LimmatWealth

Investment Strategy – November 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	3.0	0.5	1.0	10'663	↗	↑	0.01	0.10	0.30	-	-	-
Germany	2.5	1.9	1.7	1.7	11'485	↗	↑	0.41	0.60	1.00	-	-	-
Eurozone	2.5	2.0	1.5	1.5	3'207	↗	↑	-	-	-	1.14	1.14	1.17
United Kingdom	1.7	1.3	2.7	2.7	7'137	↗	↑	1.48	1.60	1.90	1.30	1.30	1.31
United States	2.3	2.9	2.1	2.1	2'712	↗	↑	3.17	3.20	3.40	1.00	0.98	0.96
Japan	1.6	1.1	0.5	0.5	21'688	↗	↑	0.12	0.10	0.15	112	113	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	1.4	3.4	3.4	87'561	↗	↗	10.21	10.50	11.00	3.69	3.90	3.80
Russia	1.5	1.8	3.7	3.7	1'124	↗	↗	5.05	8.25	8.00	65.68	67.00	66.00
India	6.3	7.5	4.5	4.5	34'432	↗	↗	7.82	8.00	7.90	73.45	73.00	72.00
China	6.9	6.6	1.6	1.6	2'606	↗	↗	3.52	3.50	3.30	6.94	6.90	6.85

Review – One of the worst months since the financial crisis

Equity markets were driven by the very bad investor sentiment last month. Fear of a slowdown in global economic growth spread and equity indices in many places had the worst month since autumn 2011.

Except Brazil (+10.2%), all major equity indices worldwide depreciated significantly in October (Japan -9.1%, China -7.7%, United States -6.9%, Germany -6.5%, Europe -5.9%). Besides Brazil, only Switzerland stayed more or less out of harm's way last month (-1.6%).

Yields on ten-year government bonds globally depreciated slightly last month. While yields in Brazil (-1.55% to 10.21%), India (-0.17% to 7.85%), the UK (-0.14% to 1.44%), and Germany (-0.09% to 0.39%) decreased, they only appreciated slightly in Russia (+0.17% to 5.05%), and the US (+0.08% to 3.14%). Yields in Switzerland depreciated slightly as well and they are now negative again (-0.05% to -0.01%).

Currency markets remained relatively stable despite the turbulent month in equity markets. The Swiss Franc weakened against the US Dollar (-2.6% to CHF 1.01) as well as the British Pound (-0.6% to CHF 1.29) and the Euro (-0.1% to CHF 1.14). The US Dollar strengthened against the Euro (+2.6% to USD 1.13).

Alternative investments performed differently in October. As is usually the case in turbulent times, gold appreciated although less than expected given the market environment (+1.9% to USD 1,215 per ounce). The oil price depreciated significantly (WTI, -10.8% to USD 65.31 per barrel), so did hedge funds (-0.8%).

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Outlook – Calmer markets and rebound expected

We were surprised by the sudden turbulence especially in equity markets last month. Companies in the US and Europe mostly published positive quarterly results. Companies in the S&P 500 index for example are growing earnings by 23.4% year-over-year. Most of this growth can be attributed to the corporate tax reform by US president Donald Trump but other regions are painting a similar picture with regards to earnings growth (Europe +9.5%, Switzerland +31.8%). Corporate earnings remained unchanged in China and Japan and decreased slightly in Germany (-2.2%).

We view this correction in equity markets as a short-term move rather than the start to a bear market as fundamental macroeconomic data is still looking positive and there is no recession on the horizon, either in the US or in Europe. Market sentiment continues to be driven by trade tensions between the US and China, therefore talks between US president Trump and China's president Xi at the end of the month are of particular importance. Should they result in a trade deal, this will be very positive for equity markets. If the talks end without promising results, this should lead to higher volatility in equity markets.

As mentioned above, we view this correction as short-term and therefore expect positively trending equity markets over the next couple of months. We are rebalancing our portfolios and therefore are selectively buying stocks. We view Chinese stocks and the global fishing sector as particularly interesting at the moment.

The US central bank hiked rates for a third time this year in late September. The next rate hike is expected to take place on December 19th (probability ~72%). We expect gradually higher interest rates in developed markets in the mid-term and therefore bond markets should only be marginally impacted.

Geopolitical tensions continue to quickly lead to strong moves in currency markets. The Swiss Franc has historically acted as a safe haven in times of trouble; we do not expect this to change going forward.

Even though the environment should be beneficial for hedge funds, many of them still struggle to perform positively. Hedge funds had a difficult October and it looks like this year will be a disappointing year for them. We maintain our gold position for diversification reasons.

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Limmat Wealth Ltd.