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Investment Report

March 2019

Strategy overview

Political turbulence such as the Brexit talks, the trade conflict between the United States and China, the debate on import duties on cars from the EU region as well as the collapse of the Trump-Kim summit are currently having no impact whatsoever on international marketplaces. Quite the contrary, in fact. Europe's most important stockmarkets as well as the USA gained between 3% - 5% in value in February. The Swiss Performance Index (SPI), see following chart, even hit a record high at the end of February.

"Political turmoil has not impacted international markets – SPI posts record high."

Swiss Performance Index (SPI) 1999 - 2019

Since the start of the year, see Market Overview, the most important Old World stockmarkets as well as the USA have posted stonking double-digit gains. The big question now is how sustainable the recent recovery actually is, not least against the backdrop of the slowing momentum of the global economy. In our view, the fact that the gains are broad-based across all sectors is a positive sign - in contrast to last year's upwards movements. Senti-

"How sustainable is the recent recovery?"

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ment indicators have shifted noticeably upwards. According to surveys undertaken by the American Association of Individual Investors (AAII), the proportion of “bulls” has almost doubled since December 2018, while the share of “bears” has halved. The potential for disappointments has risen, at least in the short term, and from a technical perspective a consolidation at the current level would be desirable.

At the portfolio level, we divested our oil exposure in February, which gained over 30% in value since the start of the year. The transaction had a neutral impact on asset ratios, because we invested the released liquidity in existing active and passive investment funds that focus on Europe. As a consequence, we are sticking to our neutral weighting of the equity ratio.

“Sale of our position in the oil sector, which has gained over 30% in value since the start of the year.”

Politics

There are still 20 months to the 59th presidential election on 3 November 2020 in the United States. 12 Democratic candidates have already announced their intention of standing against President Trump, whereby a further dozen are currently considering whether to throw their names into the ring. The first debates are planned for June 2019. At present the former US Vice President Joe Biden as well as the Democratic shooting star Beto O’Rourke are thought to have good chances. In our view, however, it is still much too soon to make any predictions, as experience has shown that a great deal can happen between now and the primaries.

“The US presidential election in 2020 in the USA is already casting its shadow.”

There has been good news from the trade conflict front. This is due to the promising negotiations on a possible trade agreement. President Trump and his counterpart Xi Jinping could meet in March, according to business advisor Larry Kudlow, to sign a “historic deal”.

“Is a solution in sight to the trade conflict?”

In Great Britain there is likely to be a renewed vote on the Brexit agreement on 12 March. If this does not attract sufficient support, a vote will be held the next day on a no-deal Brexit. If this likewise fails to attract a majority, a new vote will be held on the following day on a “short-term” postponement of the withdrawal date of 29 March. In the eyes of many observers, this process is reducing the risk of an uncontrolled Brexit. The so-called “Bremainers” are hoping that Britain's chances of remaining in the EU will increase with every further delay.

“Decisive month for Brexit.”

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The most important topic of the meeting between Trump and Kim in Hanoi is likely to have been a strategy for denuclearising North Korea. Unfortunately, this meeting ended without a declaration of intent or specific resolution. Trump went on record to state that no agreement had been reached in particular on the question of the lifting of sanctions.

"No deal between Trump and Kim."

Economy

Data for the final quarter of 2018 shows that while US economic growth has slowed, the growth rate of 2.6% is still relatively high. Private consumption remained the most important growth driver, increasing 2.8% (Q3: 3.5%). At 6.2%, corporate investment grew much more strongly than in the previous quarter (Q3: 2.5%). In addition to higher investment in plant and equipment (6.7% after having been 3.4% in the previous quarter), investment in intangible assets in particular increased sharply (13.1% after having been 5.6% in the previous quarter). By contrast, investment in residential housing again weighed down on growth (-3.5% after having been -3.6% in the previous quarter). Government expenditure increased 0.4%, following 2.6% in the third quarter. Exports recorded an increase of 1.6%, while import growth once again came in higher at 2.7%. This means foreign trade trimmed 0.2 percentage points off growth. In the third quarter, the negative growth contribution was 2%, the highest it has been since the year 1984. For the year 2018 as a whole, growth was 2.9%, corresponding to the highest figure recorded since 2015.

"The US economy grew 2.9% last year - corresponding to the highest figure since 2015."

The slowdown in growth in the world's largest economy has become a fact. The declining impact of the tax reforms and higher state spending, the global slowdown as well as the 35-day partial government shutdown in December and January are becoming increasingly noticeable. Based on current knowledge, growth in the first quarter of 2019 is likely to be significantly lower at less than 2%. However, continued strong wage and employment growth provide sound economic foundations. We are still anticipating growth moderately in excess of 2% for the year 2019 as a whole.

"Slowdown in growth in the USA has become a fact – we are expecting growth marginally north of 2% in 2019."

Equity markets

Donald Trump triggered a veritable rally on China's stockmarkets at the end of February. The US President used Twitter to announce that he was giving more time for a settlement to be reached in the trade dispute between America and China, and this caused prices on Chinese stock exchanges to jump. The Shanghai Shenzhen CSI 300 Index, for example, gained around 6% in value in a single day.

"Trump boosts Chinese stockmarket."

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China Shanghai Shenzhen CSI 300 Index

In our view, there were a wide variety of reasons for the significant price gains: the loose monetary policy of the government in Beijing as well as the inflow of foreign capital favoured the current situation. However, US President Donald Trump was responsible for the biggest boost. He had announced via Twitter that he would be extending the expiring peace deadline. The US President had originally been planning to raise America's punitive tariffs on Chinese goods on 1 March, if no progress was made in the negotiations.

While there had for a long time been talk of a massive trade deficit, this time Trump spoke about great progress on structural conflict issues such as the protection of intellectual property or the forced transfer of technology. In addition, US Treasury Secretary Steven Mnuchin referred to an agreement on currency issues; he spoke of "one of the strongest currency agreements", but without going into the specifics.

"Apparent agreement on currencies, although without details being revealed."

The coming weeks and months will show what the negotiations actually bring. Essentially, Trump and his trade representative Robert Lighthizer are demanding nothing less than an end to China's industrial policy. In our view, it is illusory to expect a change of policy of this magnitude from Beijing. On the other hand, the Trump Administration needs political successes, ahead of the 2020 election year.

"The Trump Administration needs political successes."

Bond markets

The minutes of the Fed meeting of 29 to 30 January were published at the end of February. These document the more cautious approach being taken by the US Federal Reserve. The majority of the currency watchdogs expressed the view that a pause in the cycle of base rate hikes was expedient. The reasons given were the high level of uncertainty and the deteriorating economic outlook since mid-December. According to the Fed, a patient and flexible approach should provide the time necessary to interpret the newly published data and to assess further developments in economic growth and inflation. Slower non-domestic growth, in particular the economic performance of Europe and China, along with trade policy uncertainties were also mentioned as risks.

"Fed minutes document the cautious approach being taken by the US Federal Reserve."

The Fed's Monetary Policy Committee was unable to agree on the monetary policy course going forward. A large proportion of the discussions at the January meeting addressed the issue of whether the preference for interest rate increases should be maintained. Finally, several Committee members went on record to state that the economy will be strong enough this year to justify at least one further interest rate hike. Other members of the Monetary Policy Committee took the view that further interest rate rises should be considered only if inflation began to pick up. By contrast, the minutes do not feature any discussion of cutting interest rates. On the other hand, there was agreement on the issue of the further reduction in the balance sheet. Most Fed members considered it desirable to shelve the reduction in the balance sheet - that began in autumn 2017 - before the end of this year. A plan on how to proceed is set to be announced as soon as possible.

"No agreement on the monetary policy course going forward."

In our opinion, however, the announcement of a possible end to the Federal Reserve's balance sheet reduction should not be seen as a monetary loosening measure. First and foremost, this is likely to be a technical measure to limit the volatility of money market rates. Furthermore, it is becoming apparent that in March the Fed is likely to revise its expectations of two rate hikes in 2019. The market is not currently expecting any interest rate moves from the Fed this year. Against the backdrop of the numerous political risks, the announced suspension is certainly justified. The various smouldering dangers are unlikely to develop into a major conflagration. At the same time, however, rising inflation could trigger an interest rate hike during the second half of the year.

"Markets are eagerly anticipating the next Fed meeting on 19 and 20 March."

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Commodities

US oil production has risen 14% since last autumn. On the other hand, the total production of OPEC states has fallen by around 2 million barrels, more than offsetting this rise. The price of the WTI oil grade has increased by around 25% since the start of the year, and is showing an upwards trend.

"Oil prices have recovered significantly."

At the end of February, gold was at the lower end of the technical resistance zone of USD 1,300 – 1,350 per ounce. The next few weeks will show whether rising demand for gold as a safe haven will be weighted more heavily by investors than possible profit-taking in the event of a solution to the trade conflict between the United States and China.

"Gold is at the lower end of the technical resistance zone."

Currencies

We stated last month that a deterioration in the European economy would not be advantageous for the euro. We continue to assume that the trading range of around 1.16 to 1.12 that has existed since the autumn of 2018 will remain unchanged for the time being in both the EUR/USD and EUR/CHF currency pairs. For the next 3 – 6 months we are expecting a volatile sideways movement.

"We are not expecting any significant exchange rate shifts in the EUR/USD and EUR/CHF currency pairs over the coming 3 - 6 months."

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Market overview 28 February 2019

Equity indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	9,388.94	4.68	11.38
SPI	10,964.46	4.28	11.54
Euro Stoxx 50	3,298.26	4.42	10.25
Dow Jones	25,916.00	4.03	11.62
S&P 500	2,784.49	3.21	11.48
Nasdaq	7,532.53	3.60	13.74
Nikkei 225	21,385.16	3.02	6.93
MSCI Emerging Countries	1,050.95	0.22	8.99
Commodities			
Gold (USD/fine ounce)	1‘313.32	-0.60	2.40
WTI oil (USD/barrel)	57.22	6.38	26.01
Bond markets			
US Treasury Bonds 10Y (USD)	2.72	0.09	0.03
Swiss Eidgenossen 10Y (CHF)	-0.24	0.01	0.01
German Bundesanleihen 10Y (EUR)	0.18	0.03	-0.06
Currencies			
EUR/CHF	1.13	-0.28	0.84
USD/CHF	1.00	0.40	1.64
EUR/USD	1.14	-0.67	-0.84
GBP/CHF	1.32	1.57	5.71
JPY/CHF	0.90	-1.92	0.00
JPY/USD	0.01	-2.26	-1.59

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