

REVIEW & *Outlook*

Q1 2017
Q2 2017



*Global
Financial
Markets*



March 31, 2017

Contents

Review Q1 2017

- 1 Global Markets
- 2 North American Stock Markets
- 3 Latin American Stock Markets
- 4 European Stock Markets
- 5 Pacific Rim Stock Markets
- 6 Bermuda and Cayman Stocks
- 7 Bond Markets
- 8 Currency Markets

Outlook Q2 2017

- 9 Outlook
- 10 Economics
- 12 Bonds
- 13 Currencies
- 14 Commodities
- 15 Equities
- 16 Conclusion and Strategy Points

World Markets Quarterly Review

March 31, 2017



The S&P Global 1200 Index advanced 6.8 percent for the quarter ended March 31, 2017. All returns are expressed in US dollars.

1 DJIA	5.2%	3 BSX	3.5%	7 UK FTSE	5.3%	11 Nikkei	4.4%
1 S&P 500	6.1%	4 Bolsa	17.3%	8 CAC	7.1%	12 Hang Seng	9.9%
1 NASDAQ	10.1%	5 Bovespa	12.1%	9 DAX	8.8%	13 Straits Times	14.7%
2 TSX	3.5%	6 Merval	24.0%	10 Kospi	15.1%	14 ASX	11.1%

Source: Bloomberg

Stock, Bond, Currency Overview

Global Stock Markets

- Global equity markets advanced on the back of a strong reflationary rebound in economic growth, improving investor confidence and upgrades to earnings growth forecasts.
- The Technology sector performed the best driven by a rebound in secular growth stocks.
- European equities rose against a backdrop of broadly supportive economic and political news.
- Emerging Market equities outperformed their Developed Market counterparts.

Bond Markets

- Yields on shorter-dated US Treasuries rose as the Fed raised the benchmark rate and indicated two more hikes in 2017.
- German yields rose ahead of the ECB's reduction to the monthly bond purchase programme, less risk for deflation, and on signs of economic growth prospects.

- Canadian yields fell slightly on expectations the Bank of Canada will keep rates on hold in 2017.
- Investment grade corporate bonds outperformed US Treasuries.

Currency Markets

- The US dollar weakened against all major currencies on doubts that President Trump did not have the necessary power to push economic reforms through Congress.
- Dovish comments from Fed Chair Yellen after the Fed's rate hike also weighed on the US dollar.
- The euro appreciated versus both the US dollar and Sterling on signs of improving economic growth in the region.
- The Mexican peso appreciated against all major currencies after several top Trump administration officials stressed the importance of maintaining positive relations with Mexico.

North American Stock Markets

Indices	31 Dec 2016	31 Mar 2017	Total Returns	
			Local Curr.	US\$
US Dow Jones Industrial	19,762.60	20,663.22	5.19%	5.19%
US S&P 500	2,238.83	2,362.72	6.07%	6.07%
US NASDAQ	5,383.12	5,911.74	10.13%	10.13%
Canada TSX	15,287.59	15,547.75	2.41%	3.54%
S&P Global 1200	1,944.69	2,063.49	6.78%	6.78%

Source: Bloomberg

All major US indices reached an all-time high in the quarter.

- On January 3** Ford Motor Co. abandoned a plan to build a \$1.6 billion factory in Mexico, after saying for months protectionist politics would not have them abandon the project. The automaker will instead invest \$700 million to expand a plant in Michigan, which would add to the production of a new small electric SUV and a self-driving hybrid vehicle and create 700 jobs. Ford President and CEO Mark Fields cited a shift in buyer preferences as compact car sales have fallen and Trump's proposed pro-business US environment. Ford rose 3.8 percent on the day.
- On January 4** Macy's Inc. announced 68 store closures (out of a current total of 730 stores) as part of the approximately 100 closures anticipated back in August 2016. Macy's also stated that they intend to opportunistically close 30 more over the next few years. Of the 68 locations, three closed in 2016, 63 will be closed in early spring 2017 and two will be closed in mid-2017. Macy's also disclosed that three additional locations were sold or are to be sold. Macy's fell 13.9 percent upon the announcement.
- On January 23** Apple Inc. sued Qualcomm Inc., the world's largest chip maker, alleging it demanded unjust terms for its technology. This came on the back of a Federal Trade Commission lawsuit the week prior which detailed how Qualcomm forced Apple Inc. to use its chips exclusively in return for lowering licensing fees and unfairly cutting out competitors. Qualcomm's shares fell 13 percent on the day.
- On January 31** Under Armour Inc. tumbled the most in nine years after the company's sales forecast missed analysts' estimates by a wide margin, signaling that the sports apparel maker's days of rapid growth may be drawing to a close. Under Armour, which historically has doubled sales every three years, now expects sales in 2017 to increase twelve percent. This is the smallest annual gain since 2005. Under Armour plummeted 23.4 percent on the day of the announcement.
- On February 13** Apple Inc.'s share price closed at an all-time high of \$133.29, breaking the February 2015 record of \$133. Analysts said investor enthusiasm over the tenth anniversary iPhone, due for release this year, was the main driver of the rise that brought Apple's market value to over \$700 billion.
- On March 28** Amazon.com, Inc. agreed to buy Souq.com, the Middle East's biggest online retailer, for an undisclosed amount. The US e-commerce giant beat out Emaar Malls PJSC which had bid \$800 million for Souq. As the growth in core markets slows, Amazon is betting that e-commerce in the Middle East is poised to take off. The deal is one of Amazon's largest acquisitions in recent years and reflects a departure from Amazon's conventional style which typically builds businesses from the ground up. Amazon rose 1.1 percent on the day of the announcement.



Latin American Stock Markets

Indices	31 Dec 2016	31 Mar 2017	Total Returns	
			Local Curr.	US\$
Mexico Bolsa	45,642.90	48,541.56	6.65%	17.31%
Brazil Bovespa	60,227.29	64,984.07	7.90%	12.07%
Argentina Merval	16,917.86	20,265.32	19.79%	23.95%
Chile IPSA	4,151.39	4,783.42	15.22%	16.94%
S&P Global 1200	1,944.69	2,063.49	6.78%	6.78%

Source: Bloomberg

- **On January 25** Cemex SAB, the largest cement maker in the Americas, was boosted by President Donald Trump's plans to build a Mexican border wall as well as spend as much as \$1 trillion as part of his infrastructure plan. The company has operations on both sides of the border, with the US being its biggest market, and a windfall from the wall could help complete Cemex's comeback from near-bankruptcy after the recession. Cemex's share price rose 2.6 percent on the day.

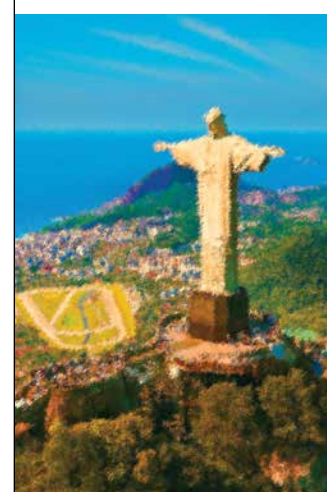
- **On February 8** Jose Cuervo, the Mexican based purveyor of tequila and other spirits raised more than \$900 million in the company's Initial Public Offering (IPO). Shares of the world's biggest tequila maker sold for 34 pesos, priced at the top of the expected range and the IPO was eight times oversubscribed. The company controls 30 percent of the global tequila market. Jose Cuervo makes most of its sales outside Mexico, including in the large US market, and as such is threatened by the possibility of higher tariffs on goods coming into the US. The stock was up four percent on the first trading day.

- **On February 9** BHP Billiton Ltd. suffered a huge blow to their production as the world's largest copper mine halted production amid a labour dispute. More than 2,500 union workers at Billiton's Escondida mine in Chile downed tools over the terms of a new three-year contract. The union demanded a seven percent wage increase and a 25 million peso "end of conflict bonus".

BHP proposed a forty-eight month contract, an eight million peso "end of conflict bonus", and no wage increase. The strike combined with export issues at the world's second largest copper mine in Indonesia pushed copper prices to near two year highs.

- **On March 17** shares of Brazilian meat companies tumbled after police alleged that politicians and public health officials received bribes to turn a blind eye to exports of contaminated meat. Shares of JBS S.A. and BRF S.A., two companies that are among the world's biggest producers of processed meat and poultry, plummeted 10.6 and 7.25 percent, respectively. The following day, those companies and others in the industry fell further as China, which accounted for nearly one third of the Brazilian meat industry's \$13.9 billion in exports in 2016, suspended imports of all meat products from Brazil. The European Union added to the burden for the Brazilian companies as it curtailed meat imports from four Brazilian meat processing facilities.

▲ *Latin American markets rallied on improving economic growth prospects and higher commodity prices.*



European Stock Markets

Indices	31 Dec 2016	31 Mar 2017	Total Returns	
			Local Curr.	US\$
UK FTSE	7,142.83	7,322.92	3.67%	5.33%
Germany DAX	11,481.06	12,312.87	7.25%	8.77%
France CAC 40	4,862.31	5,122.51	5.58%	7.08%
Spain IBEX 35	9,352.10	10,462.90	12.54%	14.14%
S&P Global 1200	1,944.69	2,063.49	6.78%	6.78%
S&P Europe 350	1,468.69	1,546.55	6.20%	7.71%

Source: Bloomberg

European markets rose supported by improving economic data and less political risk.

- **On January 11** the UK's FTSE 100 Index closed at a new record after nine consecutive trading days of all-time highs since UK markets reopened after Christmas. Coming on the heels of its best annual performance relative to the Stoxx Europe 600 Index in three decades, the FTSE 100 climbed as a further depreciation of Sterling boosted exporters and drove commodity producers higher.
- **On January 24** British telecoms giant BT Group plc warned that the cost of an accounting scandal at its Italian business and broad weakness in the global market would impact operations. In October BT said that it was investigating the practices of the Italian division, BT Italia, and had taken a charge of £145 million. On January 24 BT tripled those charges to £530 million following a more in-depth, independent review of the situation. BT also warned that the outlook for both its international business and deals with the British public sector had deteriorated. BT plummeted 21 percent on the day.
- **On March 5** Deutsche Bank AG's management approved plans that included raising \$8.5 billion in an equity sale. The measures, which amount to an abandonment of CEO John Cryan's own turnaround plan, also meant that Germany's largest lender will put its investment banking and trading units back together. Deutsche Bank's shares fell 7.5 percent upon the announcement.
- **On March 6** Groupe PSA (the maker of Peugeot and Citroen cars) agreed to buy General Motors Company's (GM) Opel and Vauxhaul brands in a deal valued at €2.2 billion. Opel recently recorded its 16th consecutive full-year loss, but PSA's CEO Carlos Tavares said GM's European arm could be turned around using lessons from the French group's own recovery. He also vowed to return Opel and its British Vauxhaul brand to profit targeting an operating margin of two percent within three years and six percent by 2026, underpinned by €1.7 billion in joint cost savings. By acquiring Opel, PSA leapfrogged French rival Renault to become Europe's second-ranked carmaker by sales with a 16 percent market share compared to Volkswagen AG's 24 percent. PSA's shares jumped as much as 5.2 percent on the day.
- **On March 13** Intel Corporation announced the company has agreed to pay \$15.3 billion for Mobileye N.V., an Israeli company developing technology for self-driving cars. The price, which was 30 times Mobileye's projected revenue this year, confirms Intel's intent to build a strong position in the autonomous-vehicle market. Currently, Mobileye's computer vision systems underpin the advanced driver assists present in many new vehicles across a wide range of brands. Once the deal is finalized, Intel's Automated Driving Group will be integrated into Mobileye and run from Israel. Intel fell 0.7 percent while Mobileye rose 13.3 percent on the day.



Pacific Rim Stock Markets

Indices	31 Dec 2016	31 Mar 2017	Total Returns	
			Local Curr.	US\$
Japan Nikkei	19,114.37	18,909.26	-0.38%	4.39%
Hong Kong Hang Seng	22,000.56	24,111.59	10.14%	9.89%
Hang Seng Red Chip	3,587.99	3,938.32	9.76%	9.52%
Korea Kospi	2,026.46	2,160.23	6.60%	15.09%
Singapore STI	2,880.76	3,175.11	10.71%	14.69%
Taiwan TWSE	9,253.50	9,811.52	6.03%	13.15%
Australia ASX 200	5,665.80	5,864.91	4.82%	11.05%
S&P Global 1200	1,944.69	2,063.49	6.78%	6.78%
FTSE Pacific ex-Japan	426.74	477.24	12.61%	12.61%

Source: Bloomberg

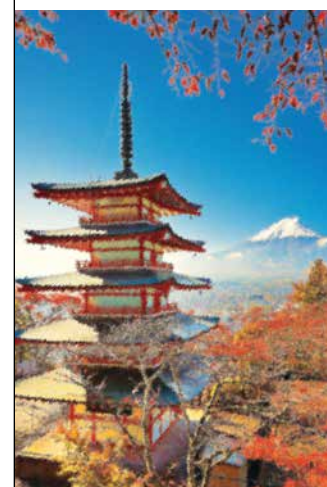
- **On January 17** Australian Bega Cheese Ltd. announced buying a suite of brands including the iconic yeast spread Vegemite, Zoosh salad dressings, and beef drink Bonox from Mondelez International Inc. The AU\$460 million deal will transform dairy producer Bega into a consumer-goods company. Bega said volatile commodity prices had made it difficult to make money manufacturing simple food ingredients, such as skimmed milk powder, and that the newly acquired assets are expected to generate annual revenue of about AU\$310 million. Bega's shares jumped 15.2 percent on the day.

- **On January 23** shares of China Galaxy Securities Co., Jilin JLU Communication Co., Ltd., and Guangdong Xiongsu Technology Co., Ltd. soared and were suspended from trading on the Shanghai Stock Exchange after they hit the daily limit of 44 percent above their Initial Public Offering (IPO) prices. Investors had requested to buy far more stock than quantities available in the offerings – with Galaxy Securities reporting an oversubscription rate of 481 times, JLU reported 2,683 times, and Xiongsu 2,356 times. Investors in Shanghai and Shenzhen have a history of chasing IPOs for speculative gains. In 2015, the China Securities Regulatory Commission suspended IPOs for four months in order to stabilise the market.

- **On February 15** SoftBank Group Corp. confirmed buying Fortress Investment Group, LLC for \$3.3 billion. The deal will push the Japanese telecom and internet company into hedge funds and alternative investments. SoftBank's shares rose 1.5 percent while those of US based Fortress jumped 28.6 percent on the day of the announcement.

- **On March 15** Toshiba Corp. delayed its earnings announcement for the second time after previously having gained approval to postpone the release of Third Quarter 2016 earnings until April 11. The company said it is re-evaluating Westinghouse Electric's position within the group and may deconsolidate the US nuclear unit by selling a controlling equity stake. Westinghouse has been at the center of Toshiba's most recent problems amid cost overruns on nuclear projects and related litigation. Toshiba's share price fell as much as 8.1 percent on the day. On March 29 Westinghouse filed for Chapter 11 bankruptcy resulting in an expected net loss of more than \$9 billion for Toshiba for fiscal 2016. This would give Toshiba the biggest net loss in its 140-year history and the company is now expected to end fiscal 2016 with negative net worth.

▲ *Asian Emerging Markets rebounded strongly in the quarter.*



Bermuda & Cayman Stocks

Indices	31 Dec 2016	31 Mar 2017	Total Returns	
			Local Curr.	US\$
BSX Index	1,923.79	1,939.78	3.51%	3.51%
BSX Insurance Index	1,770.73	1,852.95	4.64%	4.64%
S&P Global 1200	1,944.69	2,063.49	6.78%	6.78%
Stocks				
Ascendant Group Ltd.	6.75	7.50	12.28%	12.28%
Butterfield Bank	31.30	31.50	1.60%	1.60%
Caribbean Utilities	12.75	13.49	7.20%	7.20%
Consolidated Water Co.	10.85	11.65	8.08%	8.08%
XL Group PLC	37.26	39.86	7.57%	7.57%

Source: Bloomberg

Local shares posted positive returns in the First Quarter.

- On January 26** Consolidated Water Co. Ltd. (CWCO) fell 5.2 percent on the back of analyst reports highlighting that CWCO's business model makes the company's profitability reliant on uncertain government contracts at the same time as competition is increasing. CWCO operates desalination plants and the only access the company has to salt water is via government contracts, licenses and agreements in countries where the plants operate. Meanwhile, other water utility companies utilize methods such as reservoirs, wells, and the treatment of groundwater. For CWCO the 100 percent reliance on desalination plants has become a major problem in renegotiating existing government contracts in Tortola, the Cayman Islands and Bahamas.
- On February 14** Bank of N.T. Butterfield & Son Limited announced net income of \$115.9 million for the year ending December 31, 2016, representing a 50 percent increase over the previous year. Butterfield also announced a common dividend payout of \$0.32 – an increase of 220 percent of the prior year's payout. The earnings report highlighted the full integration of the HSBC wealth management business in Bermuda and the successful IPO in September 2016. Further, Butterfield conducted a secondary public offering with all of the shares in the offering sold by certain existing

shareholders. Shares of the Bank are up 40 percent since its initial IPO.

- On March 7** One Communication Limited announced their share buyback plan programme which One's CEO Frank Amaral said would enhance shareholder value further. The Bermuda company recently rebranded from Keytech Ltd. and announced infrastructure investments to the tune of \$20 million to support new FibreWire broadband investment.
- On March 14** Ascendant Group Limited announced ten job cuts with the bulk coming from management and supervisory at Belco, air conditioning firm Air Care, and at Ascendant. Sean Durfy, President and CEO of Ascendant, said the changes to the organizational structure were necessary and would increase synergies as well as improve efficiencies across the group of companies. Further, Durfy said that amid the introduction of new regulatory fees and the cost to maintain ageing infrastructure, the companies need to operate more efficiently to deliver the service Bermudians expect and deserve.



Global Bond Markets

Indices	(Yield to Maturity)		Total Returns	
	31 Dec 2016	31 Mar 2017	Local Curr.	US\$
US 2 Year	1.19%	1.26%	0.24%	0.24%
US 10 Year	2.44%	2.39%	0.79%	0.79%
US 30 Year	3.07%	3.01%	1.30%	1.30%
Canadian 10 year	1.72%	1.63%	1.24%	2.17%
Australian 10 year	2.77%	2.70%	1.20%	7.11%
UK Gilt 10 Year	1.24%	1.14%	2.01%	3.74%
German Bund 10 Year	0.20%	0.33%	-0.29%	0.99%
Japanese 10 Year	0.04%	0.07%	-0.12%	4.87%
Citigroup				
3-7 Year Treasury Index	1,412.00	1,420.90	0.63%	0.63%
7-10 year Treasury Index	1,784.60	1,801.11	0.93%	0.93%
1-10 Year US Corp. Bond Index	1,730.86	1,746.69	0.91%	0.91%
World Gov't 7-10 Yr Bond Index	1,155.81	1,174.42	1.61%	1.61%

Source: Bloomberg

- **On January 11** Brazil's central bank unexpectedly slashed the benchmark interest rate by 75 basis points to 13.0 percent in an attempt to revive the country's fragile but stabilizing economy. The cut was the deepest yet of the current easing cycle which began in October 2015. While inflation has slowed to the lowest level in over two and a half years, high debt levels and waning confidence among both businesses and consumers still hinder growth.
- **On January 31** bond issuers, including AT&T Inc., Seagate Technology Plc and Bank of New York Mellon Corp., brought total bond sales for the month to over \$184 billion – a new record. Investors had expected a busy month as January is historically a heavy period for issuance, but surprise issuance from Microsoft Corporation, coupled with larger-than-expected offerings from banks that were meeting regulatory capital requirements, sent volumes soaring. Some issuers also raised debt before the inauguration of President Donald Trump on the potential for rising interest rates.
- **On February 16** the ECB signalled it will relax rules on the sovereign bonds it buys to help maintain the bank's accommodative policy stance. The central bank said "limited and temporary deviations" over how it decides which bonds to buy were "possible and

inevitable". Prices rallied in particular on Italian and Spanish sovereign bonds after the announcement.

- **On March 9** Lipper Fund Data showed investors were spurning US-based high-yield junk bond funds amid net withdrawals of \$2.1 billion during the week ended March 8, the most since November 2016. The flight from lower-grade corporate debt followed strong performance in the asset class which could be challenged by the Fed raising interest rates and a sharp oil sell-off as energy producers are heavily represented in junk bond indexes. In the week, crude prices fell by over nine percent as record US inventories fuelled doubts about the effectiveness of the OPEC deal to curb a global glut.
- **On March 15** the Federal Reserve raised the benchmark lending rate by 25 basis points and signaled more vigilance as inflation approaches the central bank's target of 2.0 percent. Investors had fully expected the increase to range between 0.75 percent and 1.0 percent following strengthening economic reports and unusually clear signals from Fed Governors earlier in March.

▲ *Shorter-dated Treasury yields rose as the Fed raised rates and indicated further hikes.*



World Currency Markets

Value of Currency

US\$1 = value in local currency

Currency	31 Dec 2016	31 Mar 2017	Change
Australian Dollar	1.3873	1.3108	5.8%
Brazilian Real	3.2552	3.1220	4.1%
British Pound	0.8104	0.7968	1.7%
Canadian Dollar	1.3441	1.3318	0.9%
Euro	0.9509	0.9388	1.3%
Japanese Yen	116.9600	111.3900	5.0%
Swiss Franc	1.0190	1.0026	1.6%

Source: Bloomberg

The US dollar weakened against all majors amid dovish comments from Fed Chair Yellen and as President Trump failed to push economic reforms through Congress.

- **On January 17** Sterling appreciated 3.1 percent against the US dollar and 2.0 percent versus the euro following Prime Minister Theresa May's hardball speech outlining the terms she will pursue in Britain's exit from the EU. She said Britain will leave the common market, stop sending cash to Brussels (some non EU members still pay the equivalent of the EU membership fee to gain common-market access) and tighten borders. May said she will fight for tariff-free European trade and a common financial regulatory framework which would allow London-based banks to continue to do business in Europe. On March 14 May received the parliamentary approval the courts ruled was necessary to formally trigger Article 50. Still, it was not clear what UK she will lead out of the EU as Scotland began legal proceedings to hold another referendum on independence whilst Northern Ireland might be allowed to combine with the Republic of Ireland.
- **On March 6** the Mexican peso strengthened against the US dollar to the highest level in nearly four months as the central bank auctioned new currency hedge instruments that expanded the bank's tool kit of measures it can use to support the peso. Banco de Mexico's move, combined with dovish comments from several top Trump administration officials stressing the importance of maintaining positive relations

with the US's southern neighbour, resulted in the peso appreciating 10.7 percent against the US dollar in the quarter.

- **The US dollar** depreciated against most major currencies in the quarter as Fed Chair Yellen's press conference after the Fed rate hike on March 15 dampened market expectations for a more aggressive Fed. This supported risk appetite in particular for Emerging Market assets. Uncertainties surrounding details of the new US administration's fiscal and trade policies further weighed on the dollar in the quarter.
- **The euro outperformed** both the US dollar and Sterling after the ECB left the policy rate unchanged and reiterated monthly asset purchases will be scaled back to €60 billion from April, as expected, but importantly added that downside risks to growth have become "less pronounced". Stronger than expected business survey indicators further boosted the euro.



Outlook

FOR THE SECOND QUARTER 2017

Global economic growth will pick up modestly to an annualized rate of 3.2 percent for 2017.

- Ongoing and projected fiscal initiatives in the US and China are expected to push global growth higher.
- In the US, policy choices including the composition of the Trump administration's fiscal spending, taxation, regulation and trade, will impact growth outcomes.
- Growth is rising modestly in the eurozone and there are encouraging signs of business investment picking up.
- Economic growth in Japan remains sluggish as domestic demand is subdued.

Yields in most major economies will rise gradually as economic growth improves and some monetary stimulus is pulled back.

- As core inflation rates in advanced economies come in below the respective central banks' targets, monetary policy can stay accommodative or only slowly normalize.
- We expect two more rate hikes from the Fed in 2017 given improving growth and a strengthening labour market.
- The ECB should keep the benchmark rate unchanged until inflation rises and is sustained.

Dovish comments from the Fed combined with the Trump administration's struggles to get fiscal policy through Congress is weighing on the US dollar.

- Political risk aside, the euro could appreciate against the US dollar if the economic outlook in Europe improves.

- Sterling will be volatile as the EU negotiations get underway.
- The Canadian dollar is likely to trade in a tight range with the US dollar near term as oil prices stabilize.

Commodity prices will trend higher as global growth and industrial activity climbs higher in 2017.

- Expansionary US fiscal policy and upcoming less restrictive pollution standards are supporting crude oil prices.
- US growth optimism, stable China demand, and an improving industrial profile in Europe are supporting base metal prices.
- We expect gold prices to be range bound but may fall should the Fed indicate more aggressive rate hikes.

We are optimistic on the outlook for global equities amid an improving cyclical backdrop, reacceleration in corporate earnings, and gradual rate hikes from the Fed.

- Threats to global trade from protectionist policies and a potential US border tax are key risks to our outlook.
- We are overweight Japanese equities as Japanese company earnings are more sensitive to an uptick in global growth than other developed markets.
- We are gradually becoming more positive on Emerging Markets and favour Hong Kong, Taiwan and India.

Information has been obtained from sources believed to be reliable, but its accuracy and completeness, and the opinions based thereon, are not guaranteed and no responsibility is assumed for errors and omissions.

Certain statements contained within are forward looking statements including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives. Undue reliance should not be placed on such statements because by their nature, they are subject to known and unknown risks and uncertainties.

ECONOMICS

“The pace of global growth is the key driver of U.S. exports, so 2017 should see a significant rebound.”

**Pantheon
Macroeconomics,**
March 27, 2017

The World

Ongoing and projected fiscal initiatives in the US and China, coupled with an easier stance in the eurozone and initiatives in other economies such as Canada, are expected to push global economic growth higher. Business and consumer confidence has improved in both advanced as well as in some emerging economies since the turn of the year; but consumption, investment, and trade are far from strong and economic growth remains below its pre-crisis pace. Headline inflation has climbed in most countries as a result of higher energy prices following the OPEC agreement in November 2016 to cut production. However, underlying inflation is soft and despite more people entering the workforce and unemployment rates falling in major economies, wages are not rising substantially. The policy divergence of major central banks is increasing and heightens the risk of currency volatility. Risks to Emerging Market economies are high including elevated corporate debt and rising non-performing loans. We agree with Bloomberg consensus estimates that global GDP growth will pick up modestly to an annualized rate of 3.2 percent in 2017 and 3.4 percent in 2018 from 3.1 percent in 2016.

Uncertainty in many countries about future policy actions and the direction of politics is high. Many countries have new governments, face elections this year, or rely on coalition or minority governments. Rising inequality and growing concern about the fairness of society may undermine trust and confidence in governments. Political tensions could lead to less predictable outcomes, including progress on implementing necessary policy reforms required to achieve strong and inclusive growth.

North America

Domestic demand is set to strengthen in the US over the next two years boosted by

fiscal spending, rising employment, gains in household wealth, and a gradual upturn in energy production. GDP growth is forecast to be at an annualized rate of 2.2 percent in 2017 before picking-up to 2.3 percent in 2018. Policy choices, including the composition of fiscal spending, taxation, regulation and trade, are likely to have a significant impact on growth outcomes. President Donald Trump’s approval rating, as measured by the RealClearPolitics poll average, has as of this writing slipped back to its post-inauguration low. Should the trend persist, this could embolden Democrats and some members of his own party to resist new legislation. Tax reform has taken a back seat to repealing and replacing Obamacare. The Trump administration’s plans for substantial infrastructure spending may not occur until after tax reform has been completed. This means deferring stimulative changes into 2018 and possibly beyond.

Growth in Canada is expected to increase to an annualized rate of 2.1 percent in 2017, supported by fiscal initiatives, export-market growth, and as the slowdown in energy-sector investment bottoms out. The biggest risk to our outlook is weak overall business investment, which contracted by more than 15 percent in Fourth Quarter 2016, and by almost eight percent for 2016 as a whole.

Europe

The eurozone is looking at modest economic growth of 1.6 percent in 2017 on the back of highly accommodative monetary policy before slowing to 1.5 percent in 2018, as per Bloomberg consensus estimates. Business investment is showing encouraging signs of strengthening although more fiscal initiatives are required for the region. Although euro area-wide unemployment is falling steadily, the rate remains above nine percent and particularly worrying for current demand and



future potential growth is youth unemployment which stands at 20 percent.

UK growth is expected to ease to 1.7 percent in 2017 and 1.3 percent in 2018 as rising inflation weighs on real incomes and consumption and business investment weakens amidst uncertainty about future trading relations after Brexit.

Pacific Basin/Asia

Economic growth in Japan remains sluggish at an annualized rate of 1.1 percent in 2017 on the back of highly accommodative fiscal policy and a global rebound before declining to 1.0 percent in 2018 on weaker public spending. The large fiscal package passed in October 2016 will be spent largely in 2017-18 and extra support is possible as domestic spending is subdued.

In China, growth is expected to trend lower to 6.5 percent in 2017 from 6.7 percent in 2016 as the economy transitions towards services, domestic consumption, while working off excess housing supply and ensuring credit developments are sustainable. Demand is being supported by expansionary fiscal policy which is boosting private investment and trade.

Recent demonetization of large bank notes caused temporary disruption to India's economy which is now expected to slow to an annualized rate of 6.8 percent in 2017 before picking up to 7.4 percent in 2018. A new, more streamlined goods and service tax is expected in 2017 and should improve the ease of doing business. Ongoing efforts to bring the sizable cash economy into the open will broaden the tax base, help alleviate perennial fiscal deficits, and allow for much needed infrastructure spending.

Latin America

Growth in South America disappointed in 2016 but prospects are gradually improving

on the back of rising commodity prices. For 2017 annualized economic growth is estimated at 2.0 percent, up from -1.5 percent in 2016.

In Brazil, the ongoing Odebrecht scandal has hit sentiment but leading economic indicators suggest that the economy is stabilizing due to falling inflation, a stable currency, and the strength of the export sector.

In Chile, the government has imposed an austere budget for 2017 after the nation's budget deficit rose to a six-year high in 2016. Lower copper prices have weighed on Chile's economy in recent years but prices have risen and should boost revenues. On the other hand, the recently ended 43 day strike at the Escondida mine will result in a temporary drag on growth.

Meanwhile, the fiscal picture in Argentina has improved. President Macri's market-friendly policies – which will continue to attract foreign investment – combined with falling inflation and interest rates will help boost sentiment and activity. Potential US protectionism could hit Argentina's agricultural exports and poses a risk to the downside.

We expect only subdued growth in Mexico in 2017 amid tighter monetary conditions, declining mining activity and announced fiscal spending cuts.

“This is a historic moment from which there can be no turning back. Britain is leaving the EU.”

Theresa May,
Prime Minister of
the United Kingdom,
March 29, 2017



BONDS

"US government bond yields should stabilize as markets await further action from the Trump administration."

UBS House View,
March 2017

Yields in most major advanced economies are likely to rise gradually as global economic growth improves and some monetary stimulus is pulled back. Holding back a sharper increase in yields is persistent low inflation in the developed world. Granted, headline inflation rates have climbed, but that is due to higher oil prices year-over-year which can be transitory. As core inflation rates in advanced economies come in below their respective central banks' targets, monetary policy can stay accommodative or, as in the case in the US, gradually start to normalize to support the global economic recovery.

We agree with consensus estimates of a gradual rise in Treasury yields and two further interest rate hikes from the Fed in 2017 given improving economic growth, a strengthening labour market, and an inflation rate closer to the Fed's two percent target (which is not a ceiling). Under Fed Chair Yellen the Fed is likely to err on the side of caution and be more accommodative than restrictive. If need be, the Fed can always raise rates quickly and aggressively. We expect the yield curve to flatten as the economy grows and as the Fed responds by gradually raising short term rates while long-term yields move sideways amid soft inflation. Financial markets are pricing in some form of fiscal stimulus, perhaps tax cuts and/or increased spending and perhaps a reduction in regulations from the new Trump administration. Those developments could be important to overall economic growth and the future path of Fed policy and, by extension, pose a big risk to our outlook.

Improving economic growth, declining unemployment, reduced deflation fears, and increasing discussions from the ECB to end the central bank's current easing measures should push yields in the eurozone higher. The ECB's quantitative easing (QE) programme has been

extended until the end of 2017, but as of April, the central bank's monthly bond purchases will be cut to €60 billion from €80 billion. This reduced uptake by the ECB from the market could put further upward pressure on yields in the region as bond demand weakens. Some market pundits also speculate that the ECB could withdraw monetary support and raise the benchmark rate before the QE programme ends. In our view this is unlikely to happen as the ECB more likely wishes to see stronger growth and most importantly higher inflation before raising the benchmark rate.

Potential uncertainties surrounding Brexit and most likely a willingness from the Bank of England governors to disregard temporary spikes in inflation mean that the benchmark rate will stay at 0.25 percent until the UK's departure from the EU. Nevertheless, global factors are likely to pull yields gradually higher over the course of the year.

We expect only a gradual economic recovery in Canada and agree with consensus that the Bank of Canada will keep the benchmark rate unchanged this year. Yields, however, are likely to trail higher in line with those in other Developed Markets.

Credit spreads should remain stable over the balance of this year amid gradually improving economic growth, a pragmatic approach toward interest rate normalization by the Fed, and a reacceleration in corporate profits.



CURRENCIES

We believe the bulk of the US dollar rally that followed Trump's win in the Presidential election is over. Dovish comments from the Fed after the March rate hike combined with a failure for the Trump administration to pass amendments to the Affordable Care Act through Congress are weighing on the US dollar. Until Congress passes tax and/or significant infrastructure bills the US dollar is likely to remain depressed. The proposal to force repatriation of corporate profits held overseas is unlikely to lead to significant US dollar inflows as estimates show most of the overseas cash is already held in US dollars. Should substantial bills be passed and the Fed become a little more hawkish, the US dollar is likely to flip around and strengthen against most majors.

In the absence of more aggressive Fed interest rate increases (we expect another two 25 basis point hikes this year) or a rise in European political risk, we believe there is room for the euro to appreciate against the US dollar near term. Recent comments from ECB members paint a rosier picture of the region's economic outlook, unemployment is declining, and business survey indicators are improving. For significant euro strength we need stronger signs of economic recovery in the region, a rise in core inflation, and a narrowing in interest rate spreads relative to US Treasuries. In the unlikely case of France voting for a populist President in May, the euro may depreciate sharply and could even break parity with the US dollar.

So far the UK economy has proven fairly resilient following the Brexit vote and we believe Sterling has room to appreciate versus the US dollar – in particular if the Trump administration's fiscal stimulus plans are scaled back or deferred and tax reforms softened to pass Congress. Still, Sterling is bound to remain vulnerable and subject to periods of high volatility as the EU negotiations get underway.

Despite global equity markets rallying in the first quarter, the Japanese yen appreciated against the US dollar following the Fed's 'dovish' interest rate hike in March which resulted in lower Treasury yields. We believe the yen could strengthen towards 108 as the Fed seems comfortable with gradual rate hikes and the Trump administration struggles to get fiscal policy through Congress. Should one or two bills be passed quickly, we expect the yen to weaken, in particular as Bank of Japan Governor Kuroda on March 24, 2017 said there is "no reason" to raise the bank's target yields now with inflation so far from the two percent target – offering his strongest denial to date of the chance of withdrawing the Bank of Japan's massive stimulus anytime soon.

The Canadian dollar is likely to trade in a tight range with the US dollar near term as oil prices stabilize. As the status quo (Bank of Canada holding the benchmark rate unchanged; Fed on a path to higher rates) is already priced into the market, there should be no further loonie depreciation. On the flipside, a more conciliatory tone from the Trump administration towards the US' trading relationship with Canada, following Trump's "wonderful" meeting with Prime Minister Trudeau, has reduced political and economic uncertainty.

The Australian dollar is well supported by rising base metal prices and stable growth in China. The Reserve Bank of Australia has become more optimistic on the prospects for the economy but is likely to keep rates unchanged well into the latter part of 2017 as spare capacity remains in the labour market, wage growth is slow, and inflation is below target. This will put a dampener on further Australian dollar strength near term.

"Jawboning will certainly have intraday impacts, since the Trump administration has a preference for a weaker U.S. dollar."

Mark McCormick,
Head of Foreign
Exchange Strategy,
Toronto-Dominion
Bank,
March 30, 2017



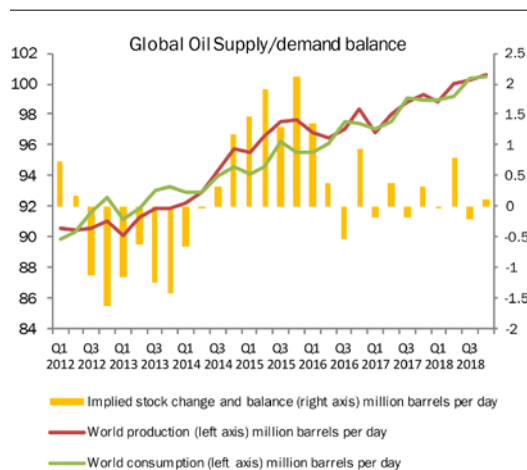
COMMODITIES

“With domestic processing sharply up and exports also booming, the stock build up suggests the U.S. market remains awash with crude.”

Javier Blas,
Chief Energy
Correspondent,
Bloomberg LP,
March 29, 2017

Although inventory overhangs remain large, we believe headwinds should start to ease and prices will continue their modest uptrend as global growth and industrial activity climbs higher this year.

Our view is for crude oil to trend modestly higher in 2017.



Source: EIA estimates

After unusual stability in recent months, investors once again seem to be reacting to fears of “too much” oil in the market, triggered this time by an unexpectedly large build up in US inventories coupled with comments from Saudi Arabia’s oil minister that OPEC may not extend its current production cut deal. Moreover, persistent increase in US drilling activity along with record long positions has also dampened sentiment. Consequently, the price of West Texas Intermediate (WTI) crude again fell below \$50 a barrel. Despite these short term worries, we would argue that the medium term story remains positive and oil recovery is not complete yet as incoming data points from China and India remain supportive. Despite the growth of renewables and electric vehicles sales, oil demand has been growing strongly since crude prices started to decline in 2014 and this shows little sign of slowing. OPEC is successfully cutting

output, and although US drilling is picking up rapidly, this will probably not come quick enough to prevent a period of sizeable inventory draws. Expansionary US fiscal policy, along with upcoming less restrictive pollution standards, will support demand and prices this year. With demand growing slightly above historical trend rate and declines in supply from several non-US/non-OPEC countries, the oil market looks broadly balanced over the next year.

We expect gold prices to be range bound amid a number of positive and negative factors. On the positive side, political concerns in Europe, rising populism, and lingering trade conflicts are supportive. On the flip side, faster than expected Fed hikes could derail sentiment as holding costs rise which would be negative for gold prices.

Base metal prices are expected to rise amid US growth optimism, stable China demand, and an improving industrial profile in Europe. The largest gains are expected in zinc and lead due to mine supply constraints brought on by permanent closures. Double digit gains are also expected for copper, nickel and tin. Greater than expected government related supply restraints in Asia and slow ramp up of new capacity are key upside risks to price. A restart of idled capacity could dampen the price rally as would any signs of slower than expected growth in China.

Agricultural commodities are expected to increase modestly in 2017 with considerable variation across commodities. Food oils and soy-bean meal prices should witness small increases due to lower supplies from East Asia as a result of adverse weather. Grain prices on the other hand are likely to decline following favourable growing conditions in Central Asia, Europe and North America.



EQUITY STRATEGY

We are optimistic on the outlook for global equities amid a gradually improving cyclical backdrop, reacceleration in corporate earnings, and a pragmatic approach by the Fed. Politics and policy action may dominate headlines in 2017 but should not materially threaten the outlook for cyclical acceleration. Threats to global trade from protectionist policies and a potential US border adjustment tax are key risks to our thesis.

In the US economic data points have surprised on the upside. Solid labour market trends are supportive of higher consumer spending while improving business sentiment and a bottoming out in energy related spending have removed some of last year's impediments to growth. Additionally, the most recent corporate earnings season for the US confirmed our view that an earnings recovery is underway. Fourth Quarter 2016 earnings growth of six percent was the fastest in two years and 73 percent of companies beat expectations. For 2017 consensus estimates are for earnings growth of 11 percent for the S&P 500. Possible policy initiatives to cut the headline corporate tax rate from 35 to 20 percent could add an additional seven-to-ten percentage points to earnings growth over the next couple of years.

Within sectors we are overweight Information Technology, Financials, Health Care and Energy. Rising interest rates, hopes of a less onerous regulatory environment, potential corporate tax reform, improving earnings revisions trend, and reasonable valuations are supportive of these pro-growth sectors.

After outperforming in 2016, energy stocks have lagged the market so far this year as US oil production has risen faster than expected undermining OPEC's effort to cut global output. Beyond the short term dynamics, we believe the larger oil rebalancing story remains intact. OPEC cuts are likely to reduce supply more

than US production can expand. This, coupled with strong demand particularly from Emerging Markets, is likely to lead to a supply deficit and put upward pressure on prices. Moreover, Trump's "America First" energy plan will also boost energy stocks as his administration supports domestic drilling efforts.

We are neutral on eurozone equities. Accommodative monetary policy, solid domestic demand, and waning deflationary fears should support a recovery in 2017. Leading economic data points show further expansion and will eventually translate into rising earnings. However, a busy political calendar, with particular uncertainty around the outcome of the French Presidential election, rising populism, risks of US anti-trade policies, and potential ECB tapering could pose some challenges in our view.

We remain overweight on Japanese equities. Japanese company earnings are more sensitive to uptick in global growth than other developed markets. The Bank of Japan's pursuit of yield curve control amid accommodative monetary policy and higher real rates in US could further drive yen weakness in the long term which remains supportive for corporate earnings and Japanese asset prices.

We have become more positive towards Emerging Markets. Economic activity is stabilizing and manufacturing sentiment is turning more positive, albeit from low levels. Corporate earnings growth is also improving. Additionally, several Emerging Market economies have improved fundamentals over the last decade by increasing external reserve cushions bringing current accounts into surplus, improving financial accounts, and reducing US dollar liabilities. Furthermore, Emerging Market equities are also trading at a discount. Nevertheless, we hold a neutral view overall on concerns over faster than expected interest rate moves, a strengthening US dollar, and protectionist US trade policies. Our most preferred markets are Hong Kong, Taiwan and India.

"The trend for global earnings is now improving and for the first time since 2011, global EPS momentum is in positive territory."

Roland Kaloyan,
Co-head European
Equity Strategy,
Societe Generale,
March 30, 2017



CONCLUSION AND STRATEGY POINTS

EQUITIES

(50% S&P Global 1200 and 50% S&P 500)

Regional Strategy

- Overweight North America at 80.0 percent (versus an Index weighting of 78.0 percent).
- Overweight Japan at 4.9 percent (versus an Index weighting of 3.9 percent).
- Equal weight Europe at 12.0 percent.
- Equal weight Emerging Asia at 2.1 percent.
- Underweight Australia at 0.1 percent (versus an Index weighting of 1.3 percent).

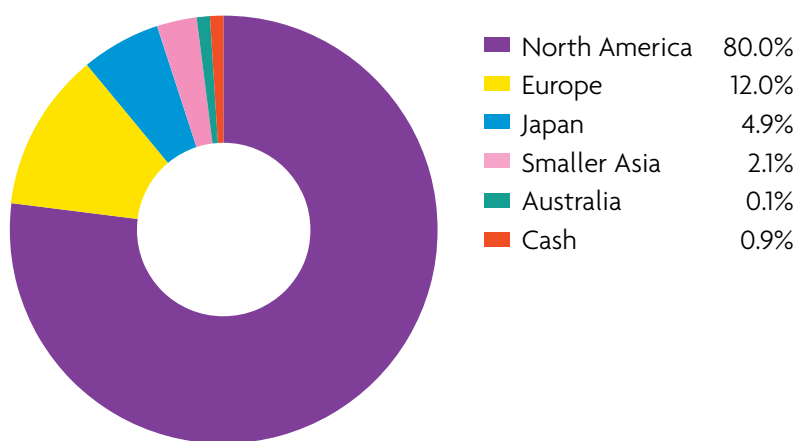
Sector Strategy

- Overweight Information Technology, Financials, Energy, and Health Care at 21.5 percent, 18.7 percent, 8.5 percent, and 14.8 percent, respectively (versus an Index weighting of 19.0 percent, 16.3 percent, 6.6 percent, and 12.9 percent, respectively).
- Slightly overweight Consumer Discretionary at 12.9 percent (versus an Index weighting of 11.8 percent).
- Equal weight Industrials and Materials at 10.5 percent and 4.4 percent, respectively.
- Underweight Consumer Staples, Real Estate, Utilities, and Telecommunication at 4.3 percent, 0.5 percent, 1.6 percent, and 1.4 percent, respectively (versus an Index weighting of 9.6 percent, 2.7 percent, 3.2 percent, and 2.4 percent, respectively).

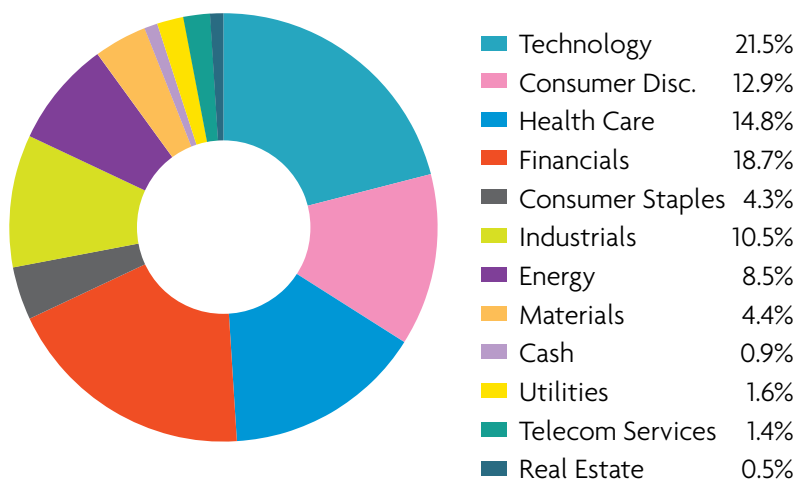
Currency Strategy

- Overweight the US dollar at 89.0 percent (versus an index weighting of 77.4 percent).
- Underweight the euro at 2.4 percent (versus an index weighting of 7.5 percent).
- Underweight the yen at 2.0 percent (versus an index weighting of 3.9 percent).

Geographic Allocation



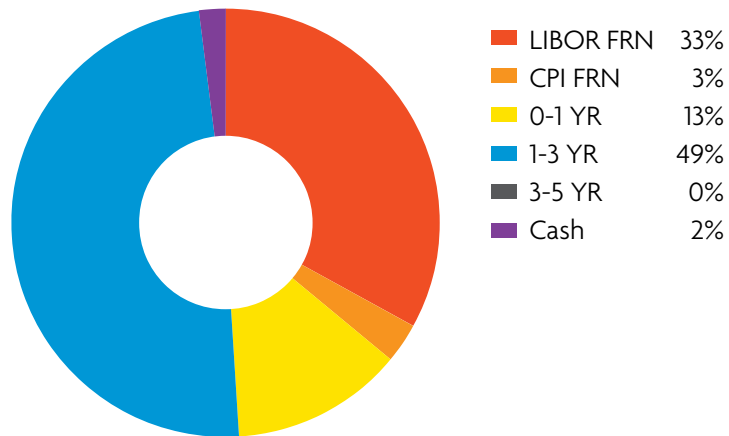
Sector Allocation



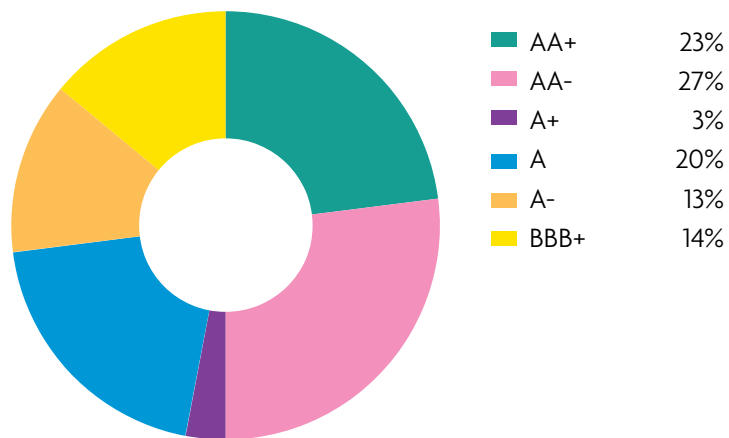
BONDS

- Maintain a shorter duration on fixed coupon bonds to position for rising interest rates.
- Hold shorter-dated investment grade corporate bonds for their relative yield advantage over Treasuries.
- Hold floating-rate notes to benefit from rising interest rates.

Bonds Strategy Allocation



Credit Ratings



BIAS structures portfolios according to the needs and risk profile of a specific investor. Some systematic risks should be acknowledged over which BIAS and other asset managers have no control including: trading on exchanges not regulated by any US Government agency, the Bermuda Monetary Authority, or the Cayman Islands Monetary Authority; possible failure of brokerage firms or clearing exchanges; illiquid Markets which may make liquidating a position at a given price more difficult. For more details on these and other risk factors, please refer to BIAS' Form ADV filed with the US Securities and Exchange Commission.



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