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Global Strategy: Quadrant

Global Strategy: Quadrant | September 26, 2016

Is it Risk or Reality?

- Politics in the US and Europe present unusual risks for world markets. Given an enduring, if moderate global economic expansion, we have erred a bit on the cautious side this year with a neutral weighting in global equities and small overweights in cash and gold. The Citi Private Bank Global Investment Committee maintained these weightings in September, keeping highly differentiated portfolio views in particular fixed income markets and some emerging market assets.

- Given the recent lessons from Brexit, we don't see advantage in changing core portfolio weightings ahead of uncertain binary events, such as the US election. The impact on portfolios from a "reactive" approach is demonstrably very negative.

- In contrast, hedging costs can be gauged in advance. With equity implied volatility currently near historic lows and half the cost seen just within the current year, we see hedging as particularly timely and economical at the moment. Moreover, unusually high correlations across global markets make hedging simpler. Market risks "overlap."

- The recent weakness in Developed Market (DM) government bonds highlights a risk we noted just a month ago. High correlation meant equities, credit and commodities fell in tandem as German and Japanese bond yields rose. Bond markets with vastly different yields and fundamentals (e.g. Germany and Brazil) weakened together.

- As expected, however, Japanese and US monetary policymakers both took actions that suggested they largely plan to stay the course. We expect the same from the European Central Bank, where easing may expand. Japan's choice of a long-term bond yield target adds to predictability even if it doesn't provide new stimulus.

- With politics in DM economies increasingly unpredictable, following years of declines in commodities and a surging US dollar, we now slightly favor Emerging Market (EM) assets, particularly fixed income. At the margin, EM policy and political stability has risen, relatively speaking.

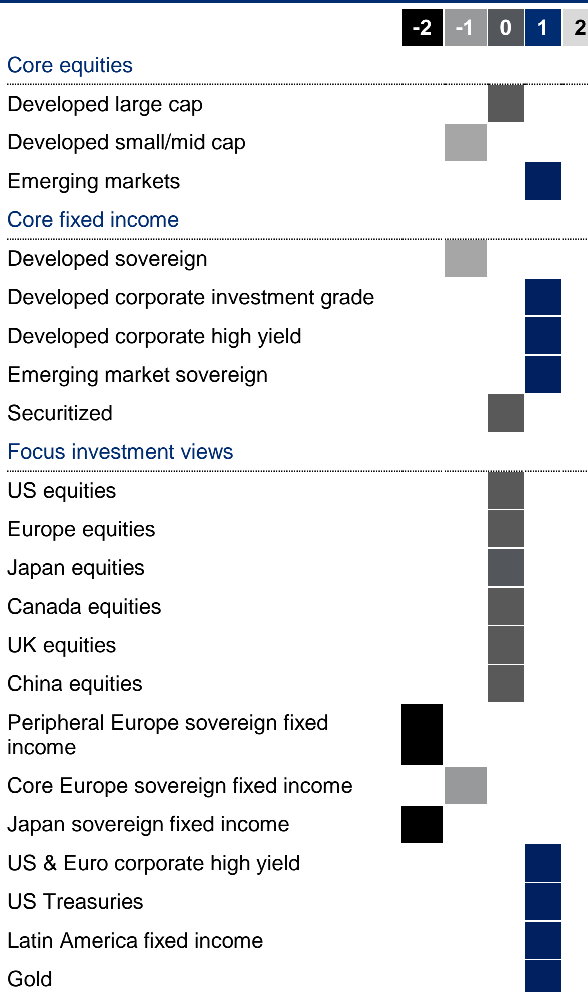
GIC September 22 – Summary

The Citi Private Bank Global Investment Committee left its asset allocation unchanged. Global equities remain neutral with fixed income underweight by 1.0%. Cash and gold are small tactical overweights. Beneath the overall fixed income allocation, we have highly distinct overweights and underweights given wide divergences in bond yields across regions and market segments. Over the past year, we have gradually shifted EM weightings above DM weightings after a long period overweight DM.

Developed market sovereign bond yields spiked up and subsequently retrenched again during the past month. With correlations across most asset markets and regions unusually high, the spike in yields drove declines in assets we favor as well as those we underweight. However, the driver of the spike in yields – concern that DM central banks would move away from easy monetary policies – appears unfounded in our view. We would expect significant relative value differentials in emerging markets bonds and some US credit assets to reassert themselves. Similarly, the relative value of equities versus DM sovereign bonds is likely to drive a recovery in performance.

Nonetheless, unusual risks abound. The US Presidential election could result in significant policy uncertainty both in anticipation of the vote and of actual policies thereafter. The transition to a new US President has historically had a costly and under-rated impact on the US and world economy. At the same time, technical aspects of both the Presidential election – such as the impact of the Electoral College – and Congressional elections suggests a higher probability of a political status quo than polls of the popular vote suggest. If election anxiety builds, it could easily give way to a relief rally if the status quo were maintained. Without substantial evidence of a disruptive regime change, and one that is not discounted in markets, we would argue that hedging tail risks will be far more beneficial to investors than liquidating core portfolios.

Asset Classes



Allocations as of September 22, 2016.
–2 = very underweight; –1 = underweight; 0 = neutral
1 = overweight; 2 = very overweight

Arrows indicate changes from previous GIC meeting.

The US is not the only source of political uncertainty. An Italian constitutional referendum looms, as do key leadership votes throughout the continent. The implementation of the United Kingdom's decision to quit the European Union creates additional uncertainty. All of the above suggest diminished policy clarity in developed markets. At the margin, EM policy and political stability has risen, at least relatively speaking.

The stabilization in the US dollar after a historic period of strengthening has also removed a headwind from many EM assets and economies. However, after the rally this year, EM performance may be subject to setbacks as just witnessed during the DM bond selloff. The recovery in petroleum and other commodities is also likely to be less swift after a substantial rebound. All told, we see somewhat slower progress in risk assets ahead, even if shocks are avoided.

Regimes they are a Changin'???

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For convenience, we'll call them "populists" – powerful voices struggling for a break with the past, seemingly at any price. They've gone mainstream globally, driven by the "vox populi," as Citi's Chief Political Analyst Tina Fordham puts it. Yet the underlying policy ideas of these "non-centrists" often run completely counter to each other.

In the US, just consider the original fiscal policy proposals of presidential candidate Donald Trump and former candidate Bernie Sanders. These are diametrically opposed to each other, yet still so contrasting with mainstream standard bearer Hillary Clinton's (see Figure 1).

In the US primary election campaigns, one party chose a "populist" to stand in the general election while the other only came close. As such, can we still expect the anger of the left and right to nullify itself, leaving a stalemate of the status quo for the time being? (Please see our special report, *Clinton versus Trump or POTUS vs Congress*).

The US election campaign has tightened with poll differences for the national popular vote now within the margin of error. The first US presidential debate will take place tonight, bringing new meaning to the term "reality TV."

As noted in our reports, markets and forecasters seem to under-rate the importance of the transition in US administration as a catalyst for change. Some recessions are inherited. Some recessions are the underlying driver of the change in government. Yet it is of great significance that recessions have been roughly three times more frequent in years that overlapped a new US President's first year in office than at other times during the past century.

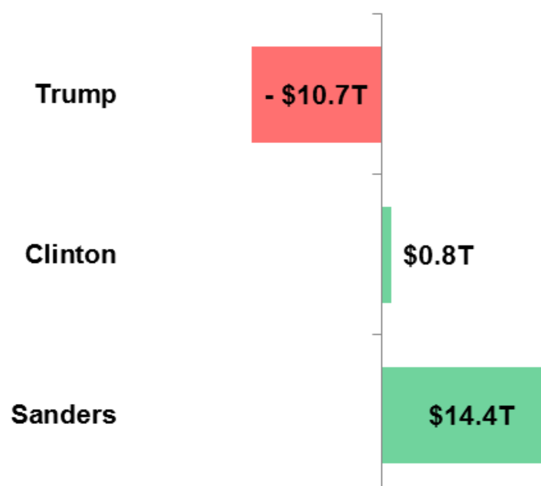
In the forty US states that have sided with the same party's candidate in each of the last four elections, there are 34% more electoral votes for a Democrat candidate versus a Republican. This remains a daunting challenge for any Republican (see Figure 2).

The US Presidential election outcome has become less certain ahead of an historic debate.

Meanwhile, Republicans in the House of Representatives enjoy a majority so large, that even a repeat of the 2008 surge in seats for Democrats would not give them control. What does this mean? Divided US government, with no major policy breakthroughs or break-ups looks most likely.

Our intention here is not to re-write the conclusions of our US election report – see Clinton vs Trump or POTUS vs Congress? Today, we want to consider what portfolio decisions we could make to account for the *still significant risk* that our base case is wrong.

Figure 1. 10-Year Revenue Impact of Tax Plans



Source: Tax-Foundation and Tax Policy Center as of August 31, 2016. Note: Figures average the Tax-Foundation and Tax Policy Center's estimates.

Figure 2. Swing State Polls and Current Electoral Votes

Current Swing State Polling			
Percentage of Individuals Favouring Clinton vs Trump		Clinton %	Trump %
Colorado	9	42.5	40.0
Florida	29	43.4	43.5
Indiana	11	36.0	45.0
Iowa	6	38.7	43.0
Nevada	6	42.0	44.0
New Hampshire	4	43.7	38.7
New Mexico	5	40.5	32.0
North Carolina	15	43.3	44.5
Ohio	18	39.8	42.3
Virginia	13	43.6	39.0
Swing States		**31**	**85**
Total National Estimate		**273**	**265**

Source: Realclearpolitics.com and Citi Private Bank as of September 23, 2016.

No Breakthroughs, No Experiments

Investment managers bear a heavy risk of underperforming on uncertain election results.

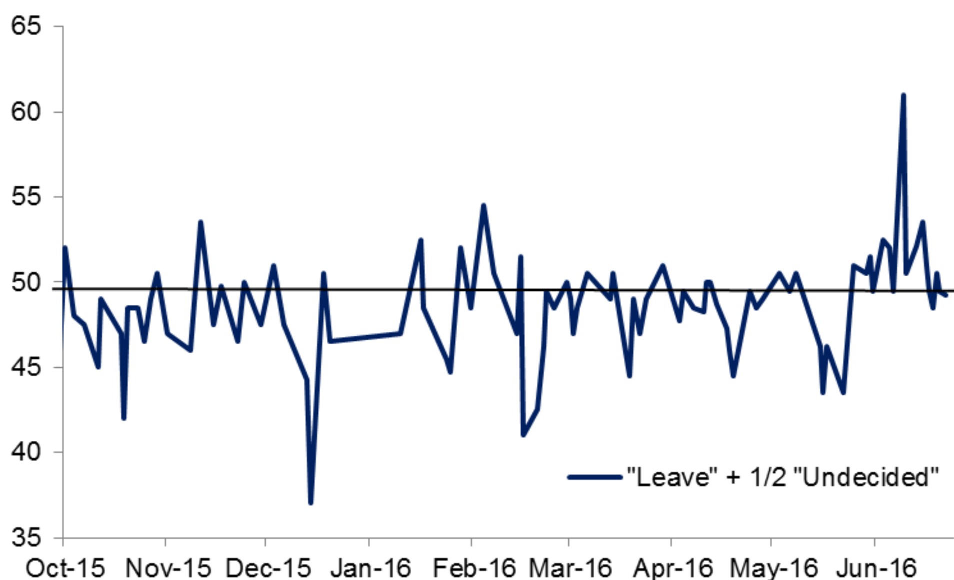
First, as we noted at the outset, the probability of the status quo continuing for US politics seems high, but uncertain. A consensus of forecasters currently puts the probability of a Clinton victory at 68%[1]. Meanwhile, our own view of the US House of Representatives – where all legislation must begin – would assign perhaps no more than a 10% chance of Democratic control. This is largely a mere acknowledgment of the polls. In the case of Brexit, the *opinion polls were always close*, yet pundits argued that the public would choose differently (see Figure 3).

Combining these two outcomes, our central case forecast is divided US government and no policy adventures. In contrast, an outcome of unified government under *either* party would likely raise policy uncertainty, induce market volatility and punish risk assets.

This raises questions about achieving returns with core portfolios.

That said, the closer polling for the two US candidates makes it likely there will be a substantial financial market reaction post-election. In short, being far off the benchmark would leave investment managers with a very high chance of underperforming unless they *position themselves against the most probable outcome* and win. We'd leave this to famous movie spies and science fiction characters.

Figure 3. Average of Brexit Polling Ahead of UK Referendum Vote: % "Leave EU"



Source: Bloomberg and Citi Private Bank as of June 22, 2016.

If polling clearly suggested a landslide sweep of government control by either US political party, and if this was somehow also *not* discounted in financial asset prices, we could take a view of markets different from the one implied by our asset allocation, held unchanged in September as detailed above. In our view, it would be a mistake to make

1 These are the average of the New York Times, FiveThirtyEight, Daily Kos, PredictWise and Princeton Election Consortium model estimates, September 2016.

significant changes to core portfolios on election speculation which at present doesn't clearly indicate a decisive outcome. In this case, the unpredictable financial market reaction after Brexit may in fact offer a lesson.

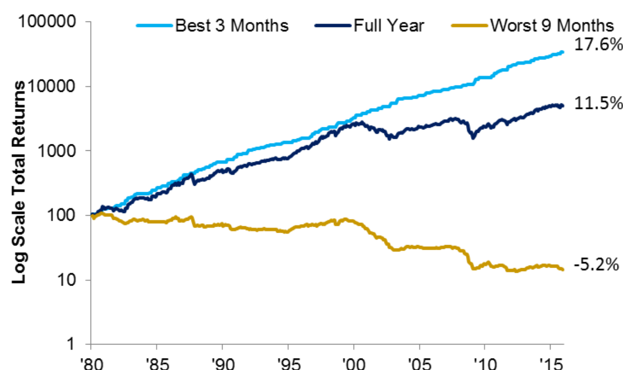
Manage Risk, Don't Disengage

Could one have predicted both Brexit and the market's reaction? Or the reaction to the Fed's latest announcement?

Last month, we highlighted some of the most extreme valuation bubbles in financial market history, all experienced in the last twenty years. Our own strategic asset allocation methodology – Adaptive Valuation Strategies (AVS) – takes into account such deviations in asset valuations in order to limit risks (please see this discussion of the Global Asset Allocation). Our own tactical overweight to global equities has been reduced from +6.8% to zero over the past two years. Yet there are substantial risks added from not maintaining core portfolio holdings through challenging periods, most acutely missing out on the recovery periods that drive the bulk of returns.

As Figure 4 illustrates, missing out on the historically three strongest performance months a year for US equities would do far more damage to returns than holding through downturns and waiting for recovery. If one only invested after these strong performance periods – waiting a month to begin investing – positive long-term equity returns nearly disappear (see Figure 5). While there are anomalies, one has to be exposed to risk to get reward.

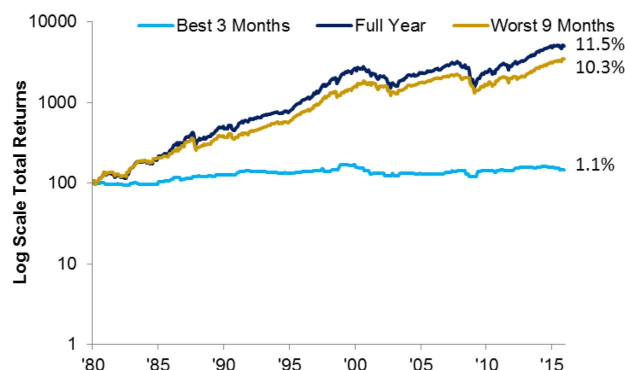
Figure 4: S&P 500 Total Returns For Best 3-Months and Worst 9-Months



Note: Percentage figures are annualized returns over the full period.

Source: Haver Analytics as of September 23, 2016. 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.

Figure 5: S&P 500 Total Returns For Best 3-Months and Worst 9-Months Lagged One Month



Note: Percentage figures are annualized returns over the full period.

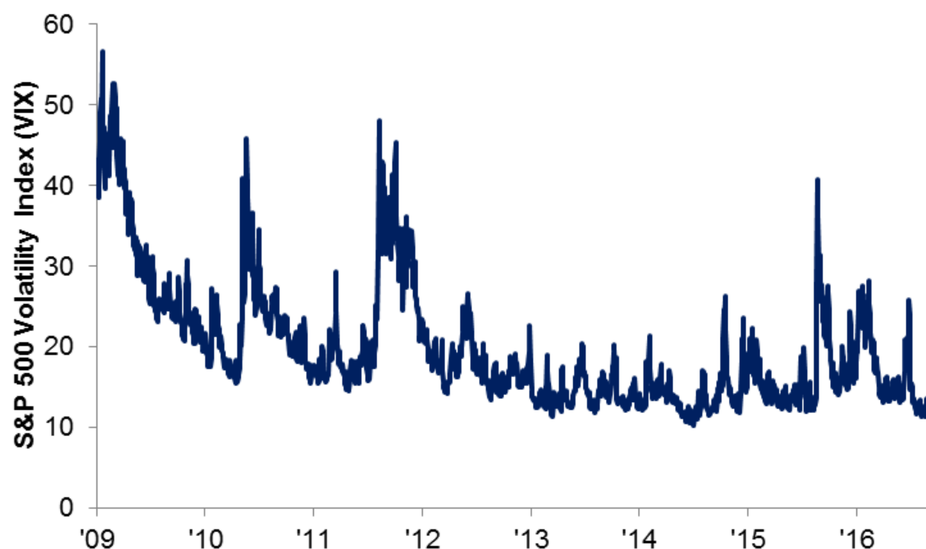
Source: Haver Analytics as of September 23, 2016. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

In the current setting, there remains a strong alternative to making dramatic changes in core portfolios which generate poor returns, greater volatility and often a higher tax liability. If one wants to limit the size of a portfolio drawdown, the capacity to do so can be purchased.

In severely weak markets, at times of crisis, it is totally uneconomic to hedge downside risk. The cost to hedge can rise to roughly the level of the feared loss, akin to $1m of insurance cover costing $1m.

Now, however, with expected volatility priced in markets at historically low levels, particularly for US equities, it costs 0.6% to offset losses larger than 10% in the S&P 500 through December, the period that extends beyond US election results and even some other known risks (see Figure 6). (Remember that an important constitutional referendum in Italy is likely to be held at the end of November).

Figure 6. S&P 500 Volatility Remains at Historic Lows



Source: Haver Analytics as of September 23, 2016.

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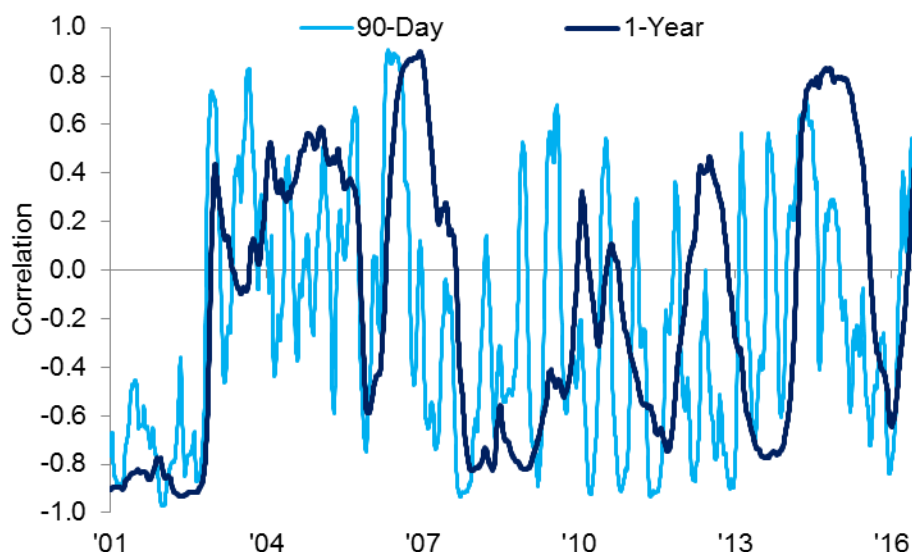
Hedging costs are both knowable and historically low.

As we noted last month, the high correlation of asset prices has weakened the power of diversification. Among our higher conviction views, if Donald Trump were in fact to unite US government under Republican control, interest-rate volatility would jump sharply. In the present setting, with bonds and equities moving together, that would have powerful impact across asset markets (see Figure 7).

Figure 7. S&P 500 and 10-Year Treasury Total Return Correlations



Source: Haver Analytics as of September 22, 2016.

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Equity implied volatility has been more than twice the present level as recently as February. It has subsided after false fears of "central bank abandonment" (see section below). As usual, volatility typically rises and fades fast. Assuming no repeat of the contested US election of 2000, the same is likely to prove true by December. Given the unusual circumstances of the US presidential election, which occurs only every four years, we would argue that volatility has a higher-than-usual chance of rising. Given high correlation, it would do so while a wide range of diversified assets weaken.

Amid highly correlated markets, risks are shared and hedges "overlap."

As discussed in our last Quadrant, an unusually high correlation between asset classes has made diversification less effective. Markets and their risks are moving in tandem. While this makes asset allocation more difficult, it makes hedging simpler, as risks overlap many markets and instruments.

And if all ends calmly, we would argue that losing a historically small insurance premium is far better than either suffering through a disaster or botching core portfolio management.

Policy Reconsidered. Really?

Common sense would dictate that negative-yield bonds and zero-yield cash shouldn't very easily co-exist. Some European corporations marketed new-issue negative-yield bonds a few weeks ago. Should consumer goods and healthcare companies provide better cash storage services than a safety deposit box, warranting paying them a fee?

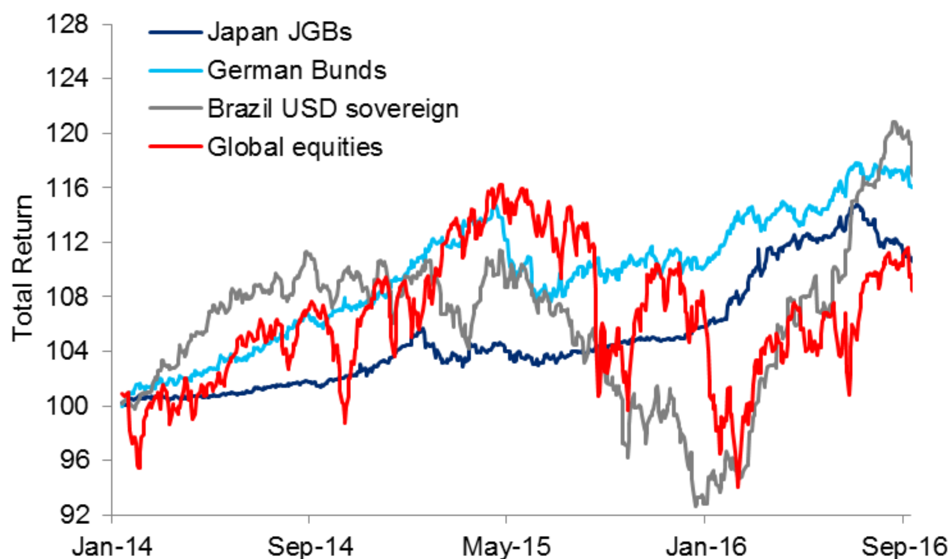
The mini "global taper tantrum" saw both high yield and low yield bonds selloff in similar magnitudes.

There was only scant warning of the bond market sell-off of recent weeks. However, as discussed in our August Quadrant, "rate risk" had been building throughout global markets of late (see Figure 8). The vulnerability of risk assets could be seen when global equities and bonds rallied together on the below-consensus US employment report for August and subsequent weaker industry data.

We are deeply underweight negative yield bonds in our asset allocation (please see our "average Risk Level 3" portfolio below). Unfortunately, the high and rising correlation of nearly all markets across the world leaves the relatively better valued assets at risk of falling in price along with those overvalued assets. Consider that German and Brazilian local long-term debt both lost about 1% of their value during the most intense daily sell-off, Brazil with a 12% nominal yield, Germany with one of -0.10%.

However, barring central banks taking a wholly new approach, we think the concern driving the sell-off is largely misplaced.

Figure 8. Total Return on Select Government Bonds and Global Equity Prices



Source: The YieldBook and FactSet as of September 22, 2016.

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Canaries in Japan

The rude awakening from the lowest-yielding core developed bond markets began in late July. At the time, the Bank of Japan (BoJ) failed to take interest rates more deeply into negative territory and BoJ Governor Kuroda appeared to dismiss recommendations for the most radical policy steps known to central banks. In practice, such might mean immediately financing government spending and simultaneously canceling the liability. This is one possible incarnation of so-called "helicopter money" famously described by US economist Milton Friedman in 1969.

Japan has yet to address fully the negative impact of sub-zero interest rates on its financial sector and the BoJ's policy actions have become increasingly unpopular with the public. A range of new policy steps in Japan might be described as tinkering with a failing policy.

However, as one transition step, the BoJ announced a zero-yield target for Japanese government 10-year bonds. *In essence, long-term Japanese rates are no longer uncertain.*

ECB Likely to Ease not Taper

With so much action to intervene in markets over the past decade, policymakers' words have power, even by their omission. Expectations for further easing action from the European Central Bank (ECB) this month were minimal. However, the rolling extension of asset purchases – now with less than seven months officially left in the program – is taken as a given with Eurozone inflation nearly as far behind target as Japan's.

At its latest press conference, the ECB noted that such asset purchases would continue until its inflation goals are met. However, President Mario Draghi noted that the ECB Governing Council asked its staff to study ways to adjust its asset purchase program given limitations built into the program. These include limits to the proportions of key assets the central bank can own and the yield levels at which they can be purchased. The impact on market liquidity and distortions to capital costs driven by widespread bond buying has been raising concerns. Yet the ECB is highly unlikely to change its tactics in our view.

Central banks plan to stay highly "activist."

In the case of the Federal Reserve, which has ostensibly come far closer to actually reaching its economic and inflation targets, a "hard stop" of asset purchases seemed a dreadful enough shock that it spent nearly a year "tapering off" the size of such purchases. The Fed deemed markets so ill-prepared for even the start of tapering that it waited six months after Fed Chairman Bernanke's first verbal warning in 2013.

Even under stronger economic conditions and higher inflation rates for the Eurozone than we now expect, we would assume a similar soft "phase out" of asset purchases as the Fed had undertaken. The reality of continued Euro growth challenges – such as those presented by an aging American economic recovery – suggests entirely new easing steps are an equally-likely prospect. European politics, in particular, suggests unique risks to ongoing recovery and stability.

What is a Central Banker to Do?

The limitations of monetary policy in addressing chronic disappointments in both supply and demand in developed market economies is an emerging concern. However, at the Federal Reserve's International Monetary Policy Symposium at Jackson Hole last month, the debate from central bankers and academics was largely over tactics, not choosing whether to retreat from the battle. While higher interest rates could be a welcome sign for the world economy, they must be driven by stronger underlying growth to be sustainable. Hearing calls for higher interest rates and a retreat from market interventions, these central bankers would likely argue that if medicine doesn't work, don't try poison instead.

Central bankers have a long list of hopes. They want easing financial conditions, rising inflation expectations and firming economies to permit them to raise interest rates back into the pre-crisis range. Short of reaching those goals, interest rates for developed market (DM) sovereigns and increasingly other borrowers, will be well short of the old norms.

Message for Investors

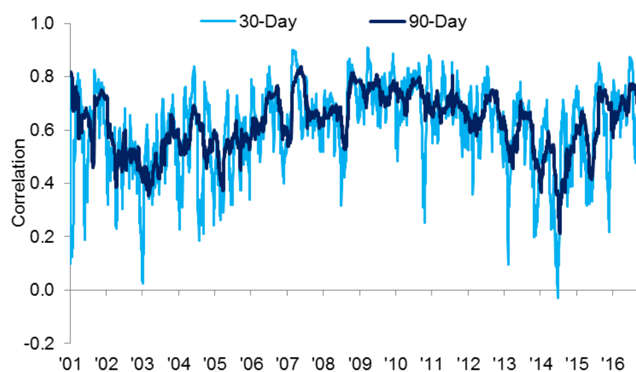
Years of strong headwinds for EM gradually diminishing.

With most global markets driven to some extent by the remarkable easing of DM central banks, "rate risk" has been building. However, wide valuation differences and fundamentals in certain emerging market (EM) and DM assets argue for different investment positions. We believe the two-year collapse in global petroleum-related investment and "overshoot" weakness in related emerging markets currencies has left these assets relatively well positioned for longer-term returns.

EM: Relatively Better, but No Silver Bullet

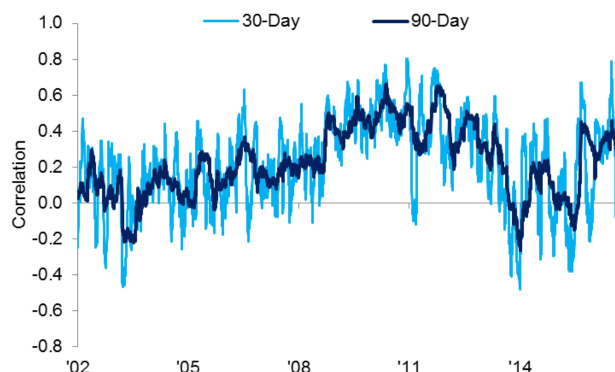
Our concern over the rising correlation between regions and asset classes does not leave out EM (see Figure 9 and 10). In fact, segments of the market most sensitive to the oil price – the EM assets we overweight – may simply be subject to downward pressure amid the typical, late year, seasonal oil price declines. These are driven by winter in the Northern Hemisphere (see Figure 11).

Figure 9: MSCI EM and DM Equity Correlation, Daily % Change



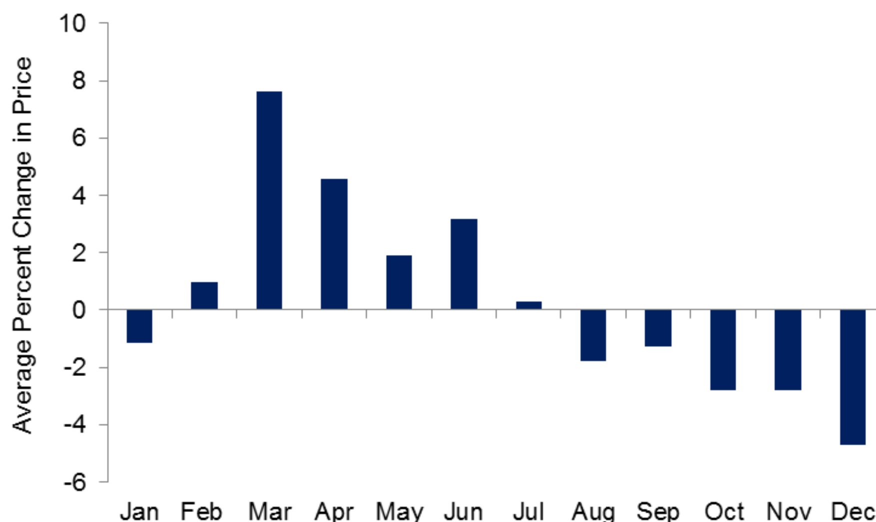
Source: FactSet as of September 23, 2016. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

Figure 10: MSCI EM Equities and WTI Crude Price Correlation, Daily % Change



Source: FactSet and Haver Analytics as of September 23, 2016. 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.

Figure 11. Average Monthly % Change in Crude Oil Price (last 10 years)



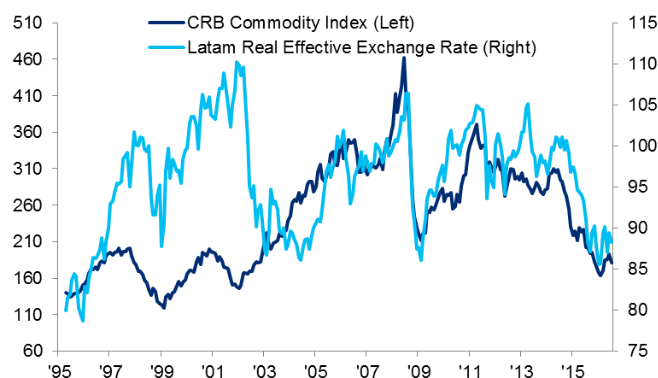
Source: Haver Analytics as of September 22, 2016.

At the same time, investors should acknowledge relief from the headwinds of the massive US dollar rally of the past four years (see Figure 12). Along with a large downward correction in commodity prices, it positioned EM assets dramatically different in value compared to developed markets (see Figure 13).

"Easy money" has been made in some EM markets this year and market progress should not come so easy going forward. However, the valuation gap between EM and DM remains wide. Considering the many risks posed by politics in many developed

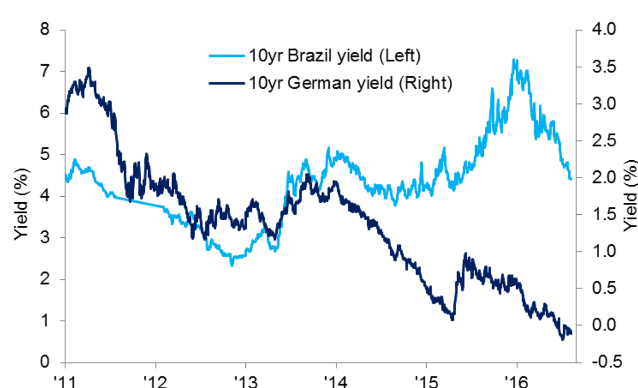
markets countries, we should also acknowledge marginal improvements in the political stability of select EMs.

Figure 12: Commodity Prices and Latin American Real Effective Exchange Rate (GDP-Weighted)



Source: Haver Analytics, Bloomberg and Citi Private Bank as of September 23, 2016.

Figure 13: Brazilian and German 10-Year Government Bond Yields (%)



Source: Haver Analytics as of September 23, 2016. 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.

Global Asset Allocation
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Portfolio allocations

This section shows the strategic and tactical allocations for risk levels 1 to 5 set by Citi Private Bank's Global Investment Committee on September 22, 2016. Recommend allocations reflect annual rebalancing and model revisions.

Risk Level 1

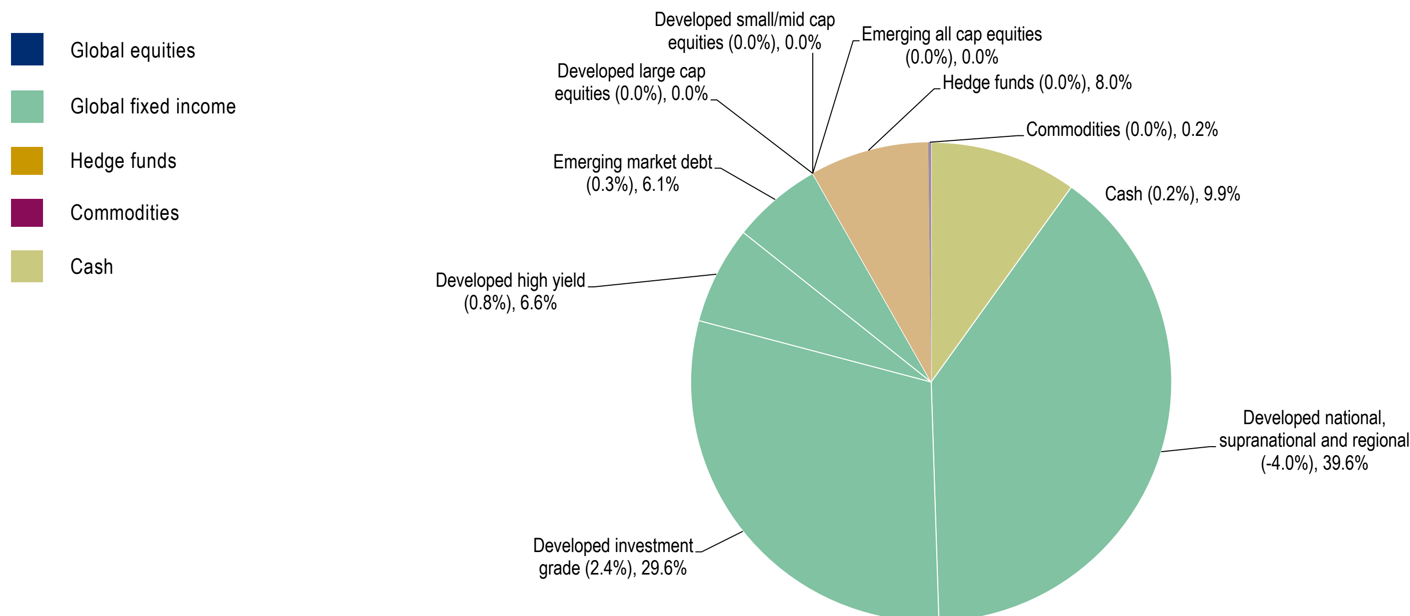
Risk Level 1 is designed for investors who have a preference for capital preservation and relative safety over the potential for a return on investment. These investors prefer to hold cash, time deposits and/or lower risk fixed income instruments.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	9.7	9.9	0.2
Fixed income	82.3	81.9	-0.4
Developed Investment Grade	70.8	69.2	-1.6
Developed national, supranational and regional	43.6	39.6	-4.0
Americas	15.0	15.9	1.0
EMEA	18.0	16.0	-2.0
UK	3.7	3.6	-0.0
Core Europe	8.0	7.1	-0.9
Peripheral Europe	5.8	4.8	-0.9
Others	0.6	0.4	-0.1
Asia	9.8	6.9	-2.9
Asia (ex Japan)	0.3	0.4	0.1
Japan	9.5	6.5	-3.1
Supranational	0.8	0.8	0.0
Developed corporate investment grade	27.2	29.6	2.4
Americas	19.4	21.7	2.3
US	18.7	20.9	2.3
Canada	0.7	0.8	0.0
EMEA	7.7	7.8	0.2
Europe (ex UK)	5.9	6.0	0.1
UK	1.8	1.8	0.0
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	5.8	6.6	0.8
Americas	4.4	4.9	0.4
EMEA	1.3	1.7	0.4
Emerging market debt	5.8	6.1	0.3
Americas	0.7	0.9	0.3
EMEA	0.7	0.6	-0.0
Asia	4.4	4.5	0.1
Equities	0.0	0.0	0.0
Developed Equities	0.0	0.0	0.0
Emerging Equities	0.0	0.0	0.0
Hybrid investments	8.0	8.0	0.0
Hedge funds	8.0	8.0	0.0
Real Assets	0.0	0.2	0.2
Commodities	0.0	0.2	0.2
Total	100.0	100.0	0.0

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

Risk Level 1: tactical allocations



Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

Core positions

- Global equities remain at neutral position and global fixed income stays at an underweight position of -0.4%. Cash is now at a decreased overweight position with gold raised to a small overweight position of 0.2%.
- Within fixed income, developed sovereign continues to be the largest underweight at -4.0%. Developed corporate investment grade fixed income remains the largest overweight at +2.4% followed by high-yield at 0.8% overweight position.
- Emerging market fixed income remains at a small overweight position of 0.3% with both Latin America and Asia debt in overweight positions.
- Within equities, both developed and emerging equities remain at neutral allocation.

Risk Level 2

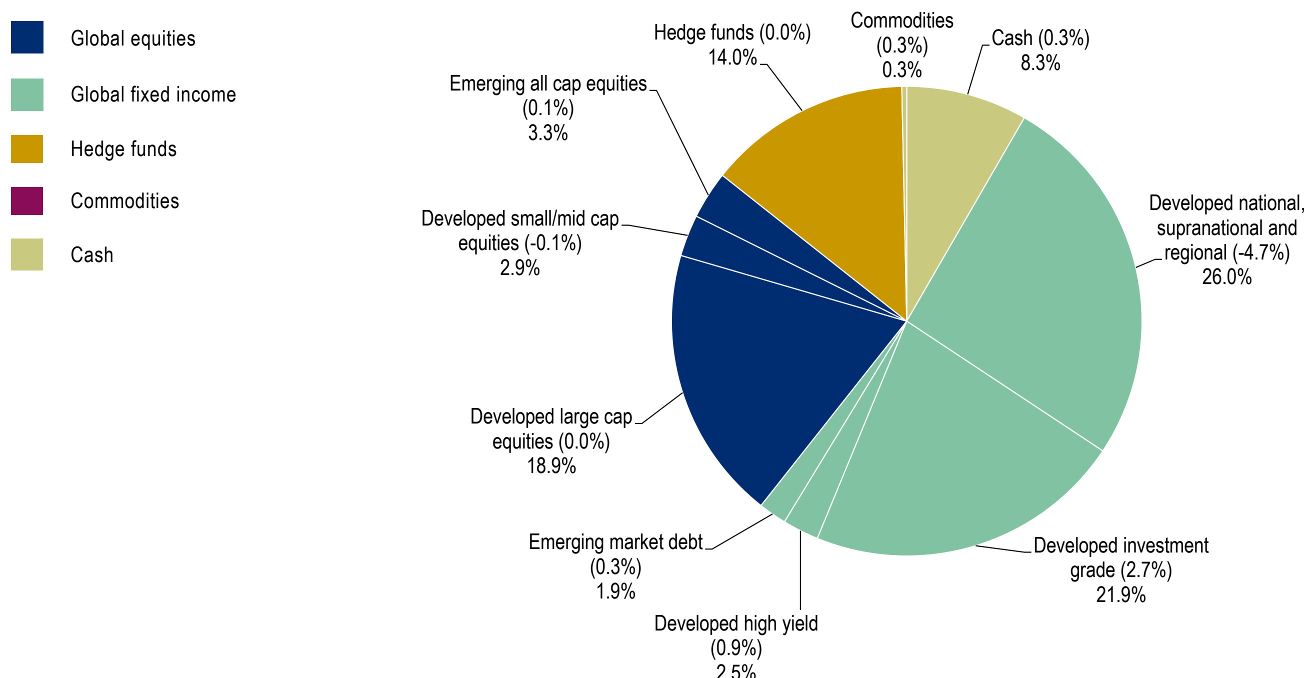
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**8.0**	**8.3**	**0.3**
Fixed income	**53.0**	**52.3**	**-0.7**
Developed Investment Grade	**49.8**	**47.9**	**-1.9**
Developed national, supranational and regional	**30.6**	**26.0**	**-4.7**
Americas	**10.5**	**11.5**	**1.0**
EMEA	**12.7**	**10.3**	**-2.4**
UK	2.6	2.5	-0.1
Core Europe	5.6	4.6	-1.1
Peripheral Europe	4.0	3.0	-1.1
Others	0.4	0.3	-0.2
Asia	**6.9**	**3.6**	**-3.3**
Asia (ex Japan)	0.2	0.3	0.1
Japan	6.7	3.3	-3.4
Supranational	**0.6**	**0.6**	**0.0**
Developed corporate investment grade	**19.1**	**21.9**	**2.7**
Americas	**13.6**	**16.3**	**2.6**
US	13.1	15.7	2.6
Canada	0.5	0.5	0.0
EMEA	**5.4**	**5.5**	**0.1**
Europe (ex UK)	4.1	4.2	0.1
UK	1.3	1.3	0.0
Asia	**0.1**	**0.1**	**0.0**
Developed high yield	**1.6**	**2.5**	**0.9**
Americas	**1.2**	**1.8**	**0.5**
EMEA	**0.4**	**0.7**	**0.4**
Emerging market debt	**1.6**	**1.9**	**0.3**
Americas	**0.2**	**0.4**	**0.2**
EMEA	**0.2**	**0.2**	**0.0**
Asia	**1.2**	**1.4**	**0.2**
Hybrid investments	**14.0**	**14.0**	**0.0**
Hedge funds	**14.0**	**14.0**	**0.0**
Real assets	**0.0**	**0.3**	**0.3**
Commodities	**0.0**	**0.3**	**0.3**

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	**25.0**	**25.0**	**0.0**
Developed Equities	**21.8**	**21.7**	**-0.1**
Developed large cap equities	**18.9**	**18.9**	**0.0**
Americas	**11.9**	**12.0**	**0.0**
US all	11.3	11.3	0.0
Canada	0.7	0.7	0.0
EMEA	**4.4**	**4.4**	**0.0**
UK	1.4	1.4	0.0
Germany	0.6	0.6	0.0
France	0.6	0.6	0.0
Switzerland	0.7	0.7	0.0
Benelux	0.3	0.3	0.0
Scandi	0.4	0.4	0.0
Spain	0.2	0.2	0.0
Italy	0.1	0.1	0.0
Others	0.1	0.1	0.0
Asia	**2.5**	**2.5**	**0.0**
Australasia	0.5	0.5	0.0
Far East ex Japan	0.3	0.3	0.0
Japan	1.7	1.7	0.0
Developed small/ mid cap equities	**2.9**	**2.9**	**-0.1**
Americas	**1.7**	**1.7**	**0.0**
EMEA	**0.8**	**0.8**	**-0.1**
Europe (ex UK)	0.6	0.6	0.0
UK	0.2	0.2	-0.1
Asia	**0.4**	**0.4**	**0.0**
Asia (ex Japan)	0.1	0.1	0.0
Japan	0.3	0.3	0.0
Emerging all cap equities	**3.2**	**3.3**	**0.1**
Americas	**0.4**	**0.5**	**0.1**
Brazil	0.2	0.2	0.0
Mexico	0.2	0.2	0.0
Other	0.1	0.1	0.1
EMEA	**0.5**	**0.5**	**0.0**
Turkey	0.1	0.1	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	**2.3**	**2.3**	**0.0**
China	0.7	0.7	0.0
India	0.4	0.4	0.0
South Korea	0.5	0.5	0.0
Taiwan	0.4	0.4	0.0
Other Emerging Asia	0.3	0.3	0.0
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

Risk Level 2: tactical allocations



Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

Core positions

- Global equities remain at neutral position with global fixed income underweight maintained at -0.7%. Cash overweight is slightly decreased to +0.3%.
- Gold is now at a small overweight position of 0.3%.
- Within fixed income, developed sovereign remains the largest underweight at -4.7% and developed corporate investment grade the largest overweight at +2.7% followed by high-yield at +0.9%.
- Emerging market fixed income remains at an overweight position of 0.3% with both Latin America and Asia at overweight positions and EMEA at neutral allocation.
- Within equities, developed equities remain at small underweight position driven by underweight in UK small and mid-cap equities.

  Emerging market equities remain at small overweight position.

Risk Level 3

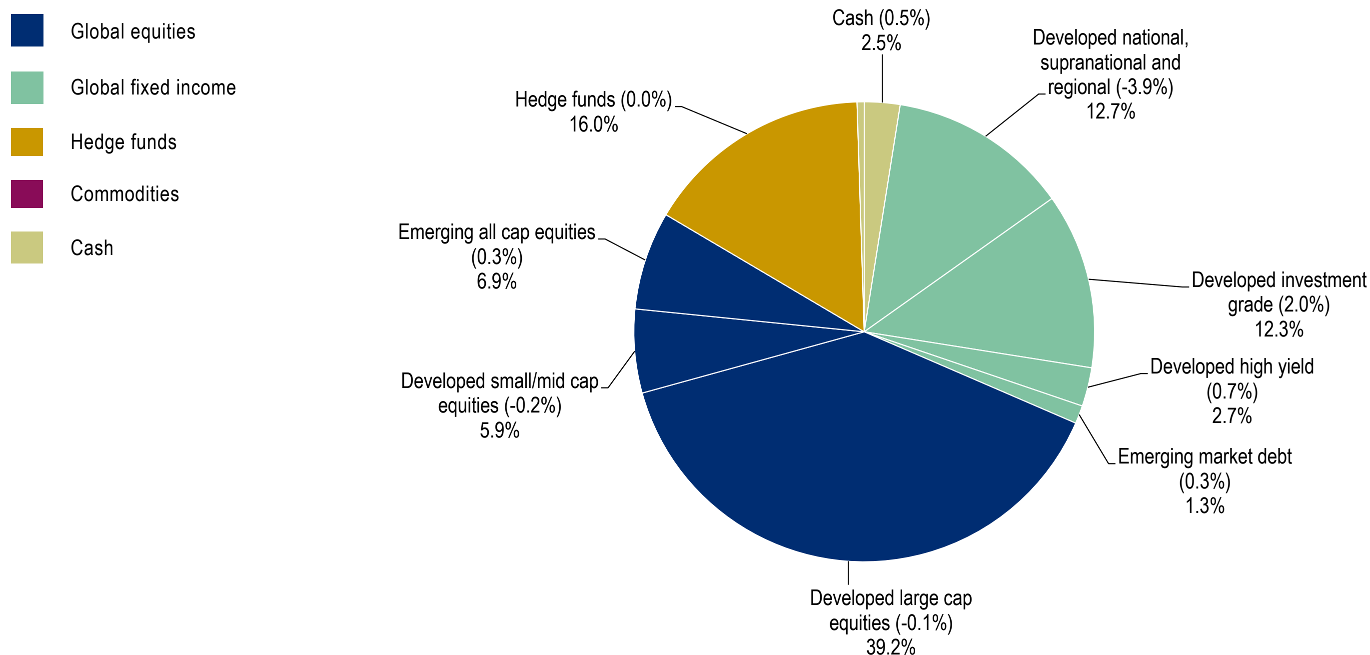
Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk level 3 may be appropriate for investors willing to subject their portfolio to 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**	**2.5**	**0.5**
Fixed income	**30.0**	**29.0**	**-1.0**
Developed Investment Grade	**27.0**	**25.0**	**-2.0**
Developed national, supranational and regional	**16.6**	**12.7**	**-3.9**
Americas	**5.7**	**6.2**	**0.5**
EMEA	**6.9**	**4.9**	**-1.9**
UK	1.4	1.3	-0.1
Core Europe	3.0	2.2	-0.9
Peripheral Europe	2.2	1.4	-0.8
Others	0.2	0.1	-0.1
Asia	**3.7**	**1.2**	**-2.5**
Asia (ex Japan)	0.1	0.2	0.1
Japan	3.6	1.0	-2.6
Supranational	**0.3**	**0.3**	**0.0**
Developed corporate investment grade	**10.4**	**12.3**	**2.0**
Americas	**7.4**	**9.4**	**2.0**
US	7.1	9.1	2.0
Canada	0.3	0.3	0.0
EMEA	**2.9**	**2.9**	**0.0**
Europe (ex UK)	2.2	2.2	0.0
UK	0.7	0.7	0.0
Asia	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**2.7**	**0.7**
Americas	**1.6**	**1.9**	**0.3**
EMEA	**0.5**	**0.9**	**0.4**
Emerging market debt	**1.0**	**1.3**	**0.3**
Americas	**0.1**	**0.3**	**0.2**
EMEA	**0.1**	**0.1**	**0.0**
Asia	**0.8**	**0.9**	**0.1**
Hybrid investments	**16.0**	**16.0**	**0.0**
Hedge funds	**16.0**	**16.0**	**0.0**
Real assets	**0.0**	**0.5**	**0.5**
Commodities	**0.0**	**0.5**	**0.5**

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	**52.0**	**52.0**	**0.0**
Developed Equities	**45.3**	**45.1**	**-0.3**
Developed large cap equities	**39.3**	**39.2**	**-0.1**
Americas	**24.8**	**24.8**	**0.0**
US all	23.5	23.5	0.0
Canada	1.4	1.4	0.0
EMEA	**9.1**	**9.1**	**0.0**
UK	3.0	3.0	0.0
Germany	1.2	1.2	0.0
France	1.3	1.3	0.0
Switzerland	1.4	1.4	0.0
Benelux	0.6	0.6	0.0
Scandi	0.8	0.8	0.0
Spain	0.4	0.4	0.0
Italy	0.3	0.3	0.0
Others	0.1	0.1	0.0
Asia	**5.3**	**5.2**	**-0.1**
Australasia	1.0	1.0	0.0
Far East ex Japan	0.7	0.7	0.0
Japan	3.6	3.6	0.0
Developed small/ mid cap equities	**6.1**	**5.9**	**-0.2**
Americas	**3.5**	**3.5**	**0.0**
EMEA	**1.7**	**1.5**	**-0.2**
Europe (ex UK)	1.3	1.3	0.0
UK	0.4	0.2	-0.2
Asia	**0.9**	**0.9**	**0.0**
Asia (ex Japan)	0.2	0.2	0.0
Japan	0.7	0.7	0.0
Emerging all cap equities	**6.7**	**6.9**	**0.3**
Americas	**0.8**	**1.1**	**0.3**
Brazil	0.4	0.4	0.0
Mexico	0.3	0.3	0.0
Other	0.1	0.4	0.3
EMEA	**1.0**	**1.0**	**0.0**
Turkey	0.1	0.1	0.0
Russia and	0.4	0.4	0.0
South Africa	0.4	0.4	0.0
Other	0.1	0.1	0.0
Asia	**4.8**	**4.8**	**0.0**
China	1.5	1.5	0.0
India	0.7	0.7	0.0
South Korea	1.0	1.0	0.0
Taiwan	0.8	0.8	0.0
Other Emerging Asia	0.7	0.7	0.0
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

Risk Level 3: tactical allocations



Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

Core positions

- Global equities remain at neutral position with global fixed income underweight maintained at -1.0%. Cash is now at a decreased overweight position with gold raised to a small overweight of 0.5%.
- Within fixed income, developed sovereign remains the largest underweight at -3.9%, with US government debt at an overweight position. Developed corporate investment grade remains the largest overweight at +2.0% followed by high-yield at +0.7%.
- Emerging market fixed income remains at a small overweight position of +0.3% with both Latin America and Asia at overweight positions and EMEA at neutral allocation.
- Within equities, developed market equities remain at small underweight position driven by underweight position in UK small and mid-cap equities.
- Emerging equities remain at small overweight due to overweight position in Latin American equities.

Risk Level 4

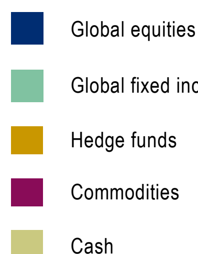
Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market 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.

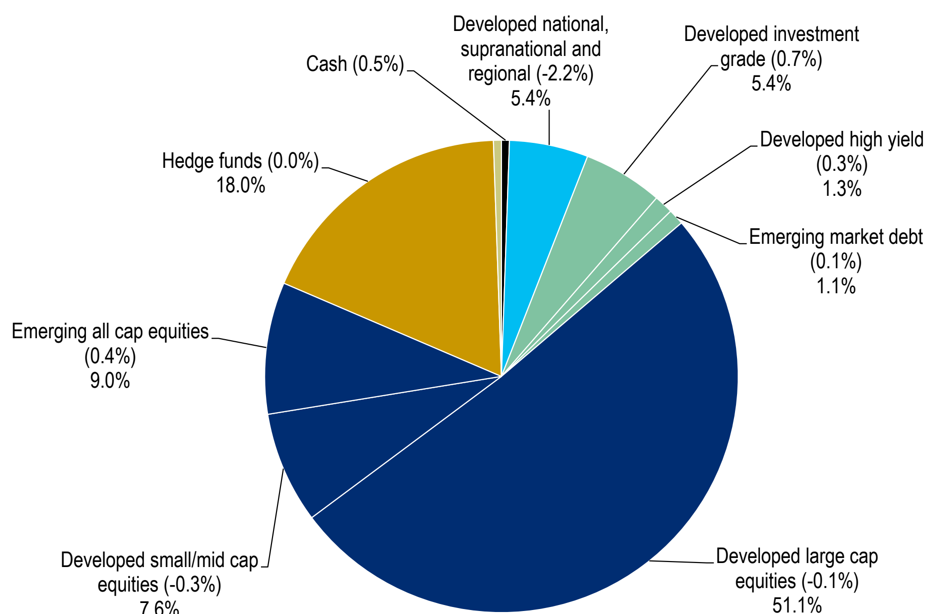
Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**0.0**	**0.5**	**0.5**
Fixed income	**14.3**	**13.2**	**-1.1**
Developed Investment Grade	**12.3**	**10.8**	**-1.5**
Developed national, supranational and regional	**7.6**	**5.4**	**-2.2**
Americas	**2.6**	**2.7**	**0.1**
EMEA	**3.1**	**2.1**	**-1.0**
UK	0.6	0.6	-0.1
Core Europe	1.4	0.9	-0.5
Peripheral	1.0	0.6	-0.4
Others	0.1	0.0	-0.1
Asia	**1.7**	**0.5**	**-1.2**
Asia (ex Japan)	0.1	0.1	0.0
Japan	1.7	0.4	-1.3
Supranational	**0.1**	**0.1**	**0.0**
Developed corporate investment grade	**4.7**	**5.4**	**0.7**
Americas	**3.4**	**4.2**	**0.8**
US	3.2	4.0	0.8
Canada	0.1	0.1	0.0
EMEA	**1.3**	**1.3**	**-0.1**
Europe (ex UK)	1.0	1.0	0.0
UK	0.3	0.3	0.0
Asia	**0.0**	**0.0**	**0.0**
Developed high yield	**1.0**	**1.3**	**0.3**
Americas	**0.8**	**0.9**	**0.1**
EMEA	**0.2**	**0.4**	**0.2**
Emerging market debt	**1.0**	**1.1**	**0.1**
Americas	**0.1**	**0.2**	**0.1**
EMEA	**0.1**	**0.1**	**0.0**
Asia	**0.8**	**0.7**	**0.0**
Hybrid investments	**18.0**	**18.0**	**0.0**
Hedge funds	**18.0**	**18.0**	**0.0**
Real assets	**0.0**	**0.5**	**0.5**
Commodities	**0.0**	**0.5**	**0.5**

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	**67.7**	**67.7**	**0.0**
Developed Equities	**59.0**	**58.7**	**-0.4**
Developed large cap equities	**51.1**	**51.1**	**-0.1**
Americas	**32.3**	**32.3**	**0.0**
US all	30.6	30.6	0.0
Canada	1.8	1.8	0.0
EMEA	**11.9**	**11.9**	**0.0**
UK	3.9	3.9	0.0
Germany	1.5	1.5	0.0
France	1.7	1.7	0.0
Switzerland	1.8	1.8	0.0
Benelux	0.8	0.8	0.0
Scandi	1.0	1.0	0.0
Spain	0.6	0.6	0.0
Italy	0.4	0.4	0.0
Others	0.2	0.2	0.0
Asia	**6.9**	**6.8**	**-0.1**
Australasia	1.3	1.3	-0.1
Far East ex Japan	0.9	0.8	0.0
Japan	4.7	4.7	0.0
Developed small/mid cap equities	**7.9**	**7.6**	**-0.3**
Americas	**4.5**	**4.5**	**0.0**
EMEA	**2.3**	**2.0**	**-0.3**
Europe (ex UK)	1.7	1.7	0.0
UK	0.6	0.3	-0.3
Asia	**1.1**	**1.1**	**0.0**
Asia (ex Japan)	0.3	0.3	0.0
Japan	0.9	0.9	0.0
Emerging all cap equities	**8.7**	**9.0**	**0.4**
Americas	**1.1**	**1.4**	**0.4**
Brazil	0.5	0.5	0.0
Mexico	0.4	0.4	0.0
Other	0.2	0.5	0.4
EMEA	**1.4**	**1.4**	**0.0**
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.6	0.6	0.0
South Africa	0.6	0.6	0.0
Other	0.1	0.1	0.0
Asia	**6.2**	**6.2**	**0.0**
China	1.9	1.9	0.0
India	1.0	1.0	0.0
South Korea	1.4	1.4	0.0
Taiwan	1.1	1.1	0.0
Other Emerging Asia	0.9	0.9	0.0
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

Risk Level 4: tactical allocations





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Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

Core positions

- Global equities remain at neutral position with global fixed income underweight maintained at -1.1%. Cash is decreased to a +0.5% position with gold raised to a small overweight position.
- Within fixed income, developed sovereign remains the largest underweight at -2.2% and developed corporate investment grade largest overweight at +0.7%.
- Both emerging debt and high yield fixed income remain at small overweight positions.
- Within equities, developed equities stay underweight by 0.4% driven by underweight position in UK small and mid-cap equities.
- Emerging equities remain at small overweight due to overweight position in Latin American equities.

Risk Level 5

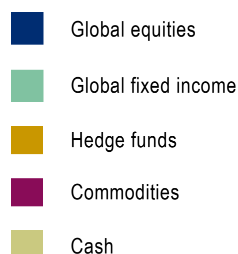
Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies 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.

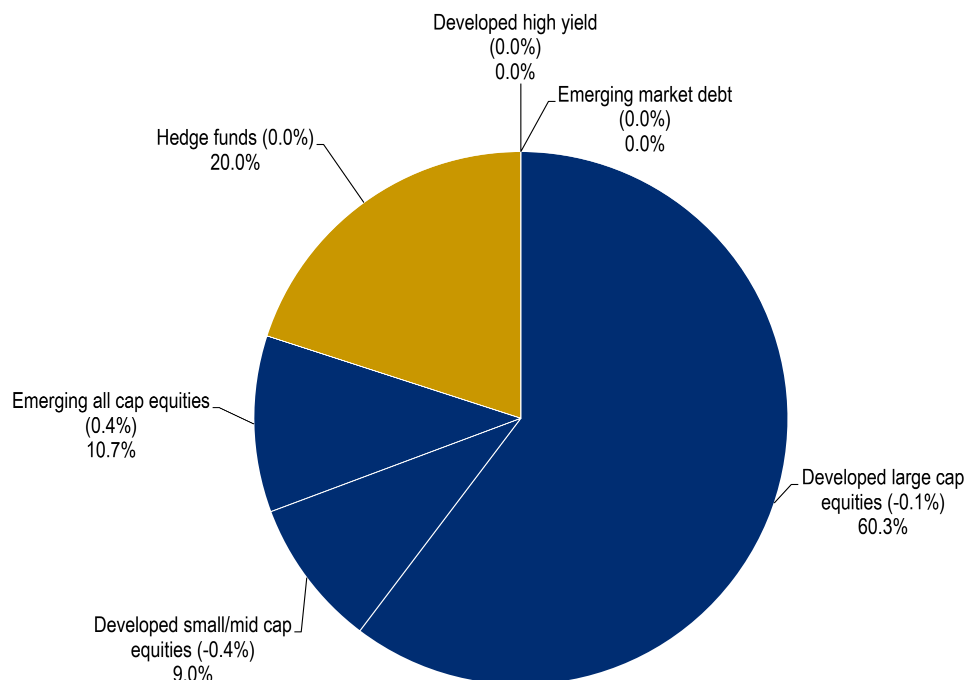
Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**0.0**	**0.0**	**0.0**
Fixed income	**0.0**	**0.0**	**0.0**
Developed Investment Grade	**0.0**	**0.0**	**0.0**
Developed national, supranational and regional	**0.0**	**0.0**	**0.0**
Developed Corporate Investment Grade	**0.0**	**0.0**	**0.0**
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	**80.0**	**80.0**	**0.0**
Global Developed Equities	**69.8**	**69.3**	**-0.4**
Developed large cap equities	**60.4**	**60.3**	**-0.1**
Americas	**38.2**	**38.2**	**0.0**
US all	36.1	36.1	0.0
Canada	2.1	2.1	0.0
EMEA	**14.1**	**14.1**	**0.0**
UK	4.6	4.6	0.0
Germany	1.8	1.8	0.0
France	2.0	2.0	0.0
Switzerland	2.2	2.2	0.0
Benelux	0.9	0.9	0.0
Scandi	1.2	1.2	0.0
Spain	0.7	0.7	0.0
Italy	0.5	0.5	0.0
Others	0.2	0.2	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Asia	**8.1**	**8.1**	**-0.1**
Australasia	1.6	1.5	-0.1
Far East ex Japan	1.0	1.0	0.0
Japan	5.6	5.6	0.0
Developed small/mid cap equities	**9.4**	**9.0**	**-0.4**
Americas	**5.3**	**5.3**	**0.0**
EMEA	**2.7**	**2.3**	**-0.4**
Europe (ex UK)	2.0	2.0	0.0
UK	0.7	0.3	-0.4
Asia	**1.4**	**1.4**	**0.0**
Asia (ex Japan)	0.3	0.3	0.0
Japan	1.0	1.0	0.0
Emerging all cap equities	**10.2**	**10.7**	**0.4**
Americas	**1.3**	**1.7**	**0.5**
Brazil	0.6	0.6	0.0
Mexico	0.5	0.5	0.0
Other	0.2	0.7	0.5
EMEA	**1.6**	**1.6**	**0.0**
Turkey	0.2	0.2	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	**7.4**	**7.4**	**0.0**
China	2.3	2.3	0.0
India	1.1	1.1	0.0
South Korea	1.6	1.6	0.0
Taiwan	1.3	1.3	0.0
Other Emerging Asia	1.0	1.0	0.0
Hybrid investments	**20.0**	**20.0**	**0.0**
Hedge funds	**20.0**	**20.0**	**0.0**
Real assets	**0.0**	**0.0**	**0.0**
Commodities	**0.0**	**0.0**	**0.0**
Gold	**0.0**	**0.0**	**0.0**
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. Minor differences may result due to rounding.

Risk Level 5: tactical allocations





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Core positions

- Developed equities remain at small underweight position and emerging equities at small overweight position of +0.4%.
- Within developed equities, both US and Japan remain at neutral position with UK small and mid-cap equities at small underweight position.
- Within emerging equities, Latin American equities remain at small overweight position with both Asia and EMEA at neutral allocation.

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	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).
Equities	
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.
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.
Bonds	
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	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.

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