

# Tactical positioning

November 2018 - market commentary

## No all-clear signal yet

**The market environment continues to be challenging. After the sell-off in October and the rebound early November, market turbulence recurred in recent days. Against this backdrop, we reaffirm our cautious stance and continue to recommend underweighting equities in particular.**

For months US equities have known only one direction: even as more and more stock markets around the world ran out of steam, US stocks continued to perform well. That was until growing interest rate concerns proved once again that the laws of gravity also apply to Wall Street. At our Investment Committee meeting on 9 October 2018, we resolved to trim the US equity quota and in turn build up exposure to USD-denominated emerging market bonds – a wise decision from a risk standpoint, as recent weeks have shown.

As positive as the early-November rebound was in terms of performance improvement, the past several days have shown that equity markets are still vulnerable to further corrections. For instance, the S&P 500 shed almost 2% of its value on November 12 alone.

Considering the fact that macroeconomic indicators have deteriorated in recent weeks and analysts appear to be recalibrating their estimates of corporate earnings growth as a result, the market environment is likely to remain challenging for the time being. In this respect, we are also concerned that many investors and analysts are taking a more skeptical view of the US dollar's recent strength.

Moreover, the development of the US dollar remains an important factor from an overall portfolio perspective. We continue to recommend that USD be only partially hedged versus CHF and EUR.



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## Asset Allocation

- Underweight in equities
- Underweight in bonds
- Overweight in alternative investments

## Bonds

- Underweight in government bonds
- Underweight in global bonds
- Overweight in emerging market bonds

Duration is being kept below benchmark in all reference currencies. We are underweight in government bonds and global bonds and neutrally weighted in corporate bonds. Following our latest reallocation we are now overweight in USD-denominated emerging market bonds. Inflation-linked bonds are held as a supplementary position.

## Equities

- Underweight in equities

We confirm our underweight in US equities.

## Alternative investments

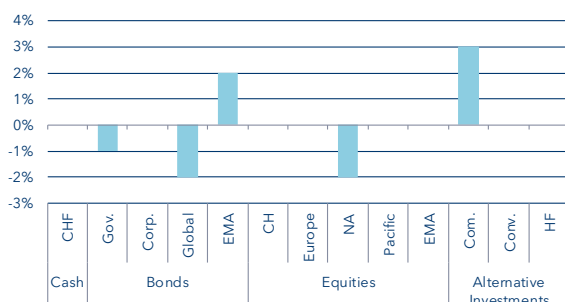
- Overweight in commodities (gold)
- Neutrally weighted in convertible bonds and hedge funds

Gold is attractive as a portfolio diversifier in the current market environment.

## Currencies

Due to risk considerations, we remain strategically hedged in developed country currencies, while the USD is partly unhedged in EUR- and CHF-based portfolios.

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