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TOP TEN THEMES FOR 2017:

1. **Generally Positive.** Our base case is for continued economic expansion, which will likely broaden to more countries and regions, supporting investments in riskier assets. Hence we prefer equities over credit, and credit over bonds. Populism will not lead to a significant retreat in globalization and worries about secular stagnation (under-investment and stalled growth in developed markets) are overdone.

2. **More Volatility.** Since Brexit and the U.S. elections, volatility has started to rise more quickly. The upcoming elections in the EU (France, Germany, Italy, Hungary and the Netherlands) will not help calm investors. Short-term worries over populism and anti-establishment movements will push volatility higher and put “before-the-fact” pressure on financial markets.

3. **U.S. equities.** Trump will likely unleash a growth boom. Lower corporate taxes boost consumption and personal spending, incentivize companies to repatriate their savings from abroad, invest domestically, hire more people and potentially raise salaries. Favor financials and healthcare, but caution that equities are already priced to perfection.

4. **Barbell economy.** The largest demographic group in the U.S. – Generation Y – is reaching the house-buying age and wish to incorporate the sharing economy into their daily lives. The second largest demographic group – the Baby Boomers – is retiring and changing its spending patterns towards health care, lifestyle and age-appropriate leisure. Sector selection is key.

5. **Buy Japan**. A weakening currency and attractive valuations – both historically and comparatively – paint a rosy picture for equities from Nippon. Recent price appreciation in Japan was driven by earnings growth (whereas in Europe and to a lesser extent in the U.S., it was driven by higher P/E’s). This leaves room for multiple expansion.

6. **European equities – not yet.** Even though equity valuations are more attractive in Europe than in the U.S., economic and political uncertainties are still too high for a shift in sentiment. Structural changes are not being addressed, the banking system is virtually dysfunctional and is incapable of lending (despite an insane rescue plan by the ECB). Italy is broke. Avoid Italian assets at all costs.

7. **Buy Russia.** Relations between Washington and Moscow have significantly improved and will change sentiment – a boost to very undervalued Russian equities.

8. **Fixed Income: dying slowly.** The U.S. will not raise rates as quickly as anticipated given recent softer economic numbers, worries about oil and China. Fixed income valuations peaked last summer. The long march to a normalized rate environment will not be without pain. In a world which is still easing, the Fed will not be able to raise rates as quickly as necessary. We continue to shy away from long-dated fixed income instruments. For contrarian investors, we recommend buying the **Brazilian long bond in local currency** given that all the bad news is already priced in.

9. **Search for safety.** In a world of heightened political uncertainty, investment grade securities and cash are not providing investors with the same feeling of unconditional tranquility as they used to, since rates are too low and debt burdens are too high. For prudent portfolio construction, consider non-correlated assets such as direct lending and secured credit obligations.

10. **Gold – not ready to shine.** Growth expectations infused by President-elect Trump has put a damper on the price of gold. While the cyclical outlook might suggest modest appreciation, the inverse correlation to the USD as well as selling of ETF’s due to growth expectations will keep a lid on gold prices. Nevertheless, gold remains an effective hedge for drawdowns induced by growth shocks.