Economic & Capital Markets Outlook

BNY INVESTMENT STRATEGY
& SOLUTIONS GROUP

SECOND QUARTER 2016

PREPARED FOR INSTITUTIONAL INVESTORS, PROFESSIONAL CLIENTS, OR OTHER QUALIFIED, SOPHISTICATED INDIVIDUALS ONLY.

BNY MELLON

Executive Summary

ISSG CMC SUMMARY ASSET ALLOCATION

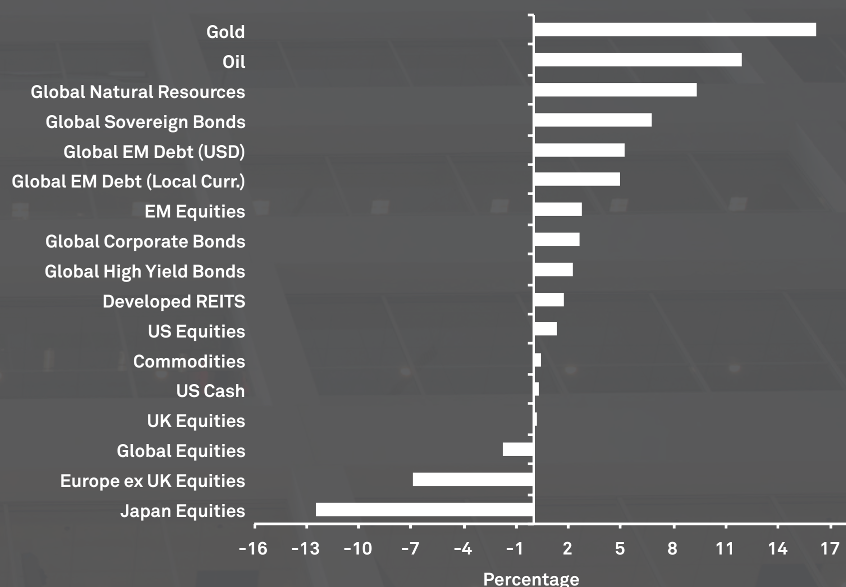
	Current	Benchmark
Global Equities	52.2%	50%
Global Bonds	44.6%	50%
Cash	3.2%	0%

- Continued reduction in equity overweight given stretched valuations.
- Cash overweight remains in place with low and/or negative rates ahead of tightening and firming inflation.

FIVE THINGS TO WATCH IN Q2 2016

1) US economic data for indications of policy direction.
2) Global banking sector health in face of negative rates and flattening yield curves.
3) Energy sector hedge expiration with persistently low energy prices.
4) Economic data trends in China in order to avoid further currency devaluation.
5) Global political instability: (Brazil impeachment, Brexit, US election spectacle).

FIG. 1: GLOBAL ASSET PERFORMANCE
% change over 3 months to 31 MARCH 16

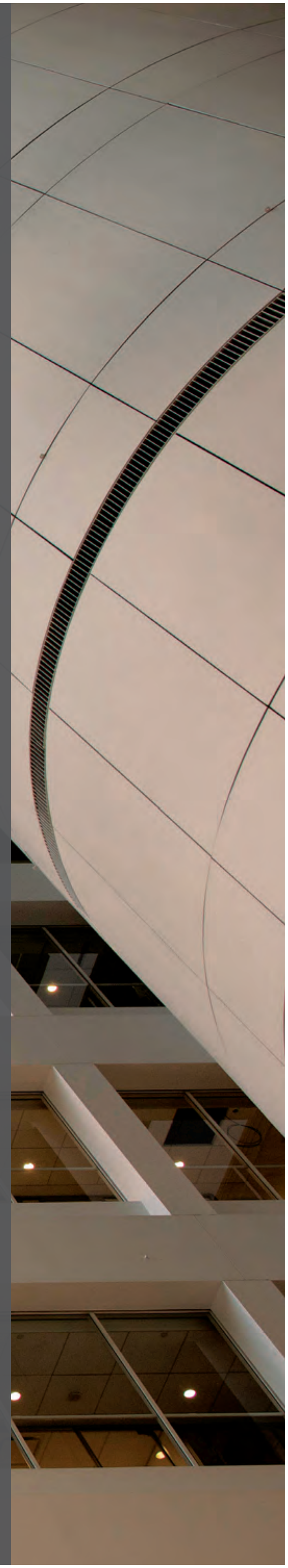


Source: Thomson Reuters Datastream & ISSG

ABOUT THE INVESTMENT STRATEGY & SOLUTIONS GROUP

BNY Investment Strategy & Solutions Group (ISSG) designs, develops and manages asset allocation strategies to help clients achieve their specific investment objectives. We combine a multi-faceted approach to risk with a forward-looking, long term perspective on economic and markets to identify opportunities while harnessing the broad and deep expertise of a global network of specialized investment affiliates to deliver sophisticated investment solutions.

The ISSG Capital Markets Committee (CMC) provides baseline, global asset allocation policy and assesses the market outlook for the global multi-asset strategies and solutions managed by ISSG.

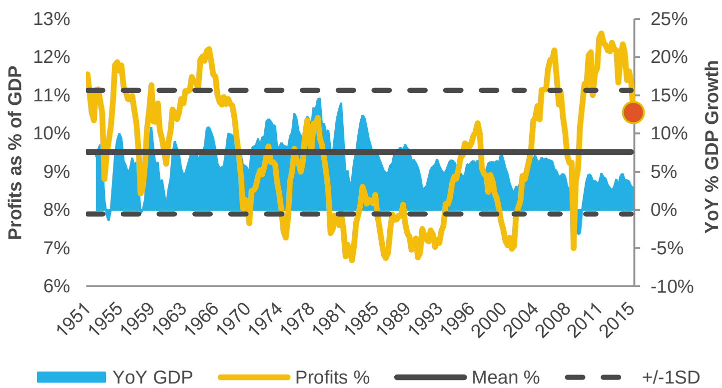


What We Are Watching

Theme	ISSG View	Asset Class Impact	Risks to View	Recent Considerations For ISSG View
Global Growth	Growth prospects for developed markets continue to face headwinds in H1 2016 as labour markets continue to tighten, driving further divergence in policy responses. EM growth expectations for 2016 continue to digest the ongoing price weakness in the commodity complex and the impact of weaker currencies, with the balance of risks precariously balanced for the remainder of 2016.	Economic fundamentals will continue to be a key driver for risk assets into 2016, as the corporate sector continues its search for top line growth against a backdrop of weaker earnings expectations. Elevated asset price sensitivity to economic news flow will continue to drive bouts of volatility throughout 2016.	Developed market policy mistakes may derail the fragile growth trajectory, as rapidly shifting market sentiment raises the probability of sharper asset price corrections. Turbulence in energy markets and commodity producing economies likely to continue as the market searches for a new equilibrium in 2016.	Disinflationary pressures from EM providing headwinds to DM growth pickup, despite continued improvement in the DM unemployment picture, leaving DM policy makers to face a difficult balancing act in 2016 as growth and inflationary dynamics play out. Waning consumer sector benefits from a lower commodity complex.
Global Inflation	Headline disinflationary pressures to continue in 2016 as expectations for oil prices continue to be adjusted in response to the resolve of Middle East producers to see out their battle for market share. Relative USD strength in 2016 will also weigh on the wider commodity complex as changes in midterm inflation expectations are increasingly important.	With disinflationary pressures taking centre stage in H1 2016, risk assets are unlikely to see the type of catalysts required to drive top line growth that has been hard to come by in recent quarters. Developed government bonds to benefit from bouts of risk off trading.	Wage pressures may see further pick up in some DM economies in 2016, increasing focus on NAIRU (non-accelerating inflation rate of unemployment) and core inflation measures. OPEC developments around oil price targets could rapidly shift inflation expectations.	Recent pause in USD strength and rising hopes for a resolution in the battle for oil market share to provide some relief to the recent downside inflationary pressures in the commodity complex. Disinflationary pressures from EM FX adjustments clouding the DM inflation outlook as policy makers weigh up the effects on medium term inflation expectations.
Monetary Policy	US Fed facing a difficult balancing act as the risks of falling behind the tightening curve, increasingly justified by continued improvement in domestic economic data, are weighed against a more global picture. Outside the US, European and Japanese central bankers are likely to step in with further support in 2016 if growth and inflation diverge from their desired paths.	Diverging inflation expectations and monetary policy responses to continue to drive currency market volatilityin 2016, with EM countries increasingly vulnerable to re-rating and sharp sell offs as their central banks are forced into action. China FX rate increasingly a focal point as the policymakers continue the transition to reserve currency status and inclusion in the SDR basket.	Markets continue to assess if and where the "Fed put"- the level at which the US central bank will step in to support markets - has been set as market views on rate path remain out of line with US policy makers. China increasingly active in policy space as speculative FX pressures are likely to persist in 2016.	Risks around monetary policy and the potential for errors will remain elevated in 2016 as the Fed continues to manage its data-driven policy response. "Currency wars" to remain a central part of the investment landscape in 2016, with EM currency pegs coming under increasing pressure as authorities weigh up structural reforms vs adjustments to pegs.
Fiscal Policy	DMs increase fiscal stimulus in 2016 as reliance on monetary policy reaches its limits, though challenges abound as budget deficits and elevated debt/GDP levels remain a reality across most DM markets. Weak economic conditions and/or capital flows in EM markets will continue to place pressure on financing costs in 2016, increasing pressure on fiscal policy.	DM fiscal policy responses should see some pickup in 2016, but are likely to remain restrained in most cases outside of Japan and provide limited support to markets at the margin. In the absence of USD weakness, EM assets are likely to see even less benefit from fiscal policy as governments are forced to spend down reserves and make sharp retrenchments.	Unable to depend entirely on monetary policy going forward, DM governments will increasingly come under pressure to deliver fiscal policy measures, increasing the risks of policy mistakes. The battle for export market share will continue to be fought throughout 2016 as policymakers try to assist ailing industries.	Chinese authorities increasing use of both monetary and fiscal policy tools to try to engineer a transition to a service based economy with a slower growth trajectory increasing risks of policy mistakes and damage to policy maker credibility. Global trade agreements (e.g. Trans Pacific Partnership) could be the catalyst for an uptick in the CapEx cycle.
Emerging Markets	Having seen their first year of negative capital flows in 2015, EMs may continue to see capital outflow pressures in the absence of accommodative USD policy, placing further pressure on economic fundamentals and currencies. The slowdown in China and currency volatility in the Yuan may further compound near term pressures on EMs, particularly commodity producers highly geared towards the Chinese economy.	EM assets are very attractive vs DM on a relative valuation basis, but near term risks remain to the downside as ongoing vulnerability to capital flows could drive further currency depreciation and sharp re-rating of assets. Probability of counter cyclical monetary tightening by EM central banks has increased from last year.	Investors seeking yield and returns continue to seek pauses in US policy path to re risk portfolios through EM, increasing market timing risk. EM debt downgrades and/or defaults, particularly in hard currency corporate debt space, could trigger risk off trade across the wider asset class.	The EM universe will remain highly differentiated in 2016 as growth, inflation and policy dynamics continue to diverge. EM currency and credit markets be will increasingly important to watch as the possible catalysts for further capital outflows from these markets. Developments in China crucial to a more stable EM outlook; continue to monitor closely into H2 2016.
"Tail Risk Monitor"	Political risks increasingly in focus as British referendum on EU membership ("Brexit") run up to US elections, and mounting political pressure in several EM countries may drive near term turbulence.	Heightened political and geopolitical, risks raise the prospect of sharper sell offs and prolonged periods of elevated volatility. Debt downgrades and/or defaults are a key indicator to monitor in fixed income markets for the remainder of 2016.	Heightened geopolitical risks across Europe and the Middle East alongside refugee challenges skew political views further away from the centre.	Liquidity in fixed income markets, whilst widely cited as a known issue, has yet to be tested through a prolonged sell-off period. Facing downgrades from rating agencies, further policy action by Japan sets off next round of currency wars in APAC, driving a further uptick in disinflationary pressures in DM markets.

KEY CHARTS: ECONOMICS AND MARKETS

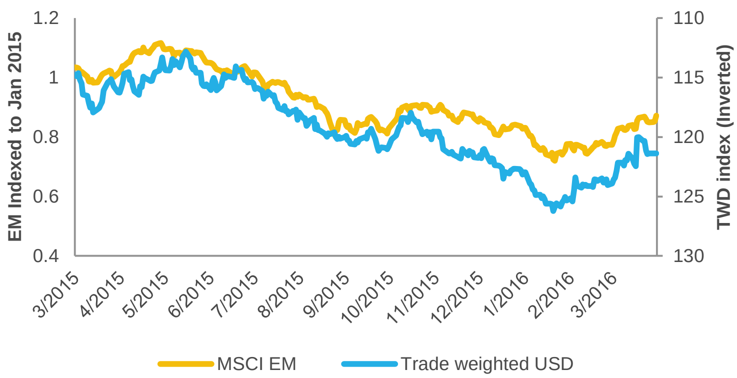
Fig. 2: US corporate profits decline from peak



In addition to the strength of the US consumer, corporate profitability in the US has been another pillar of support for both the economy and capital markets. Declines in the energy sector are a major contributor to the overall decline in profits, but a critical issue looking forward will be what sectors will be able to contribute incremental profits to make up for the loss from the energy sector. The prime candidates remain consumer discretionary, technology, and health care. Historically, corporate profit recessions have preceded economic recessions. As a result, this trend gives us pause in additional equity risk until we can see stabilization.

Figure 2 Source: Bloomberg, December 1951 – December 2015

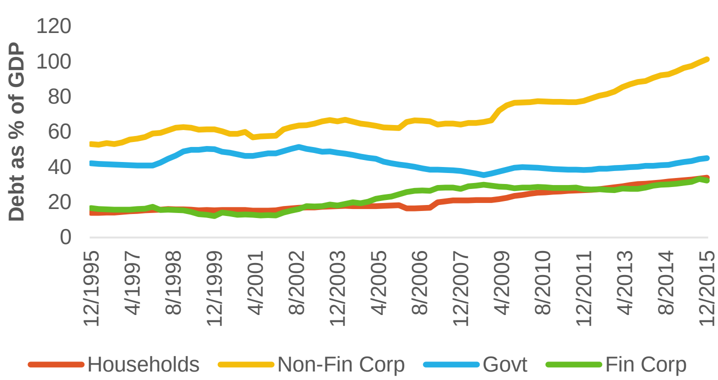
Fig. 3: EM relationship with dollar strength still in place



One of the questions we ask ourselves repeatedly is “When to go long EM?” The recent rally has been impressive and warrants an evaluation of the EM thesis and issues. It seems the same EM trend is in place that has been in place for some time with EM equities rallying as rate hike expectations recede and the dollar weakens. While we still lack a fundamental catalyst to change our view and concern in the sector, at the very least we would want to see a change in the relationship between the dollar and EM before concluding that something has fundamentally changed as opposed to a whipsaw of rate hike expectations and resulting capital flows.

Figure 3 Source: Bloomberg; January 2015– March 2016

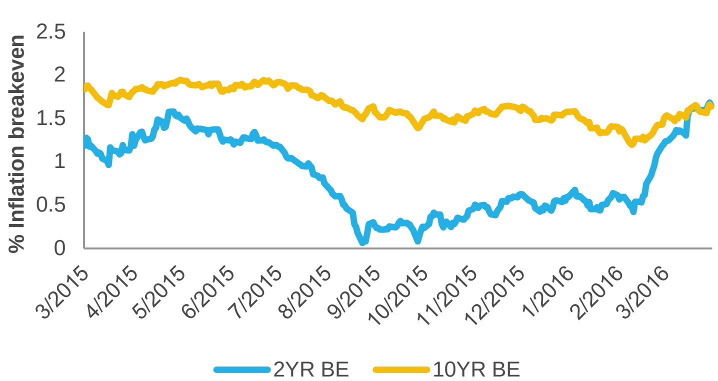
Fig. 4: Non-financial EM leverage accelerating



For some time we have been associating the “global search for yield” with the “global extension of credit.” The non-financial corporate sector of developing markets has reaped the benefits of demand for high yielding credit around the world. As a result, EM non-financial credit as a percentage of GDP, at 100%, stands more than developed markets which stand at just 87%. As much of this debt comes due in the near future and new issuances remain subdued against a backdrop of slowing growth, accelerating defaults and bankruptcies have the ability to derail both EM growth and spread to the broader global credit cycle.

Figure 4 Source: IIF; December 1995 – December 2015

Fig. 5: US inflation expectations have inverted



With so much focus on the yield curve as an indicator of pending economic distress, we thought it was interesting that the inflation expectations “curve”, as measured by breakeven rates, recently “inverted” with 2 year rates higher than 10 year rates. As labour markets continue to tighten, vacancy rates continue to decline, energy continues to stabilize, while the Fed continues to be on hold, the threat of near term inflation exceeding the Fed’s target is a risk that bears watching. The combination of rising inflation expectations and attractively valued inflation sensitive assets appears to be a prudent decision in fending off unexpected inflation.

Figure 5 Source: Bloomberg; March 2015 – March 2016

ISSG GLOBAL HEATMAPS

Fig. 6: ISSG Global Macroeconomic Heat Map

Global Macroeconomic Heatmap (Last 3 years as of 31-Mar-16)	Inflation	Inflation Revisions	Growth (PMI)	Growth Revisions	Monetary Policy	Surprise vs. Consensus	Company Earnings
United States	1.0%	-0.8%	49.5	-1.1%	0.3	-5.2	-17%
United Kingdom	0.3%	-0.9%	50.8	-0.4%	0.4	25.6	13%
Eurozone	-0.1%	-0.4%	51.4	0.1%	-0.5	22.3	-44%
Japan	0.3%	-0.7%	49.1	-0.9%	1.3	-26.5	-28%
Brazil/Latam	10.4%	2.8%	44.5	-4.4%	0.5	12.2	-48%
Russia/CEEMEA	8.1%	1.8%	49.3	1.0%	0.0	30.7	13%
India/Asia Pacific	-0.9%	-1.3%	51.1	4.6%	-0.3	32.0	-59%
China	2.3%	0.7%	49.0	-0.4%	-0.4	-47.0	-52%

This heat map is designed to display a wide spectrum of macroeconomic trends across the major global regions over the past three years. Green and red shading indicate what we believe to be positive and negative levels, respectively, of the indicated variables; while green and red borders indicate positive and negative changes over the last quarter. Yellow shading indicates neutral readings. The time series lines are shown merely for ease of comparing trends, and are not meant to convey any particular values or levels. See appendix for series definitions and sources.

The ISSG Macroeconomic Heatmap (Fig 6) reveals an interesting, and somewhat surprising, dynamic emerging across much of the developed markets. Consistent positive revisions to inflation expectations combined with consistent negative revisions to growth is a dynamic that bears watching going forward given the potential implications on policy decisions. In particular, looking at the positive developments in the US and UK related to economic surprises and company earnings, demand led inflation is becoming a reality. Whereby US policy direction appears to be caught between improving US economic activity and the broader implications of rates hikes on global capital flows, the probability of policy mistakes and unintended consequences is something that should be closely watched in this regard. Core readings of inflation, average hourly earnings, and other real wage related data should be considered key variables on this topic in Q2 and beyond.

Fig. 7: ISSG Global Correlation Heat Map

Global Correlation Heatmap (Last 3 years as of 31-Mar-16)	World Equity	EM Equity	DM Bonds	EM $ Bonds	DM IG Corps Hedged	DM HY Corps Hedged	Commod	Dollar
World Equity	13.2%	0.77	-0.30	0.44	-0.08	0.62	0.40	-0.13
EM Equity		14.0%	-0.21	0.57	0.09	0.65	0.47	-0.21
DM Bonds			2.9%	0.16	0.79	-0.13	-0.22	0.12
EM $ Bonds				6.7%	0.42	0.69	0.35	-0.25
DM IG Corps Hedged					3.3%	0.33	-0.04	0.02
DM HY Corps Hedged						5.4%	0.43	-0.20
Commod							14.1%	-0.47
Dollar								7.5%

The Global Correlation Heatmap is designed to convey levels and changes in correlation and volatility numbers across major asset classes. Numbers in the unshaded cells represent the current exponentially weighted volatility level, with green and red fonts representing low and high levels relative to a time-weighted 3 year mean. The lower left half of the Heatmap, displaying exponentially-weighted weekly correlation pair data for the last 3 years, is included to allow users to compare trends and is not meant to convey any particular values or levels. The upper right half of the Heatmap reflects the current observation for the same data series. Green and red shading indicate what we believe to be low and high levels, respectively, of the current observation relative to a time weighted 3 year mean, while green and red borders indicate a significant decrease or increase over the last quarter.

This quarter's Global Correlation Heatmap (Fig 7) shows a subdued correlation landscape across the capital markets, despite the volatility witnessed in the first quarter of 2016. While still negative, the correlation between global equities and developed market bonds continues to sit at higher levels than recent history. Much of this being attributed to the combination of lower rates and higher equity prices which supports the backdrop in the markets of policy accommodation to support economic growth and in turn equity prices. An easing in recession concerns through the first quarter can be seen in decreasing correlation of the dollar and developed market bonds whereby both had been seen as "safe haven" assets in the depth of the market sell off during the first quarter.

Economic Outlook

The first quarter of 2016 was dominated by two overarching themes that drove the dramatic market action we saw across all major asset classes: declining energy prices and aggressive central bank policy. In the first quarter, oil prices (WTI) fell another 30% before bottoming on February 11 as producers floated various proposals for a production freeze to stabilize prices. The downdraft in oil set up numerous second order effects in areas like EM and high yield which meaningfully added to global growth fears. Amid this backdrop, we saw bold moves by the BoJ, ECB, and others with regard to negative rate policy and additional central bank stimulus. The US Fed also took a surprise pause from its tightening path in response to negative global developments. Despite these efforts, however, central banks have had little success in achieving a return to normalization in growth or inflation.

As we head into Q2 2016, the recent market recovery and tentative price stabilization have provided policymakers with some short-term breathing room before unresolved structural challenges once again come to the fore. Following a lackluster but relatively stable 2015, the fragile growth environment has begun to deteriorate (Fig. 8). It remains to be seen if the US – principally the US consumer – can carry the world economy until gains are more widespread. Multiple sectors of the global economy remain under pressure. Weakness across the commodities complex along with difficulties in the banking sector over low/negative interest rates, and a sober look at valuations in the tech sector all threaten corporate profitability and hopes for a CapEx renaissance. US exports may provide some greater contribution going forward however, as USD strength eases somewhat in light of the dovish Fed expectations. The referendum for “Brexit” will be a source of greater equity and currency volatility in the lead up to the vote on June 23, and holds the potential for a structural reduction in European growth prospects if a precedent is set for the economic bloc to become more fragmented. Meanwhile, despite the concern around a slowdown in China, it remains the fastest growing major economy, with the central government’s five-year plan targeting growth of 6.5-7% annually. Thus far, the country continues to implement necessary reforms, promote a more consumer-based economy, and is managing the rebalancing of its factory activity and capital flows without incident following the dramatic speculative bubble and burst of its equity markets in 2015.

The global inflation picture may be exhibiting early signs of bottoming, as inflation expectations continue to fall while *revisions* around these inflation forecasts are becoming less negative (Fig. 9). Indeed there is some anecdotal evidence confirming this, especially in the US (Fig. 10), including the tentative bottom in oil prices, the sharp rise in inflation expectations implied from TIPS breakevens (Fig. 5), a continued tight labour market, and recent minimum wage reforms in multiple US locales. Elsewhere in Europe and major EM economies however, disinflationary forces remain staunchly in-place, as inflation revisions continue to trend down (Fig. 10) amid ongoing demand weakness and industry-specific pressures (e.g. energy, materials, and banking).

Fig. 8: Expected Global Growth and Growth Revisions

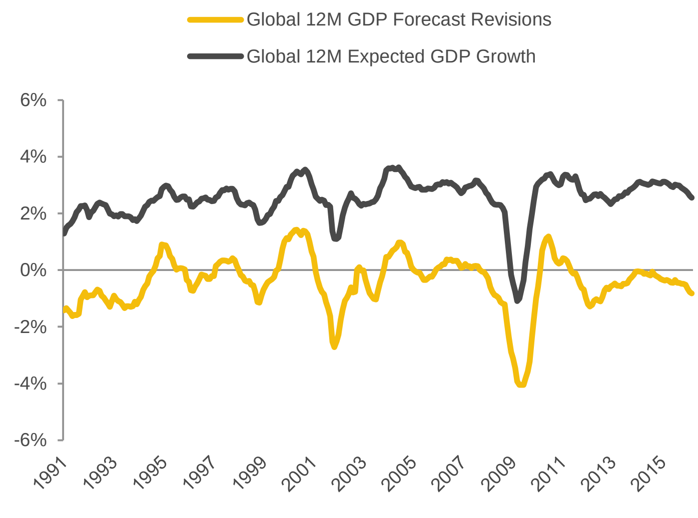


Fig. 9: Expected Global Inflation and Inflation Revisions

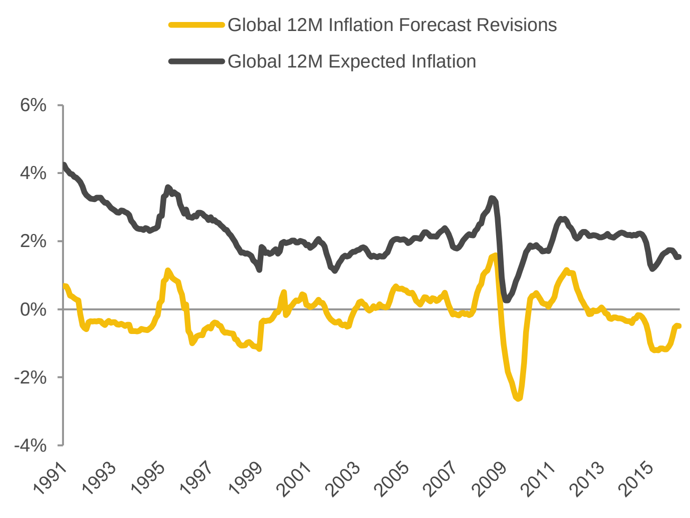
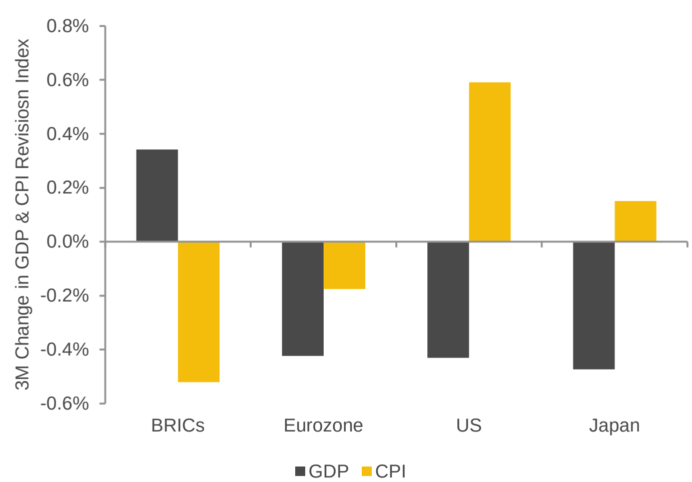
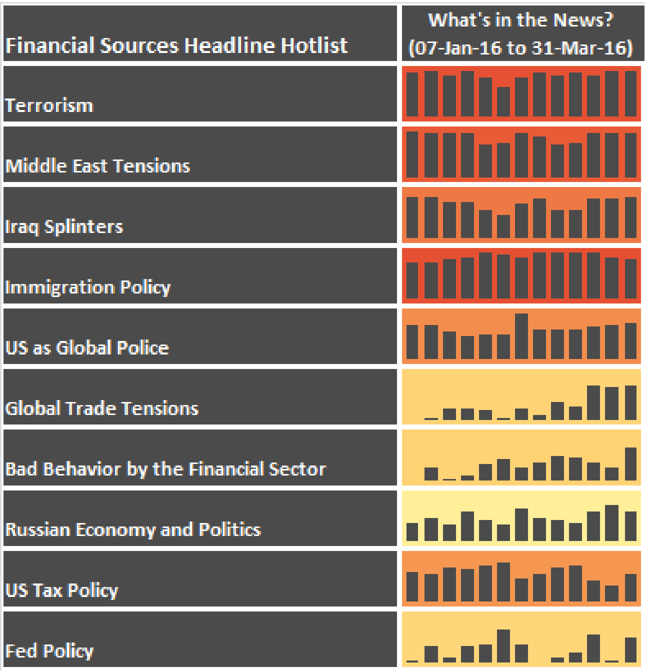


Fig. 10: Quarterly Regional Revisions For Growth and Inflation Forecasts



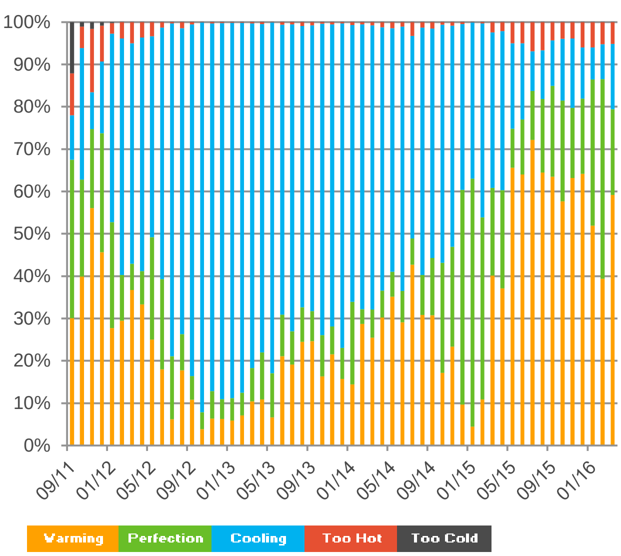
Source for Fig. 8,9,10: Consensus Economics, ISSG

Fig. 11: Global Headline Hotlist



The above graphic shows the top ten most mentioned themes that are relevant to financial markets in order of their ranking on March 31, 2016. The bar height shows the frequency of the coverage of each theme in the news for each of the last 13 weeks, with the furthest right bar representing the most recent ranking. The color of the background denotes the average intensity over the past quarter. Using financial media and influential blogs identified by multiple teams at BNY Mellon, those stories are used to highlight the hottest topics each week across over 3,000-6,000 news items. Story summaries are classified using a Bayesian classifier which is trained on stories from the last six months. Training stories are manually tagged and classified by a senior strategist.

Fig. 12: RBAA* Regime Probabilities



Source ISSG as of 31 March 2016.

*Regime Based Asset Allocation (RBAA) is a proprietary asset allocation model created by the ISSG which considers asset returns in the context of regimes created by underlying changes in growth and inflation expectations. Contact the ISSG for detailed information on this research. Please see appendix for information regarding regime categories.

Our proprietary analysis of news flow, the ISSG Global Headline Hotlist, continues to indicate terrorism and Middle East instability as topics dominating the news cycle. While stories in the aftermath of the Paris nightclub attack and San Bernardino remained in the public conscious throughout the first quarter, terror-related headlines were again reignited by the tragic events in Brussels. Middle East tensions and ISIS-related topics also featured heavily in the news flow over the quarter. Although markets remained relatively resilient to these terror-related news items, we expect these topics will persist as the narrative evolves around related investigatory findings and responses. Some of the new headline topics to emerge this quarter were “US Tax Policy”, “Financial Sector Scandals” and “Immigration Policy”- specifically related to European migration and the US election politics.

Fed Policy also made the top ten of headline topics, but not to as great a degree as would be expected considering the whipsawing uncertainty we saw this quarter around the current tightening cycle. For some time now, the Fed has appeared to be placing a much greater emphasis on downside risks than it does in positive data points supporting a rate rise. This sets up a behavioral finance conundrum with important consequences. The Fed is stymied by fear of background risks that have been known for some time, and yet by delaying the much anticipated return to rate normalization, the Fed participates in the feedback loop which reinforces the perception that the US recovery is illusory and it is indeed prudent to forego capital spending, risk taking, and ultimately remain cautious. As global growth begins to weaken further, time is running out for US conditions to remain at least somewhat hospitable to rate normalization.

Turning to our Regime Probability Outlook (Fig. 12), there has recently been an increase in the probability of a “warming” regime. This change represents more of a continuation of last year’s tilt toward warming, rather than an entirely new trend in regime probabilities. While recent quarters have undoubtedly been dominated by the deflationary theme, the warming regime is not necessarily incongruent, as the low inflation theme is widely-held and its effects have already been manifested. Risks of inflation surprises now are decidedly to the upside from these levels. It’s also important to remind readers of the distortions created in headline CPI measures as a result of the massive decline in oil prices that has now likely run its course. While such a decline exerts a strong deflationary force on headline CPI, core CPI (excluding food and energy) is actually rather robust in the US. The reduction in credit spreads and volatility (in measures such as VIX) indicate improving market sentiment necessary for a warming regime.

Asset Class Outlook

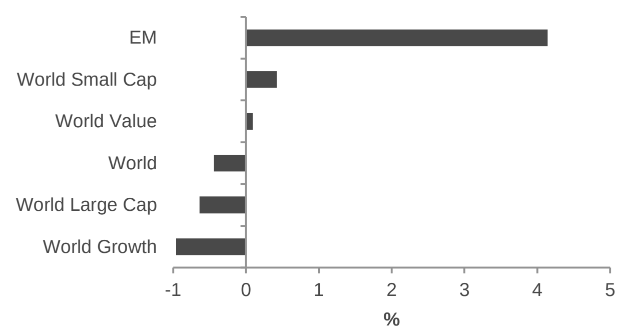
Global Equity Markets:

	ISSG CMC View	Valuation Model	Momentum Model	RBAA Model	Commentary
US Equity	Overweight	Favorable	Unfavorable	Favorable	The active overweight in US equity continues to decline. Yet, given the remaining economic momentum in the US, lead by the US consumer, this area remains our sole equity overweight. The combination of negative EPS revisions and high prices move it closer to overvalued.
Europe ex-UK Equity	Neutral	Favorable	Unfavorable	Favorable	Europe ex-UK equity moves to a neutral given the continued uncertainty in the growth and inflation outlook despite continued policy support. The Euro appears to have stabilized from recent weakness, but the pending UK referendum will create both uncertainty and volatility in the currency and equity markets.
Pacific ex-Japan Equity	Neutral	Favorable	Favorable	Neutral	The region remains highly sensitive to expectations for Chinese economic growth as well as further policy stimulus from the PBOC. Uncertainty around Chinese economic growth and its impact keep us neutral. Korea remains an interesting opportunity given it imports energy and the Won appears to have stabilized recently.
Japan Equity	Neutral	Favorable	Unfavorable	Unfavorable	Japan remains neutral. The exposure to a slowing Chinese economy combined with recent strength in the Yen are weighing negatively on economic activity despite the efforts of policy makers who have adopted negative interest rates to spur inflation towards stated targets.
UK Equity	Neutral	Favorable	Unfavorable	Favorable	Political uncertainty around EU membership is rising with the proposed “Brexit” referendum on June 23rd. Similar to the US, a tightening cycle is approaching and wage pressures are increasing which, combined with the outlook of significant trading partners, keeps us at a Neutral.
EM Equity	Neutral	Favorable	Neutral	Favorable	When to get back into EM remains one of the key questions for the second quarter and even for 2016. The threat of capital outflows still lurks with the US rate cycle. In addition, the fundamental backdrop remains uncertain, especially in Brazil where possible political reform could still take significant time to improve a depressed economy.
REIT Equity	Neutral	Neutral	Neutral	Favorable	We remain neutral to REITs as the yield spread differential with Treasuries remains at more normalized levels. With US policy makers sounding more dovish, the asset class should benefit from a momentum tailwind as investors search for yield once again. Although, such a move would pressure valuations.
Global Natural Resource Equity	Neutral	Favorable	Unfavorable	Unfavorable	Global natural resource equities remain an attractively valued space within the overall global equity complex and potentially offer an interesting return symmetry at this point in the economic cycle. The depressed valuation offers relatively better downside returns than other equities. At the same time, inflation readings in the US and other parts of the world are firming, and policy makers indicate that they would let inflation run ahead of targets before pulling back the reigns on growth. These equities should outperform in the event inflation surprises to the upside.

Fig. 13: ISSG CMC Global Asset Class Views

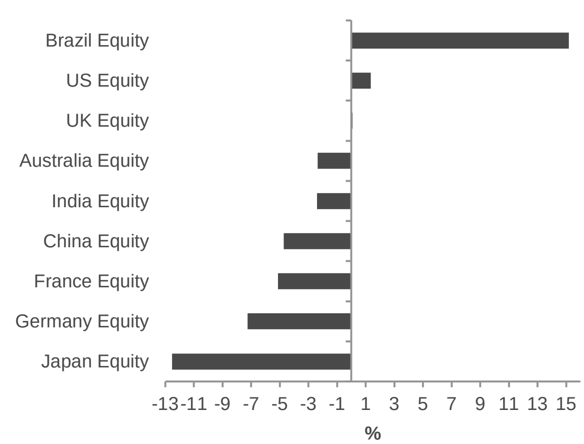
ASSET CLASS	ISSG VIEW
Global Equities	+2.2%
U.S.	O/W
Europe Ex U.K.	Neutral
Pacific Ex-Japan	Neutral
Japan	Neutral
U.K.	Neutral
EM	Neutral
REITS	Neutral
Global Natural Res.	Neutral
Global Bonds	-5.4%
U.S. Sovereign Debt	U/W
U.K. Sovereign Debt	U/W
Japanese Sovereign Debt	U/W
German Sovereign Debt	U/W
Inflation Linked Bonds	O/W
High Yield	Neutral
U.S. IG Corp. Bonds	Neutral
EM Local Cur. Debt	Neutral
EM USD Sovereign Debt	Neutral
Cash	+3.2%

Fig. 14: Global Equity Index Performance
% change vs MSCI AC World Index over 3 months to 31 Mar 16



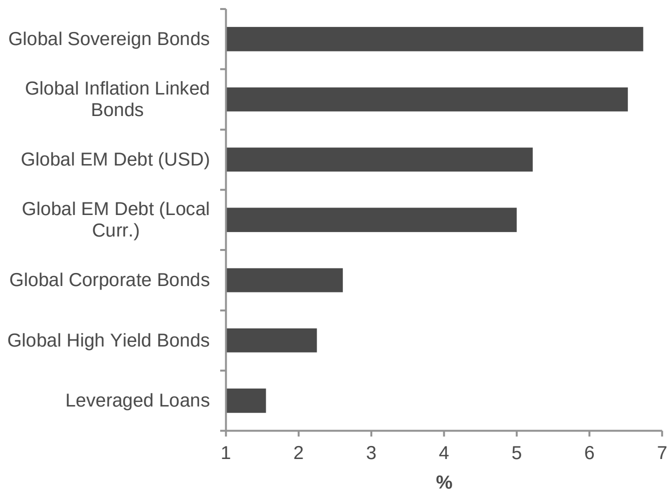
Source: Thomson Reuters Datastream & ISSG

Fig. 15: Country Index Performance
% change over 3 month to 31 Mar 16



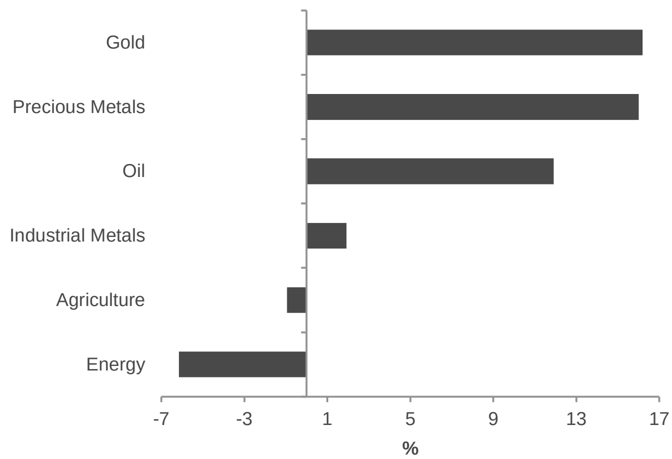
Source: Thomson Reuters Datastream & ISSG

Fig. 16: Fixed Income Performance
% change over 3 months to 31 Mar 16



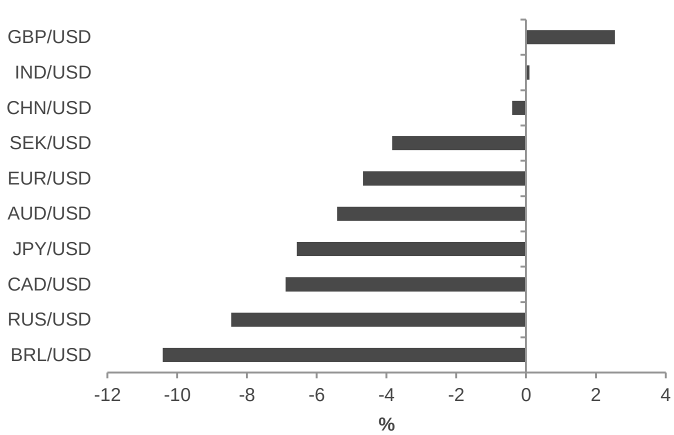
Source: Thomson Reuters Datastream & ISSG

Fig.17: Commodities Performance
% change 3 month to 31 Mar 16



Source: Thomson Reuters Datastream & ISSG

Fig. 18: FX Currency Pairs
% change 3 months to 31 Mar 16



Source: Thomson Reuters Datastream & ISSG

Global Bond Markets:

	ISSG CMC View	Valuation Model	Momentum Model	RBAA Model
Developed Sovereign Bonds	Underweight	Unfavorable	Favorable	Unfavorable
	Interest rates continue to be at or near historic lows amidst divergence in policy and economic trends. The move towards negative interest rates makes the asset class even more undesirable.			
Inflation Linked Bonds	Overweight	Unfavorable	Favorable	Unfavorable
	We prefer inflation linked bonds to nominal sovereign bonds at this point in the cycle. Firming core inflation in several countries and stabilization in energy prices could produce unexpected inflation.			
High Yield Bonds	Neutral	Favorable	Favorable	Unfavorable
	Spreads have begun to compress with the apparent calm that has come over energy markets. In turn, we have moved to neutral but remain on watch for crucial hedge expiration from energy companies.			
Investment Grade Corporate Bonds	Neutral	Unfavorable	Favorable	Unfavorable
	We remain neutral in investment grade bonds. Recent issuances have moved spreads out relative to their high yield counterparts. The credit quality in the sector combined with a spread component continue to make these bonds an attractive alternative to sovereign bonds.			
Emerging Markets – Local Currency Bonds	Neutral	Favorable	Neutral	Neutral
	EM currency appears to have stabilized given the easing of rate hike concerns in the US. While the valuation remains attractive the sector still could come under pressure should expectations for policy tightening in the US get pulled forward.			
Emerging Markets – USD Bonds	Neutral	Neutral	Favorable	Neutral
	We remain neutral on EM dollar based debt. While absolute yields on both forms of EM debt are attractive, we believe investors need to monitor developments in the asset class given recent downgrades to Brazil and continued stress in Turkey and Russia. The slowdown in China could also put additional stress on EM hard currency corporate debt.			
Cash	Overweight	N/A	N/A	N/A
	We have increased our cash overweight since last quarter given the combination of low, or negative interest rates, and stretched equity values as a result of higher prices and negative earnings revisions.			

Commodities:

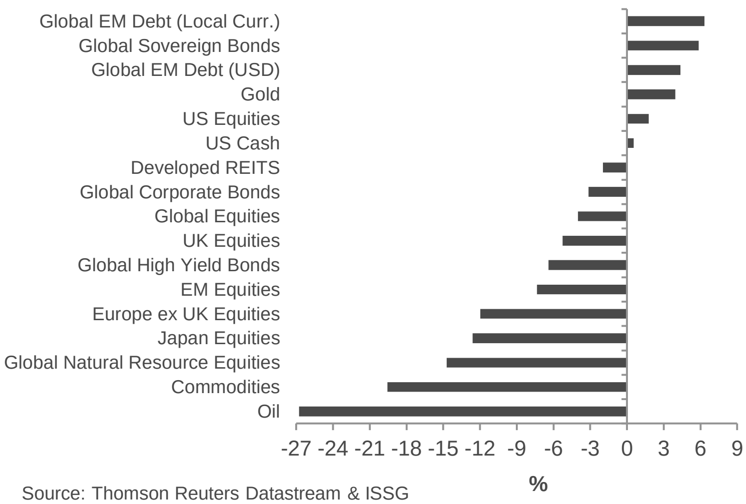
	Neutral
	We remain neutral to the commodity complex as the supply/demand picture for the asset class remains opaque. Production cuts in the form of rig count reduction in the US are a positive but the new supply picture in the Middle East from Iran, and OPEC broadly, continue to give us pause. Chinese inventories remain an unknown in the base metals complex.

Currency:

EUR/USD	Neutral
	The Euro could see increased volatility in the second quarter, along with Sterling, ahead of the June 23rd "Brexit" referendum.
JPY/USD	Neutral
	The Yen remains in a tough dichotomy between a "safe-haven" currency and a currency that is trying to be weakened by policy makers in order to spur export lead growth in Japan. For this reason we remain neutral. Rallies in the Yen should be viewed skeptically, as any strengthening may attempt to be thwarted via "Abenomics."
EM: Asia/USD	Neutral
	Chinese economic policy continues to dominate the landscape of both EM Asia currencies, but also the Asia/Pacific region broadly. Any desire to further devalue the RMB on the part of the PBOC will need to be balanced against the inclusion in the SDR basket.
EM: LATAM/USD	Neutral
	Brazil contributes nearly half of the regional GDP to Latin America. The recent run in the Real, for us, lacks any fundamental catalyst other than political change speculation.

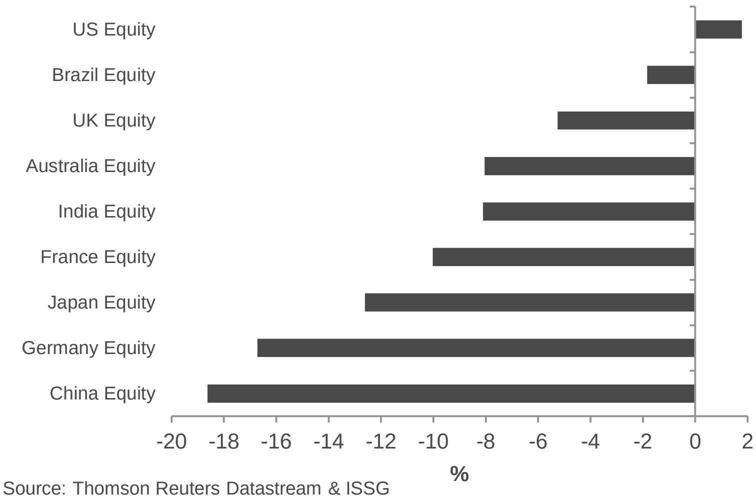
Performance Monitor

Fig. 19 : Capital Markets
% change over 1 year to 31 Mar 16



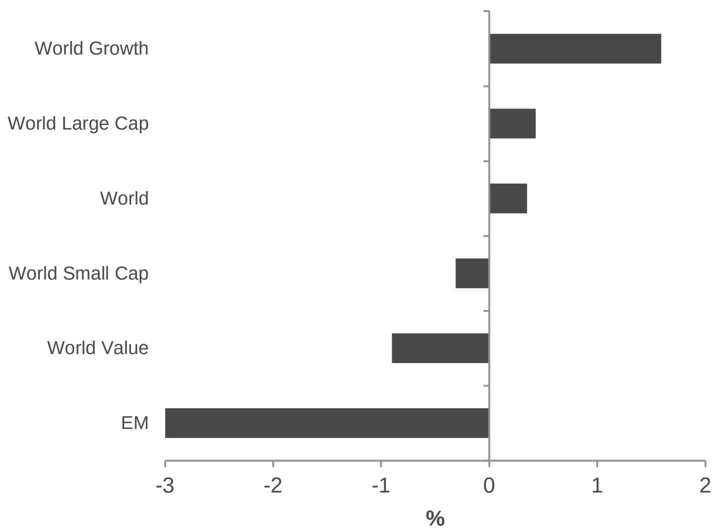
Source: Thomson Reuters Datastream & ISSG

Fig. 20 : Equity Country Index Performance
% change over 1 year to 31 Mar 16



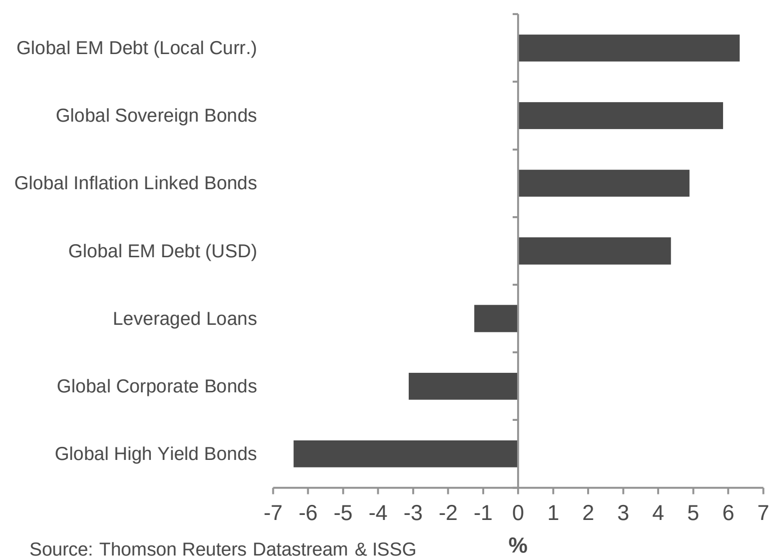
Source: Thomson Reuters Datastream & ISSG

Fig. 21: Global Equity Performance
% change vs MSCI AC World Index over 1 year to 31 Mar 2016



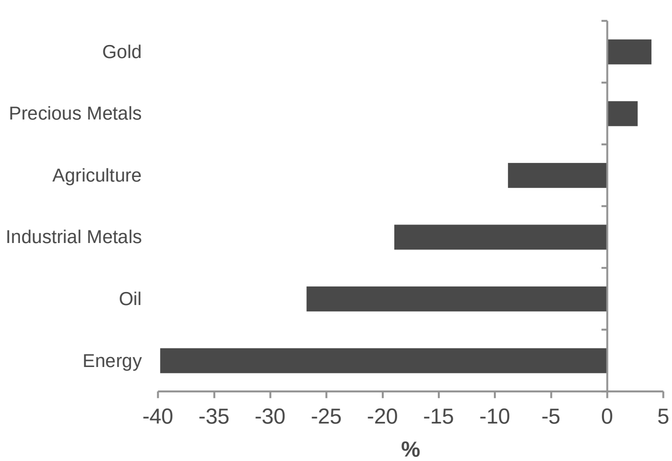
Source: Thomson Reuters Datastream & ISSG

Fig. 22: Fixed Income Performance
% change over 1 year 31 Mar 16



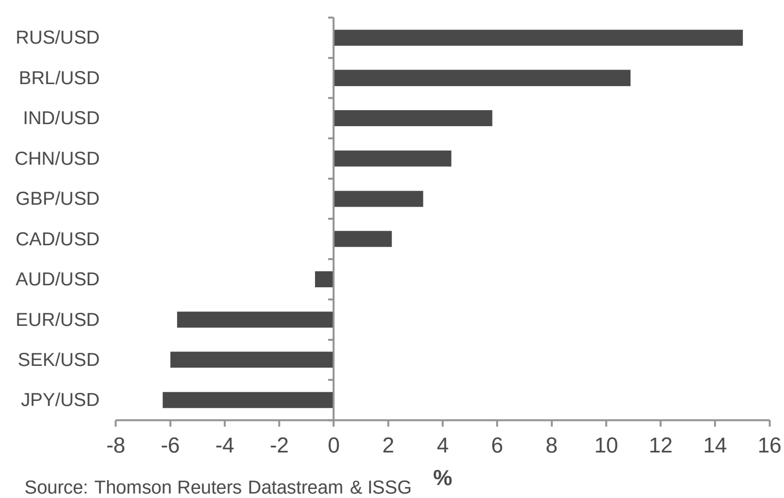
Source: Thomson Reuters Datastream & ISSG

Fig. 23: Commodities Performance
% change 1 year to 31 Mar 16



Source: Thomson Reuters Datastream & ISSG

Fig. 24: FX Currency Pairs
% change 1 year to 31 Mar 16



Source: Thomson Reuters Datastream & ISSG

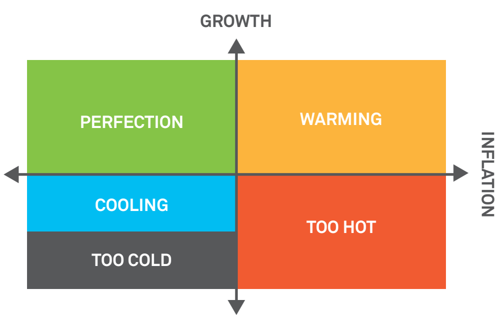
Appendix & Disclosures

ASSET	INDEX	DEFINITION
Commodities	Bloomberg Commodities Index Total Return (USD Index)	The Bloomberg Commodities index is an index that tracks the performance of broad based commodities.
Gold	Gold Bullion LBM USD/ozt	Tracks the performance of gold bullion spot prices.
Oil	Brent Crude Month FOB USD/BBL	Tracks the performance of Brent Crude Oil spot prices.
Global Sovereign Bonds	JPM Global GBI (USD Index)	Tracks the performance of global sovereign bonds.
Developed Sovereigns		US, UK, Japan, and German Sovereign Debt securities
US Equity	S&P 500 (USD Index)	Tracks the performance of 500 of largest market capitalization equities in the United States.
US Cash	JPM US Cash Index (3M) (USD Index)	Tracks the performance of US 3 month treasury bills.
US Dollar	JPM USD Index Real Broad	Tracks the performance of the US Dollar against a basket of broad currencies.
Global Corporate Bonds	Barclays Global Agg Corp (USD Index)	Tracks the performance of aggregate corporate bonds.
Developed REITS	FTSE E/N Dev REITS (Local Currency)	Tracks the performance of global real estate investment trusts in developed markets.
Global Natural Resource Equities	S&P Gbl Nat Resource Equities (USD Index)	Tracks the performance of global equities linked to natural resources.
Global Investment Grade Bonds	Barclays Inv Grade Corporates (USD Index)	Tracks the performance of aggregate investment grade corporate bonds.
Global Inflation Linked Bonds	Barclays Global Agg Infl-Lkd (USD Index)	Tracks the performance of global inflation linked bonds.
Global High Yield Bonds	Barclays Global High Yield (USD Index)	Tracks the performance of global high yield bonds rates below investment grade.
Global Equities	MSCI World (LC Index)	Tracks the performance of developed market global equities.
MSCI AC World	MSCI AC World Index	Tracks the performance of developed market global equities
Global EM Debt (USD)	JPM EMBI Global Composite (USD Index)	Tracks the performance of dollar based emerging market sovereign bonds.
EM Equities	MSCI Emerging Markets (LC Index)	Tracks the performance of emerging market equities.
UK Equities	FTSE 100 (LC Index)	Tracks the performance of equities domiciled within the United Kingdom.
Europe Ex UK Equities	MSCI Europe ex UK (LC Index)	Tracks the performance of equities domiciled in Europe and not including the UK.
Japan Equity	MSCI Japan (LC Index)	Tracks the performance of equities domiciled in Japan.
Pacific Ex Japan Equity	MSCI Pacific ex Japan (LC Index)	Tracks the performance of equities domiciled in the Asia - Pacific region but not including Japan.
Germany Equity	DAX 30 (LC Index)	Tracks the performance of 30 of largest equity market capitalization companies in Germany.
Eurozone Equity	EuroStoxx 50 (LC Index)	Tracks the performance of 50 of largest equity market capitalizations in the Eurozone.
France Equity	CAC 40 (LC Index)	Tracks the performance of 40 of the largest equity market capitalizations of France.
Australia Equity	ASX All Ordinaries (LC Index)	Tracks the performance of the largest equity market capitalizations of Australia.
Brazil Equity	MSCI Brazil (LC Index)	Tracks the performance of the equities domiciled in Brazil.
India Equity	MSCI India (LC Index)	Tracks the performance of equities domiciled in India.
China Equity	MSCI China (LC Index)	Tracks the performance of equities domiciled in China.
World Growth	MSCI World Growth (LC Index)	Tracks the performance of growth oriented equities as defined by MSCI.
World Large Cap	MSCI World Large Cap (LC Index)	Tracks the performance of large equity market capitalization companies.
World Value	MSCI World Value (LC Index)	Tracks the performance of value oriented equities as defined by MSCI.
World Small Cap	MSCI World Small Cap (LC Index)	Tracks the performance of small equity market capitalization companies.
Leveraged Loans	S&P Leveraged Loan Index (USD Index)	Tracks the performance of leveraged loans.
Global EM Debt (Local Curr.)	JPM GBI Emerging Markets (LC Index)	Tracks the performance of local currency denominated emerging market bonds.
Agriculture	S&P GSCI Agriculture Total Return (USD Index)	Tracks the total return performance of agricultural commodity futures.
Precious Metals	S&P GSCI Precious Metals Total Retn	Tracks the total return performance of futures for precious metals related futures.
Industrial Metals	S&P GSCI Industrial Metals Total Retn (USD Index)	Tracks the total return performance of futures for industrial metals related commodities.
Energy	S&P GSCI Energy Total Return (USD Index)	Tracks the total return performance of futures for energy related commodities.
EUR/USD	EUR/USD	Tracks the performance of the Euro / US Dollar exchange rate.
RUS/USD	RUS/USD	Tracks the performance of the Russian Ruble / US Dollar exchange rate.
CHN/USD	CHN/USD	Tracks the performance of the Chinese Renminbi / US Dollar exchange rate.
SEK/USD	SEK/USD	Tracks the performance of the Swedish Krona / US Dollar exchange rate.
GBP/USD	GBP/USD	Tracks the performance of the British Pound / US Dollar exchange rate.
AUD/USD	AUD/USD	Tracks the performance of the Australian Dollar / US Dollar exchange rate.
BRL/USD	BRL/USD	Tracks the performance of the Brazilian Real / US Dollar exchange rate.

ASSET	INDEX	DEFINITION
CAD/USD	CAD/USD	Tracks the performance of the Canadian Dollar / US Dollar exchange rate.
IND/USD	IND/USD	Tracks the performance of the Indian Rupee / US Dollar exchange rate.
JPY/USD	JPY/USD	Tracks the performance of the Japanese Yen / US Dollar exchange rate.
EM LATAM/USD		Considers the aggregate performance direction of a basket of currencies from Latin American countries as defined in the JPM GBI Emerging Markets Index
EM Asia/USD		Considers the aggregate performance direction of a basket of currencies from Asian countries as defined in the JPM GBI Emerging Markets Index
EUR FX		Tracks the performance of the Euro / US Dollar exchange rate.
GBP FX		Tracks the performance of the British Pound / US Dollar exchange rate.
JPY FX		Tracks the performance of Japanese Yen / US Dollar exchange rate.
EM FX		Tracks the performance of a basket of Emerging Markets currencies versus the US Dollar.
US 10Y Yield		Tracks the performance of the yield on the 10 year US treasury note.
Inflation	Headline Consumer Price Index	Tracks the performance of inflation as reported by respective national economic statistics bureaus.
Growth (PMI)		Tracks the performance of purchasing managers indices in each country to proxy GDP growth.
Company Earnings		A proprietary diffusion index of positive and negative analyst earnings estimate revisions.
Monetary Policy		Derived from the futures curve for short term interest rates as indicative of central bank policy.
Inflation Revisions		A proprietary measure of cumulative economist revisions for future levels of inflation in a country.
Growth Revisions		A proprietary measure of cumulative economist revisions for future real economic growth in a country.
Dollar (Figure 7)	Bloomberg US Dollar Index (DXY Index)	Tracks the performance of the US dollar against a basket of global currencies.
DM Bonds	JPMorgan GBI Global Unhedged LC	Tracks the performance of non-US developed market investment grade corporate bonds denominated in local currency.
YoY GDP	GDP CUR$	Measures the year over year change in the US nominal GDP index.
Profits %	INCOCBCP Index	Measures the ratio of US nominal corporate profits to nominal GDP in percentage terms.
+/- 1 SD		A measure of 1 standard deviation move, up and down, in profits to GDP ratio.
Mean		A measure of the mean value in the profits to GDP ratio.
Trade Weighted Dollar	USTWBROA Index	Tracks the performance of the US Dollar against a basket of US trading partner currencies on a trade weighted basis.
Households		Tracks the amount of debt outstanding as a percentage of GDP on the part of households in developing countries.
Non-Fin Corp		Tracks the amount of debt outstanding as a percentage of GDP on the part of non-financial corporations in developing countries.
Govt		Tracks the amount of debt outstanding as a percentage of GDP on the part of governments in developing countries.
Fin Corp		Tracks the amount of debt outstanding as a percentage of GDP on the part of financial corporations in developing countries.
2 YR BE	USGGBE02 Index	Tracks the performance of 2 year inflation breakeven rates in the United States.
10 YR BE	USGGBE10 Index	Tracks the performance of 10 year inflation breakeven rates in the United States.

These benchmarks are broad-based indices which are used for comparative purposes only and have been selected as they are well known and are easily recognizable by investors. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from the portfolio. For example, investments made for the portfolio may differ significantly in terms of security holdings, industry weightings and asset allocation from those of the benchmark. Accordingly, investment results and volatility of the portfolio may differ from those of the benchmark. Also, the indices noted in this presentation are unmanaged, are not available for direct investment, and are not subject to management fees, transaction costs or other types of expenses that the portfolio may incur. In addition, the performance of the indices reflects reinvestment of dividends and, where applicable, capital gain distributions. Therefore, investors should carefully consider these limitations and differences when evaluating the comparative benchmark data performance. The foregoing index licensers are not affiliated with The Bank of New York Mellon Corporation, do not endorse, sponsor, sell or promote the investment strategies or products mentioned in this presentation and they make no representation regarding advisability of investing in the products and strategies described herein. Valuation Model – The ISSG Valuation Model considers relative valuations across the asset classes that we rank. We consider the current values placed on future cash flows of the securities against their historical longer-term trend levels. Momentum Model – The ISSG Momentum Model considers relative price momentum across the asset classes that we rank. Our research shows that this can be an indicator of continued appreciation potential in the future. RBAA Model – The ISSG Regime Based Asset Allocation Model defines five macroeconomic regimes based on the interaction of growth and inflation expectations. We believe changes to these expectations drive regime shifts and influence asset returns.

BNY ISSG RBAA Regimes:



CORRELATION HEAT MAP DEFINITIONS

ASSET CLASS	INDEX — please see above for definitions
World Equity	MSCI AC World (LC Index)
EM Equity	MSCI Emerging Markets (LC Index)
DM Bonds	JPMorgan GBI Global Unhedged
EM $ Bonds	JPMorgan EMBI Global Composite (USD Index)
DM IG Corps Hedged	Barclays Global Aggregate Corp Index (USD Index)
DM HY Corps Hedged	Barclays Global High Yield (USD Index)
Commodities	Dow Jones – UBS Commodities Index Total Return (USD Index)
Dollar	US Dollar Index

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