

Tactical positioning

March 2018 - market commentary

USA weighs import tariffs

Donald Trump's intention to impose punitive tariffs on steel and aluminium imports has led to renewed jitters in the equity markets.

Whilst the direct consequences of this move are rather straightforward, there is growing concern that America's trading partners will react by levying their own punitive tariffs, which in turn could trigger a global trade war. Currently, we do not expect to see such a scenario evolve. We are therefore reconfirming our positioning, i.e. we remain overweighted in the European equity markets and are still underweighting bonds. USD is partly unhedged in EUR- and CHF-based mandates.

The equity markets have had to cope with bad news ever since the new year got under way. The initial decline in share prices was sparked by fears of higher interest rates and inflation, but Donald Trump's import tariffs and the possibility of countermeasures by other countries have become the new worry. However, we do not consider the recent downside action to be indicative of a long-term trend reversal. Despite a minor slip in the leading indicators, the economic environment is still robust and the dynamics of the global economy remain intact. The buoyant underpinnings of the European stock markets can be expected to endure, whereas the yield differential should favour USD against the EUR. We reckon that bond yields will continue their moderate rise, thus we remain underweight in this area. The financial markets are now pricing-in additional US rate hikes for 2019 and 2020 are now being priced into the financial markets. While the interest rate outlook maintains its upward bias in the USA, the potential for hikes in the eurozone and Switzerland is limited due to the lethargic pace of inflation on the Continent.



Christoph Boner
Head of Investment Management

Asset allocation

- Overweight in equities; underweight in bonds
- Neutral in alternative investments

Bonds

- Government bonds are underweighted
- Global bonds are underweighted

Duration is being kept below benchmark in all reference currencies. We are underweight 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

- European equities are overweighted

Rising US interest rate expectations plus the announcement of US punitive tariffs on steel and aluminium have led to a rather sizeable correction in the European equity markets. We continue to take a positive view of the economic environment and do not believe that the current setback represents the start of a long-term trend reversal; rather, it is a healthy and quite overdue correction. Arguing in favour of European shares are their relatively cheap valuations compared to those that prevail in the USA.

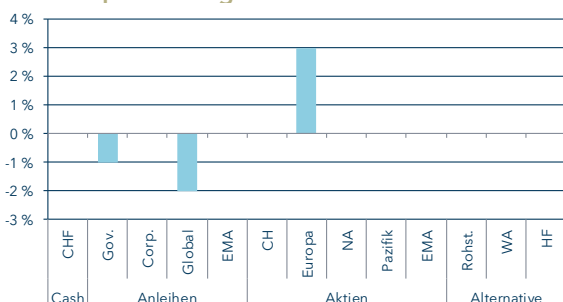
Alternative investments

- Neutral in commodities
- Neutral in convertible bonds and hedge funds

Currencies

Out of risk considerations, we remain strategically hedged in the developed country currencies, whereas USD is partly unhedged in EUR- and CHF-based mandates.

Tactical positioning



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_notes.en