After years of good market performance... What now?

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17 November 2018

MKTG1118E-660057-2046515

Contents

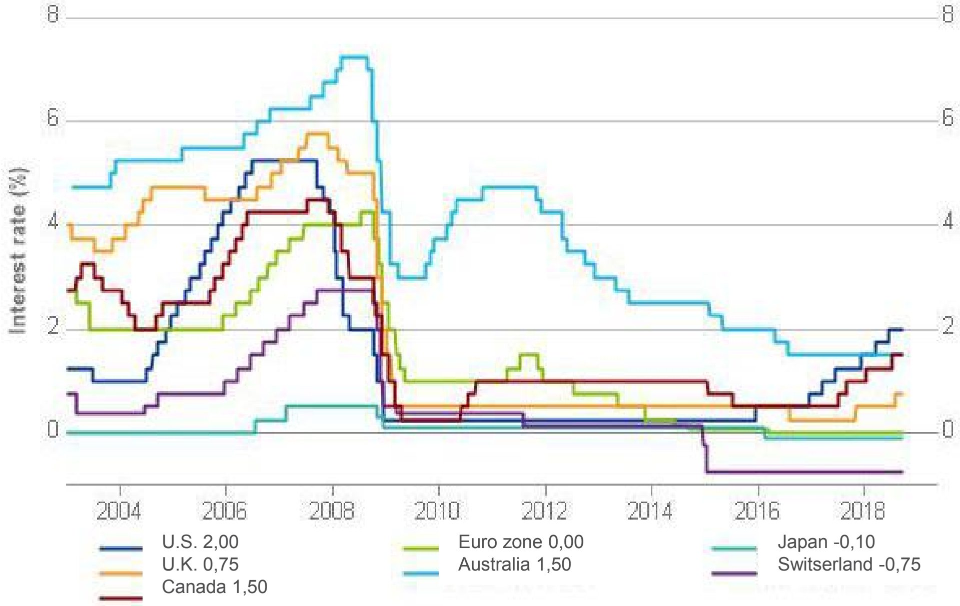
1. Introduction

2008 – 2017 ...

Central bank balance sheets in US dollars

Source: Thomson Reuters Datastream, BlackRock Investment Institute. As of 26 September 2018.

Central Bank interest rates

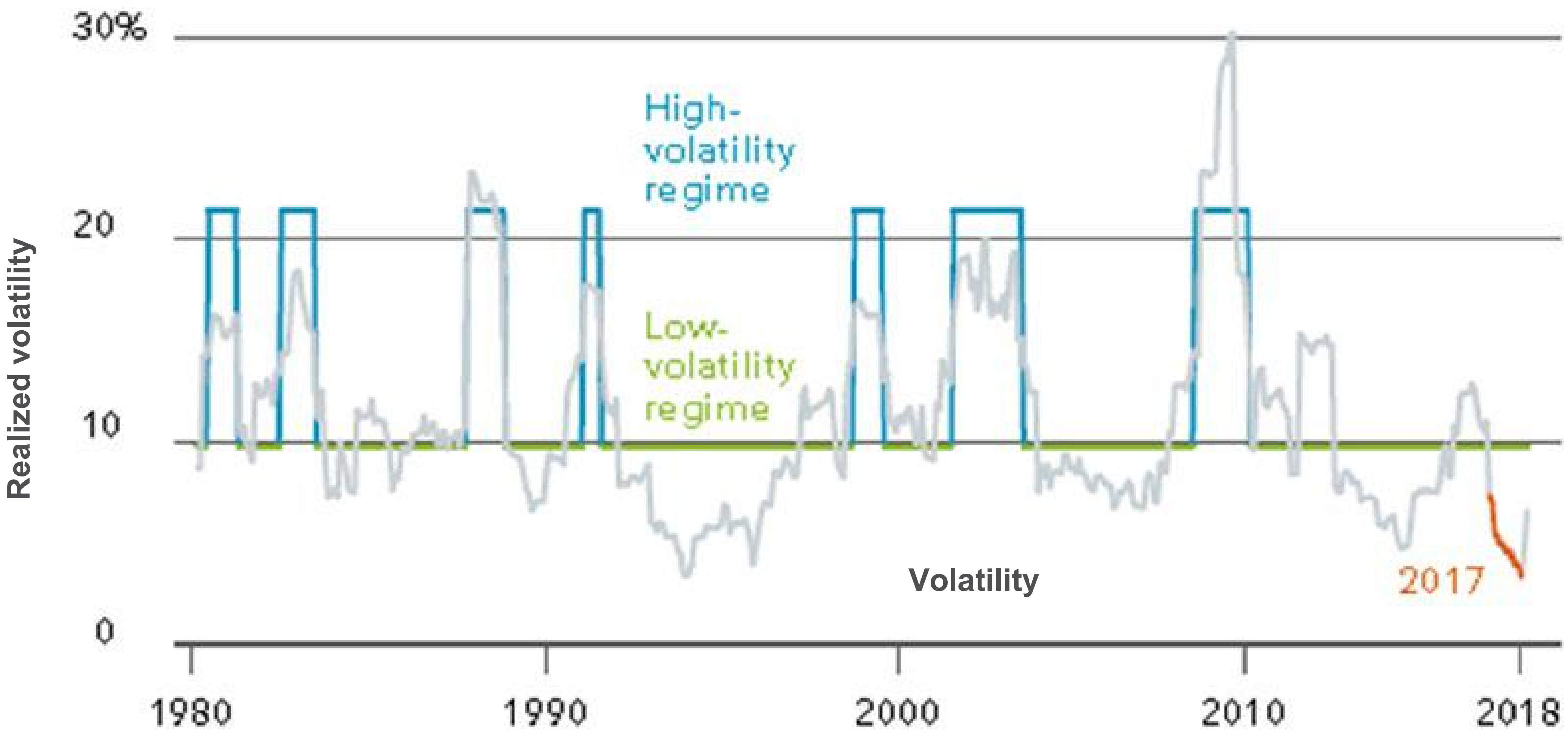


Source: Thomson Reuters Datastream, graph by BlackRock Investment Institute. As of 26 September 2018.

1. Introduction

Will the period of low volatility continue?

Realized monthly U.S. Equity volatility, 1980 - 2018

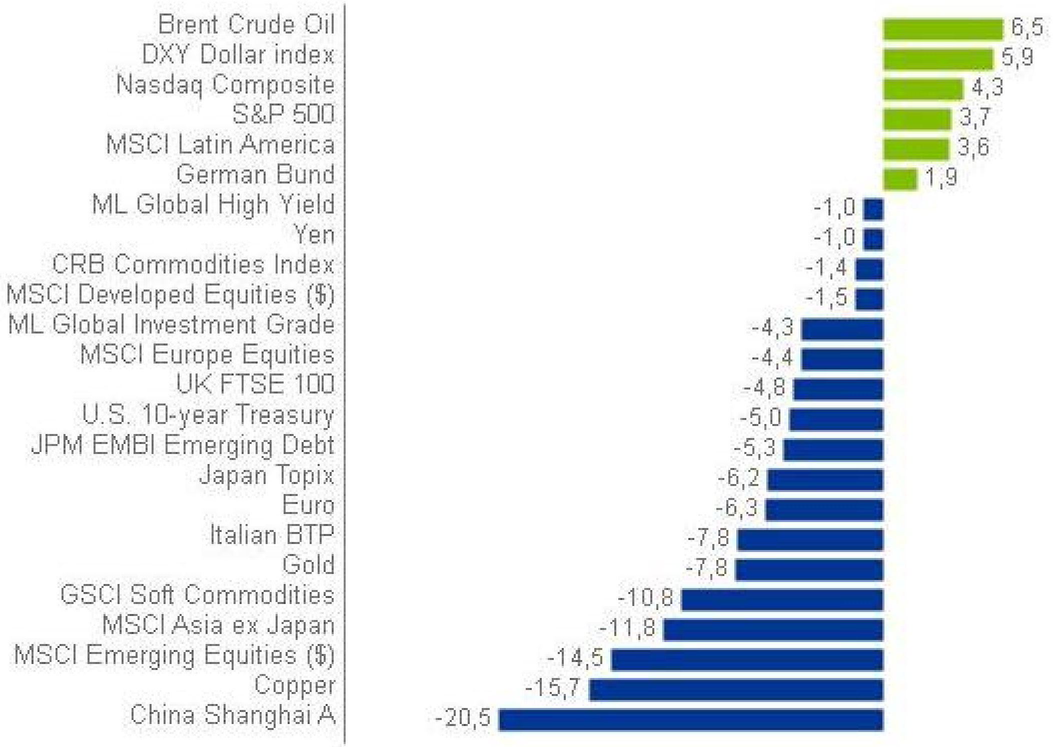


Sources: BlackRock Investment Institute and Robert Shiller, February 2018.
Notes: The grey line (volatility) shows the annualized standard deviation of monthly charges in the S&P 500 index over a rolling 12-month period. We calculate two historic states or regimes for volatility: a high-volatility regime and a low-volatility regime. The green/blue lines plot the average level of volatility during each regime based on data from 1871 to 2017. The estimate of historic regime is based on a expectation maximization algorithm using a Marlow-switching regression model.

1. Introduction

Welke beleggingscategoriëen presteren het best dit jaar?

Asset performance – year to date

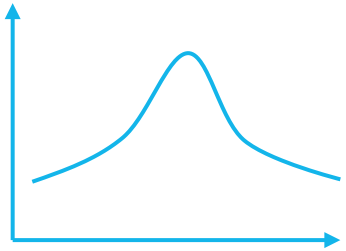


Return (%)

Source: Thomson Reuters Datastream, chart by BlackRock Investment Institute
Note: The bars show the total return in local currency terms, except for currencies, gold and copper, which are spot returns. Government bonds are 10-year benchmark issues. Euro and Yen are shown as strength vs. U.S. Dollar.

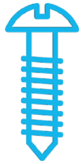
2. Main topics of Q2 2018

Overview



WIDER RANGE OF GROWTH OUTCOMES

Economic uncertainty increases, both positive and negative



TIGHTER FINANCIAL CONDITIONS

Rising interest rates & a stronger USD contribute to stricter financial conditions

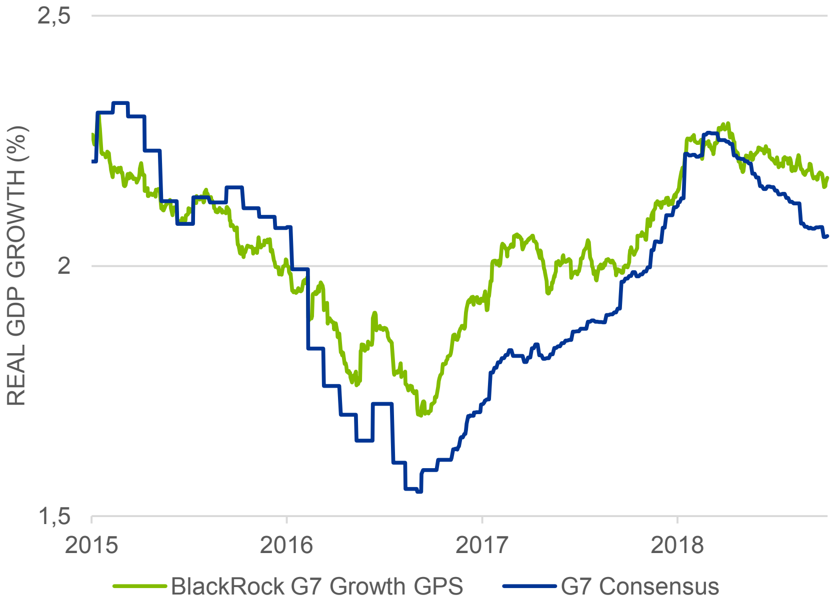
GREATER PORTFOLIO RESILIENCE

We remain "risk-on", but the importance of diversification is increasing

2. Main topics of Q2 2018

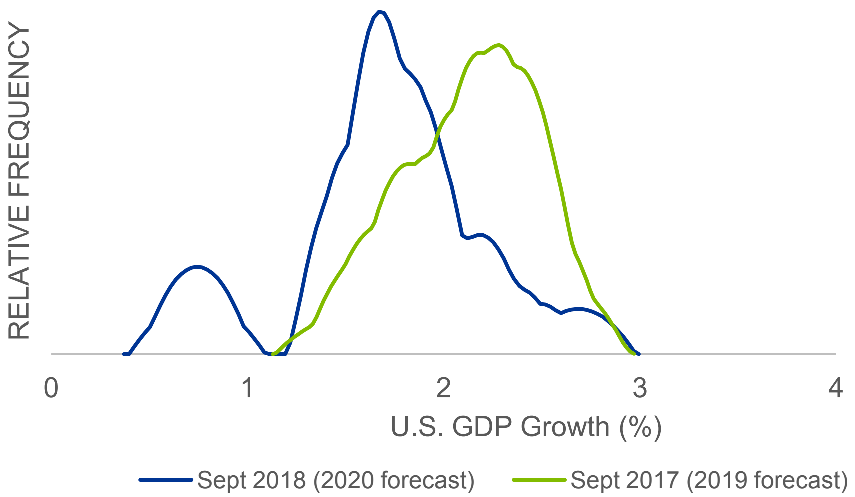
Still room for further growth, but uncertainty increases

BlackRock Growth GPS vs G7 consensus, 2015–2018



There is no guarantee that any forecasts made will come to pass.
Sources: BlackRock Investment Institute with data from Consensus Economics, October 2018. Notes: The GPS (green line) shows where the 12-month consensus GDP forecast may stand in three months' time. Consensus forecasts are measured by Consensus Economics. G7 country components are weighted by country GDP. The blue line shows the current 12-month economic consensus forecast for G7 economies. The GPS builds on existing nowcasting models that exploit the information from dozens of macroeconomic indicators to forecast GDP growth – including realized activity, employment, sentiment and survey data.

Distribution of two-year forward U.S. GDP forecasts, 2018 vs. 2017

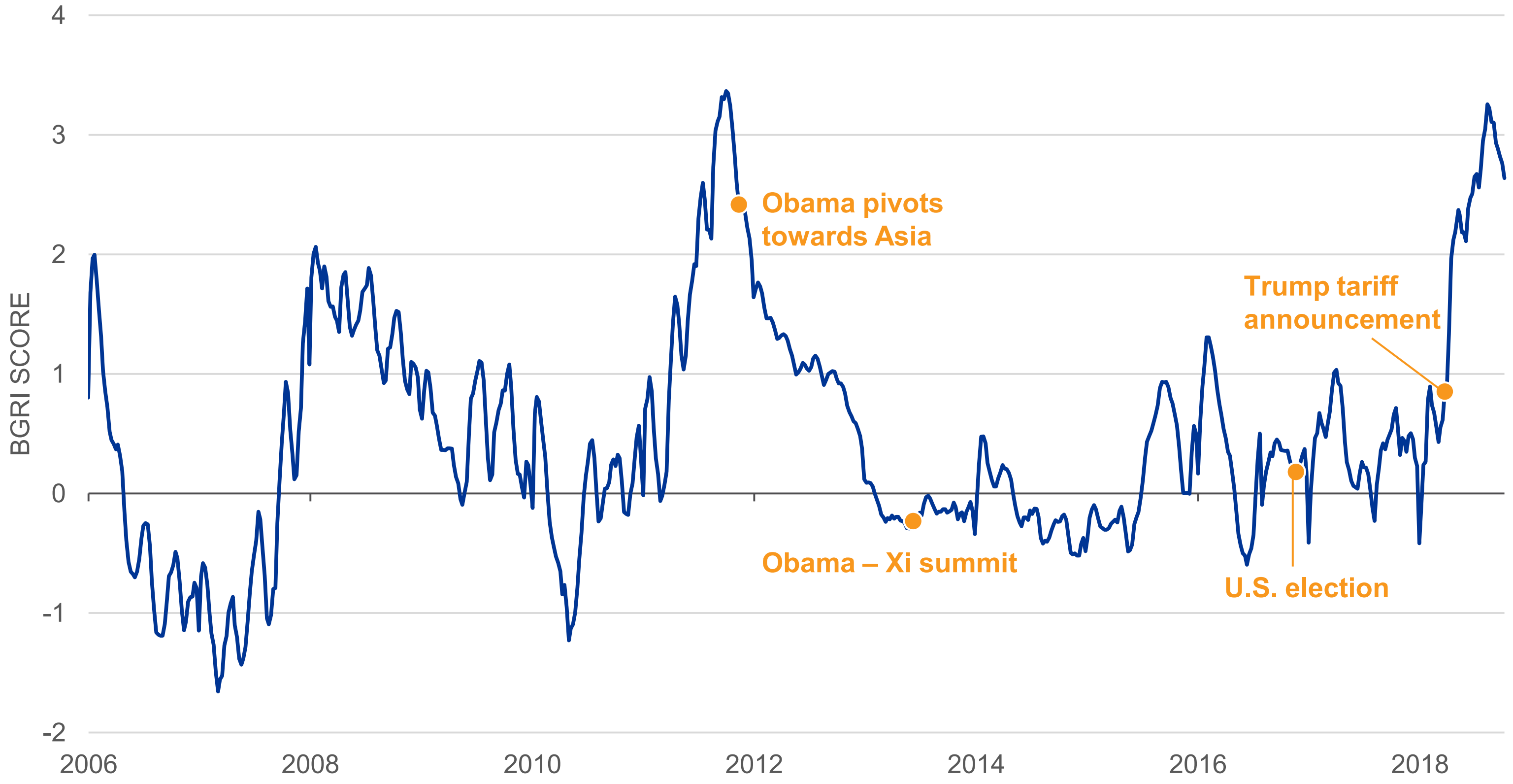


There is no guarantee that any forecasts made will come to pass.
Source: BlackRock Investment Institute, with data from Consensus Economics, October 2018.
Notes: The lines show the distribution of two-year forward U.S. GDP forecasts as of September 2018 and 2017. The vertical axis shows the relative frequency of each forecast.

2. Main topics of Q2 2018

We expect trade conflicts to worsen before they get better

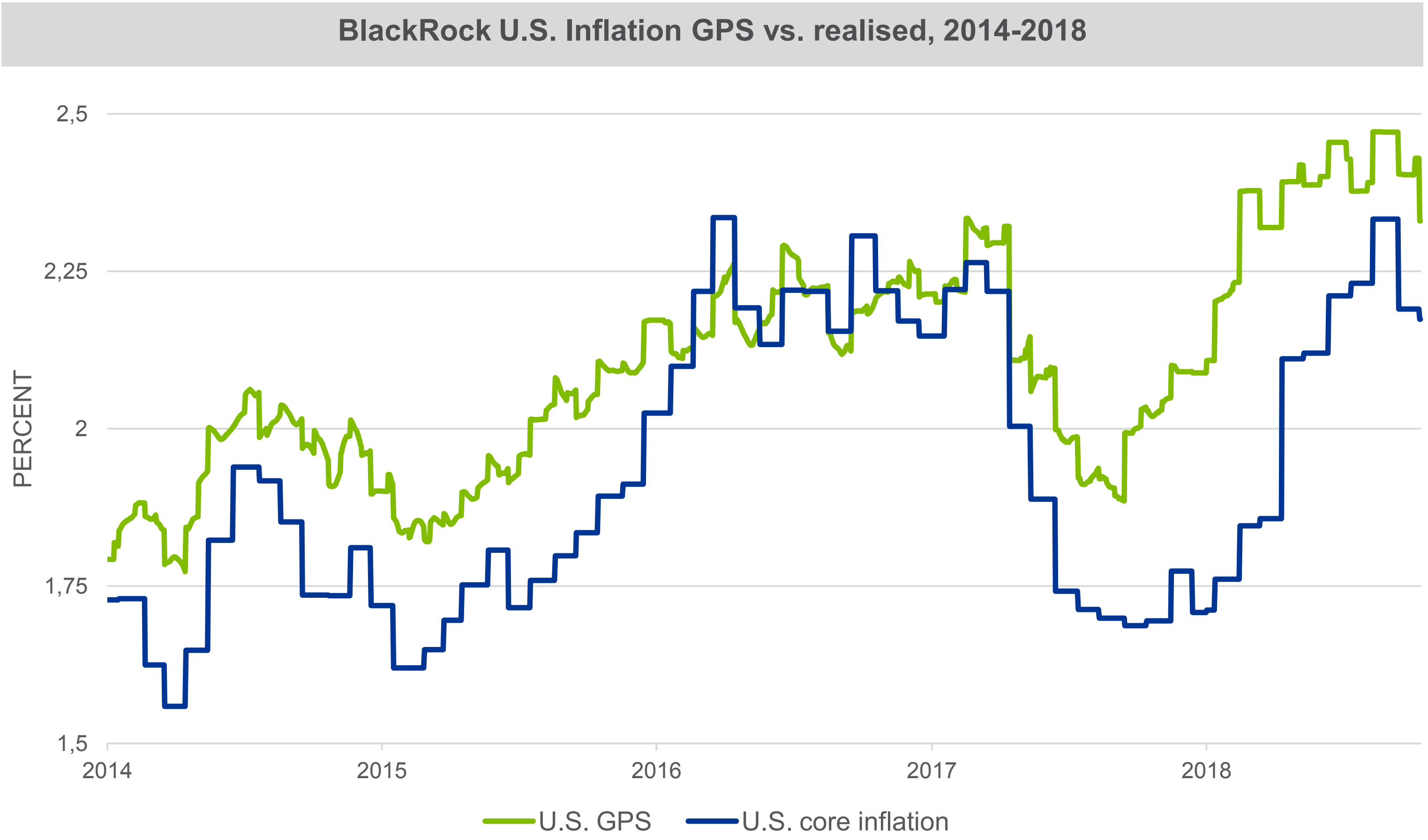
BlackRock Geopolitical Risk Indicator (BGRI): U.S. / China tensions, 2006-2018



Source: BlackRock Investment Institute, with data from Thomson Reuters. Data as of October 2018. Notes: We identify specific words related to each geopolitical risk and use text analysis to calculate the frequency of their appearance in the Thomson Reuters Broker Report and Dow Jones Global Newswire databases as well as on Twitter. We then adjust for whether the language reflects positive or negative sentiment, and assign a score. A zero score represents the average BGRI level over its history from 2003 up to that point in time. A score of one means the BGRI level is one standard deviation above the average. We weigh recent readings more heavily in calculating the average. The BGRI's risk scenario is for illustrative purposes only and does not reflect all possible outcomes as geopolitical risks are ever-evolving.

2. Main topics of Q2 2018

Return of inflation

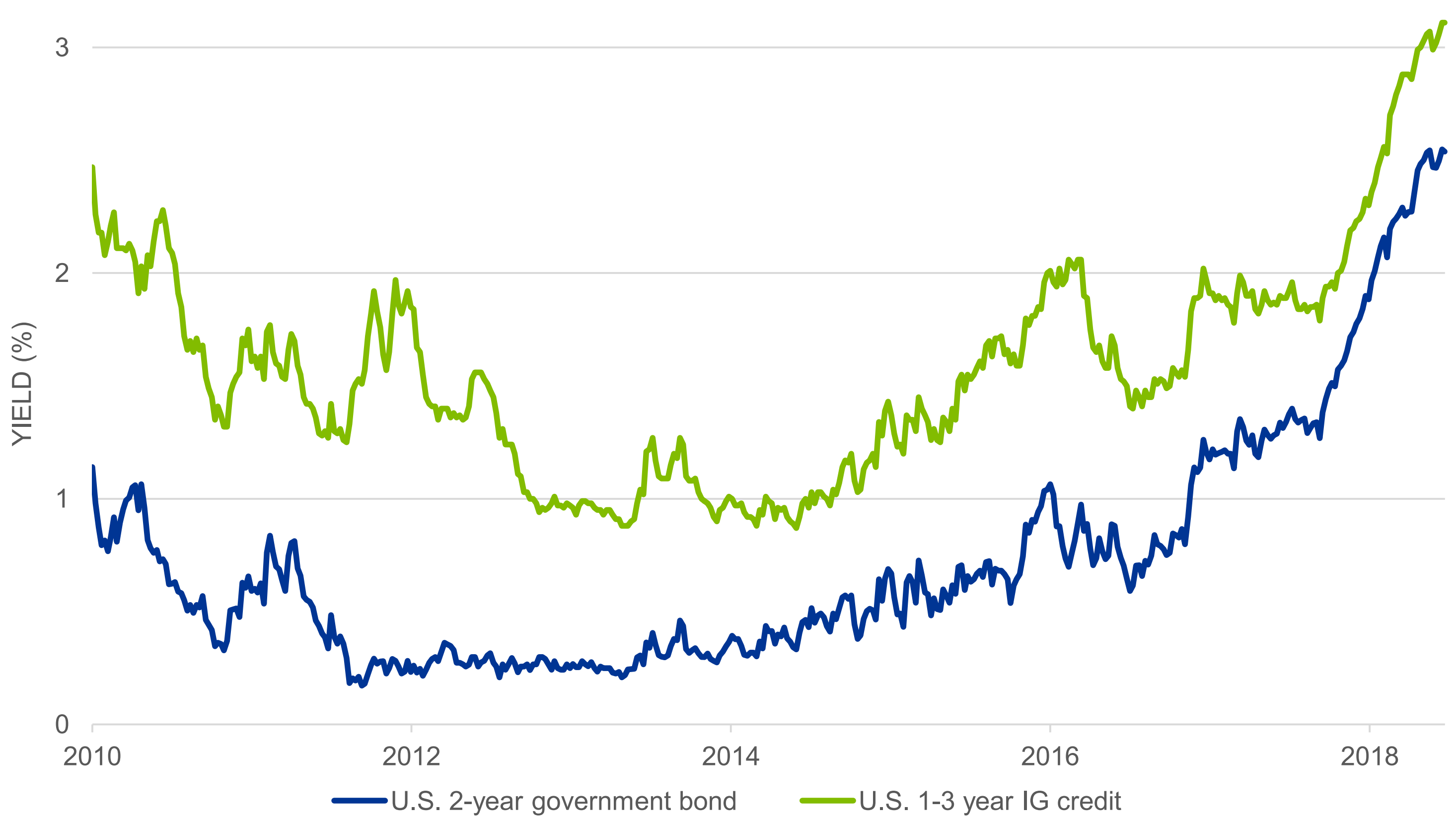


Forward looking estimates may not come to pass.
Source: BlackRock Investment Institute with data from Thomson Reuters, October 2018. Notes: The chart shows U.S. core inflation (CPI) and BlackRock estimates of where core inflation may stand in six months' time.

2. Main topics of Q2 2018

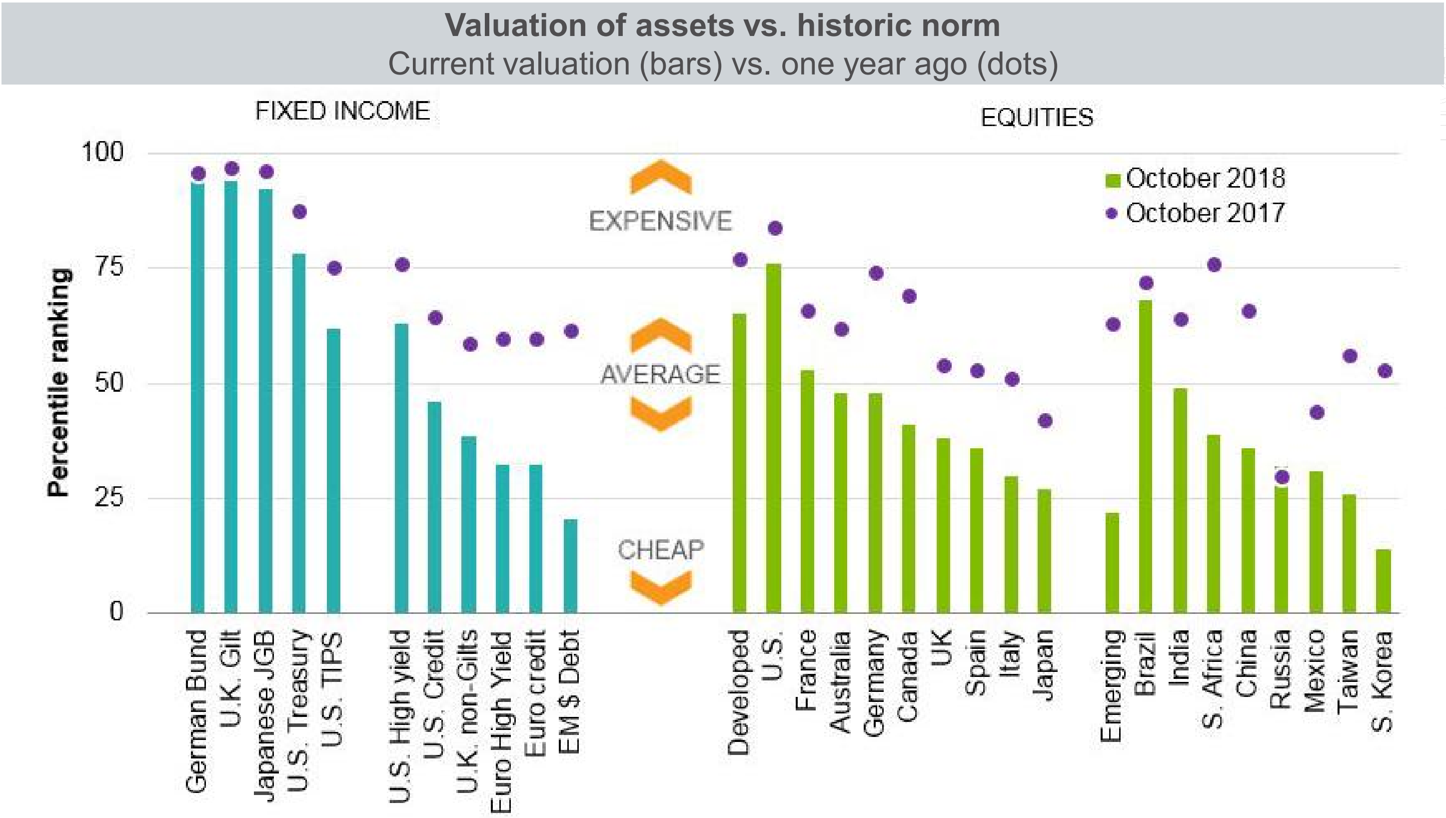
Higher interest rates & inflation lead to stricter financial conditions

Short duration U.S. Treasury and credit yields, 2010-2018



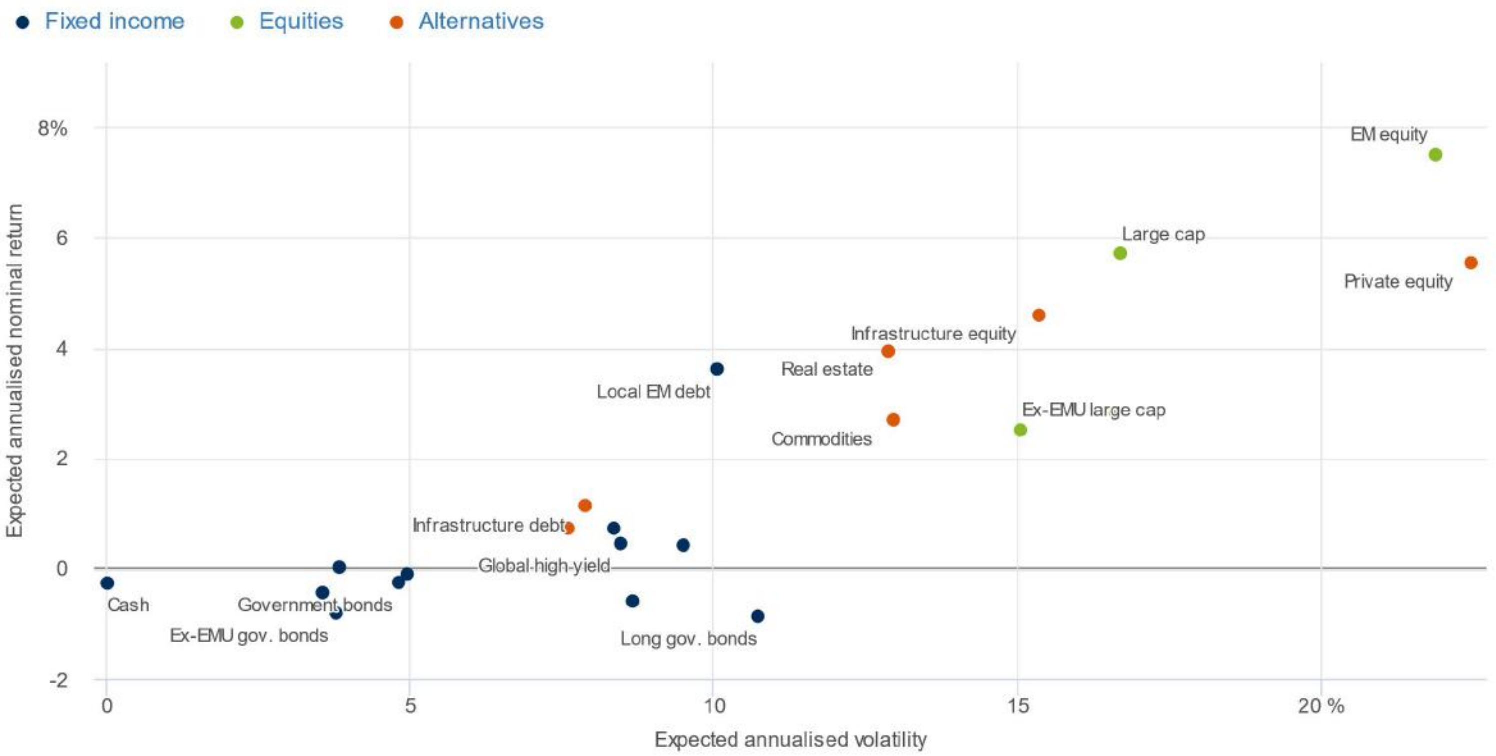
Past performance is not a reliable indicator of future results. Indexes are unmanaged. It is not possible to invest directly in an index.
Sources: BlackRock Investment Institute, with data from Thomson Reuters and Bloomberg Barclays, July 2018. Notes: The lines show the yield on the Datastream 2-year Benchmark Government Bond index and Bloomberg Barclays U.S. Credit 1-3 Years index.

3. Diversification and resilience in the portfolio are essential



Sources: BlackRock Investment Institute, with data from Thomson Reuters, 31 October 2018.
Notes: the percentage bars show valuations of assets as of 31 October 2018, versus their historical ranges. For example, U.S. equities are currently on the 76th percentile. This means U.S. equities trade at a valuation equal to or greater that 76% of their history. The dots show where valuations were a year ago. Government bond are 10-year benchmark issues. Credit series are based on Barclays indexes and the spread over government bonds. Treasury inflation Protected Securities (TIPS) are represented by nominal 10-year US treasuries minus inflation expectations. Equity valuations are base on MSCI indexes and are an average of percentile ranks versus available history of earnings yield, cyclically adjusted earnings yield, trend real earnings, dividend yield, price to book, price to cash flow and forward 12-month earnings yield. Historical ranges vary from 1969 (developed equities) to 2004 (EMS debt).

3. Diversification and resilience in the portfolio are essential



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise – or even an estimate - of future performance. Source: BlackRock Investment Institute, August 2018. Data as of 30 June 2018 Notes: We derive our return expectations from our CMAs. Five-year and long-term equilibrium annualised return expectations are in geometric terms. Return assumptions are total nominal returns. Return expectations for all asset classes are shown in hedged terms, with the exception of EM equity, local-currency EM debt, hedge funds and private markets. We use long-term volatility assumptions. We break down each asset class into factor exposures and analyse those factors' historical volatilities and correlations over the past 17 years. We combine the historical volatilities with the current factor makeup of each asset class to arrive at our forward-looking assumptions. This approach takes into account how asset classes evolve over time. Example: Some fixed income indices are of shorter or longer duration than they were in the past. Our forward-looking assumptions reflect these changes, whereas a volatility calculation based only on historical monthly index returns would fail to capture the shifts. We have created BlackRock proxies to represent asset classes where historical data is either lacking or of poor quality. Expected return estimates are subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios; in the event a particular scenario comes to pass, actual returns could be significantly higher or lower than forecasted.

Conclusion

1. Be careful with large concentrations in your portfolio…

- We prefer to invest in the **United States**
- We are positive, but selective about **Emerging Markets** with a preference for **Asia**

2. … but diversify

We have a preference for:

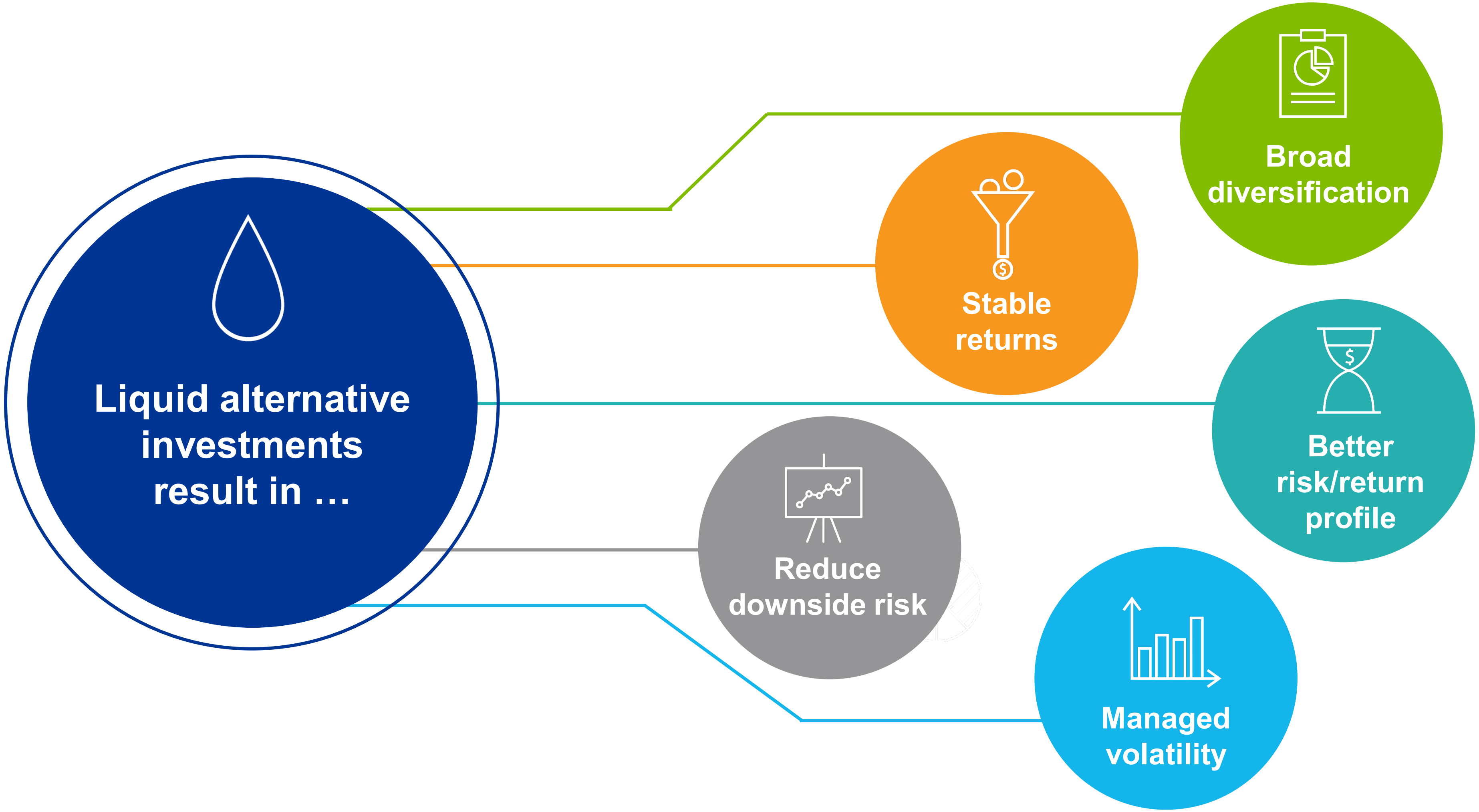
- **Quality companies** with strong balance sheets
- **Short-term government and corporate bonds** to reduce equity risk
- **Bonds in Emerging Markets** in USD

3. Less positive on Europe & United Kingdom

- Due to a weaker growth

Source: BlackRock Investment Institute. As of October 2018. Subject to change. This material represents an assessment of the market environment at a specific time and is subject to change. This is not intended to be a forecast of future events or a guarantee of future results.

Alternative investments behave differently from traditional equities and bonds



Source: BlackRock, June 2018. Diversification and asset allocation may not fully protect you from market risk.

Important information

BlackRock Capital Market Assumptions

This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. Note that these asset class assumptions are passive, and do not consider the impact of active management. All estimates in this document are in U.S. dollar terms unless noted otherwise. Given the complex risk-reward trade-offs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations to all the asset classes and strategies.

References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Assumptions, opinions and estimates are provided for illustrative purposes only. They should not be relied upon as recommendations to buy or sell securities. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material has been prepared for information purposes only and is not intended to provide, and should not be relied on for, accounting, legal, or tax advice.

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BlackRock 5-year asset return and long-term volatility assumptions

Five-year and long-term equilibrium annualized return assumptions are in geometric terms. Return assumptions are total nominal returns. Return assumptions for all asset classes are shown in unhedged terms, with the exception of global ex-US treasuries. We use long-term volatility assumptions. We break down each asset class into factor exposures and analyse those factors' historical volatilities and correlations over the past 15 years. We combine the historical volatilities with the current factor makeup of each asset class to arrive at our forward-looking assumptions. This approach takes into account how asset classes evolve over time. Example: Some fixed income indices are of shorter or longer duration than they were in the past. Our forward-looking assumptions reflect these changes, whereas a volatility calculation based only on historical monthly index returns would fail to capture the shifts. We have created BlackRock proxies to represent asset classes where historical data is either lacking or of poor quality. Expected return estimates are subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios; in the event a particular scenario comes to pass, actual returns could be significantly higher or lower than forecasted. The geometric return, sometimes called the time-weighted rate of return, takes into account the effects of compounding over the investment period. The arithmetic return can be thought of as a simple average calculated by taking the individual annual returns divided by the number of years in the investment period.

Index returns are for illustrative purposes only and do not represent any actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

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