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Author(s):

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Abstract:

- Economics — Japan H2 growth forecast cut to 1.7% from 2.5%. Downshift in global industry not a precursor to double dip.
- Asset allocation — We move from flat to net long on risky assets by adding in credit through HY and non-core EMU.
- Fixed Income — Mildly long duration in Europe and EM. Hold carry positions, adding EMU non-core bonds. Hold swap spread wideners in USD and EUR.
- Equities — Overweight EM, underweight small caps, underweight manufacturing sensitive sectors, overweight banks.
- Credit — With industrial HG bond yields at a record low, we favour higher yielding credits such as high yield and subordinated bonds.
- FX — Dollar to weaken further against EUR and JPY.
- Commodities — Stay overweight agriculture on increased risks to supply.

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