

End of ultra-easy monetary policy

Statements by the European Central Bank have heralded the end of ultra-expansionary monetary policy in the eurozone. European bond yields have moved up, equity markets have sagged and the euro has been boosted on the forex markets. Thus our underweight position in bonds has paid off. We are sticking to our overweight position in equities.

The ECB's comments have triggered a significant rise in bond yields. Yields on 10-year Bunds have climbed by more than 30 basis points since the end of June, and the yield gap between European and US bonds has contracted. The ECB is not alone in proclaiming the end of the ultra-accommodative era. The US Fed and the Bank of England have also indicated that further interest rate hikes are in the pipeline. Our assessment and tactical response are as follows:

The rise in bond yields will continue, prompting us to maintain our underweight bond position. Despite rising yields, however, we believe that the economic recovery will remain intact. We therefore continue to overweight equities. US macro data have recently improved slightly, and we believe that this trend will continue in the weeks ahead. The dollar should profit from this. We are sticking to our present currency positioning.



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Head Investment
Management

Asset allocation

- Equities overweight; bonds underweight
- Alternative investments neutral

Bonds

- Government bonds underweight
- Global bonds underweight

Duration is being kept below benchmark in all reference currencies.

We are underweight in government bonds and global bonds and neutrally weighted in corporate bonds. We hold a position in inflation-linked bonds.

Equities

- Eurozone equities overweight

In our view, the positive drivers predominate. Robust macro data and positive earnings revisions indicate further upside potential for equities. We are therefore overweighting the eurozone.

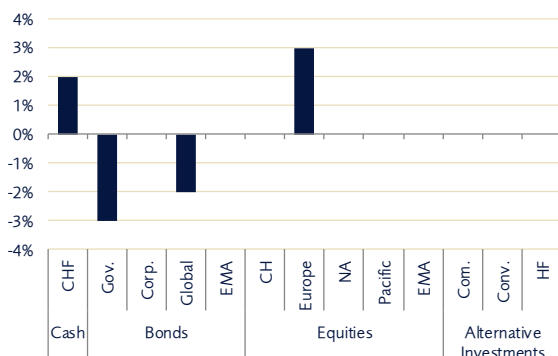
Alternative investments

- Commodities neutral
- Convertible bonds and hedge funds neutral

Currencies

We remain strategically hedged in developed country currencies in order to minimise risk. The USD is partly unhedged in EUR-based portfolios.

Tactical positioning



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