Tactical positioning

September 2018 – market commentary

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Challenging market environment

The US economy continues to perform dynamically. The main drivers are exports, personal consumption and business investment. The signs are that GDP will continue to grow robustly in the second half of this year, though the Q2 result is unlikely to be bettered; the jump in net exports was an exceptional development attributable to new tariffs.

Looking ahead, higher key interest rates, ongoing trade disputes and weaker fiscal stimulus are likely to result in a somewhat slower rate of expansion.

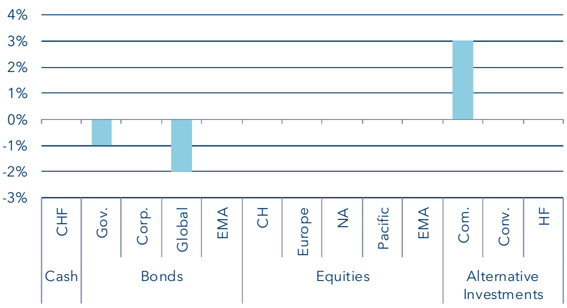
The equity markets still present a split picture. The US market is riding high, having gained almost 8% since the start of this year, whereas the emerging markets have lost around 20% of their value. Turkey and Argentina are in investors' gunsights because of their high foreign debt, and we regard the situation in Turkey as especially critical.

The buoyant US economy has enabled the Fed to hike interest rates substantially since the start of the year, whereas the European Central Bank has said it will keep its key rates unchanged at least until the end of summer 2019. While the interest rate outlook in the US is upwards, the scope for rate changes in the eurozone and Switzerland is therefore limited. Thus the yield gap between European and US bonds has widened further. However, recent wage agreements in the eurozone indicate that pay rates are on an uptrend, with resultant upward pressure on inflation.

Outlook

Various divergences, narrow market leadership and the very one-sided positioning of many investors give us cause for some concern. Ongoing trade disputes and uncertainties in some developing economies have possibly not been fully discounted by the markets. Our current positioning therefore reflects a basically defensive approach. We are keeping a close eye on market developments and are ready to adopt greater exposures as soon as we see opportunities with attractive risk/reward characteristics.

Tactical positioning



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

The tightening of US monetary policy increases the pressure on the emerging markets. The trade conflict with the US threatens to escalate.

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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