



# LimmatWealth

## Investment Strategy – May 2018

### Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs CHF)		
	GDP 17	GDP 18	CPI 17	CPI 18	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	1.0	2.0	0.5	0.8	10'559	↗	↗	0.05	0.20	0.45	-	-	-
Germany	2.5	2.4	1.7	1.7	12'820	↗	↗	0.53	0.70	1.10	-	-	-
Eurozone	2.5	2.3	1.5	1.5	3'551	↗	↗	-	-	-	1.20	1.18	1.19
United Kingdom	1.7	1.5	2.7	2.7	7'567	↗	↗	1.40	1.60	1.90	1.36	1.37	1.39
United States	2.3	2.8	2.1	2.1	2'663	↗	↗	2.96	2.90	3.20	1.00	0.96	0.93
Japan	1.6	1.3	0.5	0.5	22'467	↗	↗	0.04	0.05	0.10	109	111	112

  

Schwellenländer	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 17	GDP 18	CPI 17	CPI 18	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Brazil	1.0	2.5	3.4	3.4	83'118	↗	↑	9.84	9.80	9.70	3.53	3.35	3.30
Russia	1.5	1.8	3.7	3.7	1'147	↗	↑	4.96	7.30	7.20	62.66	59.00	59.00
India	6.3	6.7	4.5	4.5	35'024	↗	↑	7.63	7.50	7.60	67.10	65.00	65.00
China	6.9	6.5	1.6	1.6	3'135	↗	↑	3.64	3.80	3.60	6.36	6.35	6.40

### Review – Predominantly positive month for equity markets worldwide

Equity indices worldwide performed positively at the beginning of the second quarter. Markets in India (+6.6%), the UK (+6.4%), and Europe (+5.2%) appreciated significantly while Switzerland also performed positively (+3.3%). Markets in Russia (-7.6%) and China (-2.7%, onshore) lagged last month.

Yields on ten-year government bonds increased in April, particularly in emerging markets. Yields increased in India (+0.37% to 7.77%), Brazil (+0.34% to 9.84%), Russia (+0.25% to 4.78%), and the US (+0.21% to 2.95%), while they decreased in China (-0.10% to 3.65%). Yields in Switzerland increased marginally (+0.06% to 0.09%).

Contrary to our expectations, there were large moves in currency markets last month driven by the strengthening US Dollar. Particularly, currencies of emerging markets weakened substantially against the US Dollar in April (Russia -9.9%, Brazil -5.7%, and India -2.1%). The Euro depreciated against the US Dollar as well (-2.0% to USD 1.21). The Swiss Franc weakened against the US Dollar (-3.7% to CHF 0.99) as well as the British Pound (-2.0% to CHF 1.36) and the Euro (-1.8% to CHF 1.20).

Alternative investments had varied performances. Hedge funds ended the month unchanged (+0.1%) while gold decreased slightly (-0.7% to USD 1,315 per ounce). The oil price (WTI) appreciated further to its highest level since the end of November 2014 (+5.6% to USD 68.57 per barrel).

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[Outlook – Reluctant investors despite a strong economy and robust corporate earnings](#)

Equity and bond markets appear deadlocked despite promising corporate earnings and job data. This is reflected by conflicting impulses of a strong economy on one hand and rising interest rates and fears about inflation on the other hand. Lingering concerns over the durability of the global growth story has led many investors to stay on the sidelines at the moment. A lot of investors are unwilling to pour more money into the market nor are they convinced they should bail out just yet. In general, we remain positive on equity markets and we are slightly increasing our equity exposure in balanced and dynamic mandates by buying an equity fund which invests in smaller companies in Japan. There are roughly 3,000 companies in Japan with a market capitalization under USD 1 billion. These companies are not followed by analysts which makes this market segment very inefficient. In addition to this, western investors do not pay attention to these smaller companies and therefore macroeconomic developments do not really impact the stock prices of these companies.

After the latest rate hike by the FED in March this year, market participants expect another hike in June. We expect gradually higher interest rates in developed markets in the mid-term and therefore bond markets should only be marginally impacted.

It is difficult to reliably forecast currency markets but due to the recent moves we expect ongoing volatility in the short-term. The US Dollar will remain in focus due to the interest rate movements and politics in the US.

Managers of hedge funds and other alternative assets and strategies welcome the elevated volatility in all regions and asset classes. We maintain our gold position for diversification reasons.