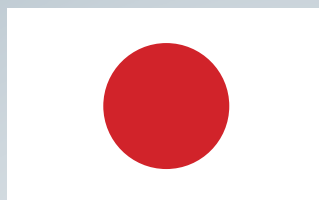


## Central banks shift dovishly as activity and inflation news stays weak



### Highlights:

#### US

##### Fed U-turn

The Federal Open Market Committee tore up December guidance for two interest rate hikes during 2019, signalling a neutral policy stance. Core consumption price inflation (excluding food and energy prices) remained below the 2% target, at 1.8% in February.

#### China

##### Tax cut

The VAT rate for manufacturers was reduced from 16% to 13% as part of a fiscal package designed to achieve GDP growth of 6.0-6.5% in 2019, down from 6.6% in 2018. Purchasing managers' surveys firming in March, raising recovery hopes.

#### Japan

##### Target failure

The Bank of Japan left policy unchanged despite lowering its forecast for consumer price inflation, excluding fresh food and the impact of a coming VAT hike, in fiscal year 2019 from 1.4% to 0.9% – far below the 2% target.

#### Eurozone

##### Further weakness

GDP grew by only 0.2% in the fourth quarter, while the manufacturing purchasing managers' index hit a six-year low in March. The European Central Bank strengthened its dovish interest rate guidance, signalling no rise before 2020.

#### UK

##### Brexit pile-up

Labour market data remained solid but business confidence weakened sharply on rising fears of a no deal Brexit. Manufacturing purchasing managers' surveys reported record stockpiling to protect against supply disruption in the event of a disorderly departure.

#### Emerging markets

##### Inflation fall

Declines in oil and food commodity prices in late 2018 fed through to lower consumer price inflation, although core pressures were little changed. Russia was a notable exception, with a VAT hike adding to a rising inflation trend.

### Trends to watch:

#### US

##### Inventory adjustment

Business inventories surged in late 2018 / early 2019 as demand undershot firms' expectations. Production cut-backs to clear the overhang may cause GDP growth to fall short of forecasts, with negative effects transmitted through global supply chains.

#### China

##### Monetary weakness

Stronger purchasing managers' surveys and reports of progress in US / Chinese trade talks have boosted economic recovery hopes, but money and credit trends remain weak – a pick-up is needed to confirm that policy stimulus is working.

#### Japan

##### BoJ policy rethink?

Inflation remains too low but JGB yields are also undershooting, implying a further slowdown in official bond-buying. Will the Bank of Japan rejig its policy in another attempt to provide stimulus or admit that inflation is unlikely to reach its target?

#### Eurozone

##### Survey turnaround?

Business surveys could be bottoming. Economic weakness was foreshadowed by a monetary slowdown in late 2017 / early 2018 but money trends have recovered since late 2018, suggesting improving economic prospects – assuming no external shocks.

#### UK

##### Business retrenchment

Corporate money trends have deteriorated, reflecting a wage squeeze on profits and cash depletion due to stockpiling of imported inputs. Similar weakness historically has presaged investment and job cuts and a slowdown or contraction in economic activity.

#### Emerging markets

##### Fragile currencies

Central banks have shifted dovishly following currency recoveries and a fall in headline inflation but policy easing could backfire – core inflation trends are less benign and exchange rates could come under renewed pressure unless the Fed cuts rates.

## Key market data

Equity market returns for Q1 2019 (%)	Qtr local currency	YTD local currency	Qtr Sterling	YTD Sterling	Qtr Dollar	YTD Dollar
US S&P 500	13.1	13.1	10.5	10.5	13.1	13.1
Japan: Topix	6.5	6.5	3.3	3.3	5.6	5.6
Euro area: Euro Stoxx	11.7	11.7	7.2	7.2	9.7	9.7
FTSE All Share	8.3	8.3	8.3	8.3	10.8	10.8
MSCI Far East ex Japan (US \$)	-	-	9.2	9.2	11.7	11.7
MSCI Emerging Markets (US \$)	-	-	7.1	7.1	9.6	9.6

Source: Thomson Reuters Datastream, Janus Henderson Investors, index price returns, as at 31 March 2019.

### Constituents:

Euro area: EU member states using euro currency (currently 19)

Asia: China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam

BRICs: Brazil, Russia, India, China

World: G10, Eastern Europe & Africa, Asia, Latin America, Middle East

Consensus GDP growth forecasts (%)	2019	2020	2021
US	2.4	1.9	1.8
Japan	0.7	0.5	0.8
Euro area	1.2	1.4	1.5
UK	1.3	1.5	1.7
Asia ex Japan	5.7	5.6	5.5
BRICs	5.5	5.5	5.4
World	3.4	3.3	3.0

Source: Bloomberg, economic forecasts, as at 4 April 2019. Forecast GDP = real gross domestic product.

Bonds (%)	31 Mar 2019 yield	Qtr return	YTD return
US 10-year Treasury	2.42	2.32	2.32
Japan 10-year government bonds	-0.09	1.01	1.01
Germany 10-year Bund	-0.07	3.59	3.59
UK 10-year Gilts	1.00	2.31	2.31
Corporate bonds: (Barclays Global Aggregate Corporate Index \$)	-	3.60	3.60
High Yield: (Merrill Lynch Global High Yield \$)	-	6.49	6.49
Emerging market debt (JPM Global Emerging Markets Debt \$)	-	6.59	6.59

Source: Thomson Reuters Datastream, Janus Henderson Investors, as at 31 March 2019.

The above data is intended for illustration purposes only and is not indicative of the historical or future performance or the chances of success of any particular strategy. References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase the security.

	Forecast P/E		Forecast EPS growth (%)	
	2019	2020	2019	2020
World	15.2	13.7	4.7	10.6
Developed	15.7	14.3	4.2	10.1
Emerging markets	12.2	10.8	7.5	13.1
UK	12.7	11.7	1.8	8.0
US	17.2	15.4	3.8	11.7
Euro area	13.2	12.0	5.9	9.8
Japan	13.5	13.0	-2.7	3.7

Source: Thomson Reuters Datastream, Janus Henderson Investors' calculations, and IBES (Institutional Brokers' Estimates System) estimates for MSCI Indices, as at 31 March 2019. Forecast P/E (price-to-earnings ratio), Forecast EPS (earnings per share).

Consensus inflation forecasts (CPI %)	2019	2020	2021
US	1.9	2.2	2.2
Japan	0.9	1.2	0.8
Euro area	1.4	1.5	1.8
UK	2.0	2.0	2.0
Asia ex Japan	2.2	2.4	2.6
BRICs	2.7	2.8	2.9
World	3.1	3.1	3.1

Source: Bloomberg, economic forecasts, as at 4 April 2019. Forecast CPI = consumer price index.

Currencies and commodities	31 Mar 2019	Qtr change (%)	YTD change (%)
Yen/\$	110.69	-	-
Yen/£	144.23	-	-
\$/£	1.30	-	-
Euro/\$	0.89	-	-
Euro/£	1.16	-	-
S&P GSCI Total Return Index \$	-	14.97	14.97
Brent oil (\$/barrel)	-	29.02	29.02
Gold bullion (\$/Troy oz)	-	1.12	1.12

Source: Thomson Reuters Datastream, Janus Henderson Investors, as at 31 March 2019.

## Multi Asset Team: asset allocation dashboard

### BONDS



	Outlook	Comments
Global corporate	▼	Recent strong performance amid positive growth and falling bond yields have left valuations stretched and vulnerable to any positive growth shocks.
UK gilts	▼	Mixed economic data prints and Brexit uncertainty have kept yields low, although risks feel asymmetric at these levels.
Global sovereign	▼	Dovish central bank sentiment has driven yields lower despite ongoing economic growth, leaving valuations stretched and holding benefits low.
Emerging market debt	◆	Country-specific risks remain a headwind but tempering dollar strength and attractive spreads present a good entry point in local currency debt.
High yield	◆	Strong performance after a volatile 2018 has seen spreads tighten, but return potential is acceptable in a world of stable growth and dovish central banks.

### EQUITIES



	Outlook	Comments
UK	◆	Brexit and sterling dominate short-term moves but international composition and negative sentiment leave room for contrarian rally.
Europe	◆	Mixed macro data and political turbulence remain headwinds, but any pick-up in risk sentiment or economic growth should be positive.
US	▼	The year-to-date rally has recouped all losses from Q4 2018 despite a maturing economic cycle and expensive valuations relative to history.
Japan	▲	Valuations look compelling, with some positive macro data to support corporate activity, while Chinese stimulus adds an additional boost.
Asia	▲	Valuations look attractive despite the recent rally, while slowing rate rises, a weaker dollar, Chinese stimulus and cautious positioning could benefit.
Global emerging markets	▲	Valuations look attractive despite the recent rally, while slowing rate rises, a weaker dollar, Chinese stimulus and cautious positioning could benefit.

### CURRENCIES



	Outlook	Comments
£/\$	◆	Brexit-related volatility plagues the UK, while dovish Fed communications and a softening in US macro data restrains the US dollar upside.
£/€	◆	Political developments seem likely to continue to drive headlines and market moves on both sides of the Channel.
£/¥	◆	No outright view given the Brexit hysteria although the yen does offer a safe haven status in a world of positive correlations across most asset classes.

Positive ▲ Neutral ◆ Negative ▼

### ALTERNATIVES



	Outlook	Comments
Property	◆	Property has performed well and typically struggles in a rising interest rate environment. However, yields remain higher than many asset classes.
Gold	◆	Gold is a useful hedge as markets become more volatile and returns have improved as demand has increased in the recent risk-off environment.
Oil	◆	Poor supply and demand dynamics have hit oil prices, but this has scope to rebound as markets price in a slightly better macro outlook for 2019.

# Janus Henderson

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INVESTORS

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