

Tactical positioning

July 2018 - market commentary

Emerging markets in focus - purchase of gold as hedge against geopolitical risks

The effects of Fed's more restrictive monetary policy are being felt most of all in the emerging markets. We are maintaining our neutral positioning in equities and remain underweighted in bonds. The alternative investments quota has been increased via the purchase of gold.

Turkey and China are examples of where the US central bank's more restrictive monetary policy is having a negative impact. The Turkish lira is in a downtrend, which in turn makes the country's USD-denominated debt more burdensome and thereby impairs the creditworthiness of Turkey as a borrower. But also in China, share prices as well as the currency are on the decline. Both of the latter trends likely have to do with the Fed's tightening and the trade dispute, but they also reflect other problems that the world's second-largest economy is facing. And in any case the escalating conflict between America and its trade partners (e.g. Europe and China) will become an increasing burden for the global equity markets. So the risks have increased, and the uncertainties are showing up especially in the EMs but also in Europe, as evidenced by the share price action of late. In relative terms, some regions in Europe as well as the emerging markets appear attractively valued. However, this valuation discount is due to individual risks or weaker growth. As an additional hedge against these geopolitical risks, we are purchasing gold. We believe gold could benefit from these uncertainties, even as it helps to reduce risk.

Summary: Political risks continue to determine current market developments. Equities remain neutrally weighted, with bonds still underweighted. The alternative investments quota is being increased through added purchases of gold.



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Asset Allocation

- Neutral in equities; underweighted in bonds
- Overweighted 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

- Equities neutral

We are particularly concerned about the weakening of the leading indicators and the widening of credit spreads. There are no signs yet of an easing of the trade conflict with the US.

Alternative investments

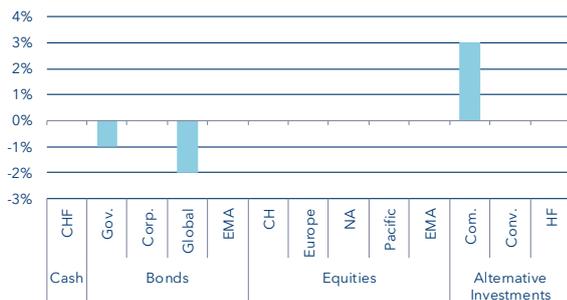
- Overweighted in commodities (gold)
- Neutral in convertible bonds and hedge funds

We take a favourable view of the current price levels. The geopolitical risks should benefit the future development of the gold price.

Currencies

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

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