Brinkmanship

Tactical Positioning – May 2019

The trade conflict between the US and China has reached the next level of escalation and put the financial markets under pressure. No solution is expected until the G20 summit in late June. In this uncertain environment, we continue to recommend mixing diversifying elements such as gold into the portfolio.

Despite ongoing negotiations between the two countries, the punitive tariffs imposed by the US on Chinese imports have come into effect. In response, the Chinese side did not hesitate to announce the introduction of additional tariffs on American imports, starting June 1. From a tactical point of view, neither side wants to give the impression of weakness.

Over the course of the year, financial markets had increasingly persuaded themselves that the trade talks between the disputants would be a success. Thus, the markets' reaction to the latest round of tariff increases has been accordingly strong. In recent days, equities, in particular, have erased some of the gains they had made since the beginning of the year.

What is clear now is that this trade war poses an additional challenge to a global economy that already could hardly boast of its strength. However, there have also been some positive economic signals recently. Industrial production in China, for one, has increased significantly, and the flow of bank loans that are so important to the Chinese economy has increased markedly lately. All this makes us confident, at least for the time being, that the global economy is strong enough to cope with the current Sino-American trade quarrel.

What is unclear, however, is how long this escalating trade conflict will affect sentiment in the financial markets. We expect the uncertainties to prevail at least until the G20 summit, in late June, when the presidents of China and the US evidently want to hold talks. In the meantime, it is important to protect the portfolio against any negative surprises. We continue to recommend overweighting gold. At the same time, we are sticking to our recommendation for emerging market equities, as we continue to believe in their recovery potential in the medium term.

Dr. Felix Brill

Chief Investment Officer VP Bank Group

Hedged Currencies

Due to risk considerations, the currencies of the industrialised economies are strategically hedged. In EUR and CHF mandates, the USD is partially unhedged.

Underweight Bonds

The lower quota for government bonds as well global bonds reflects their unattractive risk-return profile. By contrast, we continue to be neutrally weighted in corporate bonds.

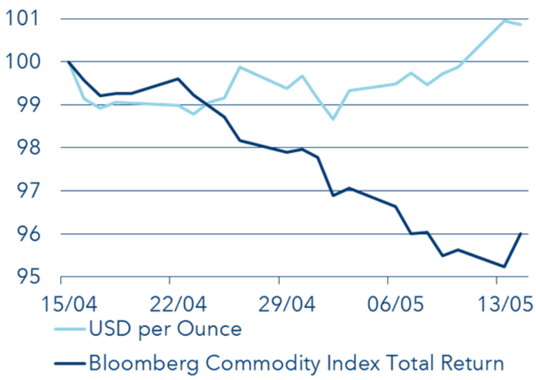
Overweight Equities

We think the losses due to the US-China trade conflict are now largely priced in. A solution to the conflict is still the realistic scenario. Emerging market equities retain their upside potential, in our view.

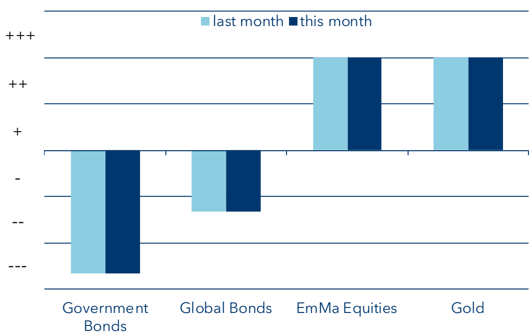
Gold as a hedge

The overweight in gold as a hedge has proven itself, and we retain it.

Gold as a stabilising factor in the Portfolio



Tactical Allocation



Based on: Mandate CHF balanced

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