LimmatWealth

Investment Strategy June 2017

Data & Forecasts

	Growth (%)		Inflation (%)		Currencies (vs. USD)		
	GDP 17	GDP 18	CPI 17	CPI 18	Actual	3 Mo.	12 Mo.
Switzerland	1.4	1.6	0.4	0.7	0.97	0.99	0.96
Germany	1.6	1.5	2.0	1.7	-	-	-
Euro Area	1.7	1.6	1.7	1.5	1.12	1.10	1.15
UK	2.0	1.5	2.5	2.6	1.29	1.25	1.30
USA	2.3	2.5	2.7	2.4	1.00	1.00	1.00
Japan	1.2	0.6	1.0	0.6	110.97	110.00	110.00
Brazil	0.2	1.7	4.4	4.3	3.23	3.10	3.25
Russia	1.4	1.4	4.5	4.2	56.70	58.00	60.00
India	7.2	7.7	4.8	5.1	64.44	65.00	67.00
China	6.6	6.2	2.4	2.3	6.79	7.00	7.30

	Bonds (10 yrs.)			Profits (%)		Equities		
	Actual	3 Mo.	12 Mo.	EPS 17	EPS 18	Actual	3 Mo.	12 Mo.
Switzerland	-0.17	0.00	0.25	57	11	10'249	↘	↗
Germany	0.30	0.50	1.00	47	8	12'615	↘	↗
Euro Area				37	10	7'102	↘	↗
UK	1.05	1.09	1.25	161	8	7'520	↘	↗
USA	2.21	2.50	3.00	18	12	2'412	↘	↘
Japan	0.04	0.00	0.25	32	9	19'861	↘	↗
Brazil	10.70	11.00	11.00	62	11	62'711	↘	↗
Russia	4.03	4.25	4.25	31	20	503	↘	↗
India	6.65	7.00	7.00	22	21	31'188	↘	↗
China	3.64	3.50	3.50	0	0	2'855	↘	↑

Fed to hike interest rates in June

In the US, the employment market surprised positively again: In April, 211'000 new jobs were created outside of the agricultural sector and unemployment dropped to 4.4%, which constitutes the lowest level since 2007. Furthermore, hourly wages rose another 2.5% year-over-year. Inflation hovers around 2% (Consumer prices +2.2%, core rate 1.9%). Further, the core rate of personal consumer expenditures rose by 2.1%. As a result, the market is expecting another rate hike of 0.25% in June. The estimate for 1st quarter economic growth was revised upwards from 0.7% to 1.2% (annualized). The White House submitted the budget for the year 2018 to the Parliament: By cutting social welfare and under the assumption of strong real GDP-Growth in the order of 3%, a balanced budget should be reached in the medium term. The Euro Zone continues to grow steadily: During the first quarter, the economy expanded by 1.7%, while consumer prices climbed 1.4% (core rate +0.9%). Unemployment amounts to 9.5% (unchanged). Emmanuel Macron defeated Marine Le Pen (nationalist party) by a high margin and became President of France. Next steps are parliamentary elections in June and it remains to be seen how many seats Macron's party 'en marche' will gain. In the United Kingdom, inflation rose from 2.3% to 2.7% and rising inflationary pressure were confirmed by a climbing core rate (from 1.8% to 2.4%). A first interest rate hike towards the end of 2017 is becoming more and more likely. 1st quarter growth of 2% was close to the expansion seen during the 4th quarter 2016. Japan surprised positively with an acceleration of economic growth from 1.2% to 2.2% during the 1st quarter 2017. In Brazil (4.1% vs. 4.6%), Russia (4.1% vs. 4.3%) and India (3% vs 3.8%) the deflationary trend has continued. In India, growth decelerated from 7% to 6.1% in the 1st quarter. Construction (-3.7%) and the abolishment of large bills in November put a strain on the expansion rate. The Russian economy expanded by 0.5% year-over-year.

Quiet bond markets

Government bonds hardly budged in May and small positive returns were observed. Moody's expects a continued rise of Chinese indebtedness and reduced the rating for Chinese government bonds from Aa3 to A1. Emerging market bonds (+0.9%) as well as high yield bonds (+1%) continued their rally. In light of the low interest rate environment we expect subpar returns on bonds. Investment grade bonds are only held for their diversification benefits.

Further decline of the USD

The USD continued its decline and dropped another 2.2% in May. Since the start of the year, the greenback has slid by more than 5% (DXY-Index). Worrying news out of Washington in the context of a possible Russian exertion of influence on US elections weakened the USD. The Euro (+3.2%) profited from declining political risks thanks to the outcome of elections in France and mounting suggestions for a more restrictive monetary policy in Europe. Brazilian President Michel Temer was named in the context of corruption which sent the Real (-1.5%) and the equity market (-4.1%) south.

The broad commodity index showed low volatility and closed the month slightly negative (-1.3%). While oil declined by 2%, gold closed unchanged. The 'World Gold Council' announced that during the 1st quarter demand for gold had dropped by 18% to 1'034.5 tons. Main culprit were ETFs, whose demand declined by 233 tons or -68%. With regards to supply, recycling dropped by 97 tons (-21%) and total supply amounted to 1'032 tons (-12%). Gold is held as some kind of hedge in the case of potential currency turbulences.

Equities on all-time highs

In May, the world equity market rose another 2.1% and reached a new all-time high. In the meantime, the world equity index has gained more than 40% since 2007 (shortly before the outbreak of the financial crisis) and more than 240% since its low during the financial crisis in 2009. For the US equity market (S&P500 including dividends) the corresponding numbers amount to +90% and +320%. Because profits for US companies are estimated to have only risen by 55% between 2007 and 2017, the equity market has become more expensive. Furthermore, the equity market rally of the last months is not broad based but rests mainly on the performance of the technology industry. We are seeing first signs of an overheating in the technology space: The industry-weighting within the S&P500 has risen from its historical average of 15% to 23%. Furthermore, of the ten largest companies of the world, five companies are technology names (Apple, Microsoft, Amazon, Facebook and Alphabet). Due to these thoughts, we are sounding a note of caution with regards to the technology industry and advising to take profits. With regards to the broad equity market and looking at measures such as volatility, we think that investors are currently too carefree. While there are manifold risks, in light of a lack of more interesting investment opportunities, we are recommending a neutral positioning of equities and holding on to positions, as long as their valuations are reasonable. For the coming summer months we are forecasting a sideways market. Geographically, we are continuing to favor European markets