

Tell Tail Signs

An asset class outlook based on potential tail gains and losses

Is the Reflation Trade Alive? Yes and No...

The market has been flip-flopping recently about whether the reflation trade is “alive.” From the perspective of accelerating growth, yes, we see the trade alive and well. Yet, from the perspective of inflation, we don’t see the trade alive, but tepid and subdued.

Continued upside to growth is the key dynamic we see unfolding in the financial markets. But unlike the past, we do not see this growth accompanied by large

inflationary pressures, but rather by upward pressure on real rates. We call this the “real-growth” trade – in other words, a pickup in growth from real economic activity, not just inflation.

Following the recent sharp rise in inflation expectations and inflation prints, the Federal Reserve (Fed) is on watch, and it’s not very easy for inflation to evade a vigilant Fed. It will be very challenging for inflation to rise significantly higher. As a

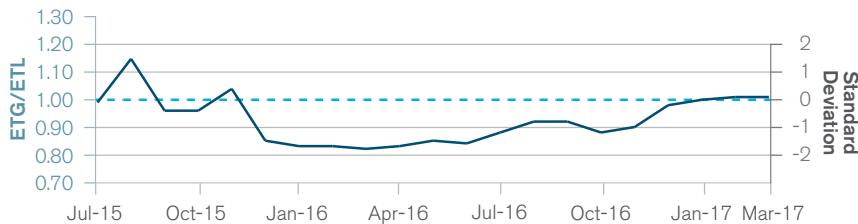
result, our proprietary model suggests the risk to bonds has moderated.

Janus’ Adaptive Multi-Asset Solutions team arrives at its monthly outlook using option market prices to infer expected tail gains (ETG) and expected tail losses (ETL) for each asset class. The ratio of these two (ETG/ETL) provides a signal about the risk-adjusted attractiveness of the asset class. We think of that ratio as a “tail-based Sharpe ratio.” The tables

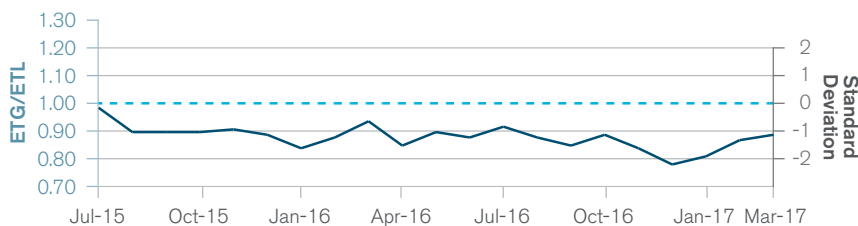
Recent Monthly Tail-Based Sharpe Ratios

(Expected Tail Gain* / Expected Tail Loss*)

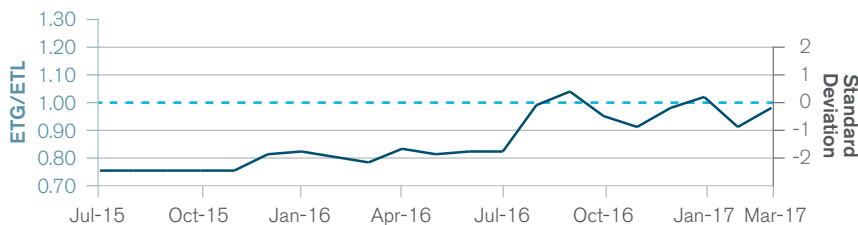
Growth Assets



Capital Preservation Assets



Inflation Assets



Beginning in August 2016, the “tail-based Sharpe ratios” have been normalized to 1.00 to allow for easier comparison across the three macroeconomic asset categories.

*We define ETG and ETL as the 1-in-10 expected best and worst two-month return for an asset class.

Current Tail-Based Sharpe Ratios

■ Current ■ Historical

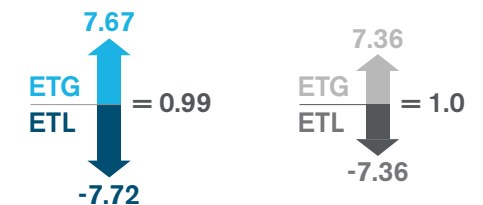
Growth Assets ETG/ETL Ratios



Capital Preservation ETG/ETL Ratios



Inflation ETG/ETL Ratios



summarize the “tail-based Sharpe ratio” of three broad asset class categories.

Normalization is on its way and inflation was the first step: global inflation expectations are rising, and in the U.S., hitting the Fed’s 2% target. But normalization of real interest rates is far from complete. In fact, it really hasn’t started, with global real rates well below GDP growth, well below zero for much of the developed world, and just above 40 bps in the U.S. Normality suggests the real rate will anchor to real GDP. But with GDP in the U.S. near 2%, real rates have a long way to go. We see this second, and arguably final, leg to normalization just getting underway.

The good news is we anticipate this second phase – or real rate normalization – will be much smoother than the first leg because real rates are generally easier to control than inflation, thereby mitigating the risk of shock. The second piece of good news is that economic conditions are still very supportive to growth, namely, normal

inflation encourages spending and investment and low real rates keep the cost to finance this spending/investment low. As a result, we maintain our robust outlook to global equities based on what our proprietary signals indicate.

We feel the “real-growth” trade is safer than the reflation trade as inflation risks tend to take the form of tail risk, whereas real rate risk does not – assuming that hawks don’t circle in on the Fed.

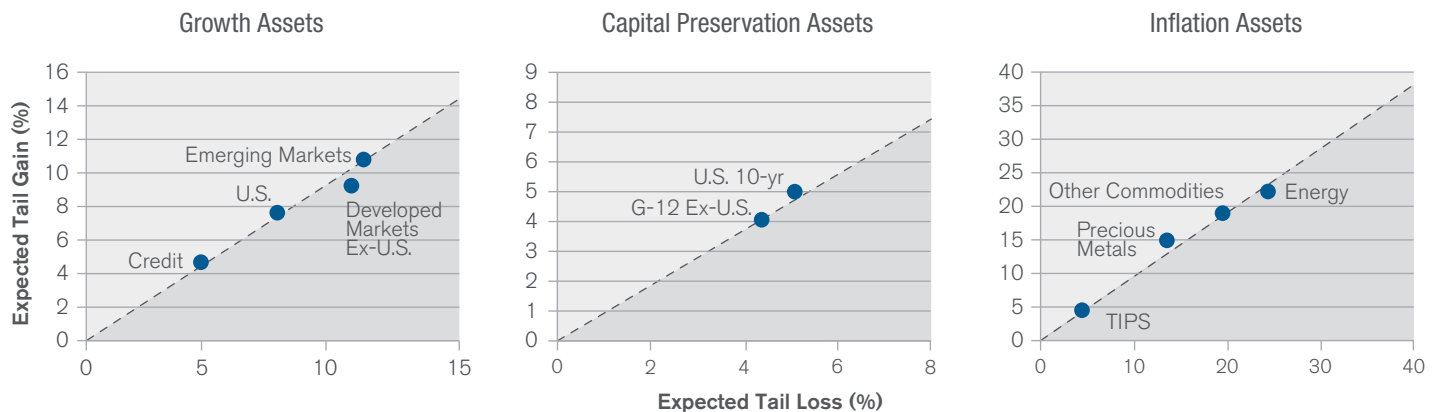
In addition to our outlook on broad asset classes, Janus’ Adaptive Multi-Asset Solutions team uses option market signals to provide insights into specific markets. The following caught our attention:

- ▶ Growth Assets: U.S. and EM equities offer the best expected risk-reward. U.S. growth is alive and well according to our signals and EMs will benefit from this. Peripheral Europe, in particular Italy, offers attractive opportunities. The resurgence of the center-right in Europe and their pro-growth policies cannot be ignored.

- ▶ Capital Preservation: We see U.S. rates and developed non-U.S. rates, particularly Germany, following a path of convergence. With inflation pressures mounting in Europe and the yield differential still very wide, we are near a tipping point where European yields need to catch up with U.S. yields.

- ▶ Inflation: The risk-reward to Treasury Inflation-Protected Securities is nearly equal to that of nominal bonds. This suggests risk is driven by real rates, which affect both equally, and not inflation, which only affects nominal bonds. In the commodity space, our signals suggest a pullback in oil, which currently offers the lowest expected “tail-based Sharpe ratio” within the commodity complex.

Tail-Based Sharpe Ratio (Expected Tail Gain / Expected Tail Loss)



Note to All Readers: FOR INFORMATIONAL PURPOSES ONLY. This material does not constitute and should not be construed as investment, legal or tax advice or a recommendation, solicitation or opinion regarding the merits of any investments. Nothing in the material shall be deemed to be a direct or indirect provision of investment management services or an offer for securities by Janus Capital Group and its subsidiaries (“Janus”) and is not considered specific to any client requirements. Anything non-factual in nature is an opinion of the author(s), and opinions are meant as an illustration of broader themes, are not an indication of trading intent, and are subject to change at any time due to changes in market or economic conditions. Janus is not responsible for any unlawful distribution of this material to any third parties, in whole or in part, or for information reconstructed from this material and do not guarantee that the information supplied is accurate, complete, or timely, or make any warranties with regards to the results obtained from its use. It is not intended to indicate or imply that current or past results are indicative of future profitability or expectations. As with all investments, there are inherent risks that need to be addressed.

The distribution of this material or the information contained in it may be restricted by law and may not be used in any jurisdiction or any circumstances in which its use would be unlawful. This presentation is being provided on a confidential basis solely for the information of those persons to whom it is given. Should the intermediary wish to pass on this material or the information contained in it to any third party, it is the responsibility of the intermediary to investigate the extent to which this is permissible under relevant law, and to comply with all such law.

Note to Hong Kong, Taiwan and Singapore Readers: Issued in: (a) Taiwan R.O.C independently operated by Janus Capital Taiwan Limited, licensed and regulated by the Financial Supervisory Commission R.O.C, (b) Hong Kong by Janus Capital Asia Limited, licensed and regulated by the Securities and Futures Commission of Hong Kong, and (c) Singapore by Janus Capital Singapore Pte. Limited (Company Registration No. 200617443N), which is regulated by the Monetary Authority of Singapore. In Singapore, only available to accredited and institutional investors as defined under section 4A of the Securities and Futures Act (Cap.289), and may not otherwise be distributed in Singapore.

Note to Australia and New Zealand Readers: Issued by Janus Capital Asia Limited (ARBN 122 997 317), which is incorporated in Hong Kong, is exempt from the requirement to hold an Australian financial services license and is licensed and regulated by the Securities and Futures Commission of Hong Kong under Hong Kong laws which differ from Australian laws. In New Zealand, this document may only be distributed to 'wholesale investors' within the meaning of the Financial Markets Conduct Act 2013. This includes (i) selected institutional clients whose primary business is the investment of money, or (ii) persons who meet the prescribed investment activity criteria or who exceed certain prescribed asset and turnover thresholds, or (iii) a person who has completed a prescribed certificate attesting as to their experience in buying or selling investment products, or (iv) investors who invest a minimum sum of NZ\$ 750,000. This is not a registered prospectus or investment statement or product disclosure statement under New Zealand law and does not constitute an offer of securities to the public for the purposes of the Securities Act 1978 or a regulated offer under the Financial Markets Conduct Act 2013. It should not be copied or distributed to any other person in New Zealand. In Australia and New Zealand, for wholesale client use only.

In Australia, Janus Capital Management LLC, INTECH Investment Management LLC and Perkins Investment Management LLC are permitted to conduct financial services pursuant to an exemption from the need to hold an Australian financial services licence under the Australian Corporations Act 2001. Janus INTECH and Perkins are regulated by the Securities Exchange Commission of the U.S. under U.S. laws, which differ from Australian laws.

Note to China (PRC) Readers: Janus is not licensed, authorised or registered with the China Securities Regulatory Commission for investment management business or otherwise approved by any PRC regulatory authorities to provide investment management services in the PRC. This material has not been reviewed by or filed with any PRC regulatory bodies and the use of this material shall be limited to the extent permitted by applicable laws, regulations and relevant requirements. Nothing in this material shall be deemed or construed as providing investment management services by Janus in the PRC, nor shall it be will viewed as investment advice in relation to PRC capital markets, securities and mutual funds, which may require Janus to obtain or be subject to any approval, licensing, filing, registration, or other qualification requirements of the relevant Chinese regulatory authorities. This material is being provided on a confidential basis solely for the information of those persons to whom it is given.

Note to South Korea Readers: Issued by Janus Capital International Limited, authorised and regulated by the U.K. Financial Conduct Authority. In South Korea, only available to Qualified Professional Investors.

Note to Europe Readers: Issued in: (a) Europe by Janus Capital International Limited ("JCIL"), authorised and regulated in the U.K. by the Financial Conduct Authority and; (b) Dubai by JCIL authorised and regulated by the Dubai Financial Services Authority as a Representative Office.

Note to Middle East Readers: JCIL is regulated by the Dubai Financial Services Authority as a Representative Office. JCIL is authorised and regulated by the U.K. Financial Conduct Authority. The contents of this presentation have not been approved by, licensed or registered with the Central Bank of Bahrain the Regulatory Authority of Botswana, Qatar Central Bank Saudi Arabian Capital Market Authority, UAE Central Bank, the Securities and Commodities Authority, the Kuwaiti Capital Markets Authority or any other relevant licensing authorities or governmental agencies in the Middle East. This presentation does not constitute a public offer of securities in the Sultanate of Oman as contemplated by the Commercial Companies Law of Oman Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98) or under Kazakhstani law. No transactions will be concluded in the Middle East and any enquiries should be made to JCIL.

Note to Africa Readers: JCIL is not authorised in South Africa for marketing. The contents of this presentation have not been approved by, licensed or registered with the Regulatory Authority of Botswana.

Note to Colombia Readers: JCIL's products and/or services may not be promoted or marketed in Colombia or to Colombian residents unless such promotion and marketing is made in compliance with Decree 2555 of 2010 and other applicable rules and regulations related to the promotion of foreign financial and/or securities-related products and/or services in Colombia or to Colombian residents. Neither JCIL nor any related person or entity has received authorisation or licensing from the Financial Superintendence of Colombia or any other governmental authority in Colombia to market or sell its products and/or services within Colombia or to Colombian residents.

Los productos y/o servicios de JCIL no podrán ser ofrecidos ni promocionados en Colombia o a residentes Colombianos a menos que dicha oferta y promoción se lleve a cabo en cumplimiento del Decreto 2555 de 2010 y las otras reglas y regulaciones aplicables en materia de promoción de productos y/o servicios financieros y /o del mercado de valores en Colombia o a residentes colombianos. Ni JCIL ni ninguna persona o entidad relacionada han recibido autorización o licencia por parte de la Superintendencia Financiera de Colombia o cualquier otra autoridad en Colombia para ofrecer o vender sus productos y/o servicios en Colombia o a residentes colombianos.

Note to Canada Readers: In Canada, Janus Capital Institutional products and services are offered through Janus Capital Management LLC which is registered as an adviser in the category of portfolio manager and as a dealer in the category of exempt market dealer in each of the provinces of Alberta, British Columbia, Manitoba, Ontario and Quebec. In these provinces, these services are offered only to "Accredited Investors" as defined in National Instrument 45-106 and "Permitted Clients" as that term is defined in National Instrument 31-103.

Janus Capital Management LLC serves as investment adviser. Janus, INTECH and Perkins are registered trademarks of Janus International Holding LLC.© Janus International Holding LLC. For more information or to locate your country's Janus representative contact information, please visit www.janus.com.

Outside of U.S.: For institutional/ sophisticated investors / qualified distributors use only. Not for public viewing or distribution.