



This is an excerpt of [Asset Allocation: Late Cycle With A Twist](#), published on April 1, 2018.

# Asset Allocation

## Late Cycle With A Twist

April 1, 2018

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### Themes:

- Bigger and longer but still just a pullback: not reading too much into it
- Late cycle with a twist: Growth is unusually strong
- How high will inflation go?
- The bond-equity correlation typically falls when inflation rises or the Fed is tightening
- The dominos that did not fall: positioning in oil and the dollar



### Asset Allocation: the cycle lives on

With equities pricing in a 50% probability of an imminent recession which we view as highly unlikely and the rates market continuing to disbelieve that the Fed would go through with its planned normalization we share our asset allocation views. Where relative valuation remains at the top of its historical band, we remain neutral and where valuations are low despite strong growth, we are overweight. We maintain our view on the prospects tied to the yen.

We discuss in detail our sector weightings and preferences basing our underlying thesis on valuation, earnings growth and positioning, for instance what to do in a sector where valuation looks fair but the positioning creates a large overhang. Within bonds, we examine the High Yield vs High Grade view with a look to carry and duration.

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