

Tactical positioning

December 2018 - market commentary

Animal spirits

The past few weeks have once again demonstrated the great influence psychology exerts on financial markets. Just a tweet from Donald Trump could shift the mood from exaltation to despair. In this difficult environment, our underweight in equities has proven its validity in the portfolio from a tactical point of view.

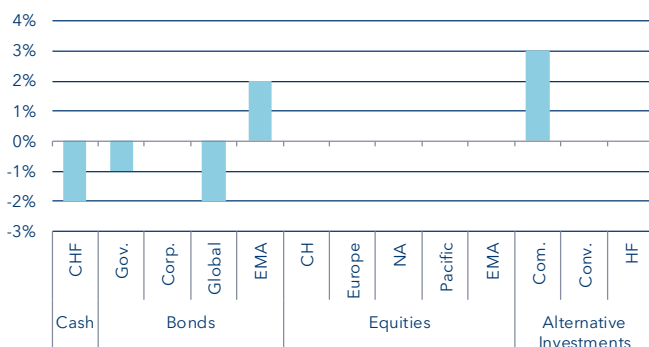
Although the year has not yet come to an end, the window for the much-anticipated "end-of-year rally" is slowly but surely closing. We weren't betting on it anyway. We decided to underweight equities in the portfolio in early October and since then stock markets around the world have significantly corrected.

In our view, the environment is likely to remain challenging beyond the turn of the year, and to remain vulnerable to mood swings. At the same time, we note, some positive signs can also be discerned. For example, on the economic front, business sentiment in the US manufacturing sector improved in November. This reinforces our assessment that while we are currently seeing an economic slowdown, the risk of a recession remains low.

Add to this the hope of a reasonable reconciliation of the trade dispute between the US and China - in defiance of earlier expectations. Although the signals of detente can quickly vanish, the recent positive market reactions to continued talks between the US and China reveal two things: First, the political will exists on both sides to find a solution; and second, financial markets are not completely closing their eyes to good news.

Against this backdrop, we have decided to close our equities underweight.

Tactical positioning



Dr. Felix Brill
CIO VP Bank Group

Asset Allocation

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

Bonds

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

In all reference currencies, our duration remains below the respective benchmark level. We are underweight government bonds and global bonds, while neutral on corporate bonds. We have added inflation-protected bonds.

Equities

- Neutral weighting for equities
- We close the underweight in US equities.

Alternative investments

- Overweight in commodities (gold)
- Neutral in convertibles and hedge funds

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

Currencies

Due to risk considerations, the currencies of the industrial economies remain strategically hedged. The US dollar is partially unhedged in EUR and CHF mandates.

Important legal notices

This document has been produced by VP Bank Ltd (hereinafter referred to as the "Bank") and distributed by the companies of VP Bank Group. This document does not constitute an offer or invitation to buy or sell financial instruments. The recommendations, estimates and statements contained herein reflect the personal opinion of the relevant analysts of VP Bank Ltd on the date stated in the document and can be changed at any time without prior notification. The document is based on information which is believed to be reliable. This document and the estimates and assessments provided herein are prepared with the greatest care, but their correctness, completeness and accuracy cannot be assured or guaranteed. In particular, the information in this document may not include all relevant information regarding the financial instruments addressed herein or their issuers.

Further information on the risks associated with the financial instruments covered in this document, the proprietary trading of VP Bank Group, the handling of conflicts of interest in relation to these financial instruments and the distribution of this document can be found at https://www.vpbank.com/legal_notes_en.pdf