Macro and Market Outlook – as of 30 June 2017

(12-month outlook, updated quarterly)

Neg. N Pos.

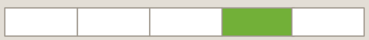
Central Bank (same*)

- The US Federal Reserve raised interest rates in December, March and again in June. The outlook is for one to two more increases this year, but the timing is uncertain.
- The Bank of England kept rates steady, but is leaning toward increases.
- The European Central Bank and the Bank of Japan are not ready for higher rates.

Liquidity & Credit (same*)

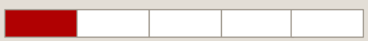
- Financial conditions continue to be accommodative and financial stress is near a multi-year low.
- Very narrow investment grade & high yield spreads point to increasing appetite for risk and yield.
- Rising short term interest rates prevent us from a higher rating.

Economic (same*)



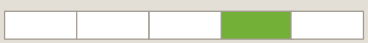
- US Household income is at its highest level since 2008, and unemployment is very low.
- While global growth is not strong, there is a movement towards synchronization of global growth.
- Excess supply, which is deflationary, is shifting towards a balance between demand and supply.
- China might have accelerated growth in 2017.

Valuations (same*)



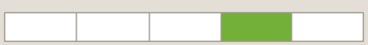
- While near double-digit earnings growth was supported by top-line growth in the first quarter, the continued push to new highs leaves valuations at elevated levels, particularly on longer-term valuations measures.
- European and emerging market equities continue to look attractive on a relative basis.

Sentiment (increase by 1*)



- Consumer confidence is at a 10-year peak.
- Institutional investors are overall neutral and perhaps taking a pause due to high valuations.
- Asian investors are overall more positive.
- Investors are willing to pay a higher price when there are lower levels of uncertainty.

Technical (increase by 1*)



- While the headline indexes continue to be powered by very strong momentum, the overall breadth of companies making new highs is narrowing. The technical rating would be higher if markets were coming off a low, as opposed to hitting new highs.
- A consolidation phase is likely.

Overall (same**)

Conclusion:

Our outlook remains neutral. Equities have traded higher on momentum, which is losing steam. Political uncertainty is coming out of the market, but valuations are very high. We are maintaining a normal level of risk in our portfolios.

AFL Investments

*Change from the previous 12-month outlook.

** The Overall rating is not a simple average. The weights are determined by AFL at its discretion based on market conditions.

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