

Review of 2015 Themes

Total Score for 2015 = 90%



Investment Theme	Investment Theme Recommendation	Grade	Rationale
Good, but Not "Great Expectations"	Dial Down Return Expectations as Valuations are Less Attractive and Volatility is to Increase	✓	S&P 500 PE contracted for the first time since 2011 and average daily S&P 500 volatility (16.7) was the highest since 2012. FX and Treasury Volatility also increased.
Diverging Dynamics in Monetary Policy	U.S. to be the Developed Market Leader, Leading to Diverging Monetary Policy	✓	The U.S. is on path to post 2.2% growth compared to 1.4% in Europe and 0.8% in Japan. The Fed hiked rates for the first time since 2006, while the ECB announced QE.
Fixed Income – Shooting at Small Targets	Slight Rise in Treasury Yields; Favor Investment Grade and High Yield over Treasuries	—	10 Year treasury yields rose only 10 bps throughout 2015. However, both high yield and investment grade credit underperformed treasuries.
EM Fixed Income – Hard Pressed	Favor EM Hard Currency Bonds over EM Local Currency Bonds	✓	EM hard currency bonds significantly outperformed both local currency bonds and the Barclays Agg by 1167 bps and 74 bps, respectively.
DM Equities – "Earning" Their Way Higher	Accommodative Policy Will Drive Global Equities Higher. S&P will Post Positive Returns for Seventh Year	✓	While the S&P 500 is on pace to post slightly positive earnings and returns for the seventh straight year. On the back of weaker currencies, Europe and Japanese earnings outpaced the U.S.
Dividend Stocks	Favor Dividend Paying Stocks	✓	Both the S&P 500 Dividend Aristocrats Index (+0.93%) and the EuroStoxx 50 (7.3%) were positive in 2015.
Sector Focus	The NASDAQ will reach a record high. Favor Consumer Discretionary and Info Tech	✓	The NASDAQ reached a record high in 2015. Both consumer discretionary (+10.1%) and info tech (+5.9%) outperformed the S&P 500 (+1.4%).
EM Equities – Honey I Shrank the Growth Premium	Favor DM Equities over EM. Within EM, favor Asia over LATAM	✓	DM equities (MSCI EAFE: -0.4% USD) outperformed EM equities (MSCI EM: -14.6% USD) by 1421 bps. Within EM, Asia outperformed LATAM by 2192 bps.
Dollar Dominance to Continue	The Dollar Will Continue to Rally in 2015. Invest on a Currency Hedged Basis	✓	The Dollar rose ~9% in 2015 and has rallied against every major currency. While the MSCI AC World is down 1.8% in USD terms, it is up 1.8% in local terms.
Real Assets – Rank Rattle and Roll	Favor REITs and Infrastructure Over Crude Oil and Gold	—	While REITs (+2.8%) outperformed both gold (-10.5%) and crude oil (-30.5%), infrastructure (-14.4%) lagged gold returns.