LimmatWealth

Investment Strategy – December 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	1.7	3.0	0.5	1.0	10'631	↗	↑	-0.09	0.05	0.30	-	-	-
Germany	2.2	1.8	1.7	1.9	11'504	↗	↑	0.32	0.50	0.80	-	-	-
Eurozone	2.4	1.9	1.5	1.8	3'220	↗	↑	-	-	-	1.13	1.15	1.18
United Kingdom	1.7	1.3	2.7	2.5	7'102	↗	↑	1.35	1.50	1.80	1.27	1.31	1.32
United States	2.2	2.9	2.1	2.5	2'760	↗	↑	3.04	3.20	3.40	1.00	0.98	0.98
Japan	1.7	1.0	0.5	1.0	22'575	↗	↑	0.09	0.10	0.15	114	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	1.1	1.3	3.5	3.7	91'156	↗	↗	9.89	10.10	10.60	3.83	3.80	3.80
Russia	1.5	1.8	3.7	2.9	1'155	↗	↗	5.23	6.00	7.00	66.56	67.00	67.00
India	7.1	7.6	3.3	4.5	36'241	↗	↗	7.63	8.00	7.90	70.46	74.00	73.00
China	6.9	6.6	1.6	2.2	2'655	↗	↗	3.38	3.40	3.30	6.89	7.00	6.90

Review – Turbulences in stock markets ease in November

Equity markets settled down in November after a turbulent start to the fourth quarter. However, markets still appear to be fragile. It does not surprise us that companies are penalized following bad news, while companies barely move or even go down when there are positive news.

Equity markets performed differently in November. India (+5.1%), Brazil (+2.4%), and Japan (+2.0%) appreciated while the UK (-2.1%), Germany (-1.7%), and Switzerland (-0.9%) depreciated. The countries at the center of global trade tensions performed differently as well last month. The US appreciated (+1.8%) while China remained unchanged (-0.6%).

Yields on ten-year government bonds globally depreciated slightly last month. While yields in Brazil (-0.32% to 9.89%), India (-0.25% to 7.61%), China (-0.16% to 3.38%), and the US (-0.16% to 2.99%) decreased, they only appreciated in Russia (+0.18% to 5.23%). Yields in Switzerland depreciated slightly as well (-0.09% to -0.10%).

Currency markets experienced another uneventful month in November. The Swiss Franc strengthened against the British Pound (+1.1% to CHF 1.27) as well as the US Dollar (+1.0% to CHF 1.00) and the Euro (+1.0% to CHF 1.13). The US Dollar remained unchanged against the Euro (USD 1.13).

Alternative investments performed differently in October. Gold appreciated slightly (+1.9% to USD 1,215 per ounce) while hedge funds gave back a bit (-0.8%). The oil price is still under a lot of pressure (WTI, -22.0% to USD 50.93 per barrel) and lost almost a third of its value since reaching a 2018 high at the beginning of October.

Outlook – Trade tensions can lead to harsh moves in both directions

At a post-G20 summit meeting in Buenos Aires, US president Donald Trump and his Chinese counterpart Xi Jinping agreed to halt new trade tariffs. US tariffs on Chinese goods will remain unchanged for 90 days but the US warned that it will raise tariffs if the parties are unable to reach an agreement by the end of this period. Investors view this agreement as a positive and this could lead to positive returns in equity markets worldwide at the end of this year. However, this agreement is only temporary and a negative outcome of the negotiations over the next months could lead to further dislocations in equity markets. Equity performance remains driven by politics as it has been the case since the beginning of this year.

As mentioned at the beginning of November, we view this correction in equity markets as a short-term move and we expect positively trending equity markets over the next couple of months. We are selectively buying stocks and we think Chinese stocks and the global fishing sector are particularly interesting at the moment.

The US central bank hiked rates three times so far this year and the next rate hike is expected to take place later this month (probability ~81%). 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.

This year will likely end with disappointing returns for Hedge Funds as a group. Even though the environment with higher volatility, low correlation, and therefore higher dispersion is beneficial on paper for hedge funds, it proved to be challenging for most of them. We still believe that hedge funds can add value as an addition to a traditional portfolio. We maintain our gold position for diversification reasons.

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Limmat Wealth Ltd.