REVIEW & Outlook

Q3 2015
Q4 2015

BIAS
INVESTMENT MANAGERS - SECURITIES ANALYSTS

SEPTEMBER 30, 2015

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Review Q3 2015

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World Markets Quarterly Review

September 30, 2015

1	DJIA	-7.0%
1	S&P 500	-6.4%
1	NASDAQ	-7.1%
2	TSX	-14.2%
3	BSX	2.6%
4	Bolsa	-11.7%
5	Bovespa	-33.4%
6	Merval	-18.9%
7	UK FTSE	-9.6%
8	CAC	-6.6%
9	DAX	-11.5%
10	Kospi	-10.8%
11	Nikkei	-11.8%
12	Hang Seng	-19.8%
13	Straits Times	-19.3%
14	ASX	-15.0%

The S&P Global 1200 Index declined 8.6 percent for the quarter ended September 30, 2015. All returns are expressed in US dollars.

Stock, Bond, Currency Overview

Global Stock Markets

- Stocks retreated in the Third Quarter as a slowdown in the Chinese economy raised concerns over the pace of global growth.
- In the US, economic data improved but markets could not stay immune to volatility in the global markets.
- In Europe, exporters led stocks lower with sentiment further dented by the Volkswagen scandal.
- Japanese stocks declined as capital flowed back home amidst global volatility, which strengthened the yen, partly offsetting the impact of monetary easing.

Bond Markets

- Bond yields in the US and other developed markets fell in the Third Quarter on risk aversion as global equity markets declined and inflation remained low.
- In the US, the Fed refrained from raising interest rates in September and lowered the predicted path of future interest rate hikes, pushing yields even lower.
- In Europe, yields on German sovereign bonds fell less than those on US Treasuries as demand for safe assets declined amid easing concerns of a Greek default.

Currency Markets

- The US dollar advanced against all major currencies, except the yen and the euro, on safe haven demand.
- The yen and the euro saw the biggest inflows in the quarter as investors reversed carry trades and moved out of riskier assets in Emerging Markets.
- The Brazilian real weakened against all major currencies as the nation's sovereign credit rating was cut to junk by Standard & Poor's.

North American Stock Markets

Indices	30 Jun 2015	30 Sept 2015	Total Returns Local Curr.	Total Returns US$
US Dow Jones Industrial	17,619.51	16,284.70	-7.0%	-7.0%
US S&P 500	2,063.11	1,920.03	-6.4%	-6.4%
US NASDAQ	4,986.87	4,620.17	-7.1%	-7.1%
Canada TSX	14,553.33	13,306.96	-7.9%	-14.2%
S&P Global 1200	1,922.87	1,746.75	-8.6%	-8.6%

Source: Bloomberg

US economic data improved but markets could not stay immune to volatility in the global markets.

- **On July 28** Chevron Corporation announced it will cut about 1,500 job positions, including about 270 existing vacant positions and 600 contracting positions. The cuts represent an effort to cut costs and will take place across 24 business groups. The action is aligned with the current market environment of lower oil prices and is expected to reduce costs by $1 billion. Chevron rose 3.7 percent on the day.

- **On August 11** Symantec Corporation, the maker of Norton antivirus software, announced plans to sell its information management business, Veritas, to an investor group for $8 billion. The deal was unanimously approved by the Board of Symantec and is expected to close by January 2016. The deal will provide Symantec with necessary funds to compete with companies such as Microsoft in the cyber security market. Symantec also said the company now plans to focus on the core business as investors have been pressuring legacy technology companies, such as Symantec, to become more agile and capitalize on faster-growing businesses. Symantec rose seven percent on the day of the announcement.

- **On September 4** Blackberry Ltd, the Canadian smartphone maker, announced the acquisition of security provider Good Technology for $425 million in cash. The acquisition is aligned with Blackberry's strategy to offer customers the most complete end-to-end solution that secures the entire mobile enterprise, including secure applications that protect end user privacy. Good Technology has a very strong presence in enterprises and governments around the world, which is expected to enhance Blackberry's sales and distribution capabilities and grow the revenue stream. Blackberry fell two percent on the day of the announcement.

- **On September 21** biotechnology stocks fell after Hillary Clinton, the democratic presidential candidate, revealed via Twitter that she would release a plan to reduce the high cost of prescription drugs counteracting "price gouging" by drug makers, if she won a nomination. Her comments came as a response to an article published in the New York Times pointing to a significant increase in the price of a 62-year-old drug, Daraprim, which is the standard care for treating a particular life-threatening parasitic infection. The Nasdaq Biotechnology index fell as much as 4.7 percent during the day and closed 4.4 percent lower.

Latin American Stock Markets

Indices	30 Jun 2015	30 Sept 2015	Total Returns Local Curr.	Total Returns US$
Mexico Bolsa	45,053.70	42,632.54	-4.8%	-11.7%
Brazil Bovespa	53,080.88	45,059.34	-15.1%	-33.4%
Argentina Merval	11,656.81	9,814.62	-15.8%	-18.9%
Chile IPSA	3,897.10	3,685.18	-5.4%	-13.3%
S&P Global 1200	1,922.87	1,746.75	-8.6%	-8.6%

Source: Bloomberg

- **On July 16** reports suggested that Brazil's sovereign wealth fund decreased its stake in Banco do Brasil SA with funds from the sale helping the Government to meet its fiscal target. The wealth fund had already sold one million shares in Banco do Brasil the previous month. The fund is the fifth-biggest shareholder with a 3.86 percent stake in the bank. The government has an additional 50.7 percent stake and a controlling position through the Treasury. Banco do Brasil shares fell 3.5 percent in Sao Paulo trading on the news, the biggest decline since June 3.

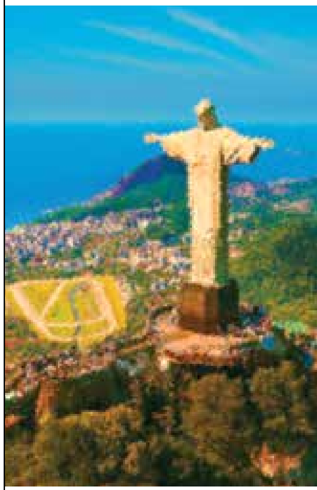
- **On July 30** reports suggested that Grupo Aeromexico SAB may be preparing an initial public offering of its frequent-flyer reward programme that would value the business at about $1.0 billion. Following the IPO, the value of the frequent-flyer business would rival that of the airline itself. If confirmed, the transaction would add Aeromexico to the list of airlines that are raising cash by selling stock in their loyalty programmes. Shares of Grupo Aeromexico SAB rose 6.2 percent in the quarter.

- **On July 31** IEnova, the Mexican subsidiary of Sempra Energy, agreed to buy a 50 percent stake in Gasoductos de Chihuahua, the natural gas pipeline and storage operator, from the state-owned Petroleos Mexicanos, for $1.325 billion. The deal aligns the strategy of both companies as Sempra is looking to expand its gas pipeline network in Mexico and Petroleos Mexicanos aims to increase its operational and financial efficiency. The transaction will be financed by a combination of debt and equity. Sempra's share price rose 1.1 percent following the announcement.

- **On August 4** reports suggested that Petroleo Brasileiro SA (Petrobras) was looking to sell 25 percent of its distribution unit, Petrobras Distribuidora SA. If realized, this transaction would be the biggest initial public offering in Brazil in more than two years. The unit is the largest distributor and marketer of petroleum derivatives and biofuels in Latin America and is valued by banks at about 30 billion reais ($8.7 billion). Petrobras has already planned to put almost $60 billion in assets up for sale through 2018. Petrobras' share price plummeted 43 percent in the quarter.

- **On August 7** Carlyle Group LP revealed plans to increase its holding in a Brazilian medical-care provider through the acquisition of a stake on Grupo BTG Pactual. Private equity firms and sovereign wealth funds are looking for investments in Brazilian hospitals after a new law allowed foreign ownership of healthcare facilities. BTG shares decreased 7.8 percent during the quarter while Carlyle's share price rose 40.3 percent.

Latin American markets were amongst the worst performing on record outflows and increased political and economic headwinds.



European Stock Markets

Indices	30 Jun 2015	30 Sept 2015	Total Returns Local Curr.	Total Returns US$
UK FTSE	6,520.98	6,061.61	-6.1%	-9.6%
Germany DAX	10,944.97	9,660.44	-11.7%	-11.5%
France CAC 40	4,790.20	4,455.29	-6.8%	-6.6%
Spain IBEX 35	10,769.50	9,559.90	-10.7%	-10.5%
S&P Global 1200	1,922.87	1,746.75	-8.6%	-8.6%
S&P Europe 350	1,551.55	1,404.86	-9.0%	-8.8%

Source: Bloomberg

Exporters led declines in Europe on a slower global growth outlook.

- **On July 27** Israeli-based Teva Pharmaceutical Industries announced the acquisition of US-based Allergan plc's generic drug unit for $40.5 billion. The transaction will be a stock and cash deal and has already been approved by both boards but is subject to regulatory approval. The deal is expected to close in the First Quarter of 2016. Teva expects the acquisition to boost its pipeline and to contribute $2.7 billion in earnings before interest, taxes and other items in 2016. Further, Teva expects a double-digit increase in its non-GAAP earnings per share in 2016 due to the acquisition and savings of $1.4 billion per year by cutting redundant operations. Teva's shares jumped 16.4 percent and Allergan rose 6.1 percent on the day of the announcement.

- **On August 4** Shire Plc, the Irish biopharmaceutical firm, made an unsolicited bid to acquire US-based Baxalta Inc. for $30 billion. Baxalta makes treatments for immune deficiencies and rare diseases and the deal would make Shire Plc the leading global rare-disease drug-maker. Shire's bid valued Baxalta at a 36 percent premium over the last price prior to the announcement. Shire said it expects the combined company to generate $20 billion of revenues by 2020 with new drugs for ailments ranging from dry eye disease to hemophilia. Further, Baxalta would benefit from a lower tax rate by being domiciled in Ireland. Shire's price fell 7.9 percent in London trading on the day of the announcement.

- **On August 24** the UK government announced the sale of a one percent stake in Lloyds Banking Group plc. The sale decreased the government's holding in the British lender to less than 13 percent and was part of the Chancellor's aim to return Lloyds to full private ownership after the government spent £20.5 billion to rescue the bank during the financial crisis in 2008. The government has raised £14.5 billion since reducing shares in Lloyds back in December 2014. Lloyd's share price fell 3.2 percent in London trading after the announcement.

- **On September 18** the US Environmental Protection Agency Agency (EPA) issued a notice of violation against Volkswagen AG for violations of the Clear Air Act. The government agency said that Volkswagen's diesel-powered cars from model years 2009 to 2015 showed incorrect carbon emissions data, polluting between 10 to 40 times the legal limit. EPA said 482,000 diesel cars will be recalled and that Volkswagen could face penalties of up to $18 billion. On September 20, Volkswagen admitted it had rigged emissions tests of diesel-powered vehicles in the US for years. Following the US revelations, German authorities said they will look for possible violations of their rules. Volkswagen's share price fell 49.4 percent in the quarter.

Pacific Rim Stock Markets

Indices	30 Jun 2015	30 Sept 2015	Total Returns Local Curr.	Total Returns US$
Japan Nikkei	20,235.73	17,388.15	-13.6%	-11.8%
Hong Kong Hang Seng	26,250.03	20,846.30	-19.8%	-19.8%
Hang Seng Red Chip	4,876.74	3,901.65	-18.0%	-18.0%
Korea Kospi 100	2,074.20	1,962.81	-5.4%	-10.8%
Singapore STI	3,317.33	2,790.89	-14.7%	-19.3%
Taiwan TWSE	9,323.02	8,181.24	-9.6%	-15.4%
Australia ASX 200	5,459.01	5,021.63	-6.6%	-15.0%
S&P Global 1200	1,922.87	1,746.75	-8.6%	-8.6%
FTSE Pacific ex-Japan	454.69	380.52	-15.1%	-15.1%

Source: Bloomberg

- **On July 3** Videocon Industries Ltd., an Indian consumer electronics maker, revealed plans to invest as much as $2.5 million in Brazilian oil fields over the next three years in an effort to reposition itself as an oil and gas explorer. Videocon already owns stakes in ten exploration blocks in Brazil through a joint venture with an upstream unit of Bharat Petroleum Corp., an Indian refiner. Shares of Videocon increased 0.53 percent after the announcement.

- **On July 27** the Chinese equity benchmark index fell 8.5 percent, the most since February 2007. The decline was attributed to disappointing Chinese economic data, which raised concerns of slower economic growth in the world's second largest economy. Later on August 24 the index lost another 8.5 percent, which spurred a global sell-off as investors registered the severity of the Chinese economic slowdown. Losses continued on the following day. Subsequently, the state-run China Securities Finance Corp engaged rescue funds in the market which halted the decline. The Chinese equity Index benchmark fell 28.6 percent in the quarter.

- **On July 29** HNA Group Co. agreed to buy airport luggage handler Swissport International Ltd. from PAI Partners SAS for 2.73 billion Swiss francs. HNA is the owner of China's fourth-largest airline and intends to run the operator as a stand- alone business within the group. Swissport is the world's largest ground and cargo company which provides ground handling and cargo services to 700 aviation customers.

- **On July 31** Mitsubishi Heavy Industries Ltd announced the acquisition of UniCarriers Corp. The transaction was worth 110 billion yen and is expected to generate combined annual sales of more than 400 billion yen. The deal will create the third biggest producer of forklift trucks in the world, challenging Toyota Industries Corp and Germany's Kion Group AG which are the world's top forklift makers. Shares of Mitsubishi Heavy Industries fell 28.5 percent in the quarter.

- **On August 27** Petrochina Company Limited announced that first half profit declined 61 percent from a year ago. Earnings in both the upstream and marketing segments were negatively impacted by lower energy prices. Sales also fell 24 percent versus the same period last year. The company said that the low crude oil price environment has provided a good opportunity to pursue acquisitions, which it is actively tracking. Shares of Petrochina gained 2.3 percent after the announcement.

Asian markets declined on a slowdown in the Chinese economy and risk of further currency depreciation.

Bermuda & Cayman Stocks

Benchmark Indices	30 Jun 2015	30 Sept 2015	Total Returns Local Curr.	Total Returns US$
BSX Index	1,193.97	1,214.48	2.6%	2.6%
BSX Insurance Index	1,560.46	1,590.85	2.0%	2.0%
S&P Global 1200	1,922.87	1,746.75	-8.6%	-8.6%
Stocks				
ACE Ltd.	101.68	103.40	2.4%	2.4%
Ascendant Group Ltd.	5.00	4.80	-2.5%	-2.5%
Butterfield Bank	1.65	1.77	7.9%	7.9%
Caribbean Utilities	10.64	10.49	0.2%	0.2%
Consolidated Water Co.	12.60	11.60	-7.3%	-7.3%
XL Group PLC	37.20	36.32	-1.8%	-1.8%

Source: Bloomberg

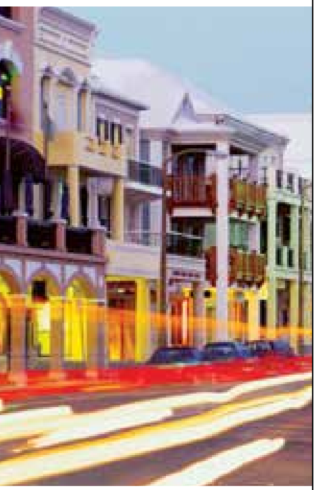
Local shares outperformed the global benchmark in Third Quarter 2015.

- **On July 31** Caribbean Utilities Company, Ltd., the provider of electricity to Grand Cayman, announced unaudited results for the Second Quarter 2015. Net earnings decreased 3.5 percent compared to the Second Quarter 2014 due mainly to higher depreciation, transmission and distribution, and temporary generation rental costs. Sales for the quarter totaled 146.0 million kWh, an increase of 1.5 million kWh in comparison to the Second Quarter 2014, driven by growth in commercial customer sales. Caribbean Utilities share price rose 0.24 percent in the quarter.

- **On August 10** Consolidated Water Co. Ltd., which develops and operates seawater desalination plants and water distribution systems, reported results for Second Quarter 2015. Net income attributable to the company's shareholders totaled $0.15 per diluted share compared to $0.19 per diluted share for the quarter ended June 30, 2014. Total revenues also declined compared to the same time period in 2014. The decline in revenues was spread across all three of the firm's business segments; retail water, bulk water, and services. The CEO cited higher maintenance expenses in the Bahamian operations, lower sales volumes in the Bahamas and Grand Cayman, and a reduction in energy-related charges that the company passes through to the customers. Consolidated Water fell 7.33 percent in the quarter.

- **On August 11** XL Group PLC announced that its indirect wholly-owned subsidiary, XL America Inc., had entered into a definitive agreement to acquire Allied International Holdings, Inc, a leading provider of property and casualty insurance coverage for the amusement and entertainment industry. XL said the acquisition of a leader in a niche market with well-established client relationships is well aligned with the complex underwriting expertise of XL. The deal is expected to close no later than the First Quarter of 2016 but is dependent on approval from anti-trust and regulatory authorities. XL's shares rose 0.94 percent on the day of the announcement.

- **On September 16** BF&M Ltd presented results for First Half 2015. The insurer reported net income of $11.4 million, which supported an annualized return on equity of 9.8 percent. Gross premiums were down two percent from the same period in 2014. The CEO said that diversification, both geographically and by line of business, was the major factor that had helped to keep profits up and was crucial to achieve consistently solid returns. BF&M's shares fell 2.9 percent in the quarter.



Global Bond Markets

Indices	(Yield to Maturity) 30 Jun 2015	30 Sept 2015	Total Returns Local Curr.	US$
US 2 Year	0.64%	0.63%	0.29%	0.29%
US 10 Year	2.35%	2.04%	2.92%	2.92%
US 30 Year	3.12%	2.85%	5.14%	5.14%
Canadian 10 year	1.68%	1.43%	2.62%	-3.69%
Australian 10 year	3.01%	2.61%	4.13%	-5.18%
UK Gilt 10 Year	2.02%	1.76%	3.96%	0.09%
German Bund 10 Year	0.76%	0.59%	2.45%	2.73%
Japanese 10 Year	0.46%	0.35%	1.39%	3.61%
Citigroup				
3-7 Year Treasury Index	1,386.05	1,408.83	1.64%	1.64%
7-10 year Treasury Index	1,737.90	1,790.04	3.00%	3.00%
1-10 Year US Corp. Bond Index	1,662.33	1,677.87	0.94%	0.94%
World Gov't 7-10 Yr Bond Index	1,132.97	1,160.07	2.39%	2.39%

Source: Bloomberg

- **On July 10** Greek Prime Minister Alexis Tsipras offered to meet most of the demands made by creditors in exchange for a bailout. The proposal, which calls for the restructuring of Greece's debt, is for a three-year bailout loan of at least €53.5 billion ($59.2 billion). The Greek government said it would use the loan from the European Stability Mechanism to cover debt repayments mostly to the IMF and the ECB. Upon the news, demand for German sovereign debt diminished as the yield on 10-year bunds rose by almost 20 basis points.

- **On August 3** Puerto Rico missed a debt payment as the island paid just $628,000 toward a $58 million debt due to creditors. This was the first skipped payment since Governor Alejandro Garcia Padilla in June said the island's debts were unsustainable and urged negotiations with creditors.

- **On August 6** the Bank of England released the minutes of the Monetary Policy Committee's deliberations alongside the monthly policy decision, quarterly inflation report, and a 50-page collection of economic forecasts. The day was labelled by analysts as "Super Thursday" due to the unprecedented amount of economic data released in a single day. The central bank signaled that they were on track to start raising interest rates by early 2016. The yield of the 10-year UK Gilt fell by 5 basis points on the day.

- **On September 9** Standard & Poor's cut Brazil's credit rating to BB+ with a negative outlook putting them back to junk rating just seven years after the credit rating agency lifted them to investment grade. S&P's decision was based on the nation's worsening economic and political prospects. Earlier in the quarter, Moody's Rating Agency had cut the credit rating of Brazil to Baa3 from Baa2, the lowest investment grade rating, and changed the outlook to stable from negative.

- **On September 17** the Federal Reserve kept interest rates unchanged, but retained the option of raising rates later in the year. The policy statement expressed deeper concerns about international economic developments impinging on the US outlook. The Fed also noted the likelihood that inflation may dip lower before eventually moving toward the Fed's target of two percent as the impact of transitory factors such as low energy and import prices subsides. Upon the announcement, Treasury yields fell across the curve, with three-year yields declining the most, down 14bps on the day.

Interest rates around the globe fell on risk aversion and low inflation.

World Currency Markets

Value of Currency US$1 = value in local currency

Currency	30 Jun 2015	30 Sept 2015	Change
Australian Dollar	1.2975	1.4250	-8.9%
Brazilian Real	3.1030	3.9475	-21.4%
British Pound	0.6365	0.6610	-3.7%
Canadian Dollar	1.2494	1.3313	-6.2%
Euro	0.8971	0.8947	0.3%
Japanese Yen	122.5000	119.8800	2.2%
Swiss Franc	0.9355	0.9733	-3.9%

Source: Bloomberg

The US dollar advanced against most major currencies on safe haven demand.

- **On July 15** the Bank of Canada cut the benchmark rate in order to boost the faltering economy citing a need for a rebound in exports amidst slowing demand from trading partners. The central bank also adjusted the economic growth forecasts to 1.1 percent, from nearly two percent last April. The Canadian dollar depreciated 1.4 percent versus the US dollar on the day and weakened by 6.2 percent in the quarter.

- **On August 11** China devalued the yuan in a move that rippled through global markets on speculations that a "currency war" may ensue. By the end of the day, the yuan had fallen 1.8 percent against the dollar. This was the yuan's biggest one-day drop since China ended a dual-currency system in 1994. Stock markets and commodity prices tumbled as the cut in the yuan's value sparked concerns that the nation will suffer a longer period of declining growth, or even worse, a sharp decline in economic growth. Investors were also wary of China's large share in global demand and the possible repercussions that could follow.

- **On August 25** the Mexican peso closed at an all-time low of 17.2098 to the US dollar following the drop in commodity prices and concerns over the nation's economic growth. Earlier in the quarter, Mexico's central bank cut the 2015 growth estimate to between 1.7 – 2.5 percent from the previous range of two to three percent. The currency was further affected by a broad sell off in Emerging Market currencies following China's decision to devalue the yuan earlier in the month. The peso depreciated seven percent against the dollar in the quarter.

- **On September 9** the Reserve Bank of New Zealand cut interest rates 25 bps to 2.75 percent – the third cut to the benchmark rate in as many months. Reserve Bank Governor Graeme Wheeler signaled that another cut may be needed to boost inflation as growth has slowed due to external factors affecting demand. He also noted that further depreciation of the New Zealand dollar may be appropriate given a decline in export prices. The kiwi, as the nation's currency is commonly called, strengthened by 0.82 percent against the dollar on the day but depreciated 5.4 percent in the quarter.

- **On September 22** Brazil's real fell to 4.0665 per dollar, the weakest intraday level since it was created in 1994. The real has led emerging-market declines since Standard & Poor's cut the nation to junk on September 9. Concern also mounted that the country may face further downgrades amid a political stalemate and a corruption investigation at the state-controlled oil company. In the quarter the real depreciated 21.4 percent against the dollar.

Outlook
FOR THE FORTH QUARTER 2015

We expect the global economy to grow through the remainder of the year but at a slower pace than previously anticipated.

- We remain constructive for growth in the US with momentum from the first half expected through to the end of the year.
- US inflation expectations remain in check despite tighter labour market conditions and improving wage growth.
- China is likely to remain at the center stage of global financial markets as economic indicators affirm a slowdown in the world's second largest economy.

We expect yields to rise gradually in most Developed Markets on the back of improving economic data and an interest rate hike by the Fed.

- 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 is likely to 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 economic growth in the region.

We expect the US dollar to strengthen against most major currencies over the next 12 months as the developing monetary policy divergence story regains traction.

- The dollar is supported by robust 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.
- The outlook for commodity currencies remains bleak as we expect prices of oil and the broad commodity basket to stay low.

We do not expect commodities to move out of the recent bear cycle in the near term as slower global growth may take the demand/supply equilibrium longer to adjust than previously estimated.

- Most commodity markets remain well supplied and the overhang should only gradually phase out as prices stay at current levels.
- We expect prices of precious metals to trend lower in the long term as the Fed initiates a rate increase.
- Slowdown in China is the overriding theme for most base metals.

We are overweight in Equities as an asset class globally as Developed Market equities gain from a gradual economic recovery.

- We prefer Developed Markets over Emerging Markets.
- On a regional basis we maintain an underweight allocation to Emerging Asia, Latin America, Australia, and Canada.
- We remain cognizant of the possible weakening of the euro and the yen and stay net-hedged in our exposure versus the benchmark.

ECONOMICS

"Recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term."

FOMC Policy Statement, September 17, 2015

The World

We expect the global economy to grow through the remainder of the year but at a slower pace than previously anticipated. Weaker industrial activity in China and adjusted currency projections have put emerging markets at center stage. Developed Market economies should also be affected by an Emerging Market slow down along with risks surrounding the timing of the first Fed rate hike and the pace of subsequent increases. US inflation expectations remain in check despite tighter labour market conditions and improving wage growth supporting inflation (reflation) in Developed Market economies while commodity related high-inflationary pressures are expected to ease in Emerging Markets. Overall, we expect central banks' policies to remain supportive of growth with slower than previously estimated rate hikes by the Fed and the Bank of England (BoE) as well as continuing quantitative easing by the European Central Bank (ECB) and the Bank of Japan (BoJ). In Emerging Markets, we expect the People's Bank of China (PBOC) to support their economy with lower interest rates and reserve ratios. Bloomberg estimates of global GDP currently stand at 3.1 percent in 2015, revised lower from the previous quarter.

North America

We remain constructive for growth in the US with momentum from the first half expected through to the end of the year. Bloomberg estimates suggest the economy to grow at 2.8 percent in the Fourth Quarter 2015 on an annualized basis and 2.3 percent in the Full Year 2015.

Last quarter, we highlighted the need for a pick up in capital spending to further support growth. While overall investment is still expected to stay moderate due to weak global growth, the drag from energy divestment should gradually diminish. Moreover, bright spots have emerged in the US economy specifically in R&D (Research and Development) activity and commercial building. Improving financial health of the US consumer is central to our positive stance. We expect wage growth to reflect the tightening in labour markets. At the same time, lower gasoline prices should cap expenses while growth in home prices is expected to contribute to the household wealth effect.

We expect the Canadian economy to rebound into the Fourth Quarter 2015 with an estimated annualized GDP growth of 2.0 percent, as per Bloomberg consensus. Downside risks, however, remain as energy sector investment slows and non-energy sector investment activity is yet to gain meaningful traction. Household spending is the bright spot in the Canadian economy, and we expect this to strengthen further. Demand for housing construction and residential investment by Canadian households will be supported by the low interest rates.

Europe

We are optimistic of growth prospects in the euro area on the back of quantitative easing by the ECB. Recent developments, however, should make incremental gains more difficult. These include the near-term appreciation of the euro and a softer global trade outlook. Last year, we saw companies shelving investment plans on uncertainty relating to Russia's annexation of Crimea. This year, uncertainty from the Fed, impact of a rate hike on Emerging Markets, and outlook of the Chinese economy could again result in European companies adopting a wait-and-see approach towards investment spending. Such a halt in capital expenditure could pose a risk to the region's growth potential. Within the euro area, countries that have been quick to initiate reforms, such as Ireland and Italy, should see strong near-term improvement. Germany, on the other hand, is more leveraged to global growth and may suffer from a slowdown in China and Emerging Markets. We do not expect any meaningful improvement in Greece despite receiving bailout funds last quarter (Morgan Stanley economists expect the country to fall into deep recession next year). Bloomberg consensus suggests the region's economy to grow at 1.6 percent in the Fourth Quarter 2015.

In the UK, we expect a stable recovery as the economy is close to full employment and real wages rise. Analysts believe the economy should grow at 2.3 percent in the Fourth Quarter 2015 which is in line with current levels. Next year, however, we expect a slowdown in consumption and investment as the BoE moves towards tightening. We believe the rate hike will be 'data dependent' and slower relative to the pace of previous tightening cycles. Lastly, the UK is expected to hold a referendum vote on EU membership in the Third Quarter 2016 which may negatively affect business investment if the Brits choose to exit.

Pacific Basin

We have a subdued outlook for the Japanese economy as slower global growth, depreciation of the Chinese yuan, and slowdown in Emerging Markets negatively affects the country's trade position. However, lower crude oil prices partially offset the negative trade balance impact. On the fiscal end, reforms are required but may take a back seat as policies focused on security legislation take attention away from Abenomics. On a positive note, we see Japan exit from deflation as tighter labour markets push wages up and prices subsequently. In the Fourth Quarter 2015, Japan's GDP growth is expected at 1.4 percent, as per Bloomberg estimates.

China is likely to remain at the center stage of global financial markets as economic indicators affirm a slowdown in the world's second largest economy. The key question is whether policy-makers will be able to land the economy safely without further roiling the markets. We expect the central bank to play an active role through accommodative monetary policies that support credit growth and stabilize liquidity conditions. Moreover, further financial liberalization in line with the country's long term reform plan shall take shape. As a base case, we expect China to maintain GDP growth of 6.9 percent in the Fourth Quarter 2015.

Latin America

Our outlook for Latin America has deteriorated significantly with GDP estimated to contract at 0.6 percent in the Fourth Quarter 2015, as per Bloomberg estimates. Brazil is suffering from a worsening trade balance in the wake of declining commodity prices. Also, currency depreciation has put downward pressure on investments while uncertainty in fiscal and monetary policies along with negative political sentiment has further clouded outlook. The only positive for the country is that inflation is expected to remain in check in the current recession.

"Global sentiment on China has veered sharply bearish – too bearish. While we have long cautioned clients against relying on rosy official views of the Chinese economy, we believe sentiment has swung substantially too far in the opposite direction."

Leland Miller,
President of
CBB International,
September 21, 2015

BONDS

"We just don't see an environment where inflation is moving up rapidly in the medium term. That will keep bond yields low."

John Bellows, Money Manager at Western Asset Management, September 21, 2015

We expect yields to rise gradually in most Developed Markets on the back of improving economic data and an interest rate hike by the Fed. Importantly, monetary policies of major central banks remain accommodative as they tackle the challenge of meeting inflation targets. Recent concerns about global economic growth and the effects of the Fed's first interest rate hike are likely to keep volatility high in the markets, but we expect the Fed to word their actions carefully to keep investors best informed thus preventing a sharp increase in yields.

The Fed is getting closer to raising interest rates on the back of strength in economic data and an improving labour market in the US which in our view justifies a hike in December. However, in the FOMC's September meeting, the Fed acknowledged monitoring developments abroad following recent turmoil in China and Emerging Markets making the timing of the expected hike more uncertain. The short end of the yield curve will be most affected by Fed action while yields at the longer end of the yield curve should see limited upward movement as inflation expectations remain subdued. We expect the Fed to implement measured interest rate increases so as to avoid a dramatic appreciation of the dollar, a sharp increase in yields, and a pullback in the equity market which could tighten financial conditions more than desired.

Moreover, there are other key 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 QE exercises of the ECB and Bank of Japan, funds should flow to Treasuries as they offer yield pick-up for investors.

We expect yields in the eurozone to rise marginally on the back of improving economic growth in the region and fading uncertainty about Greece, thus reducing demand for safe haven German bonds. However, the ECB's large-scale bond-purchases are in full swing and will soak up supply of the region's sovereign bonds, limiting the rise in interest rates. Furthermore, the central bank has indicated readiness to expand the QE programme if the inflation outlook does not improve.

In the UK, gilt yields are likely to gradually rise on the back of an improving economy with the Bank of England next in line to raise interest rates after the Fed. The central bank recently has voiced optimism about the nation's economic recovery. With companies having to raise wages to attract workers, spare capacity in the labour market will be a key metric for central bank officials to consider when deciding to end more than six years of record-low borrowing costs. We expect an interest rate hike in the first half of 2016.

The Bank of Canada is likely to cut interest rates once more in 2015 to stimulate the economy which has been heavily impacted by the sharp decline in energy prices. With no expectations of tighter monetary policy, the Canadian dollar should stay weak - a boost for exports and the manufacturing sector.

CURRENCIES

We expect the US dollar to strengthen against most major currencies over the next 12 months as the developing monetary policy divergence story regains traction after a temporary setback following market turmoil spurred by China and the Fed's dovish September statement. In the US, the Fed is expected to gradually raise interest rates on the back of an improving labour market. Meanwhile, in Europe the possible expansion of the ECB's asset purchase programme should weigh on the euro. The yen is likely to come 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 is likely to force the Bank of Japan to add to monetary stimulus before the end of 2015. Slow Chinese growth and low oil prices are likely to keep commodity currencies, such as the Australian and Canadian dollars, weak.

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. As per Bloomberg estimates, the dollar will appreciate to $1.05 per euro and ¥127 by the end of September 2016.

The euro weakness should continue led by monetary policy divergence between the ECB and the Fed. The ECB's quantitative easing (QE) programme to simulate growth and inflation in the region may need to be increased should it remain stubbornly low. An increase of the QE programme should be a powerful driver of portfolio flows out of the euro and into any country not at immediate risk of having to ease monetary policy, such as the US and the UK.

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. Recent economic data indicates that the labour market in the UK is gathering momentum with unemployment rate at the lowest rate since 2008 and wage growth accelerating, supporting reduced monetary stimulus.

We expect the yen to weaken against the dollar for two reasons. Firstly, 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 June 30, 2015 the GPIF's allocation was 35.4 percent in foreign assets. Secondly, annual inflation remains stubbornly low at 0.2 percent and is likely to force the Bank of Japan to further increase monetary stimulus.

The outlook for commodity currencies remains bleak as prices of oil and the broad commodity basket stay low, mainly affecting Canada, while relatively weak growth in China will impact the Australian economy. Central banks in the aforementioned nations are dovish and could cut interest rates further. 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 are net hedged in our euro and yen exposure versus the benchmark in the BIAS funds.

"The dollar will not be held back by the dovish monetary policy for an awful lot longer."

Jim McCaughan,
CEO of Principal Global Investors,
September 18, 2015

COMMODITIES

"The (rebalancing) process is likely to be prolonged as a supply overhang is expected to persist through 2016."

IEA Report, August 2015

We do not expect commodities to move out of the recent bear cycle in the near term as slower global growth may take the demand/supply equilibrium longer to adjust than previously estimated. Most commodity markets remain well supplied and the overhang should only gradually phase out as prices stay at current levels. We closely monitor policies in China as any easing could temporarily provide support to metals. On the flip side, tightening by the Fed in the near term should be a headwind for commodities as the dollar strengthens and more specifically for precious metals on lower safe haven demand.

For crude oil, analysts are split down the middle as to what direction prices will take in the near term. Goldman Sachs sees price bottoming at $20 per barrel on increased resilience of US shale producers and a prolonged glut. We, however, side with OPEC and Morgan Stanley estimates of a very gradual price increase over the next five years as production phases out from non OPEC producers. On the supply side, we take into account the risk of Iranian supply coming into the market earlier than expected with markets only reaching a balanced state after the first half of 2016.

We reiterate our stance from the last publication that the way out of the current price slump is through demand recovery. OECD growth leads demand for petroleum products with refinery offtake in the US the highest in over a decade. At the same time, quantitative easing in Europe and improving business sentiment should also be supportive for petroleum product demand. Overall, we agree with Morgan Stanley that crude oil prices should rise gradually in the second half of 2016 as supply risks abate, demand improves, and markets approach a more balanced state.

Precious metals got a lifeline this September when the Fed decided to keep interest rates unchanged. The FOMC cited tepid inflation and risks from weakening global trade as reasons to hold rates at current levels. Longer term, however, we expect prices to trend lower as the Fed eventually initiates a rate increase following inflation move towards the Fed's two percent target. Additional downside risks for gold include a stronger US dollar, universally low inflation, and diminished probability of a Greece exit from the EU.

The slowdown in China is the overriding theme for base metals. For copper, subdued economic activity, coupled with tight credit conditions and anti-corruption investigations at the Chinese state grid, have undermined investment confidence. On the supply side, adjustment from the low prices has been very gradual and we expect the oversupply conditions to persist in the near term.
For aluminum, demand is strong on the back of 'light-weighting' of automobiles with sales of the aluminum-bodied Ford truck, F 150, exceeding estimates. We expect other auto producers to take note and more aluminum-rich models to be launched which should be supportive of prices.

EQUITY STRATEGY

We are overweight in Equities as an asset class globally, as i) Developed Market equities gain from a gradual economic recovery, ii) the recent decline in equity markets has priced in the adjustment to global growth, even overreacting in some cases, in our opinion, iii) earnings revisions trend at historical levels, and iv) companies, especially in the US, have cash-rich balance sheets with active buyback programmes.

We prefer Developed Markets over Emerging Markets and believe the slowdown in China will also adversely affect materials-dependent economies, such as Canada and Australia. As noted in our economics outlook, we believe the liberalization policy in China is an enduring theme and anticipate another round of devaluation in the Chinese yuan followed by currency depreciation in competing Emerging Markets exporters. This would detract from market returns in US dollar terms. Therefore, on a regional basis we maintain an underweight allocation to Emerging Asia, Latin America, Australia, and Canada.

Developed Market exporters such as Japan and the euro area will also be challenged by a weaker yuan. Following recent strength in the euro and yen, we expect both central banks to actively manage their quantitative easing programmes to keep their currencies competitive. At the same time, incremental economic improvement in the two regional economies has prompted us to maintain a neutral position in the portfolio. We do, however, remain cognizant of the possible weakening of the euro and the yen and stay net-hedged in our exposure versus the benchmark.

The US is our highest conviction market and for this reason we maintain an overweight allocation. We expect the economy to trend strongly and while uncertainty hovers around the first interest rate hike, the US has sound fundamentals and limited risk from the global growth slow down. We agree with Goldman Sachs strategist Abby Joseph Cohen that the US economy is more inelastic to fluctuations in global currencies because of the higher proportion of value-added products in exports. This also confirms our view of the US' lead in global innovation and our preference of the Health Care and Information Technology sectors. Our preferred industries offer accretive value through innovation and real growth and include life sciences and biotechnology in the Healthcare sector and internet, software and cyber security in the Information Technology sector.

We also positively view the cyclical story in the US and are building exposure to the housing sector and banking. While we understand that the interest rate lift-off in the US is likely to be slower than previously anticipated, banks should continue to gain from increased capital market activity and higher credit off-take in the economy. Lastly, we remain buyers of our high conviction calls on dips. Coming out of the decline, November and December are seasonally stronger months and we anticipate the market to finish the year on a stronger note.

"Market rebound will likely be a slow grind higher."

US Portfolio Strategy, JP Morgan Research, August 25, 2015

CONCLUSION AND STRATEGY POINTS

EQUITIES

Regional Strategy

- Overweight US at 63.7 percent (versus an index weighting of 55.8 percent).
- Neutral Europe at 26.7 percent (versus an Index weighting of 26 percent).
- Neutral Japan at 7.3 percent (versus an index weighting of 7.9 percent).

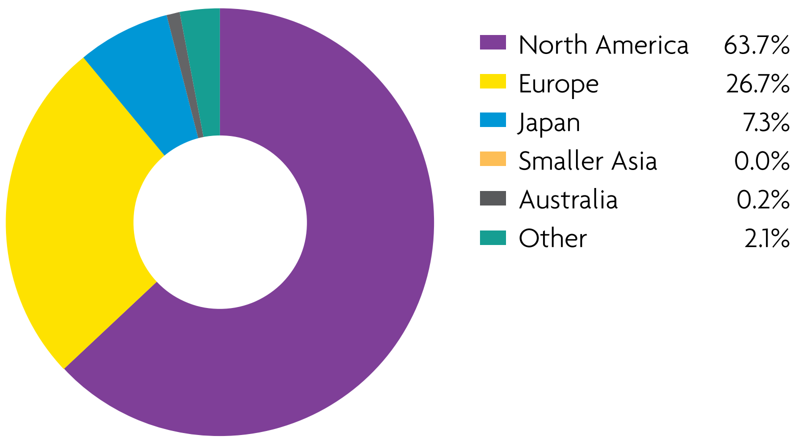
Sector Strategy

- Overweight Information Technology, Health Care, and Consumer Discretionary at 24.3 percent, 16.0 percent, and 15.9 percent (versus an index weighting of 14.5 percent, 12.9 percent, and 12.4 percent respectively).
- Slightly overweight Consumer Staples at 11.5 percent (versus an index weighting of 10.6 percent.
- Underweight Financials and Energy at 16.5 percent and 3.5 percent (versus an index weighting of 26.6 percent and 6.6 percent, respectively.

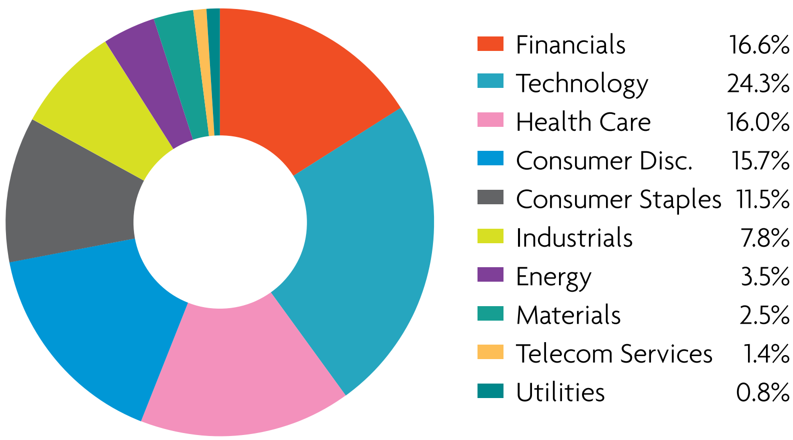
Currency Strategy

- Overweight US dollar 82.1 percent (versus an index weighting of 55.8 percent).
- Underweight euro 6.9 percent (versus an index weighting of 14.6 percent).
- Underweight Japanese yen 0.3 percent (versus an index weighting of 7.7 percent).

Geographic Allocation



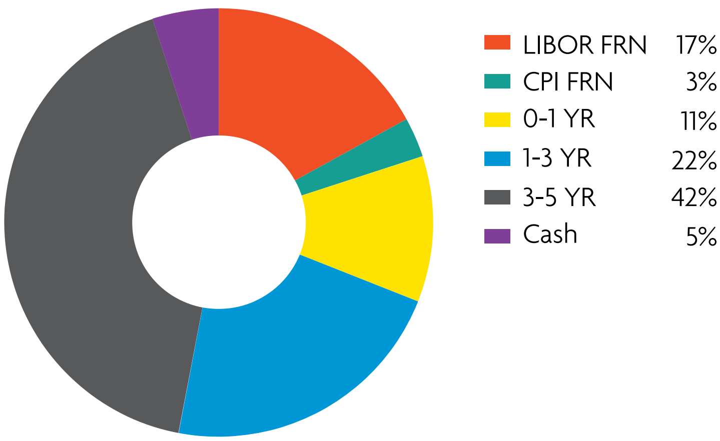
Sector Allocation



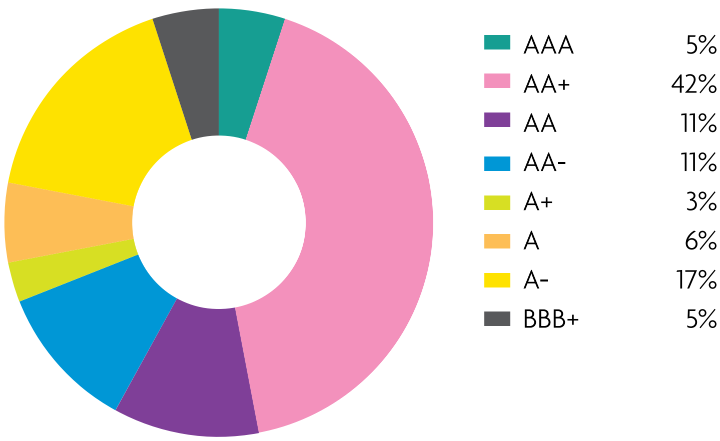
BONDS

- 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.

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