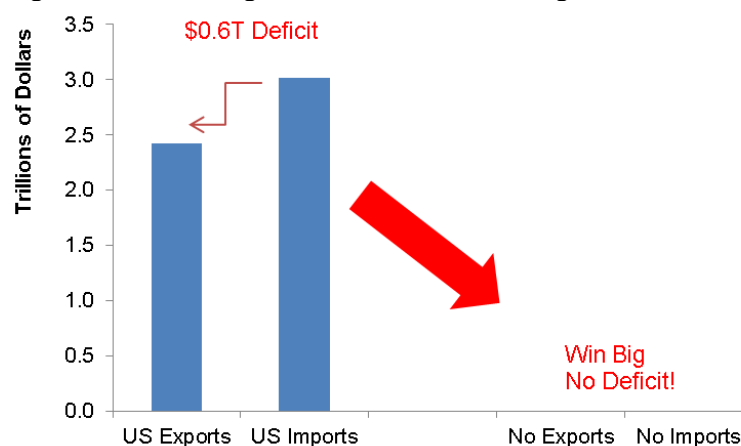
US trade policy under the Trump administration was always certain to change. Yet for much of the past year, a practical studied approach left markets to assume renegotiation would not be a path to disruption. The planned announcement of global steel and aluminum import tariffs of 25% and 10% is by itself a very limited negative impact. US Imports of primary metals are valued at only 0.1% of US economic output, and even less when exempting Canada and Mexico. However, the announcement follows several other previous steps and soon-to-be announced findings regarding intellectual property violations by China. The US may therefore announce additional significant measures impacting other industries. NAFTA negotiations with Mexico and Canada are also underway.

Changing trade agreements to allow equal footing for US producers - ideally at low or no tariffs - is indeed in the long-run US interest. However, inducing change from trading partners with tariff actions, some possibly in violation of existing US agreements, is far from certain to work. Outright disruptions to production of final goods remains one of the greatest risks to the world economy, but only in the most extreme circumstances.

*"When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win ... when we are down \$100 billion with a certain country and they get cute, don't trade anymore - we win big. It's easy!"*

- US President Donald Trump on March 2, 2018

**Figure 12: Not trading is not the same as winning**



Source: Haver Analytics and Twitter as of March 9, 2018.

Only severe and broad based trade restrictions would undermine the world economic expansion.

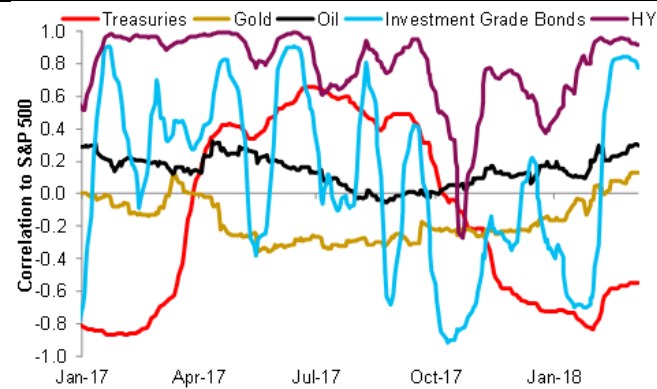
## Inflation as a Driver of Rising Correlation, Market Declines

Simultaneous declines in equity and high quality bond markets in February should raise some alarms for asset allocators.

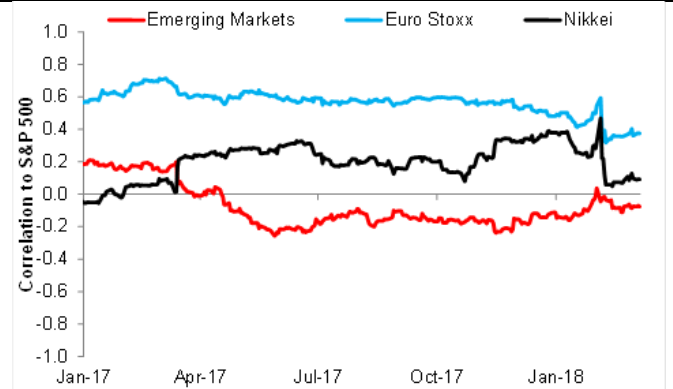
As shown at the top of this month's *Quadrant*, both US and global corporate profits are making large gains, and we expect them to persist in the coming year. We see only moderate risks to this forecast. At the same time, the essential job of a wealth manager is risk identification and management. February's declines in both major public market asset classes – equities and fixed income – should have rung the alarm bells for any professional asset allocator.

The “magical” 2017 saw sizeable gains in both fixed income and equity portfolios, setting the stage for the February correction. How long the period of high correlation lasts is an important question (see figures 13-14).

**Figure 13: Correlations between S&P 500 and Selected Other Asset Classes**



**Figure 14: Correlations between S&P 500 and Other Equity Regions**



Source: Haver Analytics as of March 8, 2018.

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There have been seven 12-month periods of negative US stock and bond returns in the past 50 years. As figures 15 and 16 show, these have tended to be periods of relatively high inflation (for the US, +5.1% on average). Half of the negative sample period overlaps outright US economic contraction.

**Figure 15: Seven Bad Years in 50: Market Outcomes when Stocks and Bonds Fall Together**

	Total Return										Average Valuations		
	S&P 500	MSCI World ex-US	10-Year UST	BAML Bond Index	Moody's BAA (basis points)	High Yield	Oil	CRB Index	10-Year Yield	S&P 500 Price/Reported Earnings	S&P 500 CAPE		
Before Correlation period	12/1/1968	12/1/1969	-13%		-14%	142	-4%	9%	14%	5.5%	17.0	19.8	
	12/2/1971	12/1/1972	28%	53%	4%	5%	-45	5%	0%	21%	5.2%	18.1	17.4
	6/1/1976	6/1/1977	0%	2%	12%	15%	-98	15%	14%	6%	6.5%	10.7	11.2
	12/2/1979	12/1/1980	40%	27%	-3%	-2%	308	5%	16%	5%	10.3%	7.5	8.7
	6/1/1982	6/1/1983	53%	31%	32%	34%	-355	47%	-17%	1%	10.5%	10.0	8.3
	7/1/1989	7/1/1990	16%	1%	6%	7%	33	-3%	-16%	-2%	7.3%	15.7	16.4
	3/1/1993	3/1/1994	8%	31%	5%	7%	-2	15%	-26%	6%	4.8%	22.5	20.0
	Average		19%	24%	7%	7%	-2	11%	-3%	7%	14.5	14.6	
During Correlation period	12/1/1969	1/1/1971	2%		14%	-1%	9	5%	6%	7%	6.4%	15.7	15.3
	12/1/1972	9/1/1974	-34%	-30%	-1%	-23%	225	-15%	184%	85%	6.1%	13.8	14.0
	6/1/1977	2/1/1978	-4%	4%	1%	2%	29	4%	7%	2%	6.5%	9.1	9.9
	12/1/1980	11/1/1981	-9%	1%	2%	-1%	125	3%	-3%	-14%	12.9%	8.7	8.6
	6/1/1983	7/1/1984	-1%	19%	-5%	-1%	178	3%	0%	16%	11.0%	11.5	9.5
	7/1/1990	10/1/1990	-14%	-26%	0%	0%	54	-10%	100%	-2%	7.7%	14.1	15.2
	3/1/1994	12/1/1994	-1%	-6%	-7%	-4%	97	-4%	22%	9%	6.3%	18.1	19.4
	Average		-9%	-6%	1%	-4%	102	-2%	45%	13%	8%	13.0	13.1
Following Correlation period	1/1/1971	1/1/1972	14%	24%	11%	5%	-51	13%	0%	1%	5.2%	18.5	16.9
	9/1/1974	9/1/1975	26%	22%	7%	12%	43	20%	10%	-12%	6.9%	9.1	9.6
	2/1/1978	2/1/1979	18%	20%	2%	3%	88	4%	0%	18%	7.5%	8.3	9.3
	11/1/1981	11/1/1982	16%	9%	42%	39%	-209	35%	2%	-10%	12.5%	8.0	7.3
	7/1/1984	7/1/1985	31%	28%	38%	34%	-272	25%	-9%	-15%	10.8%	10.8	10.0
	10/1/1990	10/2/1991	31%	23%	19%	18%	-125	35%	-35%	-10%	7.1%	18.6	16.5
	12/1/1994	12/1/1995	37%	7%	25%	21%	-161	18%	-1%	7%	5.8%	15.7	21.9
	Average		25%	19%	20%	19%	-98	21%	-5%	-3%	8%	12.7	13.1

Note: BAML Bond index returns for '68-'74 are estimated using Moody's BAA index assuming 10 year duration. Note: CAPE is the cyclically adjusted price to earnings ratio.

Source: Haver Analytics, Bloomberg and Factset as of March 9, 2018. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. For illustrative purposes only.



**Figure 16: Seven Bad Years in 50: Economic Fundamentals when Stocks and Bonds Fall Together**

			Headline CPI	Core CPI	Unemployment	Nominal wages (production and non-supervisory)	Real wages (Production and non-supervisory)	Current Account (Q)	Profit margin	Commercial Property Prices	Residential Property Prices	Deficit (A)
Before Correlation period	12/1/1968	12/1/1969	4.3%	4.7%	2.5%	6.4%	1.0%	0.0%	11.5%	6.5%		-2.8%
	12/2/1971	12/1/1972	2.3%	2.1%	4.7%	7.6%	4.1%	-0.5%	10.3%	7.8%		-2.1%
	6/1/1976	6/1/1977	4.8%	5.5%	6.6%	7.4%	1.5%	0.0%	10.7%	5.8%	8.5%	-4.1%
	12/2/1979	12/1/1980	12.6%	11.4%	6.1%	7.9%	-5.0%	0.0%	9.5%	9.8%	9.4%	-1.6%
	6/1/1982	6/1/1983	3.7%	4.6%	9.2%	4.9%	0.3%	-0.2%	8.2%	4.7%	2.9%	-3.9%
	7/1/1989	7/1/1990	3.8%	3.6%	4.3%	4.0%	-0.7%	-1.5%	8.5%	1.2%	5.1%	-2.7%
	3/1/1993	3/1/1994	1.8%	2.2%	5.8%	2.5%	-0.1%	-1.2%	9.1%	-5.6%	2.3%	-3.8%
	Average		5%	5%	6%	6%	0.2%	-1%	10%	4%	6%	-3%
During Correlation period	12/1/1969	1/1/1971	4.9%	5.2%	3.9%	5.9%	0.1%	0.2%	9.4%	6.6%		0.3%
	12/1/1972	9/1/1974	6.7%	3.8%	4.0%	6.4%	-1.1%	0.3%	10.4%	8.7%		-0.3%
	6/1/1977	2/1/1978	5.7%	5.3%	5.8%	7.4%	0.7%	-0.7%	11.6%	8.8%		-2.6%
	12/1/1980	11/1/1981	9.8%	9.8%	6.4%	8.9%	-1.7%	0.2%	9.2%	12.5%	5.6%	-2.6%
	6/1/1983	7/1/1984	2.6%	3.2%	7.4%	3.9%	0.9%	-1.7%	9.6%	-2.0%	4.2%	-2.5%
	7/1/1990	10/1/1990	4.5%	4.3%	4.7%	4.1%	-1.2%	-1.4%	8.0%	-1.8%	2.4%	-4.4%
	3/1/1994	12/1/1994	1.6%	1.9%	5.1%	2.6%	0.0%	-1.6%	10.0%	1.9%	2.9%	-4.4%
	Average		5%	5%	5%	6%	-0.34%	-1%	10%	5%	6%	-2%
Following Correlation period	1/1/1971	1/1/1972	3.3%	3.7%	5.0%	6.4%	2.1%	-0.1%	9.9%	7.6%		-2.1%
	9/1/1974	9/1/1975	9.8%	9.5%	6.8%	7.5%	-2.9%	0.6%	8.8%	15.7%		-0.4%
	2/1/1978	2/1/1979	6.8%	6.5%	5.0%	8.1%	0.4%	-0.7%	11.7%	9.6%	14.1%	-2.6%
	11/1/1981	11/1/1982	6.0%	7.3%	8.3%	6.2%	-0.6%	0.0%	8.3%	11.1%	3.8%	-2.5%
	7/1/1984	7/1/1985	2.9%	3.7%	6.3%	3.2%	-0.5%	-2.4%	9.6%	2.3%	4.6%	-4.7%
	10/1/1990	10/2/1991	4.1%	4.1%	5.6%	3.3%	-1.5%	-0.1%	8.6%	-3.4%	1.4%	-3.7%
	12/1/1994	12/1/1995	1.8%	2.0%	4.6%	2.7%	-0.1%	-1.7%	10.7%	3.2%	2.3%	-2.8%
	Average		5%	5%	6%	5%	-0.5%	-1%	10%	7%	5%	-3%

Source: Haver Analytics, Bloomberg and Factset as of March 9, 2018.

Strong oil and commodity index returns during periods of falling equities were heavily influenced by supply shocks.

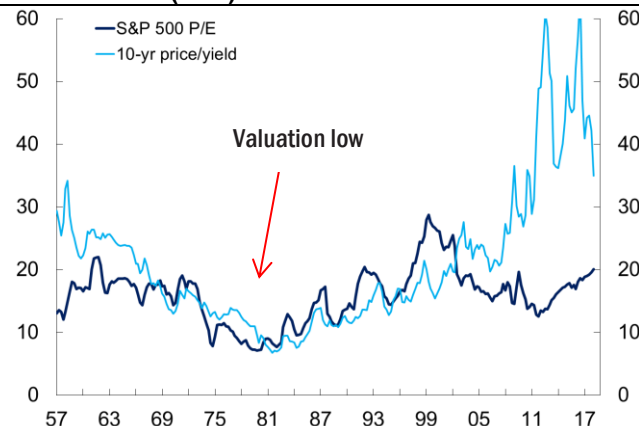
The returns in the commodities asset class are heavily influenced by the Arab oil embargo of 1973 and the first Persian Gulf War in 1990-1991. Excluding these two events, the returns on spot crude oil fall to +7% from +45%. For this reason, if investors wish to allocate to commodities as a mitigator of inflation risk, they should be clear if they have a potential oil supply shock in mind. As figure 15 shows, oil price returns in the one-year period following negative stock and bond returns were -5%. They were -2% when excluding the two oil shock periods. Notably, as 2015 last showed, gluts of supply are also a potential investment risk.

#### Heightened Market Inflation Concern

One should decide if an oil supply shock is a sizeable risk worth factoring into asset allocation.

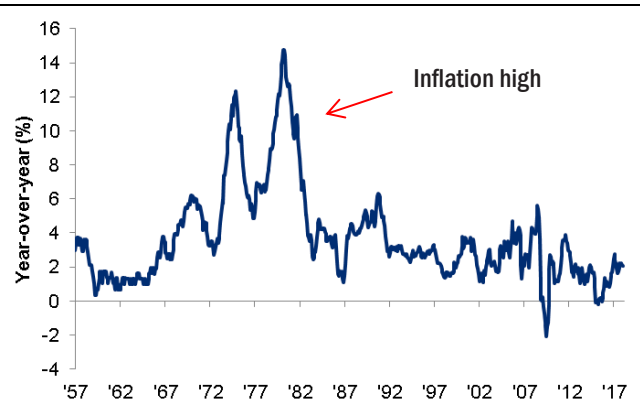
Looking at the absolute levels of inflation in table 16, it would seem markets should have little reason to fear an inflationary bust. The US is far from a 5% inflation rate, and there's a very low probability of a sustained peacetime inflation rate that high. At the same time, the valuation of both US bonds and equities is far higher than during the average of the seven "bad years" above. This reflects confidence in sustained, low inflation (see figures 17-18). Thus, even a moderate rise in inflation may have a significant impact on market valuations.

**Figure 17: S&P 500 Price/Earnings Ratio vs US 10-year Price to Yield (YTM)**



Source: Haver Analytics as of March 8, 2018.

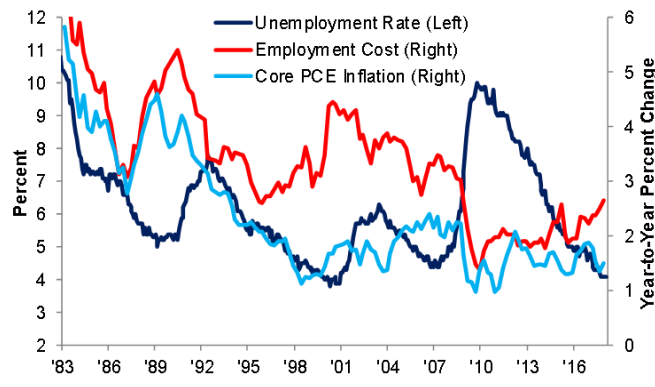
**Figure 18: US Inflation (Year-to-Year Percent)**



Source: Haver Analytics as of March 8, 2018.

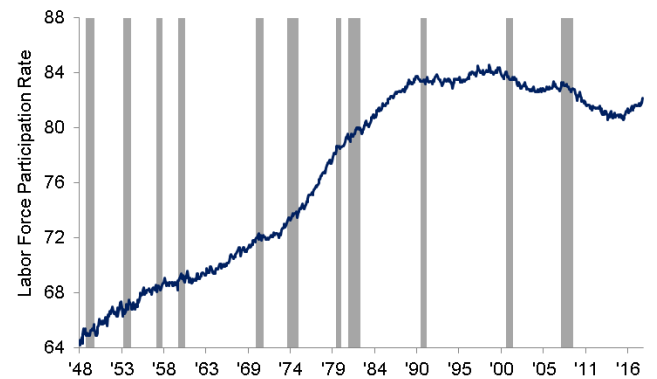
However, US inflation is quite low now, with wage growth at historically restrained levels given the progress of labor markets in the long recovery to date (see figure 19). High consumer and business confidence are apparently incentivizing a revival in labor force participation, as a very hopeful set of February employment data showed (see figure 20). Still, US growth capacity is not unlimited.

**Figure 19: Unemployment, Employment Cost Index and Core Consumer Inflation**



Source: Haver Analytics as of March 12, 2018.

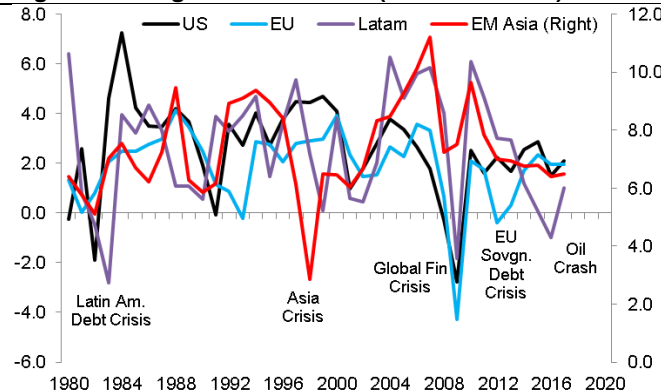
**Figure 20: Prime Age Labor Force Participation Rate**



Source: Haver Analytics as of March 12, 2018.

This year, we highlighted the less mature recoveries away from the US as a reason to diversify and carry overweight equity allocations in more modestly valued markets abroad (see figure 21). The stronger performance of global markets versus local ones when any particular region contracts should further diversify portfolios from and shield them from local corrections (see figure 22).

**Figure 21: Region GDP Growth (Year-to-Year %)**



Source: Haver Analytics as of March 12, 2018.

**Figure 22: Regional Crisis Returns and Global Returns 1-year later**

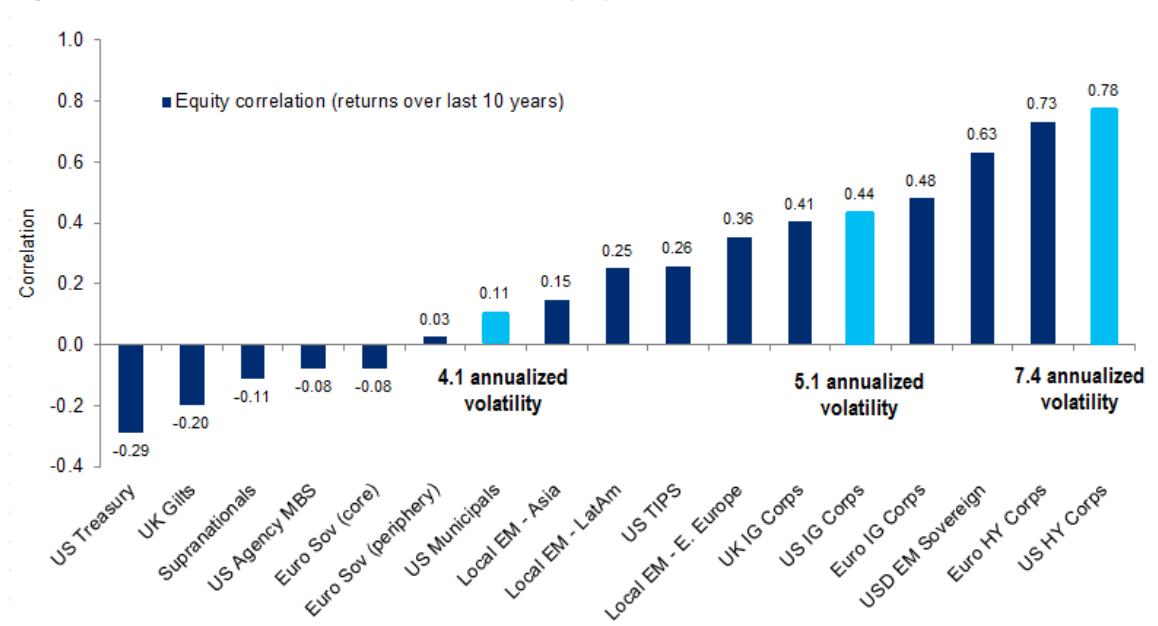
Regional Crisis	Return during the first year of crisis (%)	
Asian Crisis 1997	Asia -28.3%	Global 15.0%
Latam Crisis 1998	Latam -35.1%	Global 22.0%
EU Crisis 2011-2013	Europe -10.5%	Global -6.9%
Commodity Collapse 2015	Latam -30.8%	Global -1.8%

Source: Haver Analytics as of March 2018.

Diversification does not ensure a profit or protect against loss.

Beyond this, we also took a very modest step within bond portfolios this month to reduce correlation with risk assets. As figure 23 shows, the correlation between US high yield and equity markets is the highest in the fixed income universe. Government bonds and investment grade corporates show a far lower correlation and far less absolute volatility. With the sharp rise in US bond yields in 2018 relative to other international markets and sharp rise in investment grade yields relative to sub-investment grade issues, we raised our overweight in US high grade by 0.5 percentage points, reducing the overweight in US high yield by a similar amount.

**Figure 23: Bond Market Correlation vs S&P 500 by Type of FI**



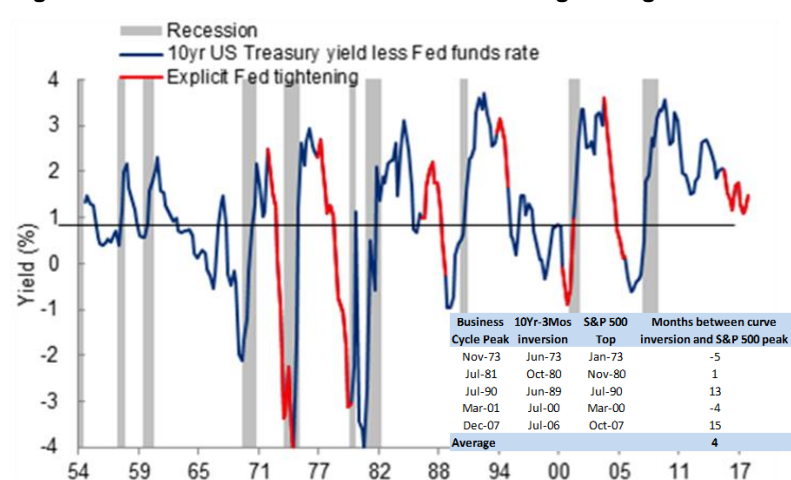
Source: Haver Analytics, Citi Private Bank and YieldBook as of March 8, 2018

Evidence accumulating that long-term US Treasury yields will stay contained.

Looking forward, we anticipate the Fed's actions to contain inflation risks will continue to limit the upward pressure in long-term US yields (see figure 24). Meanwhile, the sharp rise in US yields relative to other international bond yields has attracted international investor demand in the form of foreign central banks (see figures 25-26).

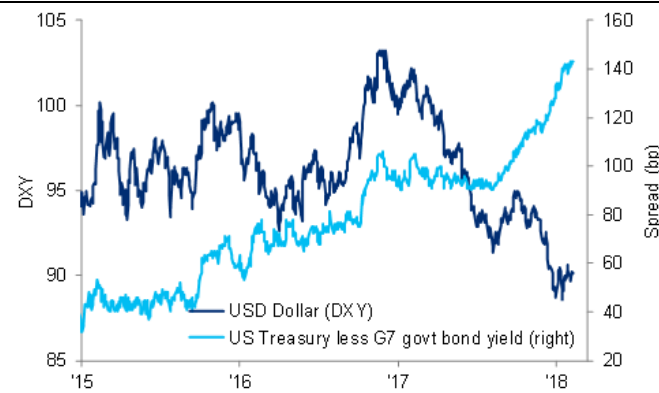
In the case of foreign reserve managers, who generally own international bonds on an unhedged basis, the US dollar's decline will have shrunk the share of US bond holdings in portfolios over the past year. Beyond the rise in US relative yields, this may be driving their reallocation to US bonds.

**Figure 24: US Yield Curve and Periods of Fed Tightening**



Source: Haver Analytics, Citi Private Bank and YieldBook as of March 8, 2018

**Figure 25: UST Yield Spread over Other G7 Bonds vs USD Index**



Source: Bloomberg as of March 12, 2018.

**Figure 26: Foreign Official Holdings of US Treasuries and Total Foreign Holdings**



Source: Haver Analytics as of March 2018.

## Find Your Hawk Blinders

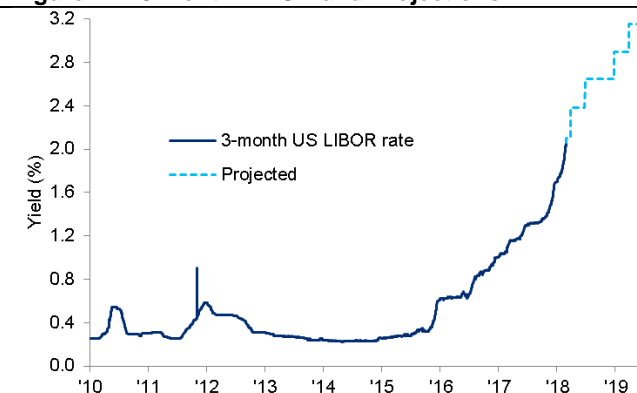
Strengthening inflation data, wider deficits, increased Treasury (UST) supply, higher oil prices and relatively hawkish US Fed chairman comments to Congress, make up the bearish rate checklist. These factors have played a role in watching 10-year UST yields reach a four-year high. At the same time, short-term US rates continue to reach new post-crisis highs, with 2-year UST yields reaching 2.25%. Consequently, this has pushed the yield curve flatter, bringing the difference between 2-year and 10-year UST yields back toward 60bp (2s/10s had widened to 78bp in mid-February).

**Kris Xippolitos**  
Global Fixed Income  
Strategist

**Joe Kaplan**  
Fixed Income Strategy

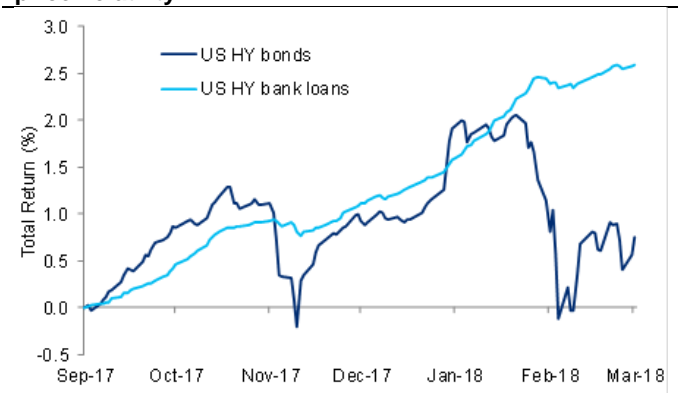
Though three rate hikes are now being fully priced in for 2018, markets are still underpricing the Fed for next year. Considering our expectation for 3 or 4 hikes in 2018, and 3 or 4 more in 2019, higher short rates and a flatter yield curve remains our base-case over the next 12-18 months. Indeed, 3-month LIBOR has now breached 2.0% and is expected to rise above 2.5% by year-end (see figures 27 and 28).

**Figure 27: 3-Month LIBOR and Projections**



Sources: The YieldBook and Citi Private Bank as of March 12, 2018.

**Figure 28: HY bank loans continue to exhibit lower price volatility**



Source: Bloomberg Barclays Indices, FactSet as of March 2018.

Though concerns over higher long-term rates remain relevant, risks now appear more balanced. Though an increase in Treasury supply can weigh on markets, the bounce higher in yields already reflects this, in our view. Indeed, 10-year US Treasury's are now the 4th highest yielding developed sovereign market in the world, after Iceland, Greece and New Zealand. Moreover, the rise in UST yields has not been matched by rising yields in other core markets. For example, the yield difference between 10yr UST and 10yr German Bunds is now 225bp, near its historical wide.

To add, foreign central banks continue to use FX reserve surpluses by investing in Treasury debt. This may offset some concerns over higher Treasury supply to fund wider fiscal deficits.

More importantly, February's US employment report suggested that wage pressures are less than originally feared by markets. Though inflation is expected to move higher this year, low initial levels should work to limit the move higher in long-term rates.

We also note that Treasury market positioning by speculative investors (i.e. hedge funds) remain near historically low levels. Shifts in sentiment or market uncertainty can provoke the movement of fast money, exacerbating price swings. For example, if we consider the rising tensions over US/China trade announcements (see first section for discussion); any further escalation of protectionism may spur equity volatility. This could provoke short-covering by speculative investors, pressing long-term rates lower.

### High quality, higher yields

Higher Treasury yields and broader risk aversion has hurt the US IG corporate bond market, underperforming most other high-quality assets this year. Broad corporate benchmarks have declined 2.5% YTD, with long-dated corporates falling over 5.0%. In our view, the underperformance is a result of rising hedging costs limiting foreign demand, hesitant corporate buyers post US tax reform, and a pick-up in M&A induced bond supply (i.e., CVS \$40 billion bond sale to fund their acquisition of Aetna).

Spreads are now back near +100bp, though the significant move higher in yields is much more notable. At 3.75%, US IG benchmark yields are at their highest levels since 2011 (see figure 29). No other global fixed income market can say the same. With further upside in UST yields contained, current levels have become more attractive, in our view.

**Figure 29: US Investment Grade Corporate Bond Yields**



Sources: The YieldBook as of March 12, 2018.

Of course, interest rate risks still exist and rising global trade tensions are likely to create higher spread volatility going forward. Moreover, if central banks in Europe and Japan buy fewer bonds later this year, some "crowding out" effects could cause cross-border flows to find their way back home. In our view, this may create greater opportunities, as market dislocations become more frequent. This will likely create an environment which favors active over passive investment strategies.

If risk markets are set to have a more volatile future, adding negative-correlated assets to global portfolios can mitigate some performance volatility. Even though we have been slightly overweight US IG corporates in global asset allocation for some time, the pick-up in IG yield allows us to raise this allocation further.

US high yield bonds have gained 30% over the last two years, and returns are expected to moderate over the coming year. While we still maintain our high conviction and overweight in global asset allocation, our performance expectations in equity markets is stronger. By shifting some of our HY overweight into IG corporates, we are able to maintain our equity overweights, while minimizing overall portfolio risk. Indeed, IG corporates historically displays a lower correlation to equities than high yield.



## Are munis calling?

Higher US rates has constrained US municipal bond performance this year (-1.4%), though still outperforming both US Treasury debt (-2.1%) and US taxable investment grade corporates (-2.8%). There has not been much dispersion in performance across credit quality buckets, however, high yield munis have held up relatively better (-0.7% YTD). This is primarily due to Puerto Rico, whose GO bonds have gained 30% since early February as projected budget surpluses have suggested the territory may allow it to resume bond payments in as little as two years.

Puerto Rico has been in default since 2015, and their 8.0% GO bonds due in 2035 currently trade around \$31. At this stage, any expectation over repayment is highly speculative and will likely take years to play out in bankruptcy court.

Yield ratios have not changed all that much, with 10-year AAA-rated ratios settling in around 85%. However, long-end ratios have moved up more noticeably, pushing back toward 100%. More remarkable is that the weakness on the long-end has occurred while supply remains very weak. Indeed, gross issuance year-to-date is down 35% versus last year. As discussed in [Outlook 2018](#), the cheapening is likely a result of waning demand from cross-over buyers (i.e., banks and insurance companies) as lower US corporate tax rates decreases the relative value proposition of tax-exempt municipals.

Though duration risk has increased, a steeper muni curve and cheaper long-end yield ratios has increased the value proposition in US municipals (see figure 30). Volatility around US rates will likely create challenges for long-duration muni performance, though cross-over buyers may step back-in if valuations cheapen further. For example, if yields move above UST debt, foreign buyers may again look to incorporate municipals as a way to diversify high quality portfolios. Same with US banks, as large amounts of capital need to be invested in high-quality assets. We are watching fund flows (which have recently turned negative); however, new supply is still expected to remain very low, supporting a strong technical environment.

**Figure 30: US Treasury and Muni Spreads**



Sources: The YieldBook as of March 12, 2018.

The elimination of advanced refunding's from US tax reform is also creating an opportunity, with states beginning to use some ingenuity to create flexibility over future liabilities. Most recently, the State of California issued \$2.1 billion in new general obligation bonds, where several tranches were offered with varying call dates. With 10-year call options historically standard, California issued bonds with both 5-year and 8-year redemption dates. Since shorter call dates increases the risk that bonds can be redeemed by the issuer sooner, these bonds are typically priced with larger yield premiums. While yield premiums will vary by issuer, we believe adding call risk to portfolios is an attractive way to diversify income in fixed income portfolios.

**Wietse Nijenhuis**  
Global Equity Strategist

**Steven Wieting**  
Global Chief Investment  
Strategist

## Emerging Markets equities equals commodities is an old cliché

- As we highlighted in [a previous note](#), current equity market weakness has followed an unusual pattern. For example, lower beta US equities on this occasion have not outperformed (fallen less) in the way one would expect.
- Another standout development is the relative resilience of Emerging Markets (EM) in the current pull-back. Typically, higher beta EM equities have tended to underperform in sell-offs.
- At Citi Private Bank we have been overweight all EM regions since March 2017 and believe that their current resilience is more than just a reflection of stronger macro. Another big factor is the changing composition of EM equity indices, from being commodities-led, to being technology and consumer driven.
- 10 years ago energy and materials made up a combined 34% of the EM index, with companies like Vale, Gazprom, Petrobras and Lukoil<sup>1</sup> commanding the largest weights. These two sectors now represent less than 15% of the index.
- Today, the largest EM sector with a 28% weight is IT (up from 10% a decade ago), while the largest EM companies now include Tencent, Alibaba, Samsung, Naspers and Baidu. In fact one has to go as far down as 14<sup>th</sup> place (in terms of index weight) to find the first commodities name in the MSCI EM index; Brazil's Vale with a weight of less than 1%.
- The EM equity index is now a play on the emerging middle class, with consumer-facing sectors such as IT, Consumer Discretionary, Consumer Staples, Financials, Real Estate and Health Care making up close to three-quarters of the index.
- This is not to say that EM is now immune from large commodity price swings. Most EM countries' indices still command a higher energy and materials weight than developed markets (11% in aggregate). Indeed, a few EM countries remain dominated by old economy sectors; Russia with a 62% weight in energy and materials stands out.
- Changing index composition has improved the earnings quality and visibility of large parts of the EM equities complex. However, lower exposure to (often) indebted and inefficient state-owned enterprises inevitably leads to higher aggregate valuations.
- Based on this, EM equities deserve to trade at higher valuations than they have in the past. Despite this, the asset class still trades at a 23% discount to developed market equities.
- Of course, while the asset class is now better able to withstand the boom and bust nature of commodity price cycles, vulnerabilities to other factors have risen. Insufficient index breadth is one example; the 10 current largest EM stocks (5 of which are in the IT sector) make up one-quarter of the index and contributed just over one-third of last year's 34% price gains.

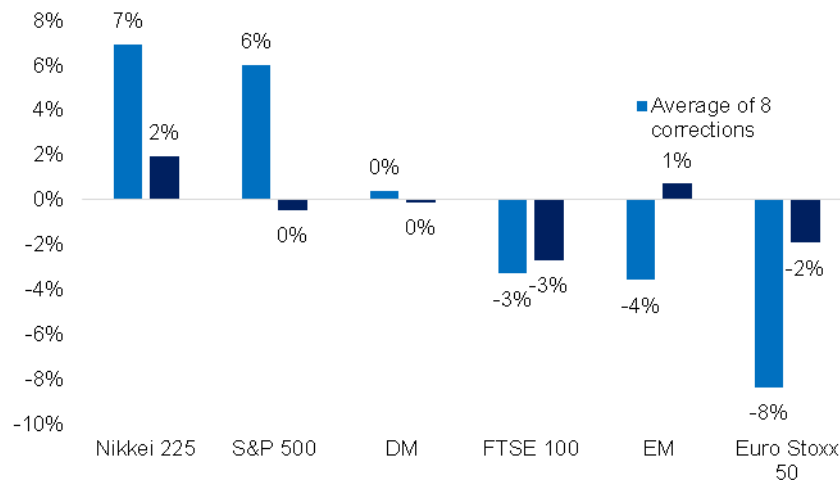
### Emerging Markets equities resilience about much more than improved macro

EM equities have historically been big underperformers during equity market corrections. Looking at the previous eight (near) 10% pull-backs in global equities in the current bull market, EM equities on average underperformed by 4% in US dollars. In some corrections the underperformance was even sharper (9% in 2015). This time, however, EM equities have held up relatively well, even outperforming global equities.

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<sup>1</sup> For illustrative purposes only. Discussion does not constitute a recommendation to buy or sell any security mentioned.

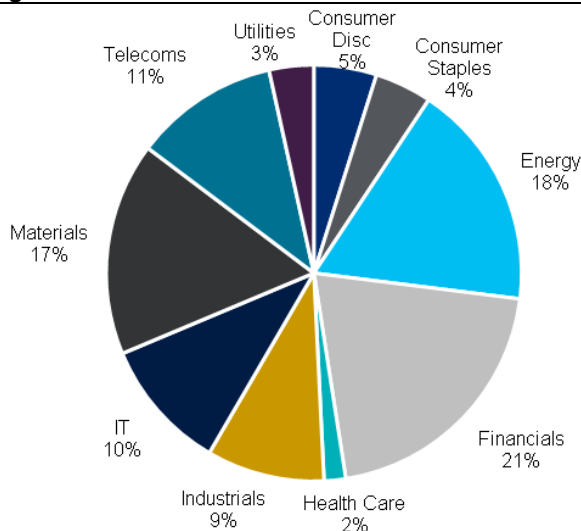
**Figure 31: Relative performance (vs. MSCI All Countries) in previous corrections and now, in US\$**



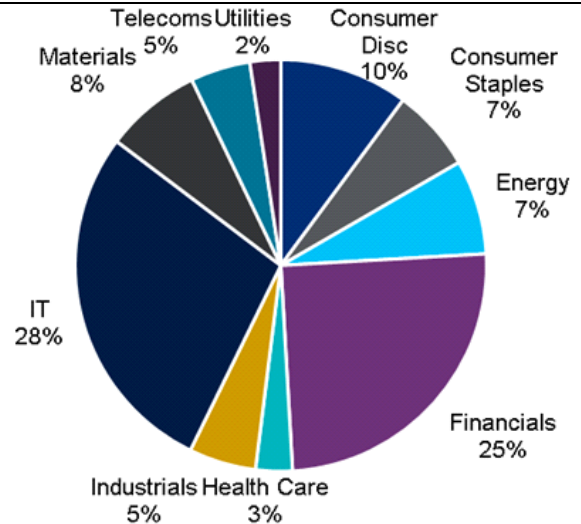
Sources: Thomson Reuters, MSCI. Data as of 1 March 2018. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Past performance is no guarantee of future events. Real results may vary. For illustrative purposes only.

Much has been written about the improving growth, current account balances, fiscal deficits and inflation and interest rate dynamics in emerging markets. All of this is true and makes EM able to withstand external shocks better than before. However, another contributing factor for equity investors is the changing composition of EM equity indices, away from old economy sectors (energy and materials) and towards new economy sectors such as IT.

**Figure 32: EM Sector Shares 2008**



**Figure 33: EM Sector Shares 2018**



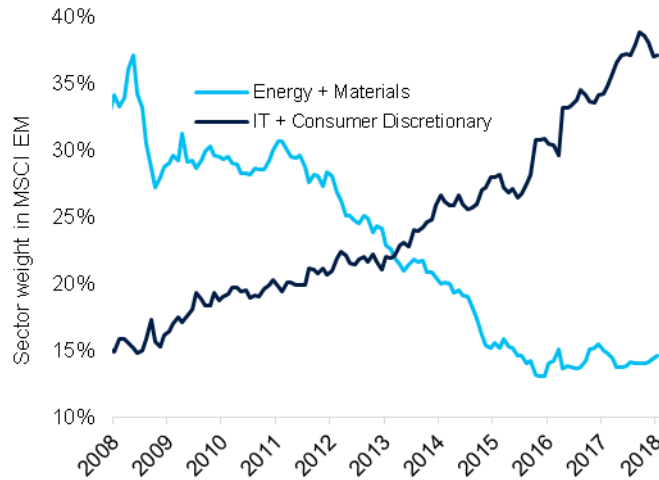
Sources: Thomson Reuters, MSCI. Data as of March 2018. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Past performance is no guarantee of future events. Real results may vary. For illustrative purposes only.

Only 10 years ago the energy and materials made up a combined 34% of the EM index, while the combined weight of the IT and consumer discretionary sectors was just 15%. This has now completely reversed, with energy and materials falling to 15% of the index and IT and consumer discretionary currently making up 37% of the index. Former index heavyweights such as Vale, Gazprom, Petrobras and Lukoil have been overtaken by (primarily Asian) technology companies such as Tencent, Alibaba, Samsung, Naspers and Baidu<sup>2</sup>.

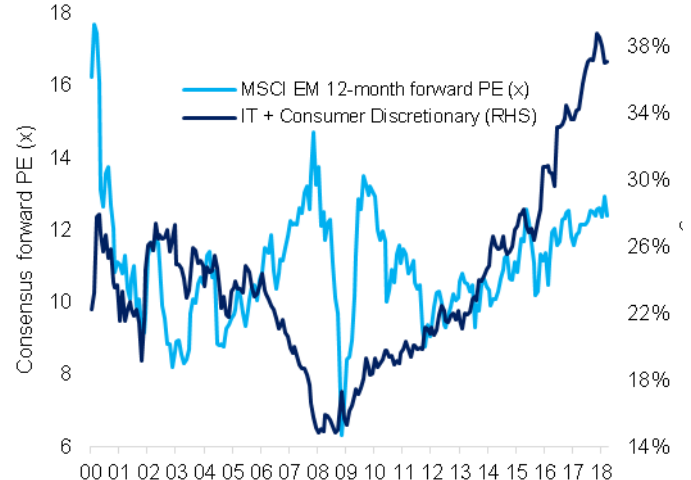
<sup>2</sup> Discussion does not constitute a recommendation to buy or sell any security mentioned.

Of course, a greater representation of high quality growth companies, (especially) at the expense of cheaper old economy style stocks will inevitably raise aggregate EM valuations. Nevertheless, even accounting for the shifting composition, EM equities still appear cheaply valued at 12.4x on a consensus 12-month forward basis, a 23% discount to Developed Market equities (vs. a 10-year average discount of 20%)<sup>3</sup>.

**Figure 34: The changing index composition in EM**



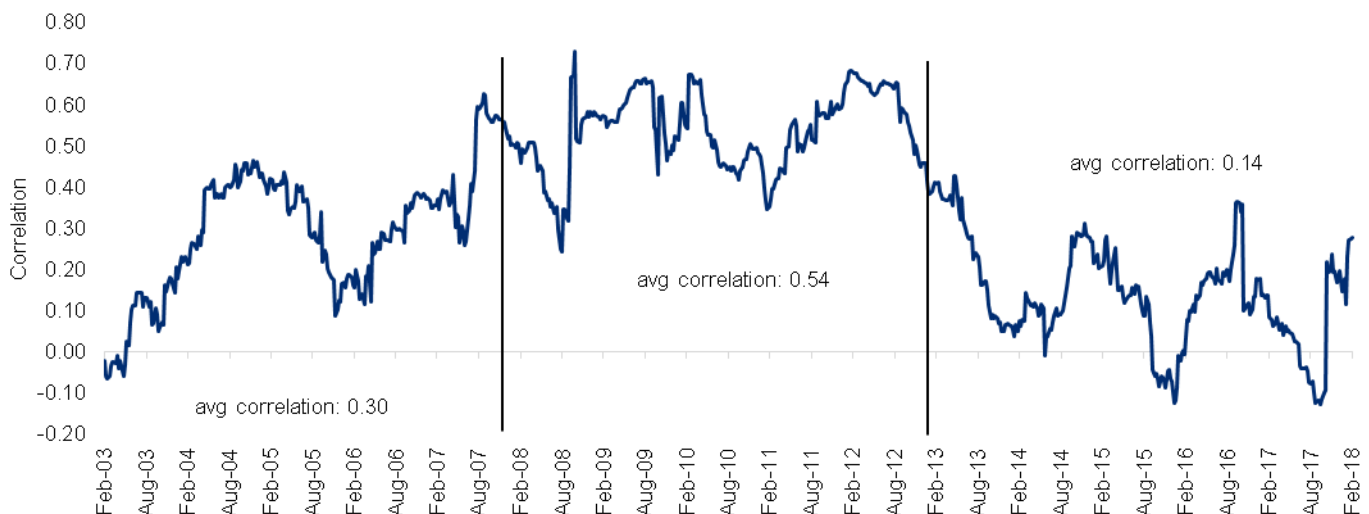
**Figure 35: Higher EM valuations reflects changing index composition**



Sources: Thomson Reuters, MSCI. Data as of March 2018. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Past performance is no guarantee of future events. Real results may vary. For illustrative purposes only.

The diminishing influence of commodities on EM equities is also visible in falling correlations between EM equity returns and commodity price returns. The five-year period between March 2008 and March 2013 saw an average weight of energy and materials in the EM benchmark of 29%. This period corresponds with an average correlation between EM equity return and commodity price returns of 0.54. These two commodity sectors averaged a weight of just 16% in the subsequent 5 year period, which saw the same correlation drop to 0.14.

**Figure 36: 12-month rolling weekly return correlation between EM equities and commodity prices\***

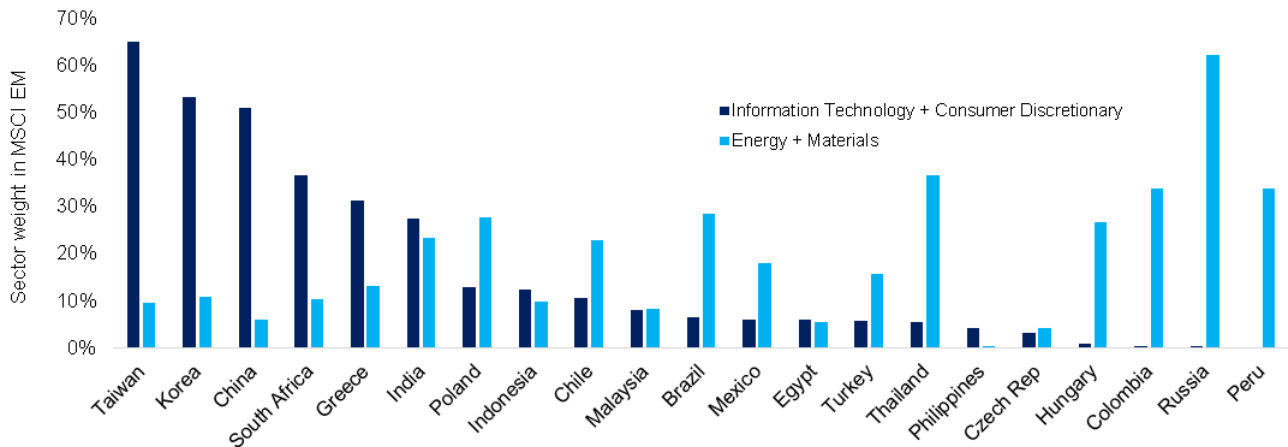


\*EM equities is MSCI Emerging Markets Equity Index in US Dollars. Commodities is the Commodities Research Bureau (CRB) spot price commodities index. Source: Thomson Reuters, MSCI. Data as of 1 March 2018. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Past performance is no guarantee of future events. Real results may vary. For illustrative purposes only.

<sup>3</sup> Based on MSCI, IBES, Thomson Reuters data as of March 12, 2018.

This is not to say that EM is now immune from large commodity price swings, most countries' indices still command a higher energy and materials weight than developed markets (11% in aggregate). Indeed, some countries are still dominated by old economy sectors, Russia with a 62% weight of energy and materials in particular stands out.

**Figure 37: EM countries have big divergences in sector representation**

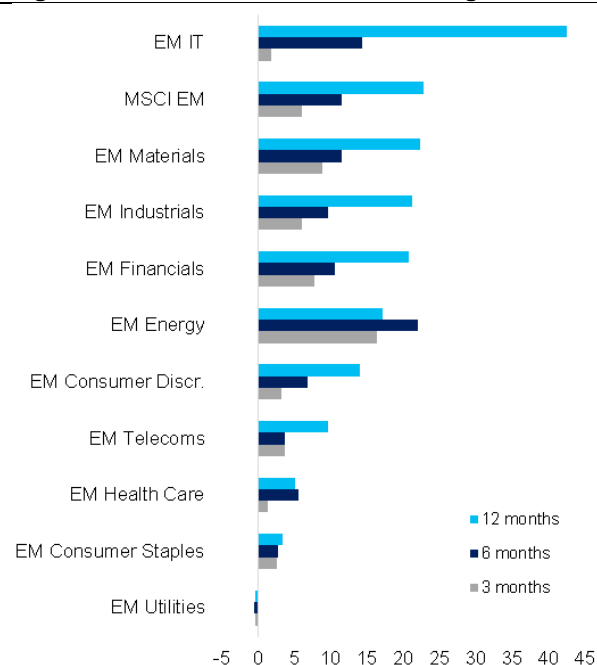


\*EM equities is MSCI Emerging Markets Equity Index in US Dollars. Commodities is the Commodities Research Bureau (CRB) spot price commodities index. Source: Thomson Reuters, MSCI. Data as of 1 March 2018. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Past performance is no guarantee of future events. Real results may vary. For illustrative purposes only.

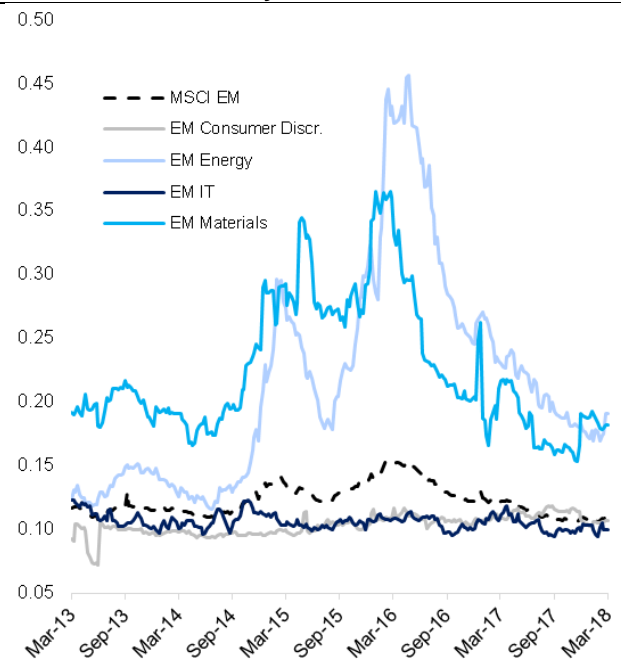
The shift towards new economy stocks has boosted the quality and visibility of earnings in EM. Over the past 12 months earnings revisions in the IT sector have been nearly double that of the overall market, whilst the uncertainty in consensus earnings expectations is much lower in IT than in energy and materials.

Given the demographic tailwinds enjoyed by EM economies, especially in Asia, it seems plausible that the shifts which have taken place in the composition of EM equity indices over the past decade continue.

**Figure 38: 3, 6 and 12 month EM earnings revisions (%)**



**Figure 39: Earnings uncertainty lower for IT and Consumer Discretionary sectors\***



\*Earnings uncertainty is the standard deviation of consensus 12 month forward earnings estimates divided by the mean earnings estimates. Source: Thomson Reuters, MSCI. Data as of March 2018. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Past performance is no guarantee of future events. Real results may vary. For illustrative purposes only.



## Challenging political and economic backdrops in Italy & UK

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EMEA Investment Strategist

**Shan Gnanendran**

EMEA Investment Strategy

The Italian election had an inconclusive result. No single party and no single bloc won enough votes nor seats to form a government. The fluidity in Italian voting patterns shifted, and there were movements between parties less driven by corporate influence than in the past. There is a period of uncertainty ahead as the new government is formed, and then in the medium-term the coalition may not be cohesive enough to make the bold structural decisions needed in areas like the bank sector. Nevertheless there is no immediate risk to European Union and Eurozone stability. That is the main reason why the Euro has been steady since the inconclusive election.

The Italian stock market is up 2.9% since the election, outperforming the Eurostoxx index which is up 1.4% over that period, largely because the economic upturn ahead of the election. (GDP growth is annualizing at 1.7% and the unemployment rate at its lowest level in five years at 11.2%). Growth is not expected to be negatively impacted by the election result in the short-term (see figure 40). There has been no impact on rates as the 10-year Italian Government yield remains at 2%. In addition there has not been any immediate contagion to the wider peripheral Eurozone bond market. Italian bonds remain our largest Eurozone sovereign fixed income underweight given credit risk and poor relative value.

On 23rd March 2018, Italian parliament reconvenes and house speakers are elected. By the end of March, new parliamentary groups are expected to be formed. Negotiations are likely to continue into the spring. Mid-April is the earliest possible date for a new government to be sworn in and negotiations could even continue until summer.

With the country very politically divided, the formation of the government is likely to be very challenging. The mainstream Forza Italia and Democratic Party (PD) were the main losers despite the new electoral system that many commentators predicted might favor them. The Italian non-mainstream, anti-establishment parties, Five Star Movement and Lega Nord, won 50.1% of the votes cast and around 55% of the seats in the new parliament, so they are key players in the negotiations. While economic hardship and immigration fears supported their votes, they are less openly anti-Euro than they previously.

Both M5S and Lega leaders, Mr Di Maio and Mr Salvini, have both already put themselves forward for the PM job, while the ruling PD leader Mr Renzi has announced his resignation. Ultimately the President of the Republic Mr Sergio Mattarella will make the formal PM decision, based on the constitutional principal that the PM should be able to form an absolute majority in both houses of parliament. While the situation is very fluid, with several possible scenarios, the Citi base case is that M5S is likely to eventual rule with the center-left PD as their partner (despite the PD's initial statements that they might eventually prefer to remain in opposition), and from the market's perspective this would be preferable to the M5S ruling with the Lega.

**Figure 40: Italy: Economic sentiment at levels last seen in 2007**



Sources: Bloomberg as of March 12, 2018.

There are two other broader EU impacts of the Italian hung parliament to consider. Firstly, for many months Italy is unlikely to provide Germany and France with clarity on its stance relating to the President Macron initiatives for EU reform. However markets have not priced in much yet in anticipation of radical changes. Secondly, with regards to the Brexit discussions, the Italian position has been more conciliatory towards the UK than some of the 27 EU countries. It's not clear if this position will shift with the Italian hung parliament, nevertheless won't be a critically decisive factor in the upcoming UK negotiations.

## UNITED KINGDOM

In the UK, Economic pressures are mounting, with inflation still above the 2% desired level and with growth being downgraded as the consumer sector starts to feel the pressures of weak real wage growth and a falling housing market (see figure 41). At the same time the Brexit negotiations are reaching a crucial stage. These two factors are expected to keep all UK assets under pressure in the coming months, and furthermore we expect higher volatility of UK asset prices which could be catalyzed by a second interest rate rise (the market are pricing in a 68% probability of the next hike at the May 10th meeting) or by Brexit headline risk. In addition, the UK is likely to be impacted by periods of high global market volatility. Below we highlight four particularly important Brexit risks:

Firstly, the UK needs formally to decide its stance on the Customs Union. Triggering Article 50 did not necessitate leaving the Customs Union, however PM May's initial hard-line approach indicated that the UK would be seeking to leave the Customs Union. On the positive side, this would enable trade deals with non-EU countries, but it would also make it harder to avoid a so-called "hard" Irish border.

PM May now has the delicate task of firming up the UK stance on the Custom's Union, without risking a hardline Brexiter challenge for her Conservative Party's leadership and without risking a constitutional crisis over the Irish border issue. Making this topic even more challenging, it appears the EU are seeking clarification on the UK stance before the transition agreement is signed and before future trading arrangements are discussed in earnest.

Secondly, the transition agreement which was agreed in outline in December, is currently being put into legal text that all parties agree on. An important area of current disagreement is the EU demand for fall back provisions for the UK for any non-compliance with the final withdrawal treaty. Assuming the transition deal is agreed, it will likely be a political commitment to implement a grace period with no legal basis until the divorce treaty is formally signed (expected shortly before exit day at the end of March 2019).

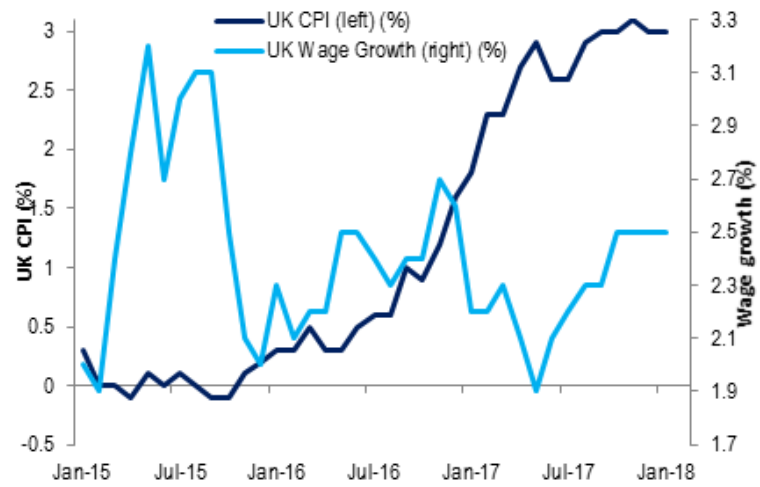
Taking the above two points together, we should assume that the transition period depends on the divorce deal being agreed, which in turn depends on an agreement on the Irish border. So it's in the interests of both sides to find a solution to the Irish border.

Thirdly, sector implications are increasingly in focus. Most critical is the UK financial services sector. The UK is reportedly going to seek "mutual recognition" of regulations to preserve the City of London's access to the EU. With this potential proposal, the UK and the EU would recognize each other's regulatory and supervisory regimes, with aligned rules at the point of exit, with a mechanism for monitoring divergence. This approach would differ from the EU's "equivalence" approach that applies to third countries, and if applied to the UK could hinder access. The starting point is likely to be discussions on whether or not the eventual new trade agreement should include services as well as goods.

Fourthly, PM May is seeking to protect the union without being accused of attempting a Brexit "power grab" by the devolved Scottish and Welsh governments. When the UK leaves the EU, the Scottish and Welsh governments would prefer that powers returned by the EU to London are automatically passed back to them. PM May would prefer these powers to be returned slowly, and she is aiming for get Scottish and Welsh support for her flagship Brexit law which is designed to prevent a legal void after the UK leaves the EU.

Long-term, the eventual EU deal will not be easily passed by the UK parliament nor by the EU's 27 remaining members, but that is not a significant concern for markets for the early part of 2018. With significantly less Brexit impact, and a more convincing economic recovery, we remain overweight most Eurozone equities, but hold neutral-to-slightly underweight positions in the UK.

**Figure 41: Increased divergence between CPI and wage growth**



Sources: Bloomberg as of March 12, 2018.

## Portfolio allocations

This section shows the strategic and tactical asset allocations. The Quant Research & Global Asset Allocation (QRGAA) team creates strategic asset allocations using the [CPB Adaptive Valuations Strategy](#) (AVS) methodology on an annual basis. Global Investment Committee (GIC) provides underweight and overweight decisions to AVS's Global USD without Hedge Funds Risk Level 3 portfolio. QRGAA then creates tactical allocations for risk levels 1,2,4 and 5. These are included below. Also included below are Global USD with Hedge Funds and 10% illiquids PE & RE (Private Equity and Real Estate) for risk levels 2,3,4 and 5. The below strategic/tactical allocations are reflective of the March 14, 2018 GIC meeting.

### Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 2

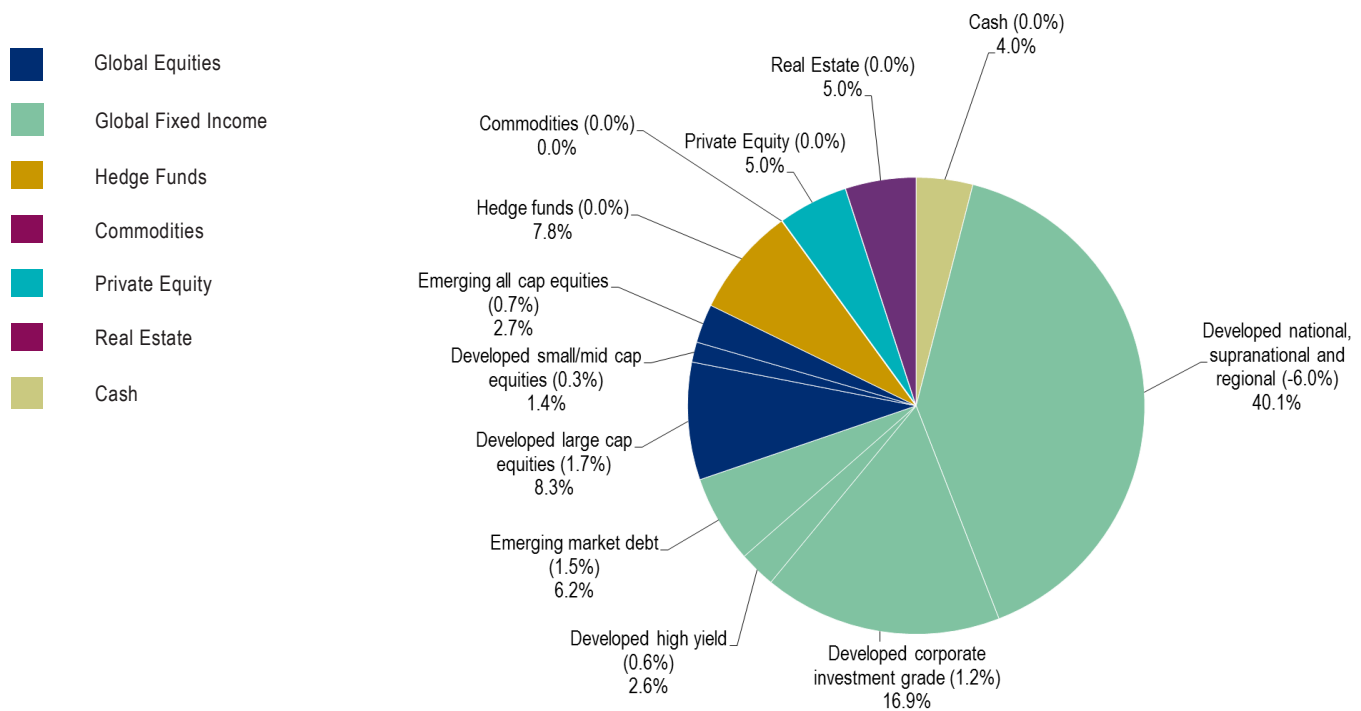
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	4.0	4.0	0.0
Fixed Income	68.4	65.8	-2.7
Developed Investment Grade	61.8	57.0	-4.8
Developed National, Supranational and Regional	46.1	40.1	-6.0
Americas	17.4	18.4	1.0
EMEA	19.3	15.6	-3.8
UK	3.4	2.9	-0.5
Core Europe	8.8	7.2	-1.6
Peripheral Europe	6.5	5.0	-1.4
Others	0.6	0.5	-0.2
Asia	9.3	6.1	-3.2
Asia (ex Japan)	0.3	0.3	0.0
Japan	9.0	5.8	-3.3
Supranational	0.0	0.0	0.0
Developed Corporate Investment Grade	15.7	16.9	1.2
Americas	10.4	12.1	1.7
US	9.9	11.6	1.7
Canada	0.5	0.5	0.0
EMEA	5.2	4.7	-0.5
Europe (ex UK)	4.3	4.0	-0.3
UK	1.0	0.7	-0.2
Asia	0.1	0.1	0.0
Developed High Yield	2.0	2.6	0.6
Americas	1.5	2.0	0.5
EMEA	0.5	0.5	0.1
Emerging Market Debt	4.7	6.2	1.5
Americas	1.6	2.1	0.5
EMEA	2.3	2.6	0.3
Asia	0.8	1.5	0.8
Hybrid Investments	7.8	7.8	0.0
Hedge Funds	7.8	7.8	0.0
Real Assets	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	9.8	12.5	2.7
Developed Equities	7.8	9.7	1.9
Developed Large Cap Equities	6.6	8.3	1.7
Americas	4.2	5.2	0.9
US All	4.0	4.8	0.9
Canada	0.2	0.3	0.1
EMEA	1.5	2.0	0.5
UK	0.4	0.5	0.1
Germany	0.2	0.3	0.1
France	0.2	0.3	0.1
Switzerland	0.2	0.3	0.1
Benelux	0.1	0.2	0.0
Scandi	0.1	0.2	0.0
Spain	0.1	0.1	0.0
Italy	0.1	0.1	0.0
Others	0.0	0.0	0.0
Asia	0.9	1.2	0.3
Australasia	0.2	0.2	0.0
Far East ex Japan	0.1	0.2	0.1
Japan	0.6	0.8	0.2
Developed Small/Mid Cap Equities	1.2	1.4	0.3
Americas	0.6	0.8	0.1
EMEA	0.3	0.4	0.1
Europe (ex UK)	0.3	0.4	0.1
UK	0.1	0.1	0.0
Asia	0.2	0.2	0.0
Asia (ex Japan)	0.0	0.1	0.0
Japan	0.1	0.2	0.0
Emerging All Cap Equities	2.0	2.7	0.7
Americas	0.2	0.3	0.1
Brazil	0.1	0.2	0.1
Mexico	0.1	0.1	0.0
Other	0.0	0.1	0.0
EMEA	0.2	0.3	0.1
Turkey	0.0	0.0	0.0
Russia and Eastern Europe	0.1	0.1	0.0
South Africa	0.1	0.1	0.0
Other	0.0	0.0	0.0
Asia	1.5	2.1	0.6
China	0.6	0.8	0.2
India	0.2	0.3	0.1
South Korea	0.3	0.4	0.1
Taiwan	0.2	0.3	0.1
Other Emerging Asia	0.2	0.2	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 2 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

### Core Positions

Global equities have an overweight position of +2.7%, global fixed income has an underweight of -2.7%. Cash and gold are both neutral.

Within equities, developed small/mid cap equities have the smallest overweight of +0.3% followed by emerging market equities at +0.7% while developed large cap equities have the largest overweight at +1.7%.

Within fixed income, developed government debt remains the largest underweight at -6.0%, with US government debt at an overweight position. Emerging market debt has the largest overweight at +1.5% followed by developed corporate investment grade at +1.2%.

EM fixed income has a small overweight position of +1.5% driven by overweights in Latin America, EMEA and Asia debts.

Private Equity and Real Estate are both neutral, each with 5% allocation.



## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 3

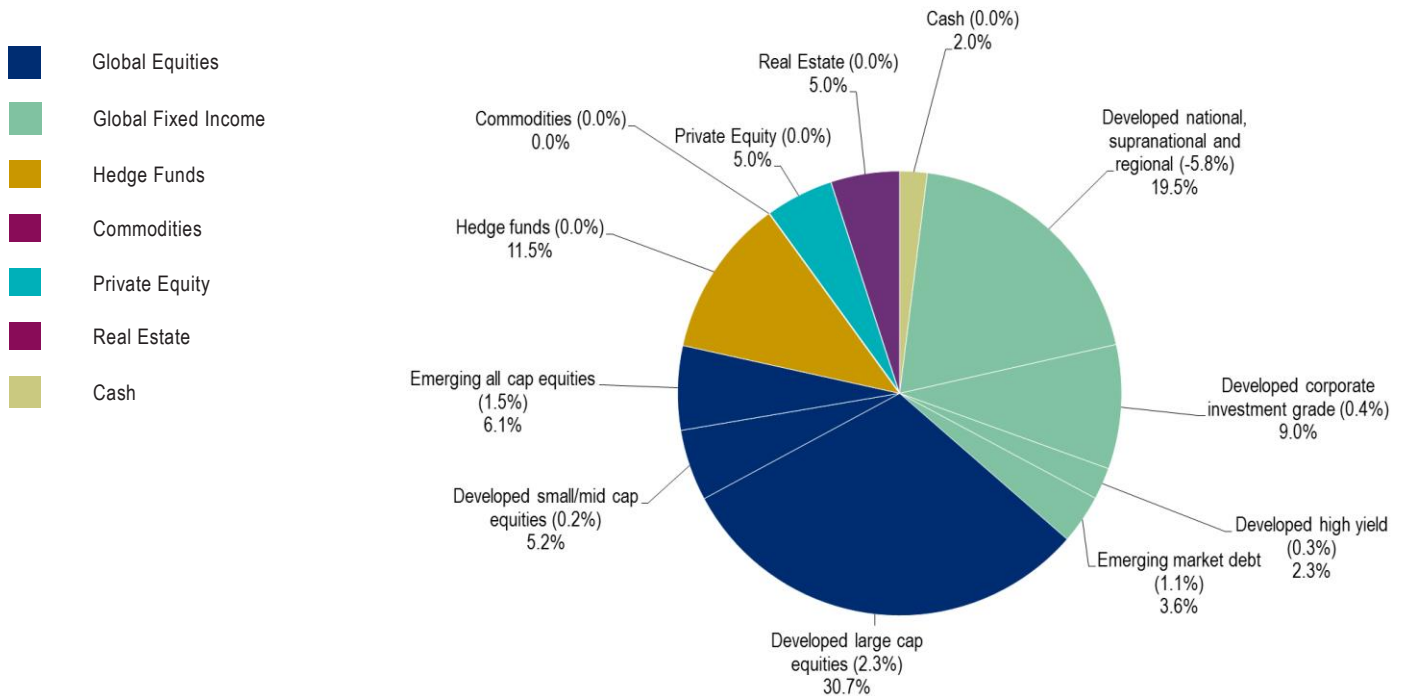
Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk Level 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	2.0	2.0	0.0
Fixed Income	38.4	34.4	-4.0
Developed Investment Grade	33.9	28.5	-5.4
Developed National, Supranational and Regional	25.3	19.5	-5.8
Americas	9.5	9.7	0.2
EMEA	10.6	7.3	-3.4
UK	1.9	1.4	-0.5
Core Europe	4.8	3.4	-1.5
Peripheral Europe	3.6	2.3	-1.3
Others	0.3	0.2	-0.1
Asia	5.1	2.5	-2.7
Asia (ex Japan)	0.2	0.2	0.0
Japan	5.0	2.3	-2.7
Supranational	0.0	0.0	0.0
Developed Corporate Investment Grade	8.6	9.0	0.4
Americas	5.7	6.7	1.0
US	5.4	6.5	1.0
Canada	0.3	0.3	0.0
EMEA	2.9	2.3	-0.6
Europe (ex UK)	2.4	1.9	-0.4
UK	0.5	0.3	-0.2
Asia	0.0	0.0	0.0
Developed High Yield	2.0	2.3	0.3
Americas	1.5	1.9	0.3
EMEA	0.5	0.5	0.0
Emerging Market Debt	2.5	3.6	1.1
Americas	0.8	1.2	0.4
EMEA	1.2	1.3	0.1
Asia	0.4	1.0	0.6
Hybrid Investments	11.5	11.5	0.0
Hedge Funds	11.5	11.5	0.0
Real Assets	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	38.1	42.1	4.0
Developed Equities	33.4	35.9	2.5
Developed Large Cap Equities	28.4	30.7	2.3
Americas	18.1	18.9	0.8
US All	17.0	17.6	0.6
Canada	1.1	1.2	0.2
EMEA	6.4	7.4	1.0
UK	1.9	2.0	0.1
Germany	0.9	1.1	0.2
France	1.0	1.3	0.3
Switzerland	0.9	1.0	0.1
Benelux	0.5	0.6	0.1
Scandi	0.6	0.6	0.0
Spain	0.3	0.4	0.1
Italy	0.2	0.3	0.1
Others	0.1	0.1	0.0
Asia	3.9	4.5	0.5
Australasia	0.8	0.8	0.1
Far East ex Japan	0.5	0.7	0.2
Japan	2.7	2.9	0.2
Developed Small/Mid Cap Equities	5.0	5.2	0.2
Americas	2.7	2.8	0.1
EMEA	1.5	1.5	0.1
Europe (ex UK)	1.2	1.3	0.2
UK	0.3	0.2	-0.1
Asia	0.8	0.8	0.0
Asia (ex Japan)	0.2	0.2	0.0
Japan	0.6	0.6	0.0
Emerging All Cap Equities	4.6	6.1	1.5
Americas	0.5	0.8	0.2
Brazil	0.3	0.5	0.1
Mexico	0.1	0.1	0.0
Other	0.1	0.2	0.1
EMEA	0.6	0.7	0.1
Turkey	0.0	0.1	0.0
Russia and Eastern Europe	0.3	0.3	0.0
South Africa	0.2	0.3	0.0
Other	0.0	0.0	0.0
Asia	3.5	4.7	1.2
China	1.5	1.9	0.4
India	0.5	0.7	0.2
South Korea	0.6	0.9	0.2
Taiwan	0.5	0.7	0.1
Other Emerging Asia	0.4	0.6	0.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 3 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

### Core Positions

Global equities have an overweight position of +4.0%, global fixed income has an underweight of -4.0%. Cash and gold are both neutral.

Within equities, developed small/mid cap equities have the smallest overweight of +0.2% followed by emerging market equities at +1.5% while developed large cap equities have the largest overweight of +2.3%.

Within fixed income, developed government debt remains the largest underweight at -5.8%, with US government debt at a small underweight position. Emerging market debt has the largest overweight at +1.1% followed by developed corporate investment grade at +0.4%.

Within EM fixed income, Latin America, EMEA and Asia debts are all in overweight positions with Asia highest at +0.6% followed by Latin America at +0.4%.

Private Equity and Real Estate are both neutral, each with 5% allocation.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 4

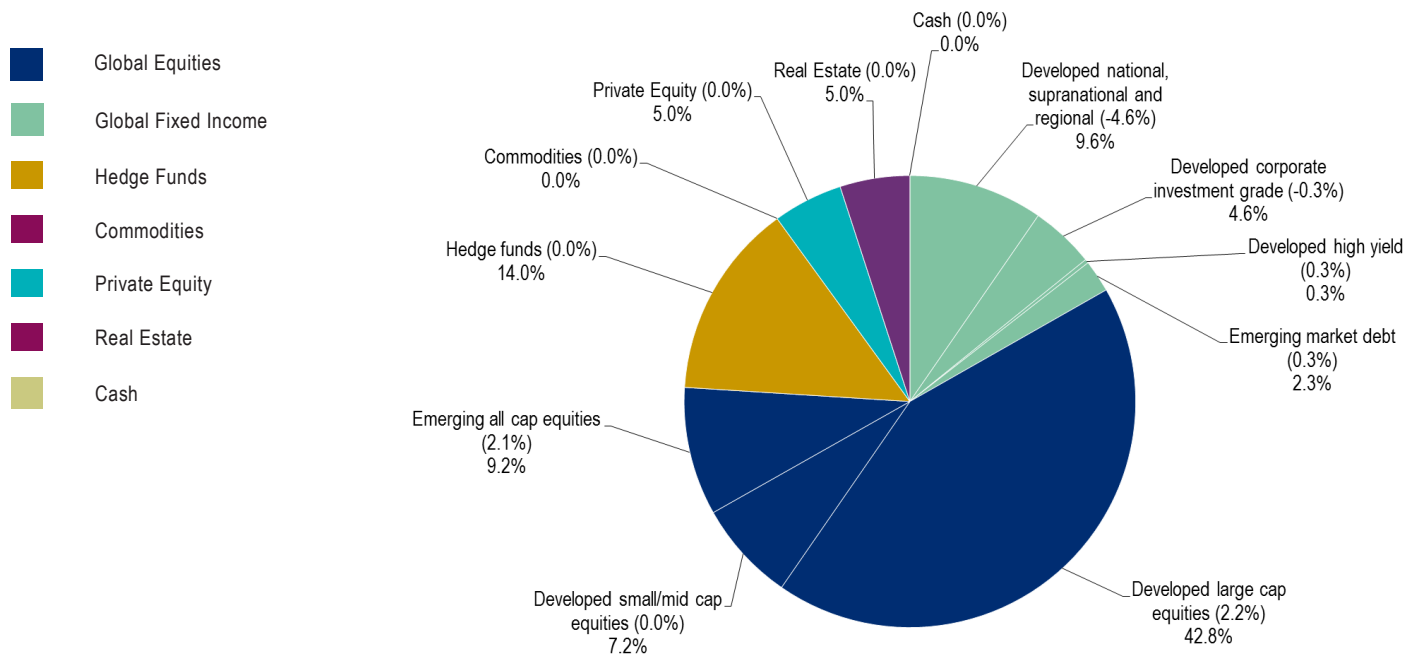
Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investment. Investors may have a preference for investments or trading strategies that may assume higher-than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	0.0	0.0	0.0
Fixed Income	21.1	16.8	-4.3
Developed Investment Grade	19.1	14.2	-4.9
Developed National, Supranational and Regional	14.3	9.6	-4.6
Americas	5.4	4.9	-0.5
EMEA	6.0	3.5	-2.4
UK	1.1	0.7	-0.4
Core Europe	2.7	1.7	-1.1
Peripheral Europe	2.0	1.1	-0.9
Others	0.2	0.1	-0.1
Asia	2.9	1.2	-1.7
Asia (ex Japan)	0.1	0.1	0.0
Japan	2.8	1.1	-1.7
Supranational	0.0	0.0	0.0
Developed Corporate Investment Grade	4.9	4.6	-0.3
Americas	3.2	3.4	0.2
US	3.1	3.3	0.2
Canada	0.1	0.1	0.0
EMEA	1.6	1.1	-0.5
Europe (ex UK)	1.3	1.0	-0.4
UK	0.3	0.2	-0.1
Asia	0.0	0.0	0.0
Developed High Yield	0.0	0.3	0.3
Americas	0.0	0.2	0.2
EMEA	0.0	0.1	0.1
Emerging Market Debt	2.0	2.3	0.3
Americas	0.7	0.8	0.1
EMEA	1.0	0.8	-0.2
Asia	0.3	0.7	0.4
Hybrid Investments	14.0	14.0	0.0
Hedge Funds	14.0	14.0	0.0
Real Assets	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	54.9	59.2	4.3
Developed Equities	47.8	50.0	2.2
Developed Large Cap Equities	40.7	42.8	2.2
Americas	25.9	26.2	0.4
US All	24.3	24.5	0.2
Canada	1.5	1.7	0.2
EMEA	9.2	10.4	1.2
UK	2.7	2.7	0.0
Germany	1.3	1.6	0.3
France	1.5	1.8	0.3
Switzerland	1.2	1.4	0.2
Benelux	0.7	0.8	0.2
Scandi	0.8	0.8	0.0
Spain	0.5	0.6	0.1
Italy	0.3	0.4	0.1
Others	0.1	0.2	0.0
Asia	5.6	6.2	0.6
Australasia	1.1	1.2	0.1
Far East ex Japan	0.8	1.1	0.3
Japan	3.8	4.0	0.2
Developed Small/Mid Cap Equities	7.2	7.2	0.0
Americas	3.9	3.9	0.0
EMEA	2.1	2.1	0.0
Europe (ex UK)	1.6	1.9	0.2
UK	0.5	0.3	-0.2
Asia	1.1	1.1	0.0
Asia (ex Japan)	0.3	0.3	0.0
Japan	0.8	0.8	0.0
Emerging All Cap Equities	7.1	9.2	2.1
Americas	0.8	1.2	0.4
Brazil	0.5	0.7	0.2
Mexico	0.2	0.2	0.0
Other	0.1	0.3	0.2
EMEA	0.9	1.0	0.1
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.4	0.4	0.0
South Africa	0.4	0.4	0.0
Other	0.0	0.0	0.0
Asia	5.4	7.0	1.6
China	2.3	2.8	0.5
India	0.8	1.1	0.3
South Korea	1.0	1.3	0.3
Taiwan	0.8	1.0	0.2
Other Emerging Asia	0.6	0.9	0.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 4 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +4.3%, global fixed income has an underweight of -4.3%. Cash and gold are both neutral.

Within equities, developed small/mid cap equities are neutral while emerging market equities have an overweight at +2.1% and developed large cap at +2.2%.

Within fixed income, developed government debt has the largest underweight at -4.6% while developed high yield bond and emerging market debt are both overweight at +0.3%.

Private Equity and Real Estate are both neutral, each with 5% allocation.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 5

Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies that may assume higher than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains. Clients may engage in tactical or opportunistic trading, which may involve higher volatility and variability of returns.

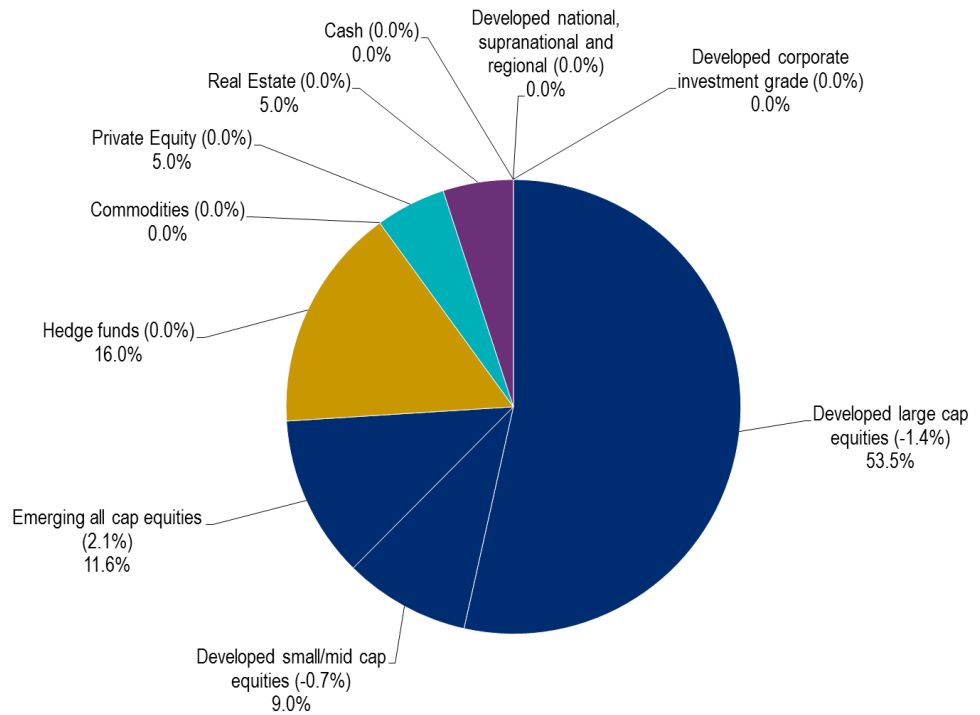
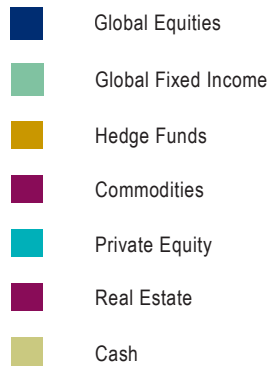
Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	0.0	0.0	0.0
Fixed income	0.0	0.0	0.0
Developed Investment Grade	0.0	0.0	0.0
Developed national, supranational and regional	0.0	0.0	0.0
Developed Corporate Investment Grade	0.0	0.0	0.0
Americas	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
Europe (ex UK)	0.0	0.0	0.0
UK	0.0	0.0	0.0
Asia	0.0	0.0	0.0
Asia (ex Japan)	0.0	0.0	0.0
Japan	0.0	0.0	0.0
Developed high yield	0.0	0.0	0.0
Americas	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
Asia	0.0	0.0	0.0
Emerging market debt	0.0	0.0	0.0
Americas	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
Asia	0.0	0.0	0.0
Equities	74.0	74.0	0.0
Global Developed Equities	64.5	62.4	-2.1
Developed Large Cap Equities	54.9	53.5	-1.4
Americas	34.9	32.6	-2.3
US All	32.8	30.5	-2.4
Canada	2.1	2.2	0.1
EMEA	12.4	13.1	0.7
UK	3.7	3.4	-0.3
Germany	1.7	2.0	0.3
France	2.0	2.3	0.3
Switzerland	1.7	1.8	0.1
Benelux	0.9	1.1	0.2
Scandi	1.1	1.0	-0.1
Spain	0.6	0.7	0.1
Italy	0.4	0.5	0.1
Others	0.2	0.2	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Asia	7.6	7.8	0.2
Australasia	1.5	1.4	0.0
Far East ex Japan	1.0	1.3	0.3
Japan	5.1	5.0	-0.1
Developed Small/Mid Cap Equities	9.7	9.0	-0.7
Americas	5.3	4.9	-0.4
EMEA	2.9	2.7	-0.2
Europe (ex UK)	2.2	2.3	0.1
UK	0.7	0.3	-0.3
Asia	1.5	1.4	-0.1
Asia (ex Japan)	0.4	0.3	0.0
Japan	1.1	1.0	-0.1
Emerging all Cap Equities	9.5	11.6	2.1
Americas	1.1	1.5	0.4
Brazil	0.6	0.9	0.2
Mexico	0.3	0.2	0.0
Other	0.2	0.4	0.2
EMEA	1.2	1.2	0.0
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.5	0.5	0.0
South Africa	0.5	0.5	0.0
Other	0.0	0.0	0.0
Asia	7.2	8.9	1.6
China	3.0	3.5	0.4
India	1.0	1.4	0.3
South Korea	1.3	1.6	0.3
Taiwan	1.1	1.3	0.2
Other Emerging Asia	0.8	1.1	0.4
Hybrid Investments	16.0	16.0	0.0
Hedge Funds	16.0	16.0	0.0
Real Assets	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.



## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 5 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities, global fixed income, cash and commodities are all at neutral position.

Within global equities, developed equities have an underweight position of -2.1% with developed small/mid cap equities contributing at -0.7% while emerging equities have an overweight position of +2.1%.

Private Equity and Real Estate are both neutral, each with 5% allocation.

## Global USD without Hedge Funds: Risk Level 1

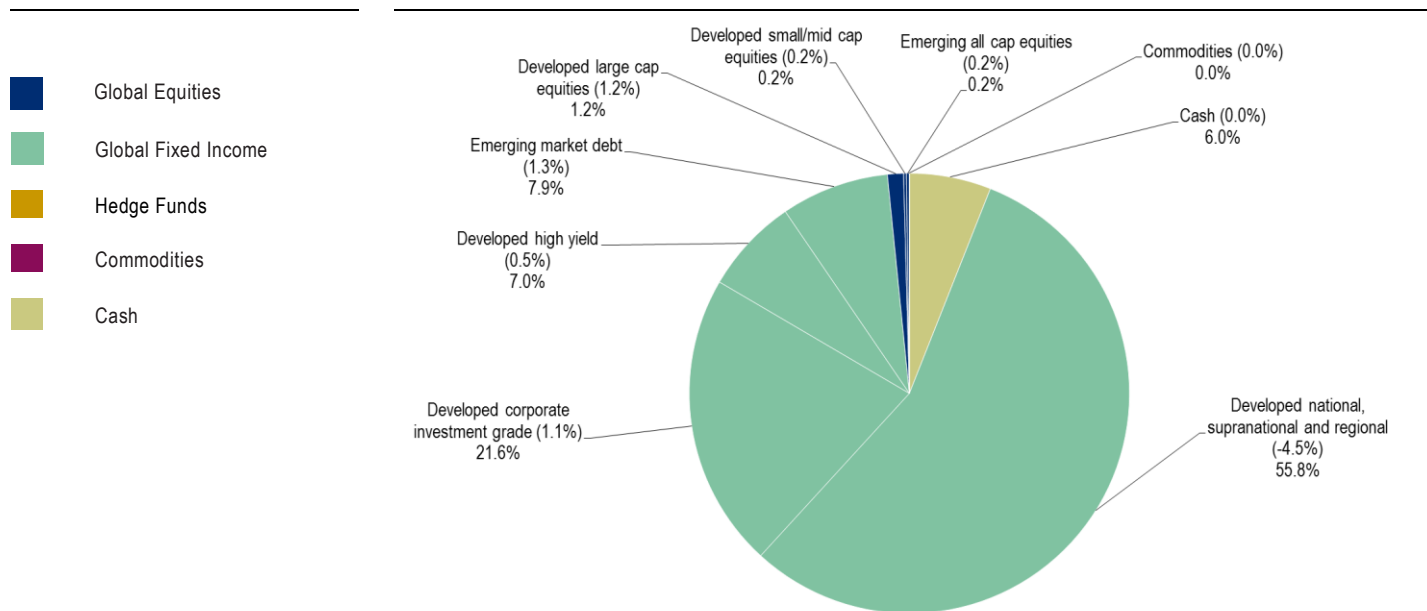
Risk Level 1 is designed for investors who have a preference for capital preservation and relative safety over the potential for a return on investment. These investors prefer to hold cash, time deposits and/or lower risk fixed income instruments.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	6.0	6.0	0.0
Fixed Income	94.0	92.4	-1.6
Developed Investment Grade	80.8	77.4	-3.4
Developed National, Supranational and Regional	60.3	55.8	-4.5
Americas	22.7	23.8	1.1
EMEA	25.3	22.4	-2.9
UK	4.5	4.1	-0.4
Core Europe	11.6	10.3	-1.3
Peripheral Europe	8.5	7.3	-1.1
Others	0.8	0.7	-0.1
Asia	12.2	9.6	-2.6
Asia (ex Japan)	0.4	0.4	0.0
Japan	11.8	9.2	-2.6
Supranational	0.0	0.0	0.0
Developed Corporate Investment Grade	20.6	21.6	1.1
Americas	13.6	15.0	1.4
US	13.0	14.4	1.4
Canada	0.6	0.7	0.0
EMEA	6.9	6.5	-0.4
Europe (ex UK)	5.6	5.4	-0.2
UK	1.3	1.1	-0.2
Asia	0.1	0.1	0.0
Asia (ex Japan)	0.1	0.1	0.0
Japan	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Developed High Yield	6.6	7.0	0.5
Americas	5.1	5.5	0.4
EMEA	1.5	1.5	0.0
Emerging Market Debt	6.6	7.9	1.3
Americas	2.2	2.7	0.5
EMEA	3.3	3.6	0.3
Asia	1.1	1.7	0.6
Equities	0.0	1.6	1.6
Developed Equities	0.0	1.4	1.4
Emerging Equities	0.0	0.2	0.2
Hybrid Investments	0.0	0.0	0.0
Hedge Funds	0.0	0.0	0.0
Real Assets	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 1 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position at +1.6% with global fixed income underweight at -1.6%. Cash and gold are both neutral.

Within fixed income, developed government debt has a large underweight position at -4.5%. Emerging market debt has the largest overweight position at +1.3% followed by developed corporate investment grade at +1.1%.

Within EM fixed income, Latin America, EMEA and Asia debts are all in overweight positions with Asia highest at +0.6% followed by Latin America at +0.5%.

## Global USD without Hedge Funds: Risk Level 2

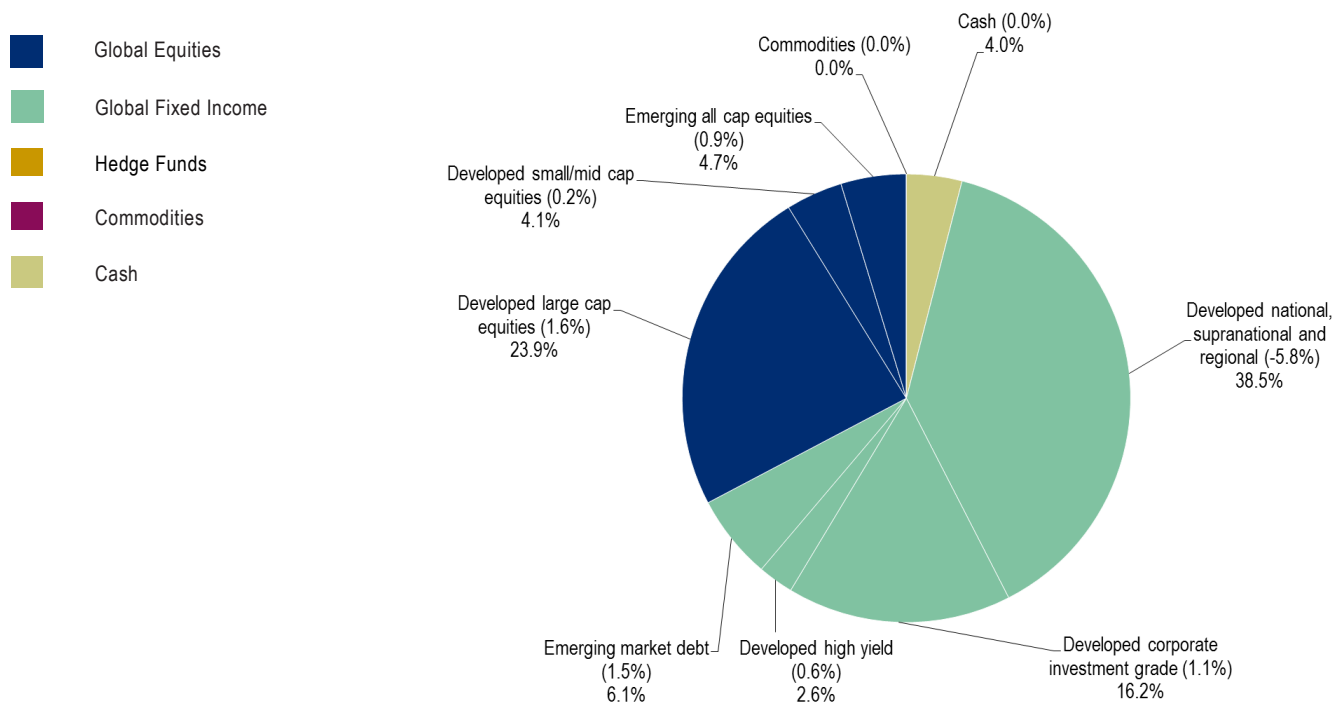
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	4.0	4.0	0.0
Fixed Income	66.0	63.3	-2.7
Developed Investment Grade	59.3	54.6	-4.7
Developed National, Supranational and Regional	44.2	38.5	-5.8
Americas	16.7	17.7	1.0
EMEA	18.6	14.9	-3.6
UK	3.3	2.8	-0.5
Core Europe	8.5	6.9	-1.6
Peripheral Europe	6.2	4.8	-1.4
Others	0.6	0.4	-0.1
Asia	9.0	5.9	-3.1
Asia (ex Japan)	0.3	0.3	0.0
Japan	8.7	5.5	-3.1
Supranational	0.0	0.0	0.0
Developed Corporate Investment Grade	15.1	16.2	1.1
Americas	10.0	11.6	1.6
US	9.5	11.1	1.6
Canada	0.5	0.5	0.0
EMEA	5.0	4.5	-0.5
Europe (ex UK)	4.1	3.8	-0.3
UK	0.9	0.7	-0.2
Asia	0.1	0.1	0.0
Developed High Yield	2.0	2.6	0.6
Americas	1.5	2.0	0.5
EMEA	0.5	0.5	0.1
Emerging Market Debt	4.6	6.1	1.5
Americas	1.6	2.1	0.5
EMEA	2.3	2.5	0.2
Asia	0.7	1.5	0.7
Hybrid Investments	0.0	0.0	0.0
Hedge Funds	0.0	0.0	0.0
Real Assets	0.0	0.0	0.0
Commodities	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	30.0	32.7	2.7
Developed Equities	26.2	28.0	1.8
Developed Large Cap Equities	22.3	23.9	1.6
Americas	14.2	14.9	0.7
US All	13.3	13.9	0.6
Canada	0.8	0.9	0.1
EMEA	5.0	5.6	0.6
UK	1.5	1.6	0.1
Germany	0.7	0.8	0.1
France	0.8	1.0	0.2
Switzerland	0.7	0.8	0.1
Benelux	0.4	0.4	0.1
Scandi	0.5	0.5	0.0
Spain	0.3	0.3	0.0
Italy	0.2	0.2	0.0
Others	0.1	0.1	0.0
Asia	3.1	3.4	0.3
Australasia	0.6	0.6	0.0
Far East ex Japan	0.4	0.5	0.1
Japan	2.1	2.2	0.2
Developed Small/Mid Cap Equities	3.9	4.1	0.2
Americas	2.2	2.2	0.1
EMEA	1.2	1.2	0.1
Europe (ex UK)	0.9	1.0	0.1
UK	0.3	0.2	-0.1
Asia	0.6	0.6	0.0
Asia (ex Japan)	0.1	0.1	0.0
Japan	0.5	0.5	0.0
Emerging All Cap Equities	3.8	4.7	0.9
Americas	0.4	0.6	0.1
Brazil	0.3	0.3	0.1
Mexico	0.1	0.1	0.0
Other	0.1	0.1	0.1
EMEA	0.5	0.5	0.1
Turkey	0.0	0.0	0.0
Russia and Eastern Europe	0.2	0.2	0.0
South Africa	0.2	0.2	0.0
Other	0.0	0.0	0.0
Asia	2.9	3.6	0.7
China	1.2	1.5	0.2
India	0.4	0.5	0.1
South Korea	0.5	0.7	0.1
Taiwan	0.4	0.5	0.1
Other Emerging Asia	0.3	0.4	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 2 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +2.7% with global fixed income underweight at -2.7%. Cash and gold are both neutral.

Within equities, developed small/mid cap equities have the lowest overweight at +0.2% while developed large cap equities have the highest overweight at +1.6%.

Within fixed income, developed government debt has a large underweight position at -5.8% and emerging market debt has the largest overweight at +1.5% followed by developed corporate investment grade at +1.1%.

Within EM fixed income, Latin America, EMEA and Asia debts are all in overweight positions with Asia highest at +0.7% followed by Latin America at +0.5%.

## Global USD without Hedge Funds: Risk Level 3

Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk Level 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance.

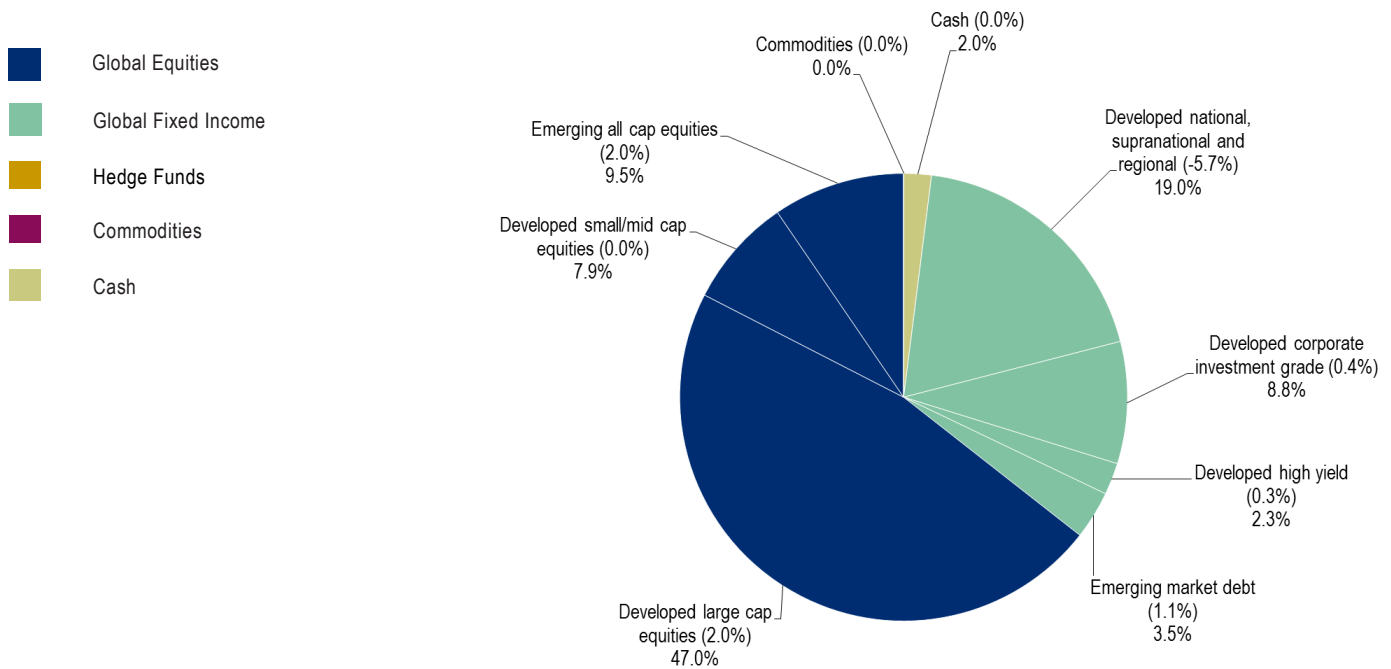
Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	2.0	2.0	0.0
Fixed Income	37.6	33.6	-4.0
Developed Investment Grade	33.2	27.8	-5.4
Developed National, Supranational and Regional	24.7	19.0	-5.7
Americas	9.3	9.5	0.2
EMEA	10.4	7.1	-3.3
UK	1.8	1.3	-0.5
Core Europe	4.7	3.3	-1.4
Peripheral Europe	3.5	2.2	-1.2
Others	0.3	0.2	-0.1
Asia	5.0	2.4	-2.6
Asia (ex Japan)	0.2	0.2	0.0
Japan	4.8	2.2	-2.6
Supranational	0.0	0.0	0.0
Developed Corporate Investment Grade	8.4	8.8	0.4
Americas	5.6	6.5	1.0
US	5.3	6.3	1.0
Canada	0.3	0.3	0.0
EMEA	2.8	2.2	-0.6
Europe (ex UK)	2.3	1.9	-0.4
UK	0.5	0.3	-0.2
Asia	0.0	0.0	0.0
Developed High Yield	2.0	2.3	0.3
Americas	1.5	1.8	0.3
EMEA	0.5	0.5	0.0
Emerging Market Debt	2.4	3.5	1.1
Americas	0.8	1.2	0.4
EMEA	1.2	1.3	0.1
Asia	0.4	1.0	0.6
Hybrid Investments	0.0	0.0	0.0
Hedge Funds	0.0	0.0	0.0
Real Assets	0.0	0.0	0.0
Commodities	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	60.4	64.4	4.0
Developed Equities	52.9	54.9	2.0
Developed Large Cap Equities	45.0	47.0	2.0
Americas	28.6	28.8	0.2
US All	26.9	26.9	0.0
Canada	1.7	1.9	0.2
EMEA	10.1	11.3	1.2
UK	3.0	3.0	0.0
Germany	1.4	1.7	0.3
France	1.6	2.0	0.3
Switzerland	1.4	1.6	0.2
Benelux	0.7	0.9	0.2
Scandi	0.9	0.9	0.0
Spain	0.5	0.6	0.1
Italy	0.4	0.4	0.1
Others	0.1	0.2	0.0
Asia	6.2	6.8	0.6
Australasia	1.2	1.3	0.1
Far East ex Japan	0.8	1.1	0.3
Japan	4.2	4.4	0.2
Developed Small/Mid Cap Equities	7.9	7.9	0.0
Americas	4.3	4.3	0.0
EMEA	2.4	2.4	0.0
Europe (ex UK)	1.8	2.0	0.2
UK	0.5	0.3	-0.2
Asia	1.2	1.2	0.0
Asia (ex Japan)	0.3	0.3	0.0
Japan	0.9	0.9	0.0
Emerging All Cap Equities	7.5	9.5	2.0
Americas	0.9	1.2	0.4
Brazil	0.5	0.7	0.2
Mexico	0.2	0.2	0.0
Other	0.2	0.3	0.2
EMEA	0.9	1.0	0.1
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.4	0.5	0.0
South Africa	0.4	0.4	0.0
Other	0.0	0.0	0.0
Asia	5.7	7.3	1.6
China	2.4	2.9	0.5
India	0.8	1.1	0.3
South Korea	1.0	1.3	0.3
Taiwan	0.8	1.0	0.2
Other Emerging Asia	0.6	0.9	0.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.



## Global USD without Hedge Funds: Risk Level 3 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +4.0% and global fixed income has an underweight of -4.0%. Cash and gold are both neutral.

Within equities, developed large cap equities have an overweight at +2.0% and emerging market equities also have an overweight of +2.0%.

Developed small/mid cap equities is neutral with overweight in continental Europe and underweight in UK.

Within fixed income, developed government debt has a large underweight position at -5.7%. Emerging market debt has the largest overweight at +1.1% followed by developed corporate investment grade at +0.4%.

Within EM fixed income, Latin America, EMEA and Asia debts are all in overweight positions with Asia highest at +0.6% followed by Latin America at +0.4%.

## Global USD without Hedge Funds: Risk Level 4

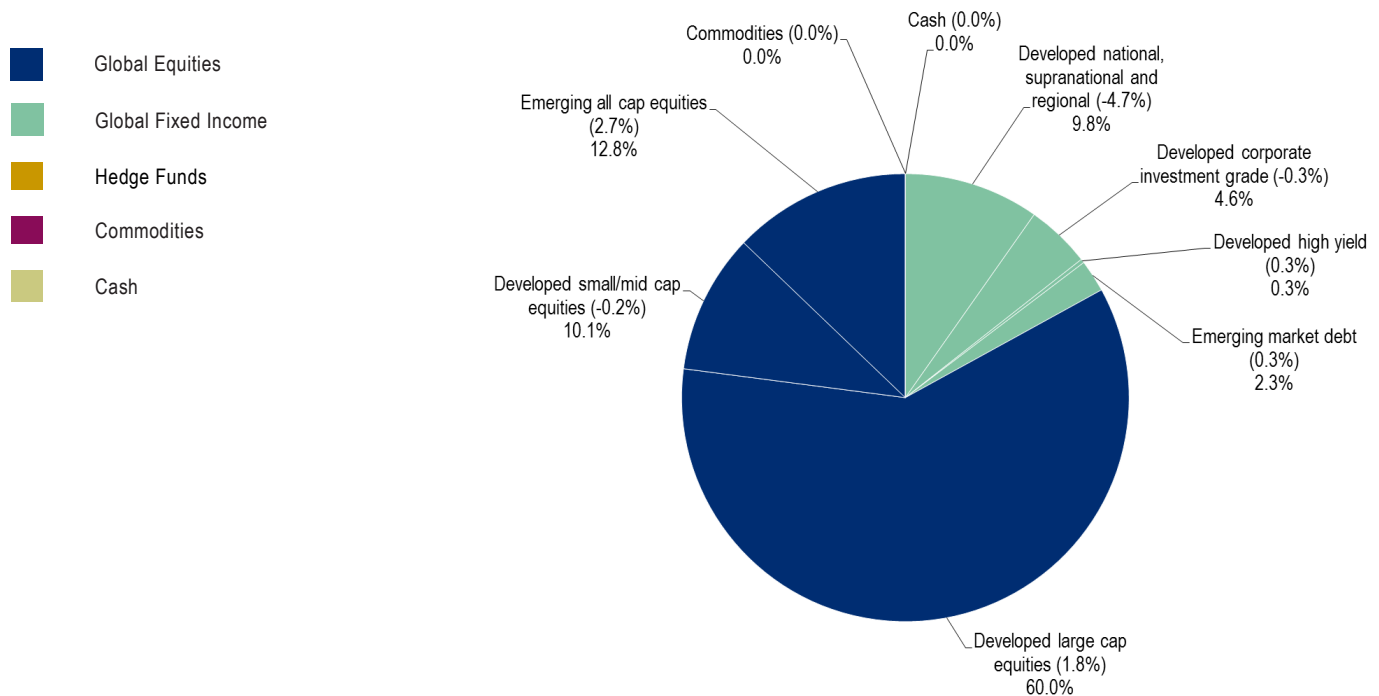
Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investment. Investors may have a preference for investments or trading strategies that may assume higher-than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	0.0	0.0	0.0
Fixed Income	21.3	17.0	-4.3
Developed Investment Grade	19.3	14.4	-4.9
Developed National, Supranational and Regional	14.4	9.8	-4.7
Americas	5.4	5.0	-0.5
EMEA	6.1	3.6	-2.5
UK	1.1	0.7	-0.4
Core Europe	2.8	1.7	-1.1
Peripheral Europe	2.0	1.1	-0.9
Others	0.2	0.1	-0.1
Asia	2.9	1.2	-1.7
Asia (ex Japan)	0.1	0.1	0.0
Japan	2.8	1.1	-1.7
Supranational	0.0	0.0	0.0
Developed Corporate Investment Grade	4.9	4.6	-0.3
Americas	3.3	3.5	0.2
US	3.1	3.3	0.2
Canada	0.2	0.1	0.0
EMEA	1.6	1.1	-0.5
Europe (ex UK)	1.3	1.0	-0.4
UK	0.3	0.2	-0.1
Asia	0.0	0.0	0.0
Developed High Yield	0.0	0.3	0.3
Americas	0.0	0.2	0.2
EMEA	0.0	0.1	0.1
Emerging Market Debt	2.0	2.3	0.3
Americas	0.7	0.8	0.1
EMEA	1.0	0.8	-0.2
Asia	0.3	0.7	0.4
Hybrid Investments	0.0	0.0	0.0
Hedge Funds	0.0	0.0	0.0
Real Assets	0.0	0.0	0.0
Commodities	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	78.7	83.0	4.3
Developed Equities	68.5	70.1	1.6
Developed Large Cap Equities	58.3	60.0	1.8
Americas	37.1	36.8	-0.3
US All	34.9	34.3	-0.6
Canada	2.2	2.4	0.2
EMEA	13.1	14.6	1.5
UK	3.9	3.9	-0.1
Germany	1.8	2.2	0.4
France	2.1	2.5	0.4
Switzerland	1.8	2.0	0.2
Benelux	1.0	1.2	0.2
Scandi	1.2	1.2	0.0
Spain	0.7	0.8	0.1
Italy	0.5	0.5	0.1
Others	0.2	0.2	0.0
Asia	8.1	8.7	0.6
Australasia	1.6	1.6	0.0
Far East ex Japan	1.1	1.5	0.4
Japan	5.4	5.6	0.2
Developed Small/Mid Cap Equities	10.3	10.1	-0.2
Americas	5.6	5.5	-0.1
EMEA	3.1	3.0	0.0
Europe (ex UK)	2.4	2.6	0.2
UK	0.7	0.4	-0.3
Asia	1.6	1.5	0.0
Asia (ex Japan)	0.4	0.4	0.0
Japan	1.2	1.2	0.0
Emerging All Cap Equities	10.1	12.8	2.7
Americas	1.2	1.6	0.5
Brazil	0.7	1.0	0.3
Mexico	0.3	0.3	0.0
Other	0.2	0.4	0.2
EMEA	1.2	1.4	0.1
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.6	0.6	0.1
South Africa	0.5	0.6	0.1
Other	0.0	0.0	0.0
Asia	7.7	9.8	2.1
China	3.2	3.9	0.6
India	1.1	1.5	0.4
South Korea	1.4	1.8	0.4
Taiwan	1.1	1.4	0.3
Other Emerging Asia	0.8	1.2	0.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 4 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

### Core Positions

Global equities have an overweight position of +4.3% and global fixed income has an underweight of -4.3%. Cash and gold are both neutral.

Within equities, emerging equities have the largest overweight position of +2.7%, followed by developed large cap equities at +1.8%. Developed small/mid cap equities have an underweight at -0.2%.

Within fixed income, developed government debt has a large underweight position at -4.7% and emerging market debt is overweight by +0.3% and developed high yield bond also overweight by +0.3%.

Within EM fixed income, Latin America and Asia debts are in overweight positions with Asia highest at +0.4%.

## Global USD without Hedge Funds: Risk Level 5

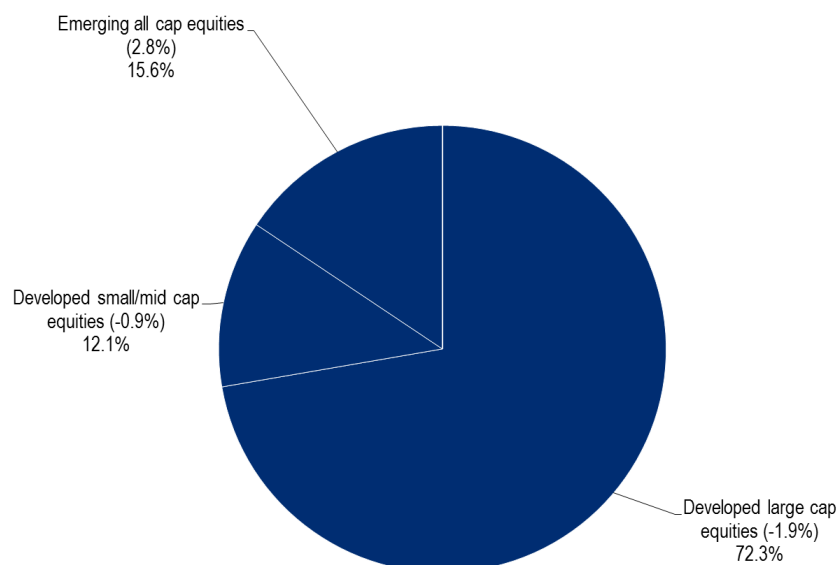
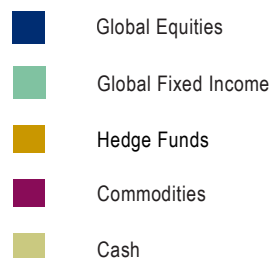
Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies that may assume higher than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains. Clients may engage in tactical or opportunistic trading, which may involve higher volatility and variability of returns.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	0.0	0.0	0.0
Fixed income	0.0	0.0	0.0
Developed Investment Grade	0.0	0.0	0.0
Developed national, supranational and regional	0.0	0.0	0.0
Developed Corporate Investment Grade	0.0	0.0	0.0
Americas	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
Europe (ex UK)	0.0	0.0	0.0
UK	0.0	0.0	0.0
Asia	0.0	0.0	0.0
Asia (ex Japan)	0.0	0.0	0.0
Japan	0.0	0.0	0.0
Developed high yield	0.0	0.0	0.0
Americas	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
Asia	0.0	0.0	0.0
Emerging market debt	0.0	0.0	0.0
Americas	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
Asia	0.0	0.0	0.0
<b>Equities</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>
Global Developed Equities	87.2	84.4	-2.8
Developed Large Cap Equities	74.1	72.3	-1.9
Americas	47.2	44.1	-3.1
US All	44.4	41.2	-3.2
Canada	2.8	2.9	0.2
EMEA	16.7	17.6	0.9
UK	5.0	4.6	-0.4
Germany	2.3	2.7	0.4
France	2.7	3.1	0.4
Switzerland	2.3	2.4	0.2
Benelux	1.2	1.4	0.2
Scandi	1.5	1.4	-0.1
Spain	0.9	1.0	0.1
Italy	0.6	0.7	0.1
Others	0.2	0.3	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Asia	10.3	10.5	0.3
Australasia	2.0	1.9	0.0
Far East ex Japan	1.4	1.8	0.4
Japan	6.9	6.8	-0.1
Developed Small/Mid Cap Equities	13.0	12.1	-0.9
Americas	7.2	6.6	-0.5
EMEA	3.9	3.6	-0.3
Europe (ex UK)	3.0	3.1	0.1
UK	0.9	0.5	-0.4
Asia	2.0	1.9	-0.1
Asia (ex Japan)	0.5	0.4	0.0
Japan	1.5	1.4	-0.1
Emerging all Cap Equities	12.8	15.6	2.8
Americas	1.5	2.0	0.5
Brazil	0.9	1.2	0.3
Mexico	0.4	0.3	0.0
Other	0.3	0.5	0.3
EMEA	1.6	1.6	0.1
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.7	0.7	0.0
South Africa	0.7	0.7	0.0
Other	0.1	0.1	0.0
Asia	9.8	12.0	2.2
China	4.1	4.7	0.6
India	1.4	1.8	0.4
South Korea	1.8	2.2	0.4
Taiwan	1.4	1.7	0.3
Other Emerging Asia	1.0	1.5	0.5
<b>Hybrid Investments</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Hedge Funds</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Real Assets</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Commodities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Gold	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 5 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities, global fixed income, cash and commodities are all at neutral position.

Within global equities, developed equities have an underweight position of -2.8% while emerging equities are at an overweight position of +2.8% primarily driven by allocations to Asia at +2.2%, Latin America at +0.5% and EMEA at +0.1%.

Neutral positions are spread among all fixed income sub-categories.

## Asset Allocation Definitions

Asset classes	Benchmarked against
Global equities	MSCI All Country World Index, which represents 48 developed and emerging equity markets. Index components are weighted by market capitalization.
Global bonds	Bloomberg Barclays Capital Multiverse (Hedged) Index, which contains the government -related portion of the Multiverse Index, and accounts for approximately 14% of the larger index.
Hedge funds	HFRX Global Hedge Fund Index, which is designed to be representative of the overall composition of the hedge fund universe. It comprises all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage and relative value arbitrage. The strategies are asset-weighted based on the distribution of assets in the hedge fund industry.
Commodities	Dow Jones-UBS Commodity Index, which is composed of futures contracts on physical commodities traded on US exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). The major commodity sectors are represented including energy, petroleum, precious metals, industrial metals, grains, livestock, softs, agriculture and ex-energy. The Thomson Reuters / Core Commodity Index is designed to provide timely and accurate representation of a long-only, broadly diversified investment in commodities through a transparent and disciplined calculation methodology.
Cash	Three-month LIBOR, which is the interest rates that banks charge each other in the international inter-bank market for three-month loans (usually denominated in Eurodollars).
<b>Equities</b>	
Developed market large cap	MSCI World Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the equity market performance of the large cap stocks in 23 developed markets. Large cap is defined as stocks representing roughly 70% of each market's capitalization.
All Country Ex US	MSCI All Country ex US, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the equity market performance of the large cap stocks in all countries excluding the US.
US	Standard & Poor's 500 Index, which is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large cap segment of the market, with over 80% coverage of US equities, it is also an ideal proxy for the total market.
Europe ex UK	MSCI Europe ex UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in each of Europe's developed markets, except for the UK
UK	MSCI UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in the UK
Japan	MSCI Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in Japan.
Asia Pacific ex Japan	MSCI Asia Pacific ex Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the performance of large cap stocks in Australia, Hong Kong, New Zealand and Singapore.
Developed market small and mid-cap (SMID)	MSCI World Small Cap Index, which is a capitalization-weighted index that measures small cap stock performance in 23 developed equity markets.
Emerging market	MSCI Emerging Markets Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure equity market performance of 22 emerging markets.
<b>Bonds</b>	
Developed sovereign	Citi World Government Bond Index (WGBI), which consists of the major global investment grade government bond markets and is composed of sovereign debt, denominated in the domestic currency. To join the WGBI, the market must satisfy size, credit and barriers-to-entry requirements. In order to ensure that the WGBI remains an investment grade benchmark, a minimum credit quality of BBB-/Baa3 by either S&P or Moody's is imposed. The index is rebalanced monthly.
Emerging sovereign	Citi Emerging Market Sovereign Bond Index (ESBI), which includes Brady bonds and US dollar -denominated emerging market sovereign debt issued in the global, Yankee and Eurodollar markets, excluding loans. It is composed of debt in Africa, Asia, Europe and Latin America. We classify an emerging market as a sovereign with a maximum foreign debt rating of BBB+/Baa1 by S&P or Moody's. Defaulted issues are excluded.
Supranationals	Citi World Broad Investment Grade Index (WBIG)—Government Related, which is a subsector of the WBIG. The index includes fixed rate investment grade agency, supranational and regional government debt, denominated in the domestic currency. The index is rebalanced monthly.
Corporate investment grade	Citi World Broad Investment Grade Index (WBIG)—Corporate, which is a subsector of the WBIG. The index includes fixed rate global investment grade corporate debt within the finance, industrial and utility sectors, denominated in the domestic currency. The index is rebalanced monthly.
Corporate high yield	Bloomberg Barclays Global High Yield Corporate Index. Provides a broad-based measure of the global high yield fixed income markets. It is also a component of the Multiverse Index and the Global Aggregate Index.
Securitized	Citi World Broad Investment Grade Index (WBIG)—Securitized, which is a subsector of the WBIG. The index includes global investment grade collateralized debt denominated in the domestic currency, including mortgage -backed securities, covered bonds (Pfandbriefe) and asset-backed securities. The index is rebalanced monthly.  Moody's Baa Corporate Bond Index is an investment bond index that tracks the performance of all bonds given an Baa rating by Moody's Investors Service.



BAML US Corporate index (Bank of America Merrill Lynch) tracks the performance of US dollar denominated investment grade rated corporate debt publically issued in the US domestic market.

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Other miscellaneous definitions

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Asset Backed Securities (ABS)	A security whose income payments and hence value are derived from and collateralized (or "backed") by a specified pool of underlying assets such as consumer credit card debt or auto loans.
Commercial Mortgage Backed Securities (CMBS)	Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security that is secured by mortgages on commercial properties, instead of residential real estate.
High Yield Corporate Bonds (HY)	High yield corporate bonds are bonds with a credit rating less than BBB- (S&P) or Baa3 (Moody's), and are debt securities issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations.
Investment Grade Corporate Bonds (IG)	Investment grade corporate bonds are bonds with a credit rating equal to or above BBB- (S&P) or Baa3 (Moody's), and are debt securities issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations.

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#### Bond rating equivalence

Alpha and/or numeric symbols used to give indications of relative credit quality. In the municipal market, these designations are published by the rating services. Internal ratings are also used by other market participants to indicate credit quality.

Bond credit quality ratings	Rating agencies		
	Moody's <sup>1</sup>	Standard and Poor's <sup>2</sup>	Fitch Ratings <sup>2</sup>
<b>Investment Grade</b>			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
<b>Not Investment Grade</b>			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

<sup>1</sup> The ratings from Aa to Ca by Moody's may be modified by the addition of a 1, 2, or 3 to show relative standing within the category.

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