

# Tactical positioning

January 2018 - market commentary

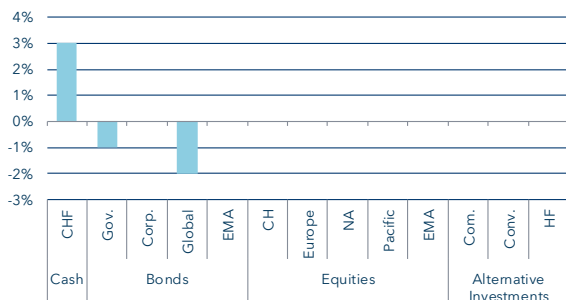
## Neutral in equities - underweight in bonds

The equity markets started the year in an extremely positive fashion. Interest rates are still low. We remain constructive for the equity markets, but have become more cautious, primarily in light of the valuation level. We have a neutral equity weighting, while we remain underweight in bonds. Within the bonds space, we are increasing the share of emerging markets in favour of government and corporate bonds.

The greatest support for the equity market continues to come from monetary policy. Despite a globally synchronised upturn, bond yields have so far remained low. For the rest of the year, we anticipate rising inflation and thus also a slightly more restrictive monetary policy. In particular, wage pressure in the US and Europe is likely to lead to a rise in inflation expectations. We believe the ECB's gradual exit from its expansive monetary policy and the rate hikes of the the US Federal Reserve, which remain moderate in scale, will continue. In the US, however, we are already observing a valuation level that lies above the long-term historic average. Rising interests rates represent price risks for bond investors and also pose the potential for setbacks on the equity markets. Following a positive 2017 stock market year, we view the scope for future price gains as limited, not least because the positioning of market participants is extremely uniform and there appears to be limited room for positive surprises.

Conclusion: The supportive environment for the equity markets is likely to persist. Nevertheless, we are maintaining a neutral positioning for the start of 2018, following a considerable overweight position in the previous year. For bonds, we expect moderately increasing interest rates and remain underweight.

## Tactical positioning



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### 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 emerging market and corporate bonds. We hold a position in inflation-linked bonds.

### Equities

- Equities neutral

Despite a synchronised upturn, bond yields have so far remained low. For the rest of the year, however, we anticipate rising inflation and thus also a slightly more restrictive monetary policy. Rising interest rates combined with a high valuation level, especially in the US, mean there is an increased potential for setbacks on the equity markets. We therefore favour a neutral 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 and CHF based portfolios.

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