

Tactical positioning

December 2017 - market comment

Equities neutral - bonds underweight

The macroeconomic framework remains positive. Therefore, we expect interest rates to rise. Although we still maintain a positive outlook for the equity markets we have become more cautious due to the elevated valuation level. We are weighting equities at neutral and remain underweight in bonds.

Leading indicators continue to point to a sustained global economic upswing. Even so, we are now more cautious about equities than in recent months and have reduced our overweight position to neutral.

We believe there will be less room in 2018 for corporate earnings to produce positive surprises. Moreover, equity valuations have reached levels that are above the long-term historical average, especially in the US market. While currently low interest rates and the planned tax overhaul in the USA provide support, we expect a moderate backup of interest rates in 2018, with wage pressures in the USA and Europe likely to cause a further moderate increase in inflation expectations. In this environment we believe that the ECB will continue to gradually exit from its ultra-expansionary stance and that the Fed will stick to its policy of moderate rate hikes.

Conclusion: In our view, the environment is still supportive for the equity markets, but after our clearly overweight position in 2017 we are neutrally positioned at the start of 2018. We expect moderately rising yields in the bond markets and remain underweight in this asset class.



Christoph Boner
Head of Investment Management

Asset allocation

- Equities neutral; 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

- Equities neutral

A historically high valuation level, especially in the United States, and lower expectations for corporate earnings in Europe have prompted us to adopt a more defensive positioning.

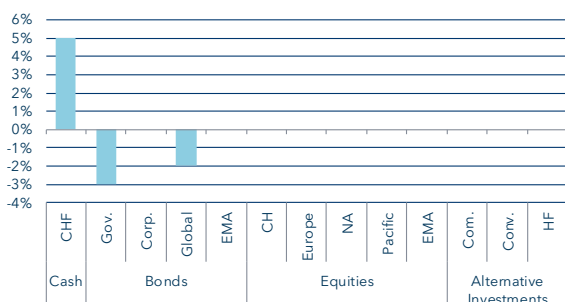
Alternative investments

- 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.

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