REVIEW & Outlook

Q2 2015
Q3 2015

Global Financial Markets

BIAS
INVESTMENT MANAGERS - SECURITIES ANALYSTS

JUNE 30, 2015

Contents

Review Q2 2015

Outlook Q3 2015

World Markets Quarterly Review

June 30, 2015

1 DJIA	-0.3%	3 BSX	-10.5%	7 UK FTSE	3.1%	11 Nikkei	3.6%
1 S&P 500	0.3%	4 Bolsa	1.0%	8 CAC	1.3%	12 Hang Seng	7.2%
1 NASDAQ	2.1%	5 Bovespa	7.0%	9 DAX	-4.9%	13 Straits Times	-0.7%
2 TSX	-0.1%	6 Merval	4.5%	10 Kospi	0.8%	14 ASX	-5.4%

The S&P Global 1200 Index gained 0.6 percent for the quarter ended June 30, 2015. All returns are expressed in US dollars.

Stock, Bond, Currency Overview

Global Stock Markets

- After a strong start, global equity markets closed the Second Quarter with only a marginal gain after risks arising from a Greek default erased returns from earlier in the period.
- In the US, negative First Quarter GDP growth weighed on stocks.
- In Europe, stocks were buoyed by the ECB's Quantitative Easing but risks from a Greek default eroded gains late in the quarter.
- Asian markets were the best performers in the Second Quarter led by Japan and China.

Bond Markets

- Treasury yields rose in the Second Quarter as economic data, while mixed, indicated the US economy was gathering momentum.
- Interest rates in the eurozone rose from historically low levels amid nascent signs of inflation and improving economic data in the region.
- Investment grade corporate bonds underperformed Treasuries in the quarter as uncertainty over the Greek debt outcome sent investors to the certainty of Treasuries.

Currency Markets

- The US dollar weakened against most major currencies after the Fed lowered projections for interest rates on mixed economic data.
- The euro reversed some of the weakness against the dollar from the First Quarter in response to stronger economic data in the region.
- Sterling advanced against all major currencies as the Conservative Party surged to gain a majority in the parliamentary election, reducing political uncertainty.

North American Stock Markets

Indices	31 Mar 2015	30 Jun 2015	Total Returns Local Curr.	Total Returns US$
US Dow Jones Industrial	17,776.12	17,619.51	-0.3%	-0.3%
US S&P 500	2,067.89	2,063.11	0.3%	0.3%
US NASDAQ	4,900.89	4,986.87	2.1%	2.1%
Canada TSX	14,902.44	14,553.33	-1.6%	-0.1%
S&P Global 1200	1,927.26	1,922.87	0.6%	0.6%

Source: Bloomberg

Negative First Quarter GDP growth and mixed economic data weighed on US stocks.

- **On May 12** Verizon Communications Inc. agreed to buy AOL Inc. for $4.4 billion. The implied price represents a 23 percent premium over AOL's three-month volume-weighted average price. AOL owns websites such as the Huffington Post, Techcrunch, Engadget, Makers, and AOL.com. The acquisition is expected to give Verizon access to advanced technology developed by AOL for selling ads and delivering high quality web video. The acquisition is aligned with trends in content and media as consumers are increasingly watching videos online. AOL's shares rose 18 percent on the announcement while Verizon's shares fell 1.7 percent.

- **On May 27** Avago Technologies Ltd., a Singapore-based semiconductor maker, offered $37 billion to acquire US competitor Broadcom Corp. The deal priced a 16 percent premium to Broadcom's pre-announcement closing value and would be the biggest technology acquisition to-date. The purchase of Broadcom would create the world's sixth-largest chipmaker by revenue and was the latest in an industry where rising costs of production and design have pushed manufacturers to combine. On the day, Avago's shares increased 7.8 percent while Broadcom's shares jumped 22 percent.

- **June 5** Facebook Inc. and Senegal's telecom operator Tigo Senegal partnered to bring Internet.org to the African nation. Internet.org is a Facebook-led initiative which partners with local telecom operators to provide basic free internet services to subscribers. These typically include news websites, health websites, Wikipedia, and, of course, Facebook. Internet.org is currently available in 13 countries, which include Kenya, Colombia, Guatemala, Bangladesh, India, Indonesia, Philippines, Malawi, Pakistan, Ghana, Tanzania, Zambia, and Senegal. For Facebook, Internet.org could add a billion users to the service in the next decade. Facebook's shares rose 4.3 percent in the quarter.

- **June 9** WhiteWave Foods Co., the dairy producer known for its milk alternative brand 'Silk', agreed to buy nutrition food company Vega for about $550 million in cash. Vancouver-based Vega sells plant-based powdered shakes and snack bars and had sales of about $100 million in the past twelve months. WhiteWave's Chairman and CEO Gregg Engles said the deal is in-line with the company's strategy to expand business into high-growth categories. WhiteWave's shares rose 10.2 percent in the quarter.

Latin American Stock Markets

Indices	31 Mar 2015	30 Jun 2015	Total Returns Local Curr.	Total Returns US$
Mexico Bolsa	43,724.78	45,053.70	3.7%	1.0%
Brazil Bovespa	51,150.16	53,080.88	3.8%	7.0%
Argentina Merval	10,837.23	11,656.81	7.6%	4.5%
Chile IPSA	3,916.92	3,897.10	-0.5%	-2.7%
S&P Global 1200	1,927.26	1,922.87	0.6%	0.6%

Source: Bloomberg

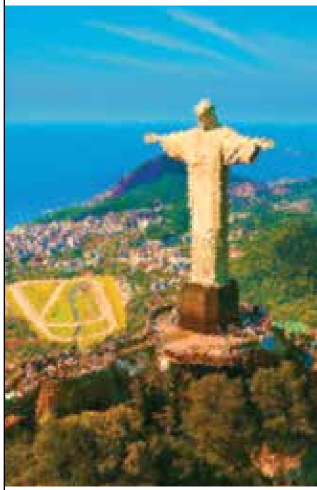
- **On April 23** the Mexican company Cemex SAB announced first quarter earnings. The results were slightly lower than market expectations, but were still considered good as the company's cement and ready-mix volumes recovered, demand was solid in most regions, and the company's price increases had been well received. Highlights from the report were record cement volumes in the Philippines and Nicaragua and the best performance in Mexico since 2009. The quarterly release also showed that net sales grew ten percent in the US, the company's biggest market. Cemex' shares rose 3.6 percent in the quarter.

- **On May 6** Companhia de Bebidas das Americas, AmBev, announced first quarter results. The Brazilian company is one of the largest brewers in the world and also distributes Pepsi products in Latin America. The company's net revenues increased 14 percent year-over-year, driven by solid growth, better than expected Brazil beer volumes, strong pricing, and margin gains across most regions. Earnings per share (EPS) rose to 0.18 from 0.16 in the Q1 2014. AmBev's shares rose 3.5 percent in the quarter.

- **On May 28** Telefonica SA closed a deal that will create the largest Brazilian telecom company. The company got shareholder's approval for the €7.5 billion purchase of Global Village Telecom (GVT). GVT will be integrated with Telefonica's Brazilian affiliate, Vivo, to create a new company called Telefonica Brazil. Vivo has the largest national 3G and 4G network while GVT has an extensive fiber optics network, which makes the integration appealing for both due to the complementary nature of their businesses. Significant synergies are expected from the integration, particularly from cross selling, customer service, and the deployment of high-speed networks. Telefonica's shares fell 12.0 percent in the quarter.

- **On June 22** JBS SA agreed to buy Marfrig Global Food's unit, Moy Park, in the UK for about $1.5 billion. The transaction between the two Brazilian food-processing companies included $1.19 billion in cash and the assumption of $317 million in debt at the unit. Marfrig, a supplier of meat to McDonald's Corp. and Burger King Worldwide Inc., had previously considered an IPO of another offshore unit, US-based Keystone Foods Ltd., in order to boost growth and reduce leverage. Instead, by selling Moy Park, a producer of fresh and processed poultry, Marfrig will be able to focus on expanding Keystone's food service business in Asia and the US, emphasizing beef exports from Brazil to those regions. Marfrig's shares jumped 9.3 percent in Sao Paulo trading on the announcement.

Brazil led a rebound in Latin American markets in Second Quarter 2015.



European Stock Markets

Indices	31 Mar 2015	30 Jun 2015	Total Returns Local Curr.	Total Returns US$
UK FTSE	6,773.04	6,520.98	-2.7%	3.1%
Germany DAX	11,966.17	10,944.97	-8.5%	-4.9%
France CAC 40	5,033.64	4,790.20	-2.6%	1.3%
Spain IBEX 35	11,521.10	10,769.50	-5.4%	-1.6%
S&P Global 1200	1,927.26	1,922.87	0.6%	0.6%
S&P Europe 350	1,624.37	1,551.55	-3.0%	0.8%

Source: Bloomberg

Risks from a Greek default eroded gains in Europe.

- **On May 7** the Conservative Party surged to gain a majority lead in Britain's parliamentary election. The result eased concern among investors, who had been worried that an uncertain outcome could lead to political haggling to create a new government and hurt the nation's economy. The result of the election was considered market-friendly and the FTSE 100 rose 2.3 percent on the following day.

- **On June 5** Greece announced it would delay a €300 million payment to the IMF until the end of the month and bundle all four June payments together. The IMF said it had been notified by Greece's Syriza government that the entire €1.6 billion would be paid by June 30. This was the first time a developed country missed a payment to the IMF. Athens' stock market fell by more than three percent upon the news. Financial shares sold off the most, with Piraeus Bank, National Bank of Greece, and Eurobank all dropping more than five percent on the day. Later on June 30, Greece was unable to make the stipulated €1.6 billion payment after it failed to negotiate an externally funded bailout. European markets declined 2.2 percent on the day as a reaction.

- **On June 9** HSBC Holdings Plc announced plans to eliminate as many as 25,000 jobs under a three-year plan and sell operations in Turkey and Brazil to help restore profit growth. The sale of businesses will lower headcount by a further 25,000 helping cut annual costs by up to $5 billion. Since CEO Stuart Gulliver took over in 2011, he has announced more than 87,000 job cuts, exited about 78 businesses, and reduced the number of countries the bank operates in by 15 to 73. The latest move comes from pressure to reduce costs and reverse a decline in profit after a year that saw the bank face fines for manipulating currency markets and being embroiled in a tax-avoidance scandal in Switzerland. HSBC's shares fell one percent in London trading in the day.

- **On June 17** the £47 billion merger deal initiated in April between Royal Dutch Shell plc and British rival BG Group plc received approval from US regulators – the first clearance from a group of regulators including the EU, China, Australia and Brazil. Shell said the proposed merger cleared the first antitrust hurdle by receiving early termination of the 'US antitrust waiting period' from the US Federal Trade Commission. The merger will make Shell one of the major liquefied-natural-gas players while adding presence in the Brazilian offshore oil fields. Shell fell 13.9 percent while BG rose 27.8 percent in the quarter.

Pacific Rim Stock Markets

Indices	31 Mar 2015	30 Jun 2015	Total Returns Local Curr.	Total Returns US$
Japan Nikkei	19,206.99	20,235.73	5.4%	3.6%
Hong Kong Hang Seng	24,900.89	26,250.03	7.2%	7.2%
Hang Seng Red Chip	4,650.05	4,876.74	6.3%	6.3%
Korea Kospi 100	2,041.03	2,074.20	1.6%	0.8%
Singapore STI	3,447.01	3,317.33	-2.6%	-0.7%
Taiwan TWSE	9,586.44	9,323.02	-2.0%	-0.8%
Australia ASX 200	5,891.51	5,459.01	-6.6%	-5.4%
S&P Global 1200	1,927.26	1,922.87	0.6%	0.6%
FTSE Pacific ex-Japan	470.15	454.69	-2.4%	-2.4%

Source: Bloomberg

- **On April 28** Toyota Motor Corp. announced plans for rolling out electric cars in China starting this year. The roll out follows the Chinese government's strategic initiative to build electric cars on the mainland and encourage foreign manufacturers and their local partners to join the programme. As many as 40 electric models are expected to go on sale in China this year, three times the number two years ago, as automakers hew to government policies. Besides Toyota, other China electric vehicle ventures in the works include Volkswagen, Hyundai Motors, and BMW. Toyota's shares fell 2.2 percent in the quarter.

- **On June 14** Sonic Healthcare Limited announced the acquisition of Swiss medical laboratory group Medisupport S.A. for a mix of shares and cash as the company looks to expand its European footprint. Sonic's CEO said Medisupport's strong capabilities in laboratory disciplines, including genetics, will provide valuable synergy enhancement opportunities in Europe and around the world. Sonic's share price rose 2.2 percent in Sydney trading on the day of the announcement.

- **On June 16** foreign investors sold a net 1.11 trillion won ($984 million) worth of shares in South Korea's main KOSPI market. Overseas investors turned net sellers of South Korean stocks in June on concerns over a looming interest rate hike in the US and continued Greek debt standoffs. Furthermore, declining earnings estimates for South Korea's auto, IT, shipbuilding, and transportation industries lowered overseas appeal for the nation's stocks. The main KOSPI index fell 1.9 percent in June.

- **On June 16** Woolworths Ltd. announced Grant O'Brien will retire as CEO after less than four years at the helm as Australia's largest supermarket chain struggles with competition from discount rivals. The company also cut its full-year profit forecast and said it would fire 1,200 workers. O'Brien had pledged to restore profit growth that ran at more than ten percent annually for a decade. He acknowledged that recent performance had been disappointing and said that net profit will fall 12 percent in the current fiscal year – the second drop under O'Brien after 12 years of unbroken growth until 2011. Woolworth's shares fell 8.6 percent in the quarter.

Chinese markets gained on expected stimulus and favourable regulatory policies.

Bermuda & Cayman Stocks

Benchmark Indices	31 Mar 2015	30 Jun 2015	Total Returns Local Curr.	Total Returns US$
BSX Index	1,346.38	1,193.97	-10.5%	-10.5%
BSX Insurance Index	1,543.73	1,560.46	1.1%	1.1%
S&P Global 1200	1,927.26	1,922.87	0.6%	0.6%
Stocks				
ACE Ltd.	111.49	101.68	-8.2%	-8.2%
Ascendant Group Ltd.	5.20	5.00	-2.4%	-2.4%
Butterfield Bank	1.98	1.65	-16.2%	-16.2%
Caribbean Utilities	11.11	10.64	-2.8%	-2.8%
Consolidated Water Co.	10.27	12.60	23.4%	23.4%
XL Capital Ltd.	36.80	37.20	1.5%	1.5%

Source: Bloomberg

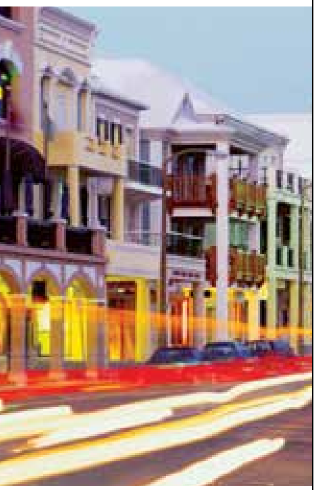
Local shares underperformed the global benchmark in the quarter.

- **On April 27** Bank of N.T. Butterfield & Son Ltd. agreed to buy the majority of Canadian Imperial Bank of Commerce's (CIBC) 19 percent stake in Butterfield for $120 million by the end of the month. Carlyle Global Financial Services will buy CIBC's remaining $23.4 million shares in Butterfield Bank. The stock was being repurchased at a discount price of $1.50 per share as the shares closed at $1.97 on the day before the announcement. The repurchase and subsequent cancellation of CIBC's shares will result in a 14.7 percent reduction in the number of common shares and increase other shareholders' proportional ownership in Butterfield. In the quarter, Bank of Butterfield's shares fell 16.7 percent.

- **On May 4** PartnerRe rejected the unsolicited $130 per share bid received from Exor S.p.A. PartnerRe believes the bid undervalued the company and does not fully recognize its strengths. Despite the fallout, PartnerRe confirmed commitment to the planned merger with Axis Capital Holdings Limited and announced enhanced terms that will allow it to deliver a one-time special dividend of $11.50 per share to common shareholders. The merger is expected to create $200 million in value from synergies.

- **On May 5** Caribbean Utilities Company, Ltd. announced unaudited results for the quarter ended March 31, 2015. Net earnings for the three months totaled $3.3 million, a decline of three percent when compared to the same quarter in 2014. The decrease was mainly due to higher depreciation, transmission, and distribution costs. These items were marginally offset by lower consumer service costs and higher other income. Furthermore, cooler average temperatures in the quarter compared to the First Quarter 2014 reduced the air conditioning load and the company's sales. Shares of Caribbean Utilities fell 4.2 percent in the quarter.

- **On June 21** Somers Ltd, which owns Bermuda Commercial Bank (BCB) and investment firm Waverton, posted a $7.5 million loss for the six months ended March 31, citing valuation losses and negative currency movements. The loss compared with a net income of $13.5 million in March 2014. The firm also recorded a net asset value decrease to $17.56 a share from the $18.96 reported in September 2014. Somers' chairman Warren McLelland said that BCB had invested in operating infrastructure, human resource development, and technology, and was bidding to become more customer-friendly to position BCB for future growth. Despite the $7.5 million loss, Somers announced an interim dividend payment of 18 cents a share payable to shareholders of record on June 26.



Global Bond Markets

Indices	(Yield to Maturity) 31 Mar 2015	30 Jun 2015	Total Returns Local Curr.	US$
US 2 Year	0.56%	0.64%	0.10%	0.10%
US 10 Year	1.92%	2.35%	-3.05%	-3.05%
US 30 Year	2.54%	3.12%	-10.41%	-10.41%
Canadian 10 Year	1.36%	1.68%	-2.50%	-1.00%
Australian 10 Year	2.32%	3.01%	-5.08%	-3.84%
UK Gilt 10 Year	1.58%	2.02%	-3.09%	2.75%
German Bund 10 Year	0.18%	0.76%	-5.27%	-1.59%
Japanese 10 Year	0.40%	0.46%	-0.32%	-2.25%
Citigroup				
3-7 Year Treasury Index	1,393.51	1,386.05	-0.54%	-0.54%
7-10 Year Treasury Index	1,781.73	1,737.90	-2.46%	-2.46%
1-10 Year US Corp. Bond Index	1,678.14	1,662.33	-0.94%	-0.94%
World Gov't 7-10 Yr. Bond Index	1,151.02	1,132.97	-1.57%	-1.57%

Source: Bloomberg

- **On April 17** Germany's 10-year sovereign yield reached a record-low of 0.049 percent as the ECB's bond purchase programme pushed borrowing costs lower across the region. Since then, yields rose amid nascent signs of inflation, growth, and as ECB President Mario Draghi indicated the ECB would do nothing to combat higher volatility in the markets. As if to prove the point, Germany's 10-year yield rose to 0.98 percent before falling back to 0.76 percent at quarter end.

- **On May 5** the Reserve Bank of Australia cut the key interest rate by 25bps to a record-low two percent, despite citing signs of improved household spending. Governor Glenn Stevens said the nation's inflation outlook allowed for easing to reinforce already-encouraging trends in consumer demand. Bond yields in Australia rose following the announcement as traders bet that the central bank would not ease further.

- **On June 5** US Treasury prices fell, and yields rose, after a stronger-than-forecast employment report fueled speculation the Fed may raise borrowing rates as soon as September. On the day, the 10-year Treasury yield briefly touched 2.43 percent, the highest since October 2014, but closed at 2.40 percent. In addition to better US economic data, US yields also saw upward pressure from improving growth and inflation in Europe which pushed the regions yields higher and reduced overseas demand for relatively better yielding US Treasuries. By the close of trading, US bond markets had wiped out their gains for 2015.

- **On June 5** Standard & Poor's (S&P) raised Ireland's sovereign credit rating one level to 'A+'. S&P cited the nation's improved fiscal performance, higher state asset sales, and robust economic performance. In 2009 S&P was the first of the three main ratings companies to strip Ireland of the top credit rating 'AAA' following a costly rescue package for the nation's banking sector.

- **On June 29** prices on Puerto Rico's general obligation bonds maturing in July 2035 sank to a record low 68.5 cents on the dollar – the weakest since they were first issued at 93 cents in March 2014 – after Governor Padilla called for debt relief. The Governor said investors should work with the commonwealth to reduce and restructure outstanding debt. With two days left in the fiscal year, the cash-strapped island struggled to pass a budget that would allow it to make payments on the $72 billion debt load, which is bigger than every US state except California and New York. Under the budget proposals, about 15 percent of the $9.8 billion budget would go to debt service and spending would be cut by more than $600 million.

Yields rose on improving economic data.

World Currency Markets

Value of Currency US$1 = value in local currency

Currency	31 Mar 2015	30 Jun 2015	Change
Australian Dollar	1.3146	1.2975	1.3%
Brazilian Real	3.1967	3.1030	3.0%
British Pound	0.6749	0.6365	6.0%
Canadian Dollar	1.2686	1.2494	1.5%
Euro	0.9318	0.8971	3.9%
Japanese Yen	120.1300	122.5000	-1.9%
Swiss Franc	0.9727	0.9355	4.0%

Source: Bloomberg

The US dollar pulled back as the Fed lowered projections for interest rates.

- **On June 5** the Mexican peso dropped to 15.6881 per US dollar, the weakest level since 1993, after a jump in US payrolls bolstered bets the US Fed will raise interest rates and sink demand for emerging-market assets. In addition to reduced demand for the peso from foreign investors, the currency was also suffering from reduced prospects for economic growth following public-spending reductions and a drop in oil output at the state-owned Petroleos Mexicanos. In the quarter, the peso weakened 3.0 percent against the dollar.

- **The Japanese yen** weakened against most major currencies in the second quarter as the Bank of Japan (BOJ) kept the ultra-easy monetary policy unchanged and Japanese pension funds increased exposure to overseas assets. Like other central banks, the BOJ has conducted massive asset purchases to increase the monetary base and stimulate inflation. So far, this has been unsuccessful and the nation's core consumer price index remained around zero percent in the quarter, far below the target of two percent. The yen weakened 1.9 percent against the US dollar in the quarter.

- **The New Zealand dollar** weakened against all major currencies in the quarter as the central bank cut the benchmark rate and said another cut to the rate was on the cards. Annual inflation in New Zealand stood at 0.1 percent in the quarter, while the central bank's target for annual inflation is between one and three percent. On June 18 Finance Minister Bill English said the central bank Governor Graeme Wheeler needs to get inflation back to target and has "plenty of room" to lower rates. In the quarter, the New Zealand dollar, nicknamed the kiwi, depreciated 9.4 percent against the US dollar.

- **The US dollar** weakened against all major currencies after Fed Chair Janet Yellen and her colleagues lowered projections for US interest rates on June 17. While the Fed was still expected to be the first major central bank to raise rates, reaction to the FOMC statement and the prospect of slow future rate hikes weighed on the dollar. The trade-weighted dollar depreciated 2.1 percent in the quarter

- **Sterling advanced** against all major currencies in the quarter as the Conservative Party surged to gain a majority lead in Britain's parliamentary election reducing political uncertainty. Improving economic data also suggested the Bank of England was on course to raise interest rates by July 2016. Furthermore, the pound acted as a safe haven as escalating concern over a Greek default weighed on the euro. In the quarter, the pound appreciated 5.7 and 2.0 percent percent against the US dollar and the euro, respectively.

Outlook
FOR THE THIRD QUARTER 2015

Global growth should improve at a gradual pace as labour markets heal, risk of deflation abates, and central banks continue to stimulate their economies.

- The US economic recovery should stay ahead of other developed markets as broad data points in the economy continue to trend positively.
- A stronger dollar is a headwind for US exports, especially if the Fed proceeds with a steeper than expected path of interest rate hikes.
- A pick-up in capital spending is integral for further improvement in global growth.

Yields will rise gradually in most developed nations on the back of improving economic growth and nascent signs of inflation.

- The Fed is likely to raise rates by 25bps by December on the back of strength in economic data and improving labour markets.
- A sharp rise in yields is unlikely as the Fed will be cautious and overseas demand for relatively better-yielding US assets remains strong.
- We expect yields in the eurozone to rise marginally on the back of improving inflation data in the region.

The US dollar will strengthen against most major currencies in 2015 as the developing monetary policy divergence story retains traction.

- The US dollar is supported by solid domestic economic data, expectations of interest rate hikes, and developments overseas.
- The euro weakness should continue led by monetary policy divergence between the ECB and the Fed and on risks surrounding Greece.
- The outlook for commodity currencies remains bleak as we expect prices of oil and the broad commodity basket to stay low.

We maintain our view that commodities will stay out of favour in the medium term as markets remain well supplied and demand catalysts are limited.

- Barring any one-offs, demand should strengthen in crude oil and markets should gradually balance moving into the close of the year.
- Competing safe haven appeal for US Treasuries is a strong headwind for gold as the Fed moves towards raising interest rates this year.
- Overcapacity in Chinese heavy industries will erode prices and profitability for most base metals.

Our view of equities translates from the global macro picture where central banks maintain their accommodative stance and quantitative easing remains the preferred means of stimulating growth.

- We favour equities over bonds.
- Valuations of global equities, whilst high, seem contained within their historical range and global corporate earnings should maintain their upward trajectory.
- We draw parallel strategies for investment in the US versus in Europe and Japan due to the gradually diverging monetary policies of the respective central banks.

ECONOMICS

"Global activity should be supported by continued low commodity prices and generally still-benign financing conditions, notwithstanding the expected modest tightening in U.S. monetary policy."

World Bank Group, Global Economic Prospects, June 2015

The World

We expect global growth to improve in the Third Quarter 2015, albeit at a gradual pace, as labour markets heal and risk of deflation abates. Quantitative easing by central banks still remains the preferred way for major central banks to stimulate growth; however, we do reiterate the case of monetary policy divergence as the Fed gradually moves towards its first interest rate hike. We agree with the OECD's global economic assessment that capital spending has largely remained absent in the current recovery. This is especially true after the crude oil price decline which deterred capital expenditure in the Energy sector. For further improvement in global growth, pick-up in capital spending is integral. Higher investment spending should result in further improvement in the labour markets and subsequently put upward pressure on wages and consumption. This, however, is predicated on business confidence and strengthening consumer demand. Current expectations of global GDP growth stand at 3.2 percent in 2015, revised higher from the last quarter, as per Bloomberg estimates.

North America

We maintain our positive view on the US economy and expect growth to rebound after a disappointing first quarter. Recent Fed commentary confirmed that the negative GDP growth early in the year came on the back of "transitory factors," which included a harsh winter and disruptions at the west coast ports. As the economy thaws and one-offs abate, we expect growth to rebound with GDP expected to come in at an annualised rate of three percent by the Third and Fourth Quarter 2015.

The US economic recovery should stay ahead of other developed markets as broad data points in the economy continue to trend positively. Forward looking indicators such as consumer confidence and small business sentiment have particularly shown strength. This reiterates our view from the last quarter that US consumers should be a strong contributor in the remainder of the year. Some aspects of the economy, however, remain absent. Manufacturing has been a laggard as capital spending remains weak at home and abroad. Also, the stronger dollar is a headwind for exports, especially if the Fed proceeds with a steeper than expected path of interest rate hikes. Government contribution, both in terms of hiring and spending, has also been a drag on growth in the current expansionary cycle. We do not expect contribution from the government to turnaround as fiscal matters in the US remain tightly gridlocked.

Despite areas of weakness, the US economy has shown signs of fundamental strength and should continue to gain traction. This is also reflective in the Fed's monetary policy, which stays on a course to tightening ahead of other developed market peers. While timing of the rate hike is debatable, the Fed's lead validates our thesis on the US economy.

Canada, the US' largest trading partner, should grow at an annualized rate of 1.9 percent in the Third Quarter 2015 as per Bloomberg estimates. Full year GDP growth is expected to come in at 1.6 percent, revised lower from previous estimates of 2.1 percent. The impact of the oil price shock on growth is abating and as the US economy grows the demand for Canadian goods should rise. Moreover, domestic consumption is also holding up relatively well and financial conditions for Canadian households and companies remain highly stimulative.

Europe

Since the initiation of Quantitative Easing by the ECB, European markets have seen early signs of improvement. Most economic metrics, however, still remain below the central bank's target and the region has some way to go. Bloomberg consensus suggests Third Quarter 2015 GDP to come in at 1.6 percent and full year at 1.5 percent – revised higher from the last quarter. On the external account, we expect exports to gain as the currency has depreciated significantly in the last 12 months. The pick-up, however, will merely be a catch-up with global competition and long term strength remains contingent on capital spending picking up significantly at home and abroad. This is tied to strengthening demand from consumers. The internal account is where we believe the euro area will fall short of replicating the US' success. The region faces a huge challenge of fiscal incoherence, where smaller peripheral nations are unable to match imbalances and structural gaps remain with respects to fiscal matters, labour markets, and private and public debt.

We reinforce our positive view of the UK as uncertainty from the parliamentary elections has now passed. The country is expected to grow at an annualised rate of 2.5 percent in the Third Quarter 2015 and the full year, as per consensus estimates. We believe the BoE will be the next to follow the Fed in raising interest rates on the back of broad improvement in the economy and a gradual pick-up in inflation. The UK should also benefit from recovery in the eurozone – its largest trading partner.

Pacific Basin

No major developments have occurred in Japan to alter our view from the previous quarter. Growth is expected at a very gradual pace aided by net exports and improving labour markets but offset by structural demographic weakness. As per Morgan Stanley, the cyclical story in Japan is intact and wage growth should translate into inflation, which is currently muted. This is against the back drop of a very accommodative central bank and large scale stimulus measures. As per consensus, the Japanese economy should record GDP growth of two percent and one percent in the Third Quarter and Full Year 2015, respectively.

Chinese growth should continue to moderate in 2015 as restructuring of the economy progresses. Services should take over from fixed investment and real estate as the primary driver of growth. In the Full Year 2015, the Chinese economy is estimated to grow by seven percent – unchanged from the last quarter.

Latin America

Latin American growth has been downgraded further from the last quarter with negative 0.1 percent of GDP growth expected in the region in 2015. We reiterate our preference for the Pacific bloc over the Atlantic bloc as Brazil, Venezuela, and Argentina are all expected to record negative growth in 2015. Private sector sentiment has particularly been dented in Brazil, the region's biggest economy, following the corruption findings in Petrobras. Moreover, lack of support by the central bank to encourage spending further discourages growth.

"There is no overnight solution for Brazil's structural challenges, severe drought, rising inflation and a corruption scandal at its largest oil company, which are all weighing on growth."

Michael McDonough, Bloomberg Intelligence Economist, June 25, 2015

BONDS

"The timing of the first decision to raise rates is something that should not be overblown whether it's September or December or March. What matters is the entire path of rates."

Janet Yellen,
Federal Reserve Chair,
June 17, 2015

We expect yields to rise gradually in most developed nations in the Second Half 2015 on the back of improving economic growth and nascent signs of inflation. Major central banks are still keeping monetary policy loose while the Federal Reserve is the only bank expected to raise rates in 2015. However, we do not expect a sharp rise in yields as the Fed is likely to be cautious and overseas demand for relatively better-yielding US assets remains strong. Uncertainty surrounding the timing of the first interest rate hike is likely to keep volatility high in the markets, but we expect the Fed to word their actions carefully to keep investors best informed.

We expect the Fed to raise rates by 25bps by December on the back of strength in economic data and improving labour markets. The short end of the yield curve will be the most affected by Fed action, while yields at the longer end of the yield curve will see limited upward movement as inflation expectations remain low. This will result in a flatter yield curve. The Fed's timing will ultimately depend on realized and expected progress towards the central bank's dual mandate of maximum employment and stable prices. Importantly, we expect the Fed to carefully monitor economic data and convince market participants that the interest rate increases will be gradual so as to avoid a dramatic appreciation of the dollar, a sharp increase in interest rates, and a pullback in the equity market, which could tighten financial conditions more than desired.

In our view, there are at least two major factors holding back a sharp increase in yields despite expectations of the Fed raising rates. Firstly, reinvestment of the Fed's sizeable bond portfolio acquired under the Quantitative Easing programmes will continue in the near term. Secondly, with the ECB's QE in full swing overseas, the difference in interest rates between US Treasuries and German 10-year bunds is at the highest level in a generation. The substantial yield pick-up for investors holding Treasuries instead of German bunds should continue to support overseas demand for Treasuries and prevent yields from rising sharply, especially at the longer-end of the yield curve as long as inflation is contained.

We expect yields in the eurozone to rise marginally on the back of improving inflation data in the region. The ECB's large-scale bond-purchases are in full swing and effectively soak up supply of the region's sovereign bonds limiting the rise in yields. Greece's negotiations with its creditors and concerns over a potential Grexit is likely to cause volatility in the European markets. Should the negotiations fail, safe-haven demand will push German yields, as well as those in other core eurozone nations, lower.

In the UK, gilt yields are likely to gradually rise on the back of an improving economy and as the Bank of England is expected to be next in line to raise interest rates after the Fed. The central bank has previously expressed concern over low inflation and lack of wage growth. However, economic data in June showed that UK unemployment stayed at the lowest rates since 2008 and wage growth accelerated more than economists forecast, indicating the UK labour market is gathering momentum. An improving labour market in the UK should support a move away from the Bank's current emergency policy settings and proceed towards an interest rate hike.

Canadian yields are likely to follow yields in other developed nations higher as the global economy improves. The Bank of Canada is likely to keep rates on hold to stimulate the economy which has been heavily impacted by the sharp decline in energy prices. With no expectations of a tighter monetary policy, the loonie should stay weak - a boost for exports and the manufacturing sector.

CURRENCIES

We expect the dollar to strengthen against most major currencies in 2015 as the developing monetary policy divergence story retains traction. In the US, the Fed is expected to raise interest rates on the back of an improving labour market; meanwhile, in Europe the ECB's asset purchase programme should weigh on the euro. The yen is likely to remain under pressure as Japanese investors are structurally inclined to reduce domestic assets in line with the Government Pension Investment Fund's targeted levels in addition to stubbornly low inflation that could force the Bank of Japan to add to monetary stimulus. Weaker Chinese growth and low oil prices are likely to keep commodity currencies, such as the Australian and Canadian dollars, subdued.

The trade-weighted dollar has rallied since late 2014 but is far from historical highs and has room to appreciate, in our view. More importantly, while the dollar is supported by robust domestic economic data and expectations of interest rate hikes, developments overseas are also likely to be a major catalyst for a US dollar rally.

The euro weakness should continue led by monetary policy divergence between the ECB and the Fed and on risks surrounding Greece. The ECB's Quantitative Easing programme to simulate growth and inflation is a powerful driver of portfolio flows out of the euro and into any country not at immediate risk of having to ease monetary policy.

Sterling is one of the currencies that could benefit from portfolio flows out of the eurozone as the Bank of England is expected to be the next central bank after the Fed to raise interest rates and investors reach for relatively better yields. Recent economic data indicates that the labour market in the UK is gathering momentum with the unemployment rate at the lowest since 2008 and wage growth accelerating, supporting reduced monetary stimulus. Sterling is also likely to become a safe haven for European investors should the Greek risk escalate.

Near term we expect the yen to stay weak against the dollar as Japanese investors appear to favour foreign bonds and equities. This is in line with the Government Pension Investment Fund's (GPIF) change to their targeted levels of Japanese assets. In November 2014 the GPIF's allocation target of foreign bonds and equities was reset upwards at 40 percent. The GPIF has taken a gradual approach to reaching the new target and as of December 31, 2014 the GPIF's allocation was 32.7 percent in foreign assets. Furthermore, annual inflation remains stubbornly low at 0.6 percent and could force the Bank of Japan to further increase monetary stimulus.

The outlook for commodity currencies remains bleak as we expect prices of oil and the broad commodity basket to stay low this quarter, mainly affecting Canada, while relatively weak growth in China will impact the Australian economy. Central banks in the aforementioned nations are dovish and likely to keep their interest rates on hold. The divergence between the commodity based central banks and the Fed should keep their currencies weak against the US dollar.

In light of the above view, we have hedged half of our euro exposure and the entire Japanese yen exposure in the BIAS funds.

"The ECB continuing to be aggressive through to September will continue to pressure the euro lower. Policy differentials, rate differentials with the U.S. and growth differentials all point to a lower euro."

Mitul Kotecha, head of Asia Pacific foreign-exchange strategy at Barclays, June 26, 2015

COMMODITIES

"Commodities as a broad asset class remain in a medium term bear trend."

Credit Suisse,
Key Market Themes,
June 24, 2015

We maintain the view that commodities will stay out of favour in the medium term as markets remain well supplied and demand catalysts are limited. This is true for crude oil where prices will gradually find equilibrium after bottoming out last quarter. Additionally, re-structuring of the Chinese economy provides a back drop for moderating demand in the base metals markets while an expected hike in interest rates and a stronger dollar should contain gold prices.

For crude oil, market sentiment is relatively weak with prices having stagnated after coming off the bottom last quarter. We discussed in our previous issue that prices should be driven by demand/supply fundamentals in the absence of a market maker (OPEC) and high cost production, such as North American shale, would moderate. Production in the US, however, has been stubborn and while rigs are declining and growth has slowed down, it has been slower than what the market expected. Moreover, any market share lost by the non-OPEC countries has been gained by the OPEC nations, which continue to exceed their self-imposed quota of 30 million barrels per day. Recall that OPEC countries rely heavily on oil revenues to balance their economies and have to volumetrically makeup for the price shortfall.

The key to crude oil price recovery, in our view, is the strength of demand. Last year refinery throughput in the US was depressed due to labour strikes at 12 different refineries, affecting 20 percent of the total capacity. The strikes have now been resolved and US refineries are producing and exporting more to Europe compared to the same period last year. Additionally, global refinery throughput has also increased with expansions in the Middle East and China.

We remain positive that barring any one-offs markets should gradually balance and prices should end higher at the end of the year.

For precious metals, we reiterate our view from the previous Commodity Outlook and believe that fundamentals still point to lower prices in the Third Quarter 2015. On the demand side, we may expect safe haven appeal to increase if things deteriorate further in Greece. We saw an illustration of this when gold rallied up to $1200 per oz in anticipation of a Grexit, but then dropped sharply as the situation moderated. Physical demand for gold may also see a seasonal uptick in the Middle East and Asia as festival and wedding season approaches. The overriding fundamental, however, remains the interest rate path in the US. We believe competing safe haven appeal for US Treasuries is a strong headwind for gold as the Fed moves towards raising interest rates this year.

Re-structuring of the Chinese economy is a key theme for the base metals markets. As the Chinese economy moves away from its investment-driven model, the country faces over capacity in many of its heavy industries. Moreover, less-efficient producers are being fined by the government which further dents demand. In the short term, most metals which are relatively stretched to the short side, such as aluminum and nickel, may be vulnerable to covering effect but longer term we maintain our view that overcapacity will erode prices and profitability for most base metals.

EQUITY STRATEGY

Our view of equities translates from the global macro picture where central banks maintain their accommodative stance and quantitative easing remains the preferred means of stimulating growth. We believe this is a favourable environment for equities over bonds. Valuations of global equities, whilst high, seem contained within their historical range and global corporate earnings should maintain their upward trajectory. Earnings per share of the S&P Global 1200 index is expected to grow by eight percent in 2015. We draw parallel strategies for investment in the US versus in Europe and Japan due to the gradually diverging monetary policies of the respective central banks.

We believe the US is mid-cycle in its recovery and broad economic metrics have started to show fundamental improvement. This is also reflective in the Fed's monetary policy which has moved away from adding stimulus and closer to tightening. In this environment, we do not expect the S&P 500 to experience broad gains on the back of multiples expanding. Rather, price gains should follow earnings growth and even more so positive surprises in earnings growth. We, therefore, stick to stock selection in the US and maintain exposure to pockets of potential earnings growth, secular themes, and cyclical plays in-line with the improving economy.

BIAS' highest conviction is in the Information Technology sector. We believe US tech leads the world in innovation and is at the forefront of value creation. The sector is also reasonably priced relative to earnings growth. Our biggest holding is Apple, where we like the sticky product eco-system and brand loyalty. Also, Apple's stock price should be buoyed by a hefty share buyback program and the potential for higher dividends. Our other preferred themes in the Information Technology sector are cybersecurity (Checkpoint, Palo Alto) and internet plays (Facebook, Google).

We also maintain an overweight stance in the Healthcare Sector and in particular the biotechnology and life science tools industries. Again, the sector is expected to grow both on the topline and bottomline and is reasonably valued relative to growth. Secular trends of aging demographics in the US, as well as other developed nations, and innovation in new product development should be a tailwind for the sector. In efforts of staying healthy, consumers are also adopting healthy eating habits; therefore, we hold positions in organic food producers (Hain, WhiteWave).

In light of the cyclical recovery in the US, we have built up positions in the housing and banking industries. Housing should benefit from pent-up demand from millennials while banks should gain from credit growth in the economy and potentially higher interest rates before the end of the year.

In Europe, we maintain a Neutral allocation versus the benchmark. We believe returns in the region should be broad based driven by the ECB's Quantitative Easing. Historically low bonds yields will force capital into the equity markets as investors hunt for yield. We also actively manage our currency exposure in Europe and have hedged half of our exposure, staying short the euro versus the US dollar.

We also hold a Neutral allocation in Japan but owing to the large scale monetary stimulus by the BoJ and resulting yen weakness, we maintain a fully hedged position. We expect double digit earnings growth in Japan in the current year on the back of strength in capital spending and a boost to exporters.

"The market has discounted a lot of bad things and, in fact, there are some really good things happening."

Tom Mangan,
James Investment Research,
Xenia, Ohio

CONCLUSION AND STRATEGY POINTS

EQUITIES

Regional Strategy

- Slightly overweight US at 55.6 percent (versus an index weighting of 54.8 percent).
- Neutral Europe at 26.0 percent (versus an Index weighting of 25.9 percent).
- Neutral Japan at 7.9 percent (versus an index weighting of 8.0 percent).

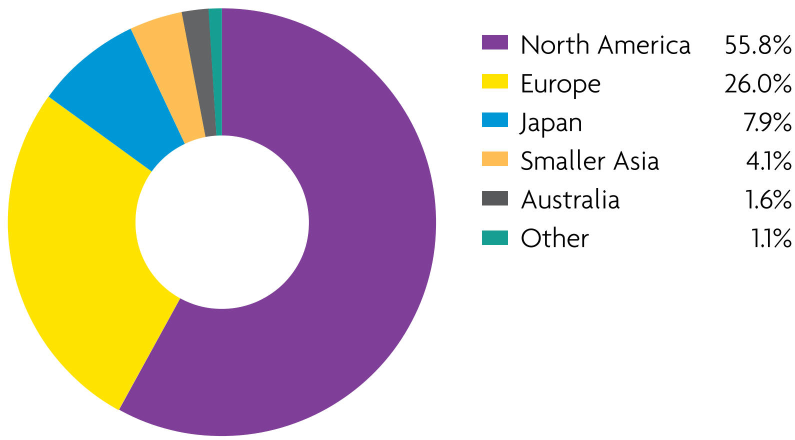
Sector Strategy

- Overweight Information Technology and Health Care at 18.4 percent and 16.8 percent (versus an index weighting of 14.0 percent and 13.1 percent, respectively).
- Slightly overweight Consumer Staples at 10.3 percent (versus an index weighting of 9.8 percent) and slightly underweight Financials and Energy at 19.3 percent and 6.8 percent (versus an index weighting of 21.0 percent and 7.4 percent, respectively).
- Underweight in Utilities, Telecom, Industrials at 0.8 percent, 1.7 percent, and 8.4 percent (versus an index weighting of 3.0 percent, 3.7 percent, and 10.6 percent, respectively).

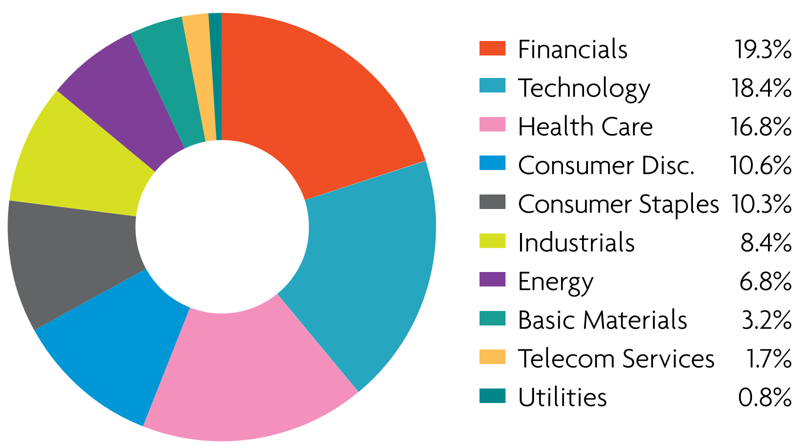
Currency Strategy

- Overweight US dollar 76.1 percent (versus an index weighting of 54.8 percent).
- Underweight euro 7.0 percent (versus an index weighting of 14.5 percent).
- Underweight Japanese yen 0.5 percent (versus an index weighting of 8.0 percent).

Geographic Allocation



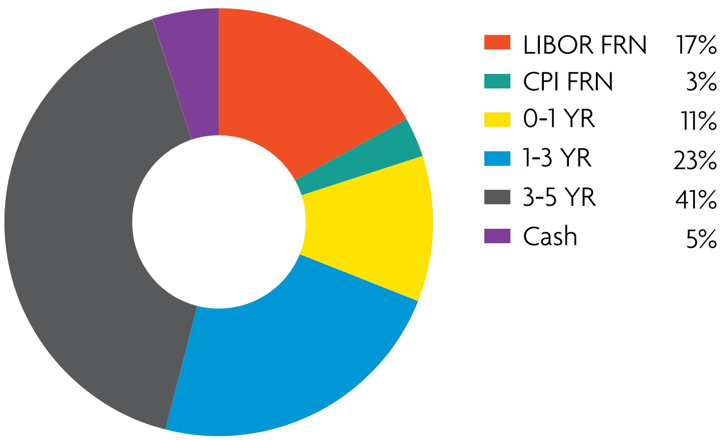
Sector Allocation



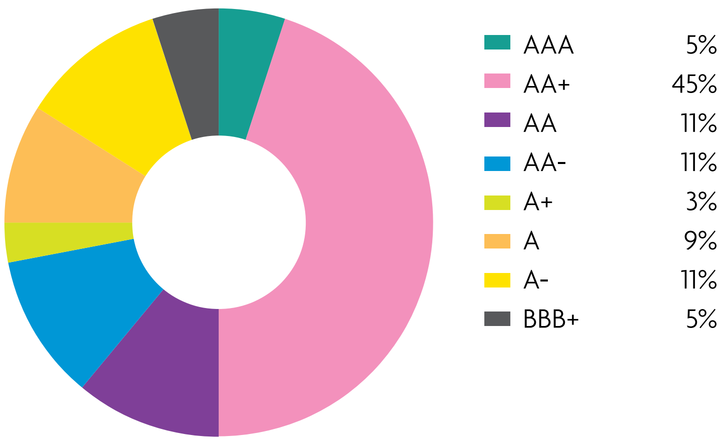
BONDS

- Opportunistically add Treasuries maturing in four-to-five years for roll-down along the yield curve.
- Hold shorter-dated investment grade corporate bonds for their relative yield advantage over Treasuries.
- Hold floating-rate notes for when the Fed starts raising interest rates.

Bonds Strategy Allocation



Credit Ratings



BIAS structures portfolios according to the needs and risk profile of a specific investor. Some systematic risks should be acknowledged over which BIAS and other asset managers have no control including: trading on exchanges not regulated by any US Government agency, the Bermuda Monetary Authority, or the Cayman Islands Monetary Authority; possible failure of brokerage firms or clearing exchanges; illiquid markets which may make liquidating a position at a given price more difficult. For more details on these and other risk factors, please refer to BIAS' Form ADV as files with the US Securities and Exchange Commission.

BIAS
INVESTMENT MANAGERS - SECURITIES ANALYSTS

BERMUDA INVESTMENT ADVISORY SERVICES LIMITED
Wessex House, First Floor, 45 Reid Street, Hamilton HM 12
P.O. Box HM 988, Hamilton, HM DX, Berumda
T (441) 292-4292 **F** (441) 292-7292 **E** info@bias.bm
www.bias.bm

BIAS (CAYMAN) LIMITED
Governors Square, Suite 5-203, 23 Lime Tree Bay Ave.
P.O. Box 30862, Grand Cayman, KY1-1204, Cayman Islands
T (345) 943-0003 **F** (345) 943-0004 **E** info@bias.ky
www.bias.ky