

EXECUTIVE DIGEST

INVESTMENT STRATEGIES IN A POST-MONETARY WORLD ORDER

By Amanda E. Agati, CFA,[®] Institutional Investment Strategist and Senior Investment Advisor

In this article, we approach the monetary policy discussion from the angle of the Post-Monetarism theory — and present a more nuanced view of some inherent challenges in the current policy environment, including interaction between U.S. bank capital regulations and the Fed's current monetary policy stance.

[Read the entire white paper](#)

We remain in a difficult market to forecast, particularly regarding the complex interactions between what we see as the weak fundamental backdrop and how current monetary policy might affect the dollar, interest rates, and investor risk preferences.

Stocks and bonds are expensive relative to history, growth remains sluggish, and corporate earnings have been unable to gather sustainable momentum. Conversely, many investors are still being compelled into equities by the extreme monetary policy environment. These opposing dynamics make it difficult to be decidedly too bullish or too bearish over the shorter term, in our view.

From an investment perspective, growth across Europe is still slow but has remained largely in line with expectations to date.

Regarding equities, we continue to believe that average annual equity returns are likely to be well below what investors have come to expect as average. This view is purely valuation-based and therefore longer term.

Turning to fixed income, we continue to recommend below-benchmark duration positioning in fixed income portfolios. Yields and duration are inversely related, making bond prices more sensitive to moves in interest rates when interest rates are low.

We think this is an important concept to understand, since the price sensitivity in bond portfolios is certainly elevated with interest rates at such low levels; in our view, rates do not need to increase all that much to see a significant decline in prices.

High-yield bonds have had excellent performance so far in 2016 despite our cautious view toward the asset class. We believe performance has been mainly driven by a reach for yield amid speculation the Fed would continue to delay any additional interest rate increases. We think high-yield bonds are at risk of a swift reversal in capital flows if the probability of a Fed interest rate hike rises materially.

On the international front, the fallout from Brexit is starting to filter through some U.K. economic data. Thus far, however, the data are not quite as grim, nor the impact as pervasive, as many investors had feared, causing some to moderate their pessimistic growth forecasts. Still, our view is that England may undergo a significant slowdown, if not recession, and the extreme dip in PMI survey data in July is still a potential warning sign. For now, the Bank of England has aggressively stepped in to dull any Brexit-induced economic pain, and the rest of Europe appears largely insulated.

From an investment perspective, growth across Europe is still slow but has remained largely in line with expectations to date.



READY TO HELP

At PNC, we combine a wider range of financial resources with a deeper understanding of your business to help you achieve your goals. To learn more about how we can bring ideas, insight and solutions to you, please contact your Relationship Manager.

The PNC Financial Services Group, Inc. ("PNC") uses the marketing name PNC Institutional Advisory Solutions® for discretionary investment management, trustee, and other related activities conducted by PNC Bank, National Association ("PNC Bank"), which is a **Member FDIC**. Standalone custody, escrow, and directed trustee services; FDIC-insured banking products and services; and lending of funds are also provided through PNC Bank. These materials are furnished for the use of PNC and its clients and does not constitute the provision of investment advice to any person. It is not prepared with respect to the specific investment objectives, financial situation, or particular needs of any specific person. Use of these materials is dependent upon the judgment and analysis applied by duly authorized investment personnel who consider a client's individual account circumstances. Persons reading these materials should consult with their PNC account representative regarding the appropriateness of investing in any securities or adopting any investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. The information contained in these materials was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy, timeliness or completeness by PNC. The information contained in these materials and the opinions expressed herein are subject to change without notice. Past performance is no guarantee of future results. Neither the information in these materials nor any opinion expressed herein constitutes an offer to buy or sell, nor a recommendation to buy or sell, any security or financial instrument. Accounts managed by PNC and its affiliates may take positions from time to time in securities recommended and followed by PNC affiliates. PNC does not provide legal, tax, or accounting advice unless, with respect to tax advice, PNC Bank has entered into a written tax services agreement. PNC does not provide services in any jurisdiction in which it is not authorized to conduct business. PNC Bank is not registered as a municipal advisor under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Act"). Investment management and related products and services provided to a "municipal entity" or "obligated person" regarding "proceeds of municipal securities" (as such terms are defined in the Act) will be provided by PNC Capital Advisors, LLC. **Securities are not bank deposits, nor are they backed or guaranteed by PNC or any of its affiliates, and are not issued by, insured by, guaranteed by, or obligations of the FDIC, the Federal Reserve Board, or any government agency. Securities involve investment risks, including possible loss of principal.**

PNC and PNC Institutional Advisory Solutions are registered service marks of The PNC Financial Services Group, Inc.

©2016 The PNC Financial Services Group, Inc. All rights reserved.

CIB ENT PDF 1116-085-408904

