Tactical Positioning

April 2018 – market commentary

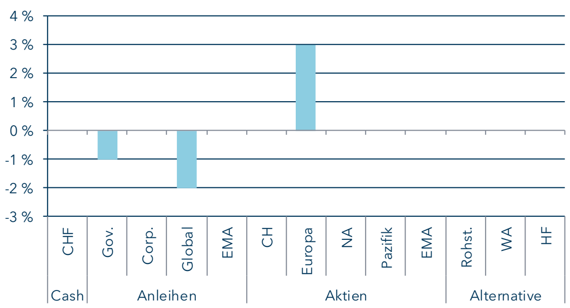
Consolidation continues

The sideways, albeit volatile movements in the equity markets persist, whereas the losses recorded since the beginning of the year have remained modest until now. We raised the European equity quota in February and reaffirm our current positioning, with bonds clearly underweighted.

We are not of the opinion that the current consolidation represents a long-term reversal but is instead a long-overdue correction. The following reasons underpin our scenario: Despite a moderate retreat in the leading indicators, we expect to see sustained global growth. Although the markets are enjoying less support from the central banks than was the case in recent years, the monetary policymakers are continuing their measured approach to draining liquidity from the system, so growth and profit expectations should remain stable at least for now. We do not expect the economy to slide into recession, nor do we currently believe that the discussions surrounding US punitive tariffs will ultimately lead to an abrupt downturn in global growth. As to the European equity markets, we reckon that corporate profits will increase at an 8% year-on-year pace. Although this figure is slightly lower than what we were predicting at the beginning of the year, it is only a tad short of the historical average. We expect to see increased growth momentum in the emerging markets as well as in North America. In addition to the robust profit growth in Europe, dividend payments on this side of the Atlantic remain an additional supporting factor. Compared to bonds, European equities are attractive with their dividend yields of more than 3%. The recent consolidation in the equity markets also means that the valuation situation has improved to a certain degree.

Conclusion: We are maintaining our overweight of European equities.

Tactical positioning



Christoph Boner
Head of Investment Management

Asset allocation

- Overweighted in equities; underweighted in bonds
- Neutral in alternative investments

Bonds

- Government bonds are underweighted
- Global bonds are underweighted

Duration is being kept below benchmark in all reference currencies. We are underweighted in government bonds and global bonds and neutrally weighted in emerging market and corporate bonds. Inflation-linked bonds are being held as an additive.

Equities

- European equities are overweighted

We continue to have a favourable view of the economic environment and consider the current consolidation not as a long-term turnaround but rather as an overdue correction. The relatively cheaper valuation of European equities compared to the USA is the rationale behind our tactical positioning.

Alternative investments

- Neutral in commodities
- Neutral in convertible bonds and hedge funds

Currencies

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

Important legal notices