REVIEW & Outlook

Q4 2015
Q1 2016

Global Financial Markets

BIAS
INVESTMENT MANAGERS - SECURITIES ANALYSTS

DECEMBER 31, 2015

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World Markets Quarterly Review

December 31, 2015

1	DJIA	7.7%	3	BSX	8.1%	7	UK FTSE	1.1%	11	Nikkei	8.7%
1	S&P 500	7.0%	4	Bolsa	-0.6%	8	CAC	1.5%	12	Hang Seng	5.4%
1	NASDAQ	8.8%	5	Bovespa	-3.8%	9	DAX	8.5%	13	Straits Times	4.3%
2	TSX	-4.5%	6	Merval	-13.7%	10	Kospi	0.6%	14	ASX	10.7%

The S&P Global 1200 Index rose 5.6 percent for the quarter ended December 31, 2015. All returns are expressed in US dollars.

Stock, Bond, Currency Overview

Global Stock Markets

- Stocks rebounded in the Fourth Quarter as fears of a global slowdown abated following supportive commentary by most regional central banks.
- The US outperformed the global benchmark as the economy remained on sound footing and the Fed raised interest rates in-line with the market's expectations.
- In Europe, Germany was the best performer as interest returned in the auto and auto component manufacturers.
- Japanese markets strengthened on an improved outlook for the nation's exports.

Bond Markets

- US Treasury yields rose after Fed policy makers deemed the economy strong enough to merit boosting interest rates from virtually zero percent.
- In Europe, yields on shorter-maturity sovereign bonds fell further into negative territory amid increased monetary stimulus from the ECB.
- In Canada, yields fell on all but the very shortest sovereign bonds as lower commodity prices slowed economic growth.

Currency Markets

- The US dollar advanced against most major currencies as the Fed raised interest rates for the first time since 2006.
- The euro weakened against the US dollar as the ECB added more monetary stimulus to bolster the region's economic recovery and raise inflation.
- Sterling weakened against the US dollar as economic data came in below market expectations.

North American Stock Markets

Indices	30 Sept 2015	31 Dec 2015	Total Returns Local Curr.	Total Returns US$
US Dow Jones Industrial	16,284.70	17,425.03	7.7%	7.7%
US S&P 500	1,920.03	2,043.94	7.0%	7.0%
US NASDAQ	4,620.17	5,007.41	8.8%	8.8%
Canada TSX	13,306.96	13,009.95	-1.4%	-4.5%
S&P Global 1200	1,746.75	1,834.71	5.6%	5.6%

Source: Bloomberg

US markets rose on the back of strength in the economy.

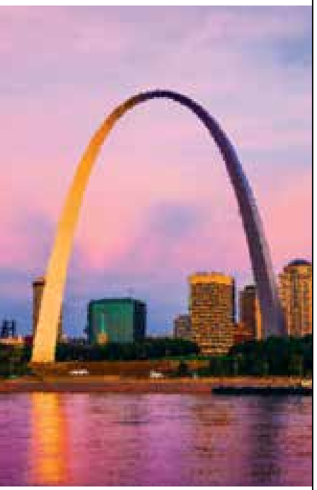
- **On October 21** Valeant Pharmaceuticals International Inc., a specialty drugs company based in Canada, saw its shares decline sharply following reports accusing the company of fraudulent practices by using specialty pharmacies to store inventory and record the transactions as sales. This prompted the Federal Trade Commission to open an investigation. Valeant's share price fell 19.1 percent on the day.

- **On November 11** Macy's Inc., plunged 14 percent after the chain missed third quarter sales estimates and cut the annual profit forecast. Macy's results renewed concerns that consumers are shifting away from mall shopping to online, and presently favour spending on cars, homes, and technology. The US dollar's appreciation also posed an additional challenge cutting into foreign tourist spending. On November 25 Macy's CEO Terry Lundgren said the company is challenged by slowing mall traffic and plans to close as many as 40 stores in 2016 while looking into new collaborations.

- **On November 23** Pfizer Inc. said it would buy Botox maker Allergan Inc. in a deal worth $160 billion which would create the world's largest drug maker. Pfizer's headquarters would be shifted to Ireland following the merger resulting in the biggest instance of a tax driven US corporate inversion. To avoid potential restrictions, the transaction was structured for Dublin-based Allergan to acquire Pfizer. Shares of Allergan fell 3.4 percent and Pfizer closed down 2.6 percent on the day as investors learned the merger, which had been under discussion since late October, would actually bring lower cost savings than originally expected.

- **On December 3** Chesapeake Energy Corp., the US natural gas producer that slashed spending, fired workers, and halted dividend payouts to conserve cash amid the energy glut, fell to the lowest level since January 2002 after asking existing bond holders to swap into longer-dated debt instruments. Chesapeake's shares fell 12 percent on the day of the announcement.

- **On December 11** The Dow Chemical Co. (Dow) and E.I. du Pont de Nemours and Company (DuPont) announced that they had agreed to a merger of equals and would form a company with a combined market capitalization of $130 billion to be named DowDupont. Upon completion of the merger, the new company plans to split into three separate companies, consisting of agricultural chemicals, specialty products, and materials. The deal is expected to deliver $3 billion in cost synergies and to close in the Second Half 2016.



Latin American Stock Markets

Indices	30 Sept 2015	31 Dec 2015	Total Returns Local Curr.	Total Returns US$
Mexico Bolsa	42,632.54	42,977.50	1.3%	-0.6%
Brazil Bovespa	45,059.34	43,349.96	-3.8%	-3.8%
Argentina Merval	9,814.62	11,675.18	19.0%	-13.7%
Chile IPSA	3,685.18	3,680.21	-0.1%	-1.8%
S&P Global 1200	1,746.75	1,834.71	5.6%	5.6%

Source: Bloomberg

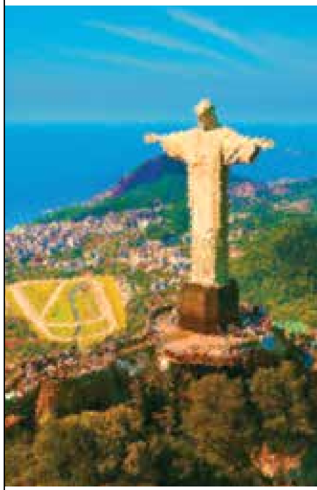
- **On November 23** Argentina's Merval stock index fell 5.1 percent, after rallying to a record high, on profit taking as investors became concerned about the measures the next government will have to take to fix the economy. President-elect Mauricio Macri has substantial challenges with the budget deficit soaring to the widest level in three decades and inflation running at an annual rate of 20 percent. The Merval had surged 57 percent earlier in 2015 on speculation that the end of the 12-year rule by Cristina Fernandez de Kirchner and her late husband would herald in more market-friendly policies.

- **On November 25** Brazil's Ibovespa stock index fell 2.9 percent after Andre Esteves, who transformed Grupo BTG Pactual into the largest investment bank in the region, and Delcidio Amaral, the leader of the government coalition in the Senate, were arrested for corruption. Concern that corruption probes will deepen Brazil's political crisis into 2016 bolstered the view that President Dilma Rousseff will not finish her term in office. Shares of state-controlled companies fell more than other shares in the Ibovespa with Banco do Brazil and Petrobras tumbling 6.4 percent and 7.0 percent, respectively, while BTG plummeted 21 percent on the day.

- **On December 8** shares of America Movil S.A.B. de C.V. fell to a 52-week low. Regulatory issues in Mexico, adverse foreign exchange movement, and intensifying competition had already hurt the stock price. AT&T Inc.'s entry into the Mexican telecom industry has intensified competition and AT&T's acquisition of DIRECTV could further impact America Movil's market position as DIRECTV is an existing competitor in Mexico and other Latin American countries. Further, Mexico's telecom regulator permitted access to the "last mile" of the company's wireline division (Telmex's telephone network) to rivals weakening America Movil's near monopoly position. Shares of America Movil fell 8.9 percent in the quarter.

- **On December 10** Petróleo Brasileiro S.A.'s (Petrobras) CEO Aldermir Bendine announced that the company is preparing to extend spending cuts and concentrate on its best fields to mitigate the impact of falling crude oil prices. The state-controlled oil producer is looking to increase borrowing to as much as $20 billion next year and prioritize the most prolific pre-salt projects in deep Atlantic waters while looking for partners to ease spending at more marginal ones. Petrobras' debt rating was cut to junk earlier in 2015 and the company's market value has shrunk significantly from its peak seven years ago. On the day of the announcement Petrobras share price fell 2.6 percent.

Political turmoil and corruption charges negatively affected sentiment in Brazil.



European Stock Markets

Indices	30 Sept 2015	31 Dec 2015	Total Returns Local Curr.	Total Returns US$
UK FTSE	6,061.61	6,242.32	3.8%	1.1%
Germany DAX	9,660.44	10,743.01	11.2%	8.5%
France CAC 40	4,455.29	4,637.06	4.5%	1.5%
Spain IBEX 35	9,559.90	9,544.20	0.9%	-2.0%
S&P Global 1200	1,746.75	1,834.71	5.6%	5.6%
S&P Europe 350	1,404.86	1,474.06	5.4%	2.4%

Source: Bloomberg

Germany rebounded sharply on renewed confidence in automakers.

- **On October 13** Belgian company Anheuser-Bush INBev NV closed in on what would rank as the fourth-biggest takeover in history and the largest deal for a UK company after proposing to pay almost $106 billion for SABMiller Plc. The maker of Budweiser agreed to pay £44 a share in cash for a majority of the stock and SAB Miller said its board is prepared to recommend the offer. Together, InBev and SABMiller will be the world's largest consumer-staples company by earnings and brew almost a third of the world's beer. SABMiller's shares rose 9.0 percent in London, while AB INBev rose 1.7 percent in Brussels on the day.

- **On October 21** Ferrari NV had its initial public offering (IPO) on the New York Stock Exchange after the spin-off of a minority stake in the company by Fiat Chrysler Automobiles NV. The company raised $893 million at its IPO, according to Bloomberg. Ferrari's shares climbed as much as 17 percent on its first day of trading before closing seven percent higher than its IPO price.

- **On November 9** Ericsson AB, the Swedish mobile network giant, announced a strategic partnership with Cisco Systems Inc. to collaborate in the development of the next generation telecommunications networks. The partnership was the latest combination in the industry as equipment makers seek to expand their offerings. The companies expect the deal to generate $1 billion in revenue for each of them by 2018 and see the partnership as a key driver of growth for the next decade. On the day Ericsson gained 1.9 percent in Stockholm while Cisco fell one percent in New York trading.

- **On November 25** Spanish banking shares fell as Abengoa SA, a national renewable-energy company, began creditor-protection proceedings which may leave the nation's lenders with large bad debts. According to a regulatory filing, Gonvarri Corporacion Financiera ended an accord to invest up to €350 million in Abengoa as it failed to meet agreed conditions. A default by Abengoa would be the biggest default in Spain over the past few years. Bank stocks reacted negatively on the day as share prices of Banco Popular Espanol SA, CaixaBank SA, and Banco Santander SA fell 4.8 percent, 3.6 percent, and 3.3 percent, respectively, while Abengoa plummeted 48 percent.

- **On December 8** Anglo American Plc, one of the world's biggest mining companies, announced it will sell assets, close mines, and reduce staff from 135,000 to 50,000. No time frame was given. The company also said it will scrap its dividend for the second half of 2015 and for 2016. The CEO Mark Cutifani said this was to keep the company afloat with metal prices at the lowest level in six years resulting from a global surplus of mining production and waning demand from China. Anglo's share price fell 8.3 percent on the day.

Pacific Rim Stock Markets

Indices	30 Sept 2015	31 Dec 2015	Total Returns Local Curr.	Total Returns US$
Japan Nikkei	17,388.15	19,033.71	9.6%	8.7%
Hong Kong Hang Seng	20,846.30	21,914.40	5.4%	5.4%
Hang Seng Red Chip	3,901.65	4,052.12	4.0%	4.0%
Korea Kospi 100	1,962.81	1,961.31	-0.1%	0.6%
Singapore STI	2,790.89	2,882.73	3.8%	4.3%
Taiwan TWSE	8,181.24	8,338.06	1.9%	2.2%
Australia ASX 200	5,021.63	5,295.90	6.5%	10.7%
S&P Global 1200	1,746.75	1,834.71	5.6%	5.6%
FTSE Pacific ex-Japan	380.52	400.41	5.8%	5.8%

Source: Bloomberg

- **On October 29** China dropped its one-child policy to allow all couples to have two children. Analysts estimated that the relaxed controls would result in an extra three to six million babies born annually in the five-year period starting in 2017. Baby formula makers in Hong Kong and mainland China rose strongly on the day of the announcement. Beingmate Baby & Child Food Co. Ltd. rose ten percent while China Child Care Corp., which makes hair and skin care products for kids, jumped 40 percent. In Japan, baby bottle maker Pigeon Corp. surged 10.7 percent while diaper makers Unicharm Corp. and Kao Corp. both rose nearly four percent.

- **On November 4** state-owned postal giant Japan Post and its financial subsidiaries Japan Post Bank and Japan Post Insurance were listed on the Tokyo Stock Exchange in the biggest Japanese IPO in over two decades. Investors scrambled to purchase shares of Japan's largest employer, largest bank, and largest writer of life insurance. On the day, Japan Post Holdings surged 26 percent while Japan Post Bank and Japan Post Insurance rallied 15 percent and 56 percent, respectively.

- **On November 6** China Securities Regulatory Commission (CSRC) spokesman Deng Ge announced that they would allow the resumption of initial public offerings in China, lifting a suspension put into effect in July as regulators tried to prevent a stock market crash. The Shanghai Stock Exchange rose 1.6 percent in the day following the announcement.

- **On November 6** Japanese auto parts supplier Takata Corporation slashed its annual earnings forecast and said the company had yet to determine the full impact of a global safety recall as customers began ditching the company's air bag inflators. Earlier in the week US auto safety regulators linked Takata's failing inflators to the use of ammonium nitrate as a propellant, prompting automakers from Honda Motor Co to Mazda Motor Corp to halt the use of Takata inflators in their new cars. Takata did not disclose how much the inflators contribute to its overall business, but air bag products accounted for 38 percent of revenue last year. Takata's share price fell 39 percent in the week.

- **On December 9** Japan's Securities and Exchange Surveillance Commission recommended fining Toshiba Corporation a record ¥8.4 billion for overstating profits for the past seven years by ¥151.8 billion. Toshiba was reported to have set aside ¥8.4 billion to cover penalties and announced that it is seeking more than one billion yen from five former executives including former CEO Hisaoi Tanaka. Toshiba's shares rose 1.4 percent on the day of the announcement.

Japanese markets strengthened on an improved outlook for the nation's exports.

Bermuda & Cayman Stocks

Benchmark Indices	30 Sept 2015	31 Dec 2015	Total Returns Local Curr.	Total Returns US$
BSX Index	1,214.48	1,304.06	8.1%	8.1%
BSX Insurance Index	1,590.85	1,671.45	5.1%	5.1%
S&P Global 1200	1,746.75	1,834.71	5.6%	5.6%
Stocks				
ACE Ltd.	103.40	116.85	13.6%	13.6%
Ascendant Group Ltd.	4.80	4.80	1.6%	1.6%
Butterfield Bank	1.77	1.95	10.8%	10.8%
Caribbean Utilities	10.49	10.77	4.2%	4.2%
Consolidated Water Co.	11.60	12.24	6.1%	6.1%
XL Group PLC	36.32	39.18	8.5%	8.5%

Source: Bloomberg

Local shares outperformed the global benchmark in Fourth Quarter 2015.

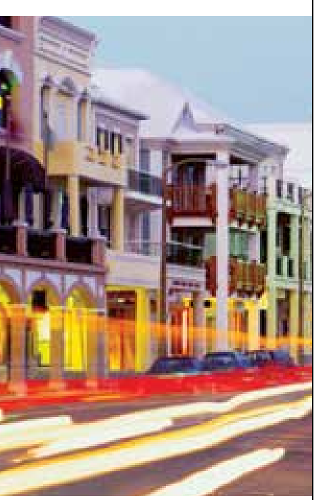
- **On October 27** the Bank of N.T. Butterfield & Son Limited announced that it will acquire Bermuda Trust Company Ltd and the private banking investment management operations of HSBC Bank Bermuda Limited. The transfer is subject to regulatory approval and expected to be completed in the First Half 2016. Bank of Butterfield also entered into a referral agreement with HSBC Bermuda to take on select private banking clients and expand its staffing, including taking on some HSBC specialists. Butterfield's shares rose 1.1 percent in the week of the announcement.

- **On October 30** XL Group Plc reported a decrease in third quarter income, the first complete quarter for the combined XL Catlin business. Net income totalled $27.3 million down from $72.4 million reported a year ago. The company said results had been hurt by $96 million in claims resulting from the Tianjin explosion and by integration costs related with its merger. Operating earnings of $70.8 million missed analysts' expectations and was down from $187.1 million reported a year ago. In the quarter, XL bought 4.8 million of its own shares for $180 million under the company's buyback program. XL's shares rose 0.5 percent on the day of the announcement.

- **On November 6** Caribbean Utilities Company, Ltd. announced unaudited results for the third quarter. Net earnings for the three months ending September 30, 2015 were $7.9 million, an increase of $1.7 million when compared to the same quarter in 2014. The increase was due mainly to higher electricity sales revenues, lower consumer services' costs, lower finance charges, and lower transmission and distribution costs. Total customers at the end of the third quarter were 28,035 representing a two percent increase when compared to the period ending September 30, 2014. Shares of Caribbean Utilities fell 2.7 percent in the month of November.

- **On November 19** PartnerRe Ltd.'s shareholders voted to approve the proposed acquisition by EXOR S.p.A. putting an end to talks about a hostile takeover by Axis Re. The deal is expected to close in the First Quarter 2016. EXOR S.p.A is one of Europe's leading investment companies controlled by the Agnelli family.

- **On December 8** Bermuda-based insurer Arch Capital Group Ltd. announced that Meredith Whitney, once a renowned banking analyst and hedge fund manager in the US, had joined the firm. Arch's CIO Preston Hutchings said Whitney is to oversee their $800 million equity portfolio.



Global Bond Markets

Indices	(Yield to Maturity) 30 Sept 2015	31 Dec 2015	Total Returns Local Curr.	US$
US 2 Year	0.63%	1.05%	-0.46%	-0.46%
US 10 Year	2.04%	2.27%	-1.44%	-1.44%
US 30 Year	2.85%	3.02%	-2.05%	-2.05%
Canadian 10 year	1.43%	1.39%	0.70%	-3.13%
Australian 10 year	2.61%	2.88%	-0.99%	2.79%
UK Gilt 10 Year	1.76%	1.96%	-1.25%	-3.81%
German Bund 10 Year	0.59%	0.63%	-0.22%	-3.03%
Japanese 10 Year	0.35%	0.27%	1.22%	0.94%
Citigroup				
3-7 Year Treasury Index	1,408.83	1,393.42	-1.09%	-1.09%
7-10 year Treasury Index	1,790.04	1,765.80	-1.35%	-1.35%
1-10 Year US Corp. Bond Index	1,677.87	1,679.82	0.12%	0.12%
World Gov't 7-10 Yr Bond Index	1,160.07	1,144.70	-1.32%	-1.32%

Source: Bloomberg

US Treasury yields rose as the Fed raised interest rates in-line with expectations.

- **On November 6** the US labour department released non-farm payrolls data for October. Hiring rose 271,000 and the unemployment rate fell to 5.0 percent from 5.1 percent. The strong jobs data added to evidence of a tightening labour market and the probability for a December interest rate hike by the Fed shot up to 70 percent from 56 percent before the announcement.

- **On November 20** ECB President Mario Draghi said that the central bank will do what it must "to raise inflation as quickly as possible." His comment pushed yields on the region's sovereign bonds lower so that only three days later on November 23, one-third of the region's sovereign bonds yielded less than zero. Germany's two-year note yielded -0.39 percent, the yield of a two-year Dutch note touched a record-low -0.375 percent, and that of similar-maturity debt in Austria fell to an all-time low of -0.326 percent. Yields below zero mean investors who buy the debt and hold to maturity will receive less than they paid, accepting the penalty in return for the investment's relative safety.

- **On December 3** Moody's Investor Service raised Russia's credit-rating outlook to stable from negative. The credit rating was affirmed at 'Ba1', one step below investment grade. The agency cited a stabilization of external finances and a diminished likelihood of the economy facing a further "intense shock" in the medium-term.

- **On December 10** the Bank of England left its benchmark rate unchanged at a record low of 0.5 percent and said that low oil prices and subdued wage growth will keep a lid on inflation. Recent economic data in the UK have been mixed and annual inflation stayed below zero for a second month in October giving the central bank room to maintain its accommodative monetary policy.

- **On December 16** the Federal Reserve raised interest rates for the first time since 2006 after members of the Federal Open Market Committee unanimously voted to set the new target range for the federal funds rate at 0.25 percent to 0.5 percent, up from zero to 0.25 percent. The Fed noted that the current stance on monetary policy is still accommodative to provide further improvement in labour market conditions and achieve the target of two percent inflation. Fed Chair Janet Yellen said the committee was confident the economy would continue to strengthen but still has room for improvement.

World Currency Markets

Value of Currency US$1 = value in local currency

Currency	30 Sept 2015	31 Dec 2015	Change
Australian Dollar	1.4250	1.3726	3.8%
Brazilian Real	3.9475	3.9608	-0.4%
British Pound	0.6610	0.6786	-2.6%
Canadian Dollar	1.3313	1.3839	-3.8%
Euro	0.8947	0.9206	-2.8%
Japanese Yen	119.8800	120.2200	-0.3%
Swiss Franc	0.9733	1.0021	-2.9%

Source: Bloomberg

The US dollar advanced against most major currencies as the Fed raised interest rates.

- **On October 29** news of China's intention to drop the one-child policy pushed the New Zealand dollar higher to $0.6772, gaining nearly one percent against the US dollar from the day before. New Zealand is a major dairy exporter and its milk powder and formula industry is expected to benefit from a baby boom coming from China.

- **The Australian dollar** strengthened against most major currencies in the fourth quarter and shrugged off new lows in iron ore on the Reserve Bank of Australia's reluctance to cut interest rates. On November 24 central bank governor Glenn Stevens said he agreed with the argument for holding the cash rate target steady at two percent at the next board meeting on December 1 (which was exactly what happened) and that they should "chill out" over Christmas and wait for more economic data. The Australian dollar appreciated 3.8 percent versus the US dollar in the quarter.

- **On November 30** the International Monetary Fund (IMF) granted China's yuan reserve-currency status, an international stamp of approval. The IMF's executive board, representing 188 member nations, said the yuan met the standard of being freely usable and will be included as a fifth currency, along with the US dollar, euro, Sterling and Japanese yen in the Special Drawing Right basket effective October 1, 2016. The key benefit is that China will be able to issue liabilities in its own currency thereby helping to mitigate funding risks. Moreover, the benefits of further financial reform and improvement of capital allocation will also be clear positives. The yuan weakened 2.1 percent against the US dollar in the quarter.

- **On December 2** Sterling fell to the lowest level since April against the US dollar as upbeat US employment data strengthened the view that the Federal Reserve will raise US interest rates later in December. The pound was also hurt by a survey of purchasing managers in the construction sector that came in below market expectations. The poor numbers followed a similar miss on the equivalent manufacturing survey earlier in the week and added to the sense that the UK economy was struggling to maintain momentum and could prompt the Bank of England to delay raising interest rates. Sterling weakened 2.6 percent against the US dollar in the quarter.

- **On December 3** the euro gained 3.1 percent against the US dollar as the ECB cut the deposit rate by 10 basis points to -0.30 percent, extended the deadline of the €60bn quantitative easing programme by six months to March 2017, and broadened the asset purchase programme to include local and regional debt. The moves were intended to tackle nascent inflation in the region and bolster economic recovery. Market participants had expected more stimulus from the ECB.

Outlook
FOR THE FIRST QUARTER 2016

Global GDP growth should show a mild improvement in 2016 driven by higher consumer spending in Developed Markets and sluggish but expanding investment expenditures in Emerging Markets.

- Monetary policy will remain supportive of growth despite the Fed raising interest rates for the first time since 2006.
- Core inflation in Developed Markets should gradually approach central bank targets of two percent.
- A sharper rebound in inflation may lead to less easing/more aggressive tightening by central banks which presents a downside risk to our macro expectations.

Yields should rise gradually in most Developed Markets on the back of improving economic data and the hiking of interest rates by the Fed.

- The US Fed will maintain a cautious approach towards monetary policy tightening as prudence is warranted by the unconventional loosening of recent years.
- Yields in the eurozone should rise marginally on the back of improving economic and labour market outlook in the region.
- Gilt yields are likely to gradually rise as the Bank of England should be next in line to raise interest rates after the Fed.

The US dollar should strengthen against most major currencies over the next 12 months as the monetary policies of major central banks diverge with the Fed.

- Should the Fed increase the Fed Funds rate at a slower pace than currently expected, the dollar could weaken against the euro and, in particular, the yen.
- Euro weakness should persist as the ECB maintains their accommodative monetary policy while the Fed tightens.
- The Japanese yen may not weaken much further against the dollar in 2016.

The chronic oversupply in the commodities market will extend into 2016 and we expect the supply adjustment to be a slow and grinding process.

- For crude oil, the rebalance of demand and supply will be a slow and gradual market-driven process.
- The outlook for precious metals is largely dependent on the pace and timing of the Fed rate increases and the subsequent impact on US treasury yields and the US dollar.
- The broad supply and demand mismatch in the metals markets should persist beyond the First Quarter 2016.

We have trimmed our overweight position in equities as the macro environment in 2016 is expected to be more mixed.

- The market should track our conservative estimate of "mid-single digit" global earnings growth.
- We are conscious of volatility in the equity markets and recommend sticking to "quality" in the portfolios.
- We hold a modest cash position in the portfolios to facilitate buying of high conviction stocks on market dips.

ECONOMICS

"We've certainly seen continued improvement in the labor market, but the environment for inflation is still one where there is still a lot of uncertainty."

Daniel Tarullo, Governor of the Federal Reserve Board, November 23, 2015

The World

Global GDP growth should show a mild improvement in 2016 driven by higher consumer spending in Developed Markets and sluggish but expanding investment expenditures in Emerging Markets. Bloomberg estimates suggest global growth will clock in at 3.4 percent in 2016 – a pick up over the 3.0 percent registered in 2015. In Developed Markets, household balance sheets are in the best shape in decades which coupled with higher employment, gradual wage improvement, and lower energy expenditures should provide a sound footing for growth. In Emerging Markets, growth will stabilize in China while Latin American markets will contract by a smaller magnitude in 2016.

Monetary policy will remain supportive of growth despite the Fed raising interest rates for the first time since 2006. Major central bank balance sheets will continue to expand though 2016 as the ECB and BoJ more than offset the paring back of stimulus by the Fed. Monetary policy in Emerging Markets should also remain accommodative as central banks cautiously take measures to brace for Fed tightening and subsequent shifts in capital flows.

Inflation will be a key debate for policy makers in 2016. Core inflation in Developed Markets should gradually approach central bank targets of two percent. Core inflation (ex-food and energy) and headline inflation should gradually converge as the base effect of lower commodity prices rolls forward. A sharper rebound in inflation may lead to less easing/more aggressive tightening by central banks which presents a downside risk to our macro expectations.

North America

The US economy should retain traction from last year growing by 2.6 percent in the First Quarter 2016 on an annualized basis and 2.5 percent in the Full Year 2016, as per Bloomberg estimates. The investments and net export components of GDP should see a headwind from the stronger US dollar but the drag should be offset by growth in the consumption component.

The strength of the US consumer is central to our positive outlook for the US. Household balance sheets are the strongest in decades and US consumer sentiment should remain upbeat on the back of a strengthening labour market, gradually rising wage growth, and lower household expenses from cheaper gasoline prices. Growth in the manufacturing sector, however, will remain lackluster as the ISM manufacturing PMI hovers around the 50 mark. Manufacturing is a small component of the overall economy, accounting for just nine percent of US employment, 12 percent of GDP, and 18 percent of investment, as per JP Morgan research. The US economy with an export to GDP ratio of only 12 percent is less trade dependent than other economies. This should soften the impact on the US economy of global trade disruptions caused by weaker developed market currencies.

Our view on the Canadian economy is cautious. Bloomberg estimates suggest an annualized GDP growth of 2.0 percent in the First Quarter 2016. We do not rule out negative revisions if energy sector investments continue to shrink in the wake of sustained low crude oil prices. Household spending should provide a cushion to the economy as lower interest rates will be supportive of the heavily indebted Canadian household.

Europe

We believe monetary policy will drive recovery in the euro area as the ECB maintains its accommodative stance. Moreover, a depreciating currency and low energy prices should also support growth in the region. Last quarter, we highlighted the risk of European companies holding back on capital spending in the wake of global uncertainties. Investment activity was resilient despite various shocks such as the Chinese growth deceleration and the auto emissions scandal; so we have a positive outlook for 2016. Inflation in the area should tick-up slightly from the base effect of crude oil and lagged effect of euro depreciation. The higher inflation will likely cause a dent in disposable income growth and consumers will be more challenged than in 2015 as the pace of job creation and benefit from low energy prices tapers off.

In 2016 we shall also see a series of political catalysts which could shape policy in the near term. The Irish are heading to the polls in spring, France continues to combat ISIS in Syria, and Europe as a whole is dealing with an unprecedented refugee crisis. We expect the region's economy to grow by 1.5 percent on an annualized basis in the First Quarter 2016, in line with Bloomberg estimates.

Pacific Basin

The Japanese economy should see a modest rebound in the First Quarter 2016 following negative growth in the previous period. Low oil prices and better conditions in major export markets (China and Smaller Asia account for 54 percent of Japanese exports) should support growth. Moreover, capital expenditures provide a tailwind to Japanese growth as companies invest in automation and efficiency to substitute for the shrinking Japanese labour force. In the First Quarter 2016, Japan's annualized GDP growth is expected to be 1.5 percent, as per Bloomberg estimates.

Growth in China will stabilize in the coming quarters, albeit at a slower rate. The PBOC will actively seek to manage a safe landing for the economy through monetary easing. On a positive note, the rebalancing of the economy towards consumer spending is underway. Credit Suisse analysts note that China's tourist spending abroad is growing close to 40 percent year-on-year with on-line shopping spreading widely but underrepresented in numbers. China's GDP is estimated to grow by 6.7 percent in the First Quarter 2016 and 6.5 percent in the full year, according to a consensus of analysts on Bloomberg.

Latin America

The Latin American economy will contract by an annualized 1.8 percent in the First Quarter 2016, as per Bloomberg estimates. The pain continues for Brazil where a combination of low commodity prices, corruption, and political uncertainty has resulted in a recessionary and inflationary environment. Sentiment has turned slightly positive elsewhere in the region with elections in Venezuela and Argentina raising hopes of reforms which include reducing currency controls, eliminating subsidies, and forming economic ties with more open markets in the regions. Mexico remains a standout in the region with steady growth despite a weak trade environment and the start of the US Fed's tightening cycle.

"In the near term, global growth will remain moderate and uneven."

Maurice Obtsfeld, Chief Economist, International Monetary Fund, October 6, 2015

BONDS

"We remain committed to communicating our intentions as clearly as possible – but not more clearly than the facts warrant."

Stanley Fischer, Vice Chair, Federal Reserve, October 11, 2015

Yields should rise gradually in most Developed Markets on the back of improving economic data and the hiking of interest rates by the Fed. A divergence in monetary policies among major central banks will be evident as the eurozone and Japan tackle the challenge of meeting inflation targets while the US and UK have seen a revival in their economies. The Fed will employ a measured approach to raising interest rates whilst communicating clearly to prevent a sharp increase in yields.

In December the Fed raised interest rates for the first time since 2006 on the back of strength in economic data and an improving labour market in the US. The central bank will maintain a cautious approach towards monetary policy tightening as prudence is warranted following the unconventional loosening of recent years. Increases are likely to be gradual so as to avoid a sharp increase in yields, a dramatic appreciation of the dollar, and a pullback in the equity markets which could tighten financial conditions more than desired. The short end of the yield curve will be most affected by Fed action while yields at the longer end should remain subdued in line with inflation expectations. In addition, the Fed's reinvestment of maturing proceeds from its bond portfolio will support bond prices while the Quantitative Easing (QE) of the ECB and Bank of Japan could lead fund flows to US Treasuries. However, the market's effort to discern the pace and extent of the Fed's tightening could be a cause for volatility.

Yields in the eurozone should rise marginally on the back of improving economic and labour market outlook in the region. The eurozone QE has been effective thus far in supporting growth and the equity markets but is yet to show progress in stoking inflation. The ECB's most recent policy action left room for further monetary policy accommodation which the central bank stands ready to employ. This in turn would limit a rise in bond yields.

In the UK, gilt yields are likely to gradually rise as the Bank of England should be next in line to raise interest rates after the Fed. The nation's economic recovery is robust and inflation is forecasted to pick up in the next two to three years. 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. An interest rate hike in the Second Half 2016 is likely.

We expect the Bank of Canada to maintain their current monetary policy stance as the Canadian economy has benefitted from the previous rate cuts employed by the central bank and a weaker currency. Policy makers have voiced their optimism over the trajectory of the economy but stand ready to employ additional measures.

CURRENCIES

The US dollar should strengthen against most major currencies over the next 12 months as the monetary policies of major central banks diverge with the Fed gradually raising interest rates on the back of an improving labour market. In our view, the Fed is likely to tighten monetary policy slowly in order to limit an overvaluation of the dollar which would negatively impact US manufacturing and exporting companies. Should the Fed increase the Fed Funds rate at a slower pace than currently expected, the dollar could weaken against the euro and, in particular, the yen.

Euro weakness should persist as the ECB maintains their accommodative monetary policy while the Fed tightens. The ECB's quantitative easing (QE) programme to simulate growth and inflation in the region may need to be increased should inflation remain stubbornly low. An acceleration of the QE programme should be a powerful driver of portfolio flows out of the euro and into other currencies whose countries are not at immediate risk of having to ease monetary policy, namely the US dollar and Sterling. The eurozone region's negative deposit rate, which has pushed large parts of the yield curve into negative territory, also reduces the appeal of the euro for investors.

We expect 2016 to be a challenging year for Sterling as decelerating economic growth, tighter fiscal policy, a dovish central bank, and the risk of an exit from the European Union weigh on the currency. Annualized GDP growth as per Bloomberg consensus is expected to decelerate to 2.3 percent in 2016 from an estimated 2.4 percent in 2015 and could be reduced further due to austerity measures. The central bank has lowered its inflation forecast for 2016 and consequently the timing of an interest rate hike has been pushed back. The UK is currently attempting to renegotiate its position within the EU and a referendum is anticipated in the Second Half 2016. Uncertainty over the outcome could deter investment inflows to the UK.

In our view the Japanese yen may not weaken much further against the dollar in 2016. First, we do not anticipate any new monetary stimulus from the Bank of Japan given rising inflation, fueled by the service sector and a tight labour market which has started to push wages higher. Second, the Government Pension Investment Fund (GPIF), which has been a constant source of yen selling since November 2014, is near completion as the GPIF is closing in on its higher international equity and bond targets. Further, the negative deposit rate, which has pushed large parts of the yield curve in the eurozone into negative territory, is likely to support the yen versus the euro as negative yields do not bode well for "buy-and-hold" strategies.

The outlook for commodity currencies remains bleak as prices of oil and the broad commodity basket stay low, mainly affecting Canada and Norway, while slowing growth in China will impact the Australian economy. With the commodity super cycle over, exporters will have to adjust to the practicalities of structurally lower prices. This will negatively impact economic growth and drive central bank monetary easing in the aforementioned nations.

"Policy divergence between the US and Europe is likely to continue to widen and this spells dollar strength."

Todd Elmer, Head of G10 Strategy Asia-Ex Japan, Citigroup, November 18, 2015

COMMODITIES

"The price will have to do the job to get supply and demand in balance."

Bjarne Schieldrop, Chief Commodities Analyst, Skandinaviska Enskilda Banken, December 4, 2015

We believe the chronic oversupply in the commodities market will extend into 2016 and while the rebalance is underway, we expect the supply adjustment to be a slow and grinding process. Headwinds include lower trending growth in China and other Emerging Markets, Fed tightening, and a stronger US dollar.

For crude oil, we reiterate our stance from the previous quarterly outlook that the rebalance of demand and supply will be a slow and gradual market-driven process. We do not expect any near term action by OPEC to disrupt our case. Moreover, the OPEC production quotas seem less relevant as the members continue to exceed the 30 million barrels per day limit with the threat of further supply additions by Iran in 2016. The supply adjustment, however, is underway as indicated by upstream capital expenditure which was slashed by 25 percent in 2015 and another 20 percent expected for 2016. The high cost producers should be the first to pare back production and while these are not all North American shale producers, US upstream companies face additional headwinds of higher interest rates and reduced access to capital. On the demand side, we see a gradual improvement with Developed Markets adding more of the incremental demand than Emerging Markets. Bigger picture, we see the demand cycle for oil driven by Emerging Market growth to be over.

The outlook for precious metals is largely dependent on the pace and timing of the Fed rate increases and the subsequent impact on US treasury yields and the US dollar. In the near term, we expect to see gold and silver prices trend lower as the Fed maintains its pace of rate increases into the First Quarter 2016. Precious metals may see support if inflation exceeds expectations and gold demand rises as a natural hedge. On the other hand, a higher than expected inflation may cause the Fed to tighten at a faster pace which should offset the potential positive impact of the inflation trade. Fundamentally, Q1 is usually a stronger demand period for physical precious metals but JP Morgan analysis notes that inventory remains high in China and India which account for almost half of the physical gold demand. Moreover, analysts note that a depreciation of Emerging Market currencies should make gold more expensive in local currency terms limiting further buying.

In base metals, we do not see a fundamental change near term. While the slowdown in Chinese growth looks to be stabilizing, the broader supply and demand mismatch in the metals markets should persist beyond the First Quarter 2016. In copper, production curtailments are on track but negative demand revisions cannot be ruled out which would result in another dip in price and trigger the next round of supply cuts. The aluminum market has also seen supply curtailment in recent periods but markets are only expected to balance at the end of this year. One reason for the delayed adjustment in the markets has been the lower power costs in China which has allowed the expensive capacity to stay online for longer. On the demand side, the transportation sector remains strong in both US and Europe but building and construction sectors are likely to be a drag on overall demand.

EQUITY STRATEGY

We have trimmed our overweight position in equities as the macro environment in 2016 is expected to be more mixed with the Fed raising interest rates for the first time since 2006. Valuations do not seem stretched on a cross asset basis but further upside seems modest. The market should track our conservative estimate of “mid-single digit” global earnings growth with limited further multiple expansion. Moreover, we are conscious of volatility in the equity markets and recommend sticking to “quality” in the portfolios.

The US remains our biggest geographical exposure despite headwinds to equity valuations from monetary policy tightening. We maintain a positive view on the country’s underlying economic fundamentals. The US has relatively low exposure to risks from global trade disruptions. Moreover, domestic consumer sentiment is upbeat, household balance sheets are healthy, and wages are gradually growing. We find that the US fits well as our “quality” regional play. The risk to our trade comes from inflation expectations as a faster than expected increase could result in more aggressive Fed tightening and a rapid downwards multiple re-rating in the equity market.

We conservatively estimate earnings in the US to grow in the mid-to-high single digit range and maintain our overweight positions in sectors where earnings are supported by topline growth. Our biggest relative exposures versus the index are in the Information Technology, Healthcare, and Consumer Discretionary sectors. Our preferred industries offer accretive value through innovation and real growth and include life sciences and biotechnology in Healthcare and internet, hardware, and software in Information Technology. We also positively view the cyclical story in the US and are overweight in the housing industry and have introduced exposure to US banks.

Europe looks appealing from a top-down perspective with GDP in the region recovering and further possible easing by the central bank. However, on a bottom-up basis, earnings growth is expected to lag the global index average where a drag from Energy and Mining stocks is likely to hold back earnings growth again this year. In Japan, we see lower policy driven tailwinds quarter-on-quarter. The weaker yen has been a driver for Japanese exporters so far but limited further downside in the yen may cap equity gains.

We are underweight in Emerging Markets and expect structural US dollar outflows to result in depreciation of local currencies and diminished US dollar equity returns. Much of the growth in the previous cycle came on the back of US dollar leverage and easy access to capital. With the combination of Fed tightening and tapering off of growth, the cycle of balance sheet deleveraging in the Emerging Markets should drive US dollar repayments.

We start the First Quarter 2016 with a modest cash position in the portfolios to facilitate buying of high conviction stocks on market dips.

“Richer and richer asset markets, against a global background of economic risks, have made us more cautious.”

Citigroup Strategy 2016, December 3, 2015

CONCLUSION AND STRATEGY POINTS

EQUITIES

Regional Strategy

- Neutral US at 56.0 percent (versus an index weighting of 56.2 percent).
- Underweight Europe at 23.0 percent (versus an Index weighting of 25.5 percent).
- Neutral Japan at 8.2 percent (versus an index weighting of 8.0 percent).

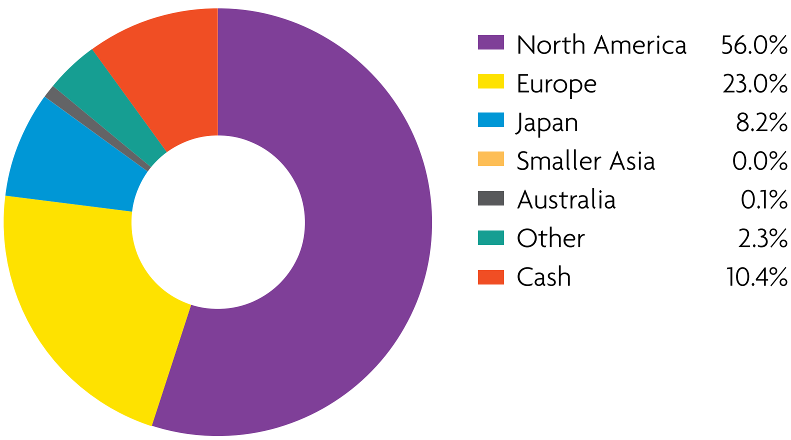
Sector Strategy

- Overweight Information Technology, Health Care, and Consumer Discretionary at 25.4 percent, 16.4 percent, and 14.1 percent (versus an index weighting of 14.9 percent, 13.2 percent, and 12.4 percent, respectively).
- Underweight Financials, Industrials, and Energy at 13.5 percent, 5.2 percent, and 2.0 percent (versus an index weighting of 20.5 percent, 10.8 percent, and 6.3 percent, respectively).

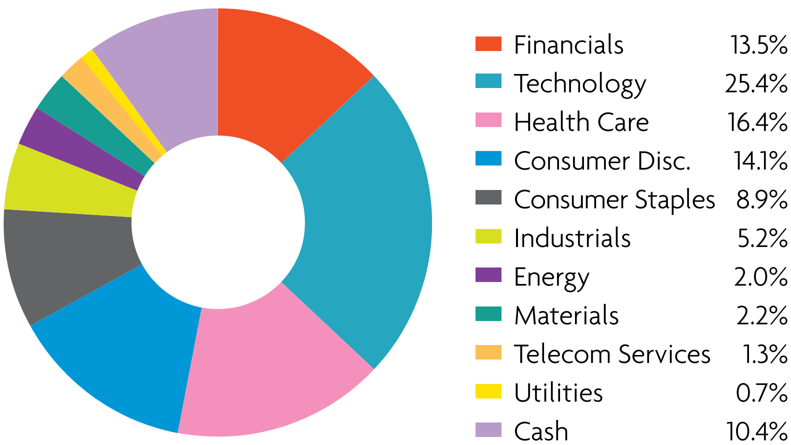
Currency Strategy

- Overweight US dollar 81.1 percent (versus an index weighting of 56.2 percent).
- Underweight euro 6.4 percent (versus an index weighting of 14.4 percent).
- Underweight Japanese yen 2.9 percent (versus an index weighting of 8.0 percent).

Geographic Allocation



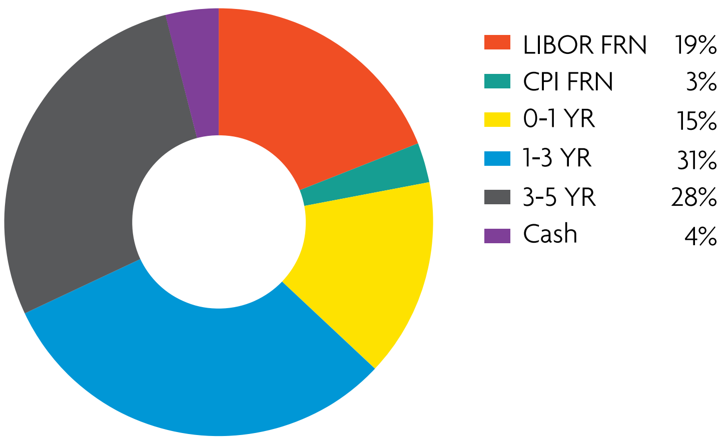
Sector Allocation



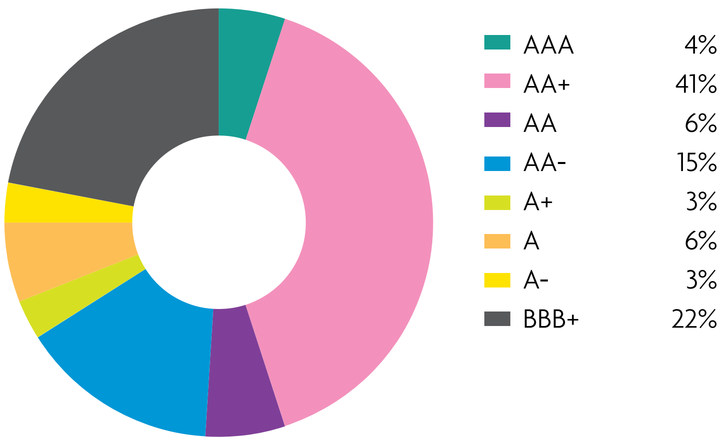
BONDS

- 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.

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