

Tactical positioning

October 2017 - market comment

European equity markets recover - Equity allocation reduced to neutral

European equity markets chalked up significant advances in September on the back of a weaker euro and good macroeconomic data. We are using the markets' current level as an opportunity for profit taking and are reducing our overweight position in Europe to neutral. Bonds remain underweight.

The MSCI World Index has climbed by almost 17% since the start of this year. European equities performed significantly better than the global index in September, driven by continuing upbeat macroeconomic data in Europe and a slight weakening of the euro. We see the European markets' present level as an opportunity to take profits and are lowering our European allocation from overweight to neutral. We believe that the euro's appreciation in recent months will erode exporters' competitiveness, and this is already reflected in forecasts for European corporate earnings in 2018.

In the USA we expect the Fed to raise interest rates in December. The prospect of monetary tightening is overshadowed at present by planned US tax reforms and their positive implications for corporate earnings. If the Trump administration fails to deliver the planned tax cuts, there is potential for disappointment.

The reduction of the equity allocation reflects our view that the danger of market corrections has increased. Last month's gains, combined with a slight deterioration in the positive market environment, have prompted us to adopt a more defensive positioning.



Christoph Boner

Head of Group 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

An 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.

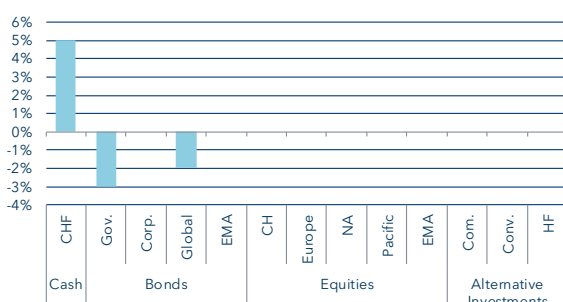
Alternative investments

- 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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