The Power of Words

Tactical Positioning – July 2019

Just in time for the end of the first half of the year, stock markets have moved higher again. This has been one of the best semesters in stock market history. However, as the economic outlook for the rest of the year has deteriorated, we are realising some of the profits and reduce equity risk in the portfolios.

Jerome Powell and Mario Draghi have done it again. Merely by their words, the heads of the US and European central banks have prompted stock markets to set new records. The S&P 500 Index in the US is scratching at the 3,000 point mark, and the Swiss SMI has temporarily crossed the 10,000 point threshold. Since the beginning of the year, several equity indices have posted double-digit growth.

However, the recent surge was not triggered by better earnings prospects, but above all by the rate cuts suggested by the Fed and the ECB. In the US, in particular, the expectations of market participants are clear. Interest rate futures are signalling a first rate cut for the Fed's next monetary policy meeting on 31 July. According to this, a second rate cut should follow in the fourth quarter at the latest. As a result, yields have fallen again significantly in recent weeks as the prices of bonds have risen.

We too consider US interest rate cuts likely this year, but we believe that the bond and stock markets have already largely priced them in. This limits the potential for further gains, in our view. Thus, and given the backdrop of a cyclical outlook which is deteriorating further, we have decided to realise some of the gains made in equities. We are therefore continuing the course we have set to reduce the risks in the portfolio step by step.

Dr. Felix Brill
Chief Investment Officer VP Bank Gruppe

Underweight Bonds

At current interest rate levels, the income from many fixed income investments does not compensate for the risk taken. That's why we reiterate our preference for shorter durations and an underweight in government bonds.

Underweight Equities

After a strong first half of the year, we think the environment for equities will be challenging for the remainder of the year. That's why we decided to take some of the profits and reduce equity risk in the portfolios.

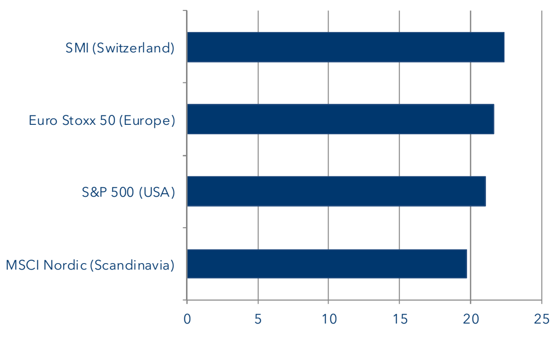
Gold and ILS for diversification

Our overweight in gold has proven its wisdom. In addition, we use insurance-linked securities (ILS) as an additional hedge in the portfolio.

Hedged Currencies

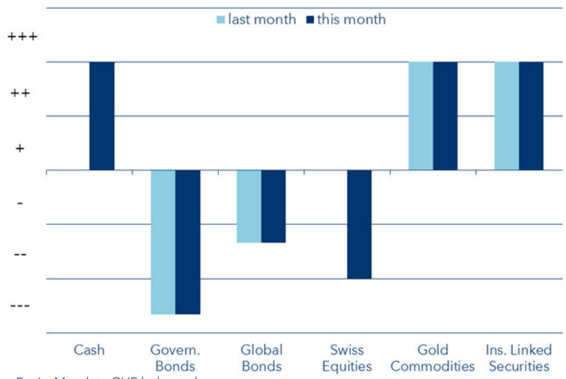
Due to risk considerations, currencies of the industrial countries are strategically hedged. The USD is partially unhedged in EUR and CHF mandates

Strong Performance since the beginning of the year



Total Return in %

Tactical Allocation



Basis: Mandate CHF balanced

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