NEUBERGER BERMAN

Asset Allocation Committee Outlook 3Q19

Beneath the Surface

This quarter's *Outlook* is all about how surfaces can hide complexity and opportunity. Record highs and lows in stock indexes and government bond yields inform cautious high-level asset class views. We see opportunities, however, to take advantage of underlying market dynamics. High-beta, small-cap and pro-cyclical stocks have not fully participated in the market advance, and we see pockets of value in global bond markets. As such, our move toward neutral asset-class views conceals stronger ideas for sub-asset class positioning, just beneath the surface.

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ABOUT THE

ASSET ALLOCATION COMMITTEE

Neuberger Berman's Asset Allocation Committee meets every quarter to poll its members on their outlook for the next 12 months on each of the asset classes noted and, through debate and discussion, to refine our market outlook. The panel covers the gamut of investments and markets, bringing together diverse industry knowledge, with an average of 27 years of experience.

COMMITTEE MEMBERS

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Market Views

Based on 12-Month Outlook for Each Asset Class

	Underweight		Neutral	Overweight	
EQUITY					
Global Equities	○	○	● ←	○	○
U.S. All Cap	○	○	●	○	○
U.S. Large Cap	○	● ←	○	○	○
U.S. Small and Mid Cap	○	○	○	→ ●	○
Developed Market—Non-U.S. Equities	○	○	● ←	○	○
Emerging Markets Equities	○	○	○	●	○
Public Real Estate	○	○	●	○	○
FIXED INCOME					
Cash	○	● ←	○	○	○
Global Bonds	○	●	○	○	○
Investment Grade Fixed Income	○	●	○	○	○
U.S. Government Securities	○	●	○	○	○
Investment Grade Corporates	○	○	●	○	○
Agency MBS	○	● ←	○	○	○
ABS / CMBS	○	○	●	○	○
Municipal Bonds	○	● ←	○	○	○
U.S. TIPS	○	○	○	●	○
Non U.S. Developed Market Bonds	●	○	○	○	○
High Yield Corporates	○	○	○	→ ●	○
Emerging Markets Debt	○	○	○	●	○
REAL AND ALTERNATIVE ASSETS					
Commodities	○	○	●	○	○
Lower-Volatility Hedged Strategies	○	○	● ←	○	○
Directional Hedged Strategies	○	○	○	●	○
Private Equity	○	○	●	○	○

As of 3Q 2019. Views shown reflect near-term tactical asset allocation views and are based on a hypothetical reference portfolio. Nothing herein constitutes a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. See disclosures at the end of this publication, which include additional information regarding the Asset Allocation Committee and the views expressed.

Regional Focus

Fixed Income, Equities and Currency

	Underweight		Neutral	Overweight	
REGIONAL EQUITIES					
Europe	○	○	○	●	○
Japan	○	○	○	●	○
China	○	○	○	●	○
Russia	○	○	●	○	○
India	○	○	●	○	○
Brazil	○	○	●	○	○

	Underweight		Neutral	Overweight	
REGIONAL FIXED INCOME					
U.S. Treasury 10 Year	○	●	○	○	○
Bunds 10 Year	●	○	○	○	○
Gilts 10 Year	● ←	○	○	○	○
JGBs 10 Year	○	●	○	○	○
EMD Local Sovereign	○	○	○	●	○
EMD Hard Sovereign	○	○	● ←	○	○
EMD Hard Corporates	○	●	○	○	○

	Underweight		Neutral	Overweight	
CURRENCY					
Dollar	○	●	○	○	○
Euro	○	● ←	○	○	○
Yen	○	○	○	→ ●	○
Pound	○	○	○	●	○
Swiss Franc	○	→ ●	○	○	○
EM FX (broad basket)	○	○	○	●	○

"If you've only been in the business for the last 10 years, you've never seen the Fed ease. In my first 10 years, the Fed Funds rate went from 20% to 6% and back up to 10%. The next cut could be a big event."

Brad Tank | Chief Investment Officer—Fixed Income

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"We may be in a trough of economic performance and sentiment. Investors were cheered by the apparently productive meeting between the U.S. and China at the end of June, and while CPI releases appear weak, beneath the surface we see potential evidence of stable growth and a trough in inflation creeping into some of the more leading indicators."

Erik L. Knutzen, CFA, CAIA
Chief Investment Officer—Multi-Asset Class

Beneath the Surface

This quarter's *Outlook* is all about how surfaces can hide complexity and opportunity. As the S&P 500 Index breaks new records even as U.S. Treasury yields fall in anticipation of rate cuts, we believe it is time to be more cautious in overall stock and bond allocations. We see opportunities, however, to take advantage of underlying market dynamics. High-beta, small-cap and pro-cyclical stocks have not fully participated in the market advance, and we see pockets of attractive value and yield in global bond markets. As such, even as we move toward more neutral high-level asset-class views, we are pursuing stronger ideas for sub-asset class positioning, just beneath the surface.

One of the biggest puzzles facing investors in 2019 has been the way equity valuations have surged on a wave of apparent optimism at the same time as safe-haven government bond yields have plumbed new depths of apparent pessimism. One of these markets must be getting the outlook badly wrong, says conventional wisdom. Which is it?

We are not convinced there are pieces missing from this puzzle. We can go some way to explaining the phenomenon with simple mathematics: as bond yields fall, so do the discount rates on future earnings. All other things being equal, equity valuations will therefore rise. More pieces of the puzzle fall into place when we consider that both equities and bonds are pricing in the more dovish stance adopted by the major central banks—that has dragged down yields, but also supported stock markets as investors begin to anticipate the resulting stimulus effect. Both markets are manifestations of the looser financial conditions that form the objective of the new policy stance.

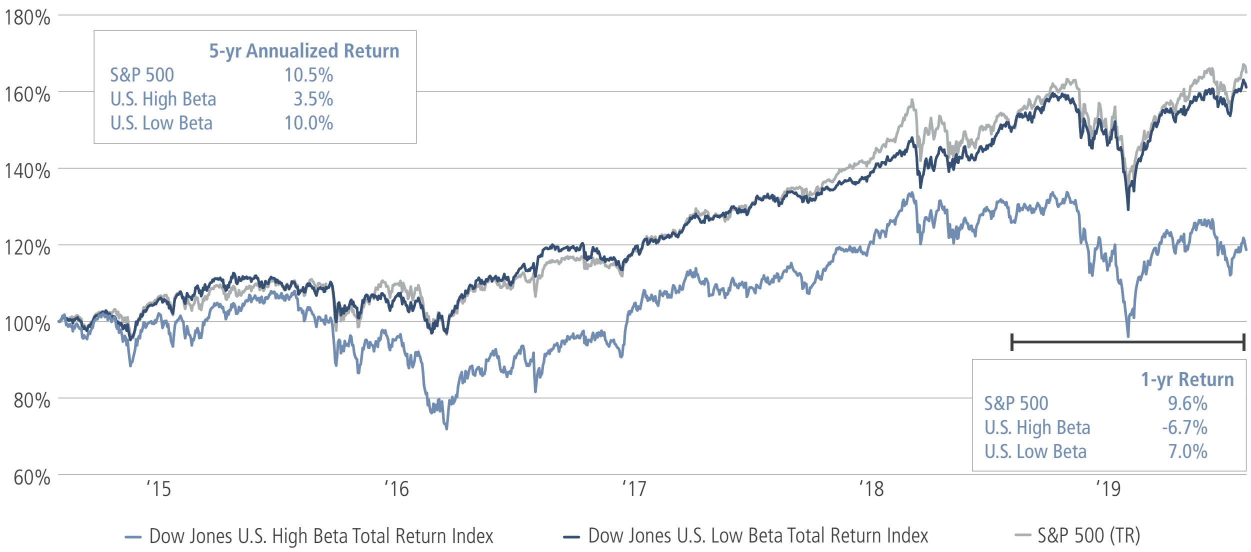
Looking Deeper

But we think the picture really becomes clear once we take a closer look at what has been happening within equity markets. For sure, most equity indices have performed well this year. It is important to note, however, that the U.S. has outperformed the more pro-cyclical, global trade-oriented European and emerging markets despite the apparently attractive relative valuations available there in January. Investor caution is evident in global equity allocations.

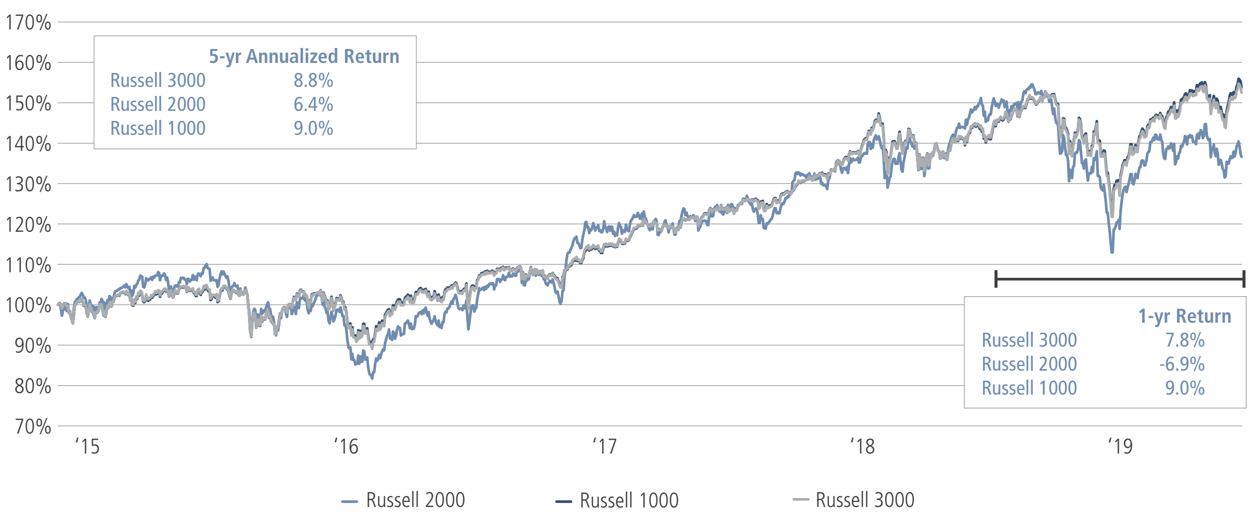
That caution has also been evident within the U.S. market. During this year's rally, large-cap stocks have significantly outperformed the more pro-cyclical, lower-quality mid and small caps. Things look even starker when we split the market into low- and high-beta stocks: low-beta has been outpacing high-beta for years, and has opened up a near 14-percentage-point gap over the past 12 months alone. High-beta stocks are the more volatile of those stocks that are the most sensitive to the movements of the overall market—again, this pattern betrays how much caution and desire for safety underlies the new record highs being set by the S&P 500 Index.

HIGH INDEX LEVELS MASK SIGNIFICANT UNDERLYING PERFORMANCE DIVERGENCES

Low-beta stocks have built up a big lead over high-beta stocks over the last five years



Large-cap stocks have recently built up a lead over small-cap stocks



Source: S&P Dow Jones Indices, FTSE Russell. Data as at June 25, 2019. The Dow Jones U.S. High Beta Index and Dow Jones U.S. Low Beta Index are designed to measure the performance of 200 U.S. companies ranked as having the highest and lowest beta, respectively. Beta is calculated using weekly returns for the previous 52 weeks and the indices are equal-weighted and rebalanced quarterly. The Russell 3000 Index is a market capitalization-weighted index of the 3,000 largest listed U.S. companies, and the Russell 1000 and 2000 indices are subsets of the largest 1,000 and 2,000 of those companies. Total returns are shown in USD. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

That caution is warranted. The tensions between the U.S. and China on trade have been worsening for much of this year rather than easing, as many had expected. Concerns about deflation have gripped markets following recent soft Consumer Price Index (CPI) releases in both Europe and the U.S., and volatile U.S. non-farm payrolls and wage data. The message from the European Central Bank (ECB) and the Federal Reserve about the importance of maintaining their inflation targets over the long term has become more urgent.

We think we may be in the trough of economic performance and sentiment, however. Investors were cheered by the apparently productive meeting between presidents Donald Trump and Xi Jinping at the G20 meeting at the end of June. The U.S. dropped its threat of new tariffs and adopted a softer stance on Huawei, and both sides pledged to keep talks open. On inflation, while CPI releases appear weak, we believe some of this is due to temporary effects, such as gaps in the data due to the U.S. government shutdown at the start of the year. After undershooting expectations in May, U.S. payrolls data bounced back strongly in June. And beneath the surface we see potential evidence of higher future inflation creeping into some of the more leading indicators (see "Up for Debate: Are We Finally Going to See Some Inflation?").

We do think that the Fed will deliver 25 to 50 basis points of cuts by the end of the year, but, particularly after the June payrolls print, we also think we will see clearer evidence of higher inflation before the central bank has time to deliver all of the cuts that futures markets are currently pricing in. At that point, the prospect of a more benign, moderately rising inflation environment, as well as the stimulus of looser global financial conditions coming from the potential long-awaited weakness in the U.S. dollar, could make investors more inclined to adopt risk.

Potential Rotation

That could be tough for core government bonds and positive for risk assets. Nonetheless, for now the AAC has reserved a strong underweight view only for deeply negative-yielding markets such as German and Japanese government bonds. It retains a moderate underweight in U.S. Treasuries. In addition, this quarter it decided to downgrade its view on global equities to neutral.

The third quarter tends to be a time of scant liquidity and high volatility. We also anticipate a few more weak economic data prints before the picture turns around more decisively. And while the market can get things wrong, it is risky to bet against it when it expresses the kind of certainty we currently see in bond and rates pricing. As a result, our high-level asset class views have moved toward neutral market weights.

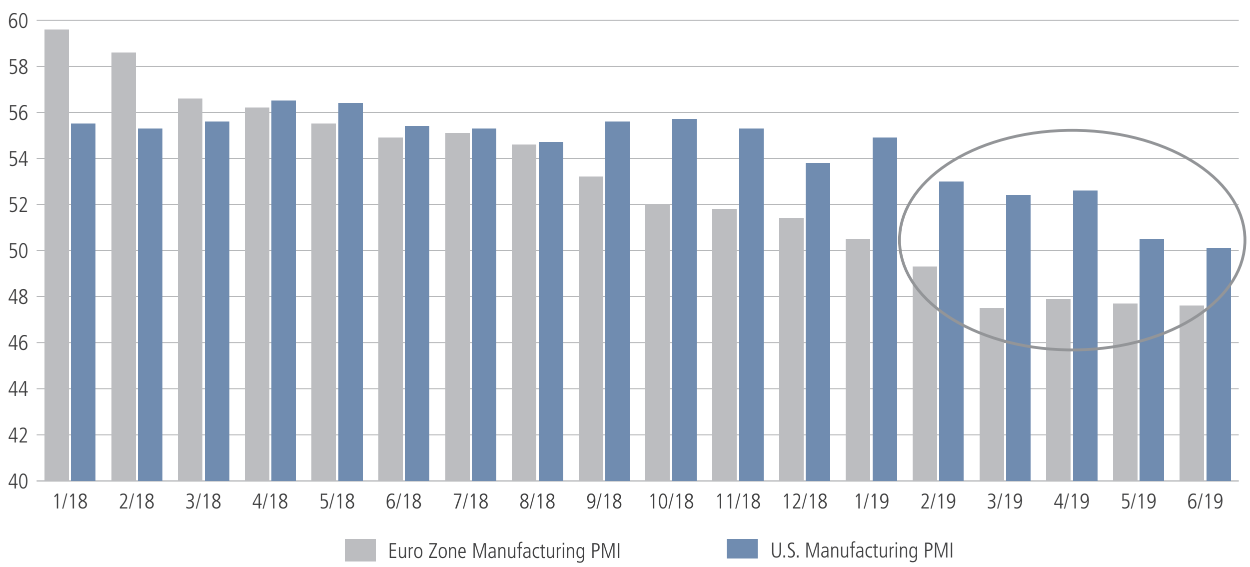
Beneath the surface, however, there are nuances to this view. The AAC has begun to identify opportunities as its outlook gets firmer. The clearest example is our less-than-favorable view on the important U.S. large-cap market. With 2019 S&P 500 earnings growth projected to come in around 3%, according to FactSet, and the forward price-to-earnings ratio having already leapt from 14-times to 17-times in the first half of the year, we think there is limited scope for further appreciation, relative to some other markets.

In short, U.S. large caps appear fairly valued to us, whereas other markets appear somewhat undervalued. To identify those other markets, we think it helps to envision a potential future rotation from low-beta to high-beta exposure, and from low to high global exposure.

For example, the AAC has maintained its overweight view on Directional Hedged Strategies while moving to a neutral view on Lower-Volatility Hedged Strategies. This is largely a recognition of the poor opportunity set in relative-value and arbitrage strategies when correlations are so high and interest rates are so low, but it also reflects members' willingness to retain some beta within its overall view on alternatives. The AAC has upgraded its view on U.S. small caps, which have lagged large caps by 16 percentage points over the past year, as they can be a good source of high-beta exposure, especially if we see an eventual recovery in risk appetite and inflation that is accompanied by higher energy prices.

A little more tentatively for now, but something to watch, is the AAC's view on Japanese and European equities. Today these trade at similar valuations as the S&P 500 six months ago, and they can bring a combination of both high-beta and high global exposure.

U.S. MANUFACTURING SUFFERS A DIP JUST AS THE EURO ZONE MAY BE BOTTOMING OUT



Source: Markit. Data as of July 1, 2019. Data for June in the U.S. is preliminary.

We do not think that Japan's domestic economic indicators have bottomed-out yet, and the proposed sales-tax hike in October will likely be an additional headwind. But Japan's stock market is much more tightly geared to the global than the domestic economy, more so than any other developed market. Share buybacks are currently running at their highest levels since 2006, reflecting attractive valuations and insiders' expectations for upward earnings revisions later this year.

In Europe, by contrast, the domestic challenges that have dominated risk in the past decade have been receding for some time already. The banking system, lending levels, employment, wages and consumer confidence have been improving steadily for two years or more. Earnings and equity market multiples have been held back by rising tensions around global trade and specific problems for the auto industry.

As in the U.S., there has been extreme divergence between the performance of defensive and pro-cyclical sectors in Europe, with the latter pricing in an environment of persistent zero growth. Should trade tensions cool, inflation stabilize and global financial conditions improve, this will likely look overdone. It is notable that, just as the U.S. Manufacturing Purchasing Managers' Index (PMI) has entered a steep decline, the Euro Zone Manufacturing PMI appears to be bottoming-out. The same bottoming-out is evident in Europe's pro-cyclical stocks. The AAC's marginal downgrade to a neutral view overall on non-U.S. developed market equities conceals, beneath the surface, a cautious but firming bias in favor of more cyclical, globally geared sectors.

An easing of trade tensions between the U.S. and China, together with a shift in the balance of risks toward a weaker U.S. dollar, might also be expected to benefit emerging economies. Emerging markets have lagged U.S. large caps by some seven percentage points so far this year. The AAC remains cautiously optimistic that China's stimulus efforts will continue to gain traction and return us to the upside data surprises that characterized the first quarter of 2019. While a weaker dollar would be a tailwind for emerging market equities and currencies, supporting the Committee's overweight views on both asset classes, members also noted that growth concerns weigh a little heavier here than in non-U.S. developed markets.

Given our core outlook, it is inevitably more difficult to find places to spend risk budget in fixed income. We favor inflation-protected securities, where we believe deflation fears have left attractive valuations, even if inflation turns out to be weaker than we anticipate (see "Up for Debate: Are We Finally Going to See Some Inflation?"). The only other places we find attractive for sovereign risk are emerging markets and the southern euro zone—again, these are higher-beta exposures that leaven the general underweight view in fixed income and credit.

The AAC is favorable toward high yield bonds and loans, where supply-and-demand technicals are supportive, but it sees particular value in high-quality, BB rated credits as the market becomes more discerning on fundamental risks. This view is also supported by the fact that the relative value case for emerging markets hard currency debt against U.S. high yield is not as clear as it has been over recent quarters.

Cautious

In summary, while the AAC's index-level views show a moderate underweight in fixed income assets and a largely neutral stance with regard to equity markets and other risk assets, beneath the surface the Committee is preparing for a rotation into a broadly inflationary, risk-on environment. The catalyst for that rotation could be further positive news on trade relations, firmer growth and inflation data, especially from outside the U.S., or, perhaps ironically, the first Fed rate cut in more than a decade.

These views remain cautious for now, however, as we wait for seasonal, technical and fundamental dynamics to play out over the coming quarter. By the next *Outlook,* we hope to see clearer confirmation of the next leg of what is now the longest expansionary cycle in modern U.S. history.

FIXED INCOME

Investment Grade Fixed Income

- The Asset Allocation Committee ("AAC" or "the Committee") maintained its underweight view.
- While Committee members believe the Federal Reserve could ease by this fall to support the U.S. economy, and inflation remains benign, yields are very low for this stage in the cycle and some short-term factors weighing on inflation may reverse over the coming months.

Investment Grade Corporates

- The Committee maintained its neutral view.
- Fundamentals remain stable, aggregate leverage appears to have plateaued and earnings are slightly beating low single-digit growth expectations, but investment-grade credit has rallied significantly already this year.
- Currency-hedged yields and steeper curves have generally favored European over U.S. credit.

Municipal Bonds

- The AAC moved from a neutral to an underweight view.
- In the first half of 2019, municipal bonds staged a strong rally tied to tight supply, diminished concern about rising rates, strong fund flows and increased demand in high tax states due to the state and local tax (SALT) cap.
- Although technicals are poised to remain supportive over the summer, municipal high-grade valuations now appear very tight relative to U.S. Treasuries.

Treasury Inflation Protected Securities

- The Committee maintained its overweight view.
- TIPs have been beaten up and look attractive.
- Some short-term factors weighing on inflation may reverse over the coming months.

Developed Market Non-U.S. Debt

- The Committee maintained its strong underweight view.
- While Europe has steeper yield curves and there is some benefit from hedging currency exposures for U.S. dollar investors, overall rates in Europe and Japan are still well below those in the U.S.
- The peripheral euro zone markets are one of the few places where the AAC favors interest-rate risk.

UP FOR DEBATE

Are we finally going to see some inflation?

At this quarter's meeting of the Asset Allocation Committee (AAC) there was plenty of debate over the timing and extent of the coming Federal Reserve rate cut—would it be 25 basis points as early as July, or 50 kept in reserve for September?

That aside, there was broad consensus on four things: first, that rates would indeed be cut this year; second, that the first Fed cut in more than a decade would be a significant event, likely to catalyze an uptick in risk appetite; third, that the cuts are unlikely to go as far as markets currently expect; and fourth, that those cuts could well coincide with the trough of a cyclical soft spot in inflation data.

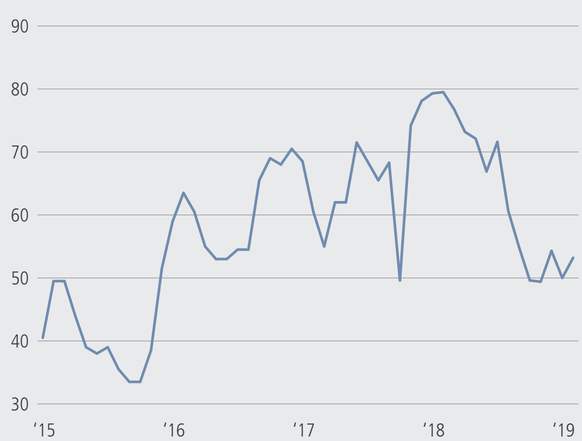
For that reason, the AAC envisions a short rate-cutting cycle—something more like the Q3 1998 cycle rather than the sustained cuts put in to battle the post-dotcom capex crash or the last financial crisis. In the days after the meeting, a strong rebound in the June non-farm payrolls data added weight to this view.

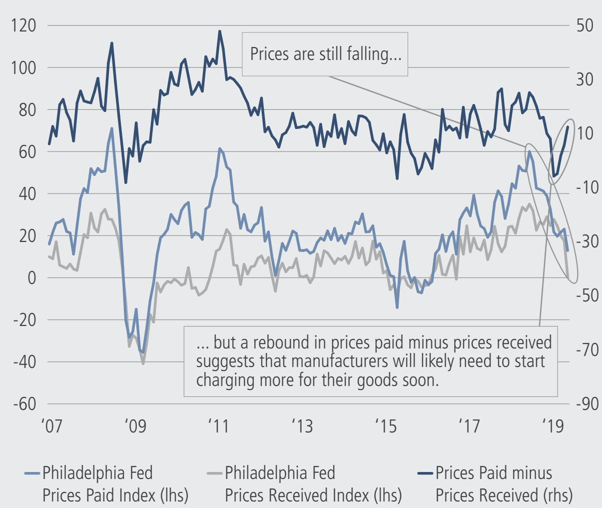
While headline inflation data has been weak for some time in the euro zone, and surprised markets by ticking lower in the U.S. in May, AAC members see a different dynamic beneath the surface.

We believe that gaps in the U.S. data resulting from the federal government shutdown at the start of this year could account for as much as 30 to 40 basis points of understatement in the Consumer Price Index (CPI). That may explain some of its softness relative to other measures such as the U.S. Producer Price Index (PPI), for example. A weak non-farm payrolls release for May and a slight dip in the growth rate of average hourly earnings should be weighed against the fact that wages are still growing at 3.1% per year, and that the U.S. Job Openings and Labor Turnover Survey (JOLTS) shows employers still hiring and employees still just as willing to quit their current jobs for something better.

More timely, leading indicators of inflation, such as the U.S. Manufacturing Institute for Supply Management (ISM) Prices

U.S. MANUFACTURING ISM PRICES INDEX





Source: Institute for Supply Management, Federal Reserve Bank of Philadelphia.

Index, are beginning to suggest a turn in the tide. Similarly, while the Philadelphia Fed's Prices Paid and Prices Received Indices continue to show a decline in what manufacturers are paying for their inputs as well as what they receive from their customers, it is notable that the gap between their input costs and the prices for their goods has jumped substantially over the past five months. A weakening dollar is likely to push costs up and widen that gap further. As that becomes less sustainable, the pressure to pass costs on to the consumer will grow.

There are signs that markets have half an eye on these incipient inflation pressures. Although the recent dovish turn from the Fed and the European Central Bank (ECB) was met with sharply lower nominal bond yields, inflation-protected bonds got an even stronger bid, pushing breakeven inflation rates up after a period of decline. Yield curves also steepened.

In terms of asset-class views, the Committee's outlook for inflation and rates underscores its overweight stance on inflation-protected securities, on some parts of the commodities complex and on the pro-cyclical industrial and materials equity sectors. However, real estate securities, which provide real-asset exposure, have already benefitted from a strong rally and could be vulnerable to a broad risk-on, high-beta rebound.

High Yield Fixed Income

- The Committee upgraded its view from neutral to overweight.
- Higher-quality, BB rated high yield debt appears attractively valued.
- Supply-and-demand imbalances in floating rate loans and collateralized loan obligations (CLOs) may make them attractive places to take credit spread risk.

Emerging Markets Debt

- The Committee maintained an overweight view.
- While much of the asset class's excessive relative cheapness has corrected, a weaker dollar resulting from monetary easing could provide a tailwind.

EQUITY

U.S. Equities

- The Committee moved from neutral to a modest underweight for U.S. large cap and upgraded from neutral to a modest overweight in U.S. small and mid cap.
- The S&P 500 has rallied over 20% year-to-date and now appears fairly valued, with earnings growth expected to slow in the next two quarters (-2.6% in 2Q, -0.3% in 3Q) before rising 7% in 4Q 2019, according to FactSet.
- In a short easing cycle, the Fed is expected to cut rates by the fall, which could help extend the cycle into next year and support the high-beta and cyclical stocks that have recently been underperforming.
- Small cap stocks could stand to benefit, as they are more levered to the U.S economy and less to global trade dynamics, and they have also lagged the performance of large caps recently.

Public Real Estate

- The Committee voted to maintain its neutral view.
- REITs have rallied by 22% already this year, as markets have priced in the benefits of potentially lower interest rates.
- The AAC anticipates a cyclical rally in response to eventual Fed easing, which could hurt defensive sectors like REITs.

Non-U.S. Developed Market Equities

- The Committee reduced its overweight view to neutral.

Europe

- Employment, credit growth and consumer confidence remain robust, but global trade tensions have weighed heavily on the manufacturing sector, in particular, leading to persistently sluggish growth.
- The European Central Bank (ECB) is contemplating additional stimulus, but previous initiatives have yielded mixed results.
- Existing trade tensions between the U.S. and China, the risk of U.S. tariffs on the autos sector, Brexit and the leadership transition at the ECB could all weigh on performance.

Japan

- Japan is sensitive to global growth, trade dynamics and the effectiveness of China's stimulus efforts.
- A consumption tax increase is due later this year, and that has historically dampened growth for a quarter—although the government is prepared to provide stimulus to reduce the impact.
- The Bank of Japan (BoJ) remains committed to low rates at least through spring 2020.
- Worsening trade disputes and a stronger yen could be sources of risk.

U.K.

- The U.K.'s ruling Conservative Party will elect a new prime minister after Theresa May resigned from the position in late May, potentially creating delay and further uncertainty ahead of the new Brexit deadline of October 31.

Emerging Markets Equities:

- The Committee maintained its overweight view.
- Current valuations remain attractive and dollar weakness resulting from looser Fed policy could provide a further tailwind.
- The AAC anticipates improvements in China's growth during the rest of this year as fiscal and monetary easing, focused on the domestic consumer, gain more traction.
- While its ultimate significance remains unclear, investors were cheered by an apparently productive meeting between presidents Donald Trump and Xi Jinping at the G20 meeting at the end of June: the U.S. dropped its threat of new tariffs and adopted a softer stance on Huawei, and both sides pledged to keep talks open.
- Dollar strength, trade disputes, and China's managed slowdown and its potential impact on global growth remain the key risks.

REAL AND ALTERNATIVE ASSETS

Commodities

- The Committee voted to maintain a neutral view.
- Oil producers continue to adhere to production cuts set last year to reduce the global oil glut, although the duration of these cuts remains up for debate.
- Demand for oil could slow if global growth remains subdued or U.S.-China trade tensions worsen, but supply could tighten in the event of worsening tensions between the U.S. and Iran.
- Dollar weakness resulting from looser Fed policy could provide a tailwind.

Hedge Funds

- The committee downgraded its overweight view in Lower-Volatility Hedged Strategies to neutral but maintained its overweight view in Directional Hedged Strategies.
- Intra- and inter-asset class correlations have risen as markets have rallied this year, and therefore the Committee prefers to take beta, albeit in a hedged manner, with more directional strategies.

Private Equity

- The Committee maintained its neutral view.
- The AAC continues to advocate a consistent, strategic and disciplined investment plan in private markets.

Opportunistic

- Committee members favor the following: high-quality high yield bonds; preferred securities; CLO mezzanine and structured credit with a one- to three-year duration; and long volatility exposure in EUR/USD

Currencies

USD

- The AAC maintained its small underweight.
- Market participants are still long.
- The dollar appears overvalued based on purchasing power parity (PPP) metrics.
- The Fed has taken a dovish stance, and the recent fall in short-term interest rates is likely to weaken the USD if it is sustained when risk appetite normalizes.
- A U.S. slowdown and a recovery elsewhere should reduce the global growth differential.

- The U.S. is running a twin deficit.
- Risks to the view include the persistent growth differential, which leaves us with a short-term yield differential that is supportive of the dollar, albeit at tighter levels than recent records; and the potential for risk aversion around trade discussions, which could underpin the USD.

EUR

- The AAC moved from a neutral to an underweight view.
- Purchasing Managers' appear to have stabilized, but at a low level.
- The risk of U.S. tariffs on the auto sector remains live.
- ECB monetary policy looks very likely to remain accommodative.
- European parliament group formation, the potential for a snap election in Italy and Brexit still weigh on the euro.
- Risks to the view include that the ECB appears less concerned about the growth outlook than the markets, and will be headed by a new president after Mario Draghi steps down; the fact that, despite recent deceleration, growth is still expected to be at trend and the euro zone would be a likely beneficiary of any pick-up in global growth later this year; and the euro zone's large current account surplus.

JPY

- The AAC moved from a neutral view to an overweight view.
- Long yen remains attractive during periods of risk aversion and both PPP and real exchange rates suggest the JPY is undervalued.
- Japanese growth appears set to improve from one-off factors, and extremely low unemployment should support inflation.
- Japan runs a current account surplus.
- A future trade agreement with the U.S. could be more hawkish on JPY weakness.
- Risks to the view include the still-wide yield differentials in both nominal and real terms with the U.S., exacerbated by the BoJ yield curve-targeting policy; an ongoing rebound in risk sentiment, following May's market sell-off, could lead to further JPY weakness; and market participants likely still holding a slightly long JPY position.

GBP

- The AAC maintained its small overweight view.
- The GBP appears undervalued based on PPP measures, which includes a large apparent political risk premium.
- Despite Brexit uncertainty, U.K. job creation and wages have been stronger than expected and overall activity has remained remarkably healthy.
- The Bank of England (BoE) may be unable to look through improvements in the economy for much longer.
- Risks to the view include political uncertainty as the Conservative party chooses the U.K.'s new prime minister; evidence from the U.K.'s trade balance that GBP weakness is not boosting exports as much as expected; and slowing in both wage and the stock-building activity that came before the previous Brexit deadline.

CHF

- The AAC moved from a large to a small underweight view.
- The CHF continues to appear very overvalued on PPP measures and safe-haven flows will likely continue to unwind should Europe's prospects improve.
- The strong CHF continues to cause low inflation.
- The CHF is one of the most attractive funding currencies.
- Risks to the view include Switzerland's current account surplus; the potential for Switzerland to benefit from improvements in European growth; the potential for political uncertainty, especially around Brexit and Italy, to cause risk aversion; and potential hawkishness on CHF weakness in the forthcoming U.S.-Switzerland trade deal.

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