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Press Release

For Immediate Release

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Barclays suggests 2016 returns will be mediocre and recommends investors stay neutral on risk assets

Global Outlook report sees elevated valuations as priced for a benign financial environment, which could turn more challenging as the year progresses

New York and London, November 12, 2015 – Growth in advanced economies is on solid ground, albeit disappointing by historical standards, and the likelihood of a major blow to risk assets in the near term is limited, according to Barclays' latest flagship quarterly research publication *Global Outlook: Curb your enthusiasm*. However, elevated asset prices imply modest potential upside, especially as the current benign environment is unlikely to persist as 2016 progresses.

"We do not expect the early stages of the Fed hiking cycle to disrupt global interest rate or equity markets," said Ajay Rajadhyaksha, Head of Macro Research. "However, financial markets are priced for a benign financial environment – steady growth, low inflation and loose monetary policy. This is unlikely to persist as 2016 progresses. We suggest that investors start the year neutral on risk assets, but recommend keeping some powder dry to take advantage of possible risk-off episodes, such as the China-linked sell-off we saw in August."

The likelihood of a cyclical recovery in corporate earnings appears higher in continental Europe than in the more cyclically advanced US, UK and Japan. But outperformance in European equities will likely be offset by local currency weakness. Moreover, it may be too early to forecast a definitive end to Emerging Market equity underperformance.

With fixed income returns challenged by the start of Fed rate hikes, the belly of the risk curve offers the most attractive opportunities. Investment grade credit appears priced for too pessimistic an outcome and offers the most attractive risk-return trade-off. While Emerging Market credit as an asset class will be challenged by rising defaults and worsening technical conditions, there may be opportunities in select US dollar Emerging Market credit.

Other recommendations in the *Global Outlook* include:

- The US dollar is likely to have another strong year, as policy divergence between the Fed and other central banks increases. The Euro and many Emerging Market currencies are likely to weaken against the US dollar, but not the Japanese yen.
- Safe-haven duration markets are likely to remain range-bound; we expect the 10-year Treasury to trade between 2.1% and 2.6%, and 10-year bunds between 0.4% and 0.9%.
- Despite fears expressed by some investors, a global recession remains unlikely, given the continued tailwinds behind the global consumer – low inflation, easy financial conditions and tighter labor markets.

Barclays' *Global Outlook* report, published quarterly, provides an assessment of all major economies and markets, and outlines recommendations for investors. Visit our Investment Bank website to watch a video interview on the latest *Global Outlook* with Ajay Rajadhyaksha and Michael Pond, Head of Global Inflation-Linked Research.