LimmatWealth

Investment Strategy – April 2018

Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 17	GDP 18	CPI 17	CPI18	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	1.0	2.0	0.5	0.7	10'202	↗	↗	0.05	0.15	0.40	0.96	0.97	0.92
Germany	2.5	2.5	1.7	1.7	11'941	↗	↗	0.51	0.75	1.00	-	-	-
Eurozone	2.5	2.4	1.5	1.5	3'331	↗	↗	-	-	-	1.23	1.22	1.30
United Kingdom	1.7	1.5	2.7	2.7	7'045	↗	↗	1.37	1.60	1.90	1.41	1.40	1.40
United States	2.3	2.8	2.1	2.1	2'605	↗	↗	2.77	2.80	3.00	-	-	-
Japan	1.6	1.3	0.5	0.5	21'159	↗	↗	0.04	0.10	0.10	107	110	110

Emerging Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 17	GDP 18	CPI 17	CPI18	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Brazil	1.0	2.6	3.4	3.4	83'874	↗	↑	9.50	0.00	0.00	3.32	0.00	0.00
Russia	1.5	1.9	3.7	3.7	1'231	↗	↑	4.53	0.00	0.00	57.81	0.00	0.00
India	6.3	6.7	4.5	4.5	32'969	↗	↑	7.40	0.00	0.00	65.18	0.00	0.00
China	6.9	6.5	1.6	1.6	3'170	↗	↑	3.75	4.00	4.00	6.29	6.40	6.40

Review – Equity markets end volatile first quarter with losses

The elevated levels of volatility in equity markets continued in March which led to further losses in global equity indices. Looking at the major markets, only Brazil (0.0%) and Switzerland (-0.7%) were able to hold up okay while the other major markets lost between -2.0% and -3.5%. Markets in India (-3.6%), Japan (-2.8%), Russia (-2.8%), and China (-2.8%, onshore) lagged last month.

Developed Markets	End of 2017	2018 High	Return	End of Q1 2018	Return Since 2018 High	Return YTD
Switzerland	10'752	11'027	2.6%	10'190	-7.6%	-5.2%
Germany	12'918	13'560	5.0%	12'097	-10.8%	-6.4%
Eurozone	3'504	3'672	4.8%	3'362	-8.5%	-4.1%
United Kingdom	7'688	7'779	1.2%	7'057	-9.3%	-8.2%
United States	2'674	2'873	7.5%	2'641	-8.1%	-1.2%
Japan	22'765	24'124	6.0%	21'454	-11.1%	-5.8%

Emerging Markets	End of 2017	2018 High	Return	End of Q1 2018	Return Since 2018 High	Return YTD
Brazil	76'402	87'653	14.7%	85'366	-2.6%	11.7%
Russia	1'154	1'325	14.7%	1'249	-5.7%	8.2%
India	34'057	36'283	6.5%	32'969	-9.1%	-3.2%
China	3'307	3'559	7.6%	3'169	-11.0%	-4.2%

Source: Bloomberg, Limmat Wealth

The table above shows the large swings in equity markets during the first quarter. The quarterly results as a whole were somewhat dampened by the good start to the year.

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The Federal Reserve raised interest rates again by 25 basis points to a range between 1.50% and 1.75% in March. Yields on ten-year government bonds decreased slightly in March, which was positive for bond prices. Yields increased in Russia (+0.21% to 4.53%) and Japan (+0.01% to 0.05%), while they decreased in India (-0.33% to 7.40%), Germany (-0.16% to 0.50%), and the United Kingdom (-0.15% to 1.35%). Yields in Switzerland decreased as well (-0.07% to 0.03%).

Currency markets calmed down in March and therefore the changes were insignificant. The Swiss Franc weakened against the British Pound (-2.8% to CHF 1.34) as well as the Euro (-2.0% to CHF 1.18) and the US Dollar (-1.0% to CHF 0.95). The Euro appreciated slightly against the US Dollar (+0.4% to USD 1.23).

Alternative investments decreased in value as well last month. Hedge funds performed negatively (-1.0%) while gold increased slightly (+0.5% to USD 1,318 per ounce). The oil price (WTI) recovered and is back to where it was in early February (+5.4% to USD 64.94 per barrel).

Outlook – Fundamental data still positive

The trade dispute provoked by the US administration once again led to turbulences at equity markets worldwide. Because it is difficult to gauge if this trade conflict between the US and China will escalate or not, we think markets likely overreacted and therefore we remain positive for equities in the mid-term in developed as well as emerging markets. Corporate profitability is expected to have accelerated again during the first three months of the year offering investors some reason for optimism after a punishing stretch in financial markets and this will hopefully translate to good reported numbers in the upcoming earnings season. US companies are benefitting from the strengthening global economy as well as the recent corporate tax overhaul; experts forecast profit growth of 17% year-over-year in the first quarter 2018. This forecast was revised upwards by 5.4% during the quarter while in most instances quarterly expectations start high and are revised down. We expect emerging markets to outperform their developed counterparts in the short- to mid-term.

After the rate hike by the FED last month, the first this year, market participants expect another two hikes until the end of the year. Currently, the next rate hike is not expected to happen earlier than in June. We expect gradually higher interest rates in developed markets in the mid-term and therefore bond markets should only be marginally impacted.

Currency markets seem to have calmed down and we therefore expect only moderate volatility in the short- to mid-term. The US Dollar will remain in focus due to the interest rate hikes as well as political decisions by the US.

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.

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Limmat Wealth Ltd.