

Reducing Risk

Tactical Positioning - June 2019

The global economy is still growing, but so too are concerns about a looming recession. Against this backdrop, we have decided to close the portfolio overweight in emerging market equities and introduce Insurance-Linked Securities (ILS) as an additional diversification element alongside gold.

Weak economic data and worries about the negative effects of various trade conflicts have roused the US Federal Reserve. If the outlook continues to darken, so the Fed is signalling, it stands ready to support the economy through interest rate cuts. The stock markets gratefully accepted this statement of intent and subsequently recovered most losses incurred in May. Derived from interest rate futures, the markets are now expecting two rate cuts from the Fed later this year.

This is creating a paradoxical situation. With poor economic data being received positively by market participants, because it makes an intervention by the Fed all the more likely. This may provide some short-term support for the stock markets, but the question arises whether too much has been read into the Fed's statement. Here, in our view, lies a potential for disappointment if the Fed does not follow through on its words with deeds.

In any case, leading economic indicators have faded over the past few weeks on a broad front, auguring a noticeable slowdown in the economy. In our view, this environment is a rich breeding ground for further recession worries. Combined with the unresolved trade disputes, we therefore consider it advisable, on the one hand, to reduce equity risk in the portfolio and to hedge the portfolio even more broadly with the addition of insurance-linked securities (ILS).



Dr. Felix Brill

Chief Investment Officer VP Bank Gruppe

Underweight Bonds

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

Equities reduced to neutral

Against the backdrop of seemingly never-ending trade conflicts and increased recession risks, we have reduced our equity position to the strategic level.

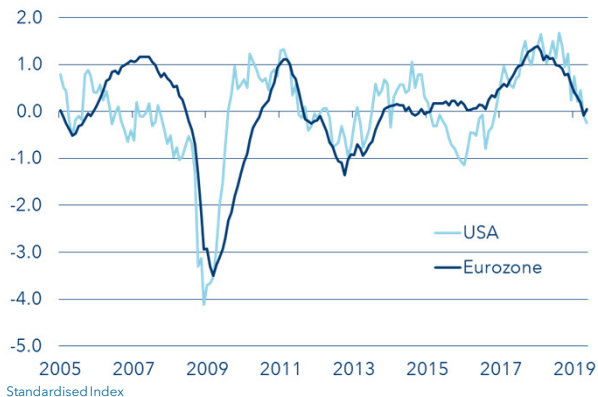
Gold and ILS for diversification

Our overweight on gold has been validated. We now add Insurance-Linked Securities (ILS) with an additional hedging function for the portfolio.

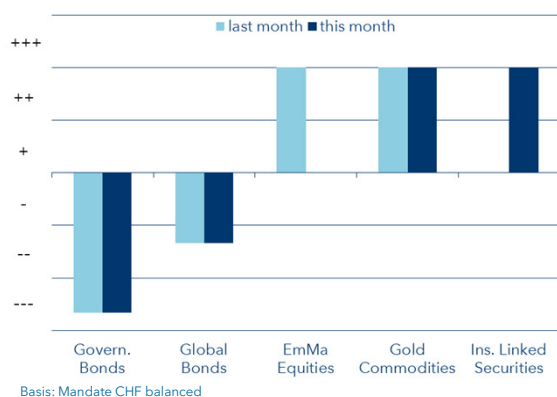
Hedged Currencies

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

Economic sentiment deteriorates further



Tactical Allocation



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_Notice_en