LimmatWealth

Investment Strategy – June 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	2.1	0.5	0.8	10'362	↗	↗	-0.03	0.20	0.60	-	-	-
Germany	2.5	2.3	1.7	1.7	12'753	↗	↗	0.40	0.70	1.10	-	-	-
Eurozone	2.5	2.3	1.5	1.5	3'474	↗	↗	-	-	-	1.15	1.19	1.20
United Kingdom	1.7	1.4	2.7	2.7	7'756	↗	↗	1.29	1.60	1.90	1.32	1.35	1.37
United States	2.3	2.8	2.1	2.1	2'735	↗	↗	2.92	3.10	3.40	0.98	0.98	0.95
Japan	1.6	1.2	0.5	0.5	22'476	↗	↗	0.05	0.10	0.10	111	111	111

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	77'240	↗	↑	11.42	10.50	10.20	3.77	3.50	3.40
Russia	1.5	1.8	3.7	3.7	1'181	↗	↑	4.81	7.20	6.90	61.86	61.00	60.00
India	6.3	6.6	4.5	4.5	35'031	↗	↑	7.89	7.60	7.50	67.08	67.00	66.00
China	6.9	6.5	1.6	1.6	3'091	↗	↑	3.66	3.70	3.60	6.41	6.35	6.40

Review – High volatility in all asset classes due to geopolitical tensions

May was characterized by high volatility in different asset classes in the second half of the month, which were mainly triggered by four different events/regions:

- Argentina: Argentina is on the brink of another debt crisis, the second one this century after the 2001 default. Argentina reached out to the International Monetary Fund (IMF) after its currency got into trouble. The Argentine Peso weakened by 18% against the US Dollar in May alone (year-to-date by -25%) and the central bank could only stabilize it by raising the lead rate to 40%. The Argentine government will now have to implement austerity measures to prevent the country from defaulting once again.

- Italy: Finally, two months after the elections in Eurozone's third largest economy, the two EU-skeptical parties LEGA and Cinque Stelle agreed on a government program.

- Trump: US president Donald Trump reignited trade tensions with the rest of the world in late May. The US imposed tariffs on steel (25%) and aluminum (10%) imported from some of its closest allies (EU, Canada, and Mexico). In addition to this, Trump is thinking about imposing import tariffs of up to 25% on cars, trucks, and car parts.

- Turkey: The Turkish currency represents one of the weakest currencies worldwide for years but in May the pressure on the Turkish Lira increased even more. The currency weakened by 10% against the US Dollar (year-to-date -16%) and this led the Turkish central bank to raise their lead rate to 16.5%.

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Equity indices worldwide performed differently in May. Markets in the US (+2.2%), the UK (+2.2%), and Russia (+0.8%) appreciated while the ones in Switzerland (-3.4%), Europe (-3.7%), and Brazil (-10.9%) lagged last month.

Yields on ten-year government bonds predominantly decreased last month. While yields in India (+0.06% to 7.83%) and Brazil (+1.62% to 11.46%) increased, they fell in the UK (-0.19% to 1.23%) and Germany (-0.22% to 0.34%). Ten-year yields in Switzerland decreased as well and finished the month in negative territory for the first time this year (-0.15% to -0.07%).

Currency markets remained volatile as expected. Geopolitical tensions led to a move into the Swiss Franc as investors were looking for a safe haven. The Swiss Franc appreciated against the British Pound (+4.1% to CHF 1.31), the Euro (+3.8% to CHF 1.15), and the US Dollar (+0.5% to CHF 0.99). The Euro depreciated strongly against the US Dollar due to political uncertainties in Italy (-3.2% to USD 1.17).

Alternative investments had varied performances in May. Hedge funds ended the month slightly positive (+0.3%) while gold (-1.3 % to USD 1,299 per ounce) and oil (WTI, -2.2% to USD 67.04 per barrel) depreciated.

Outlook – Markets are fragile

We remain cautiously optimistic on equity markets in general, however, the movements in May showed that markets are currently fragile. Investors react fast and sometimes irrationally to somewhat irrelevant news and this leads to higher volatility. We view these shorter-term movements (in both directions) as an opportunity to selectively buy and/or sell specific equity positions and we therefore maintain our equity exposure.

Market participants expect another rate hike by the FED in June. This hike is already priced in and should not lead to any negative surprises. We expect gradually higher interest rates in developed markets in the mid-term and therefore bond markets should only be marginally impacted.

We expect ongoing volatility in currency markets in the short-term due to recent geopolitical tensions.

Even though the environment should be beneficial for hedge funds, a lot of them still struggle to perform well. Smart hedge fund selection is essential to generate positive, uncorrelated returns in every environment. We maintain our gold position for diversification reasons.

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Limmat Wealth Ltd.