LimmatWealth

Investment Strategy – June 2019

Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs CHF)		
	GDP 18	GDP 19	CPI 18	CPI 19	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	2.6	1.2	0.9	0.7	11'624	→	↗	-0.49	-0.20	-0.05	-	-	-
Germany	1.5	0.9	1.9	1.9	11'932	→	↗	-0.21	0.20	0.50	-	-	-
Eurozone	1.8	1.2	1.7	1.7	3'321	→	↗	-	-	-	1.12	1.13	1.16
United Kingdom	1.4	1.3	2.5	2.5	7'204	→	↗	0.89	1.40	1.60	1.26	1.34	1.35
United States	2.9	2.6	2.4	2.4	2'744	→	↗	2.12	2.65	2.80	0.99	0.99	1.00
Japan	0.7	0.6	1.0	1.0	20'409	→	↗	-0.10	0.00	0.05	109	109	109

Emerging Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 18	GDP 19	CPI 18	CPI 19	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Brazil	1.2	1.6	3.7	3.7	97'020	→	↗	8.20	8.75	8.50	3.89	3.80	3.80
Russia	1.8	1.4	2.9	2.9	1'308	→	↗	4.20	5.00	6.50	65.23	65.00	66.00
India	7.4	7.0	4.1	4.1	40'084	→	↗	7.02	7.40	7.30	69.26	70.00	70.00
China	6.6	6.3	2.1	2.1	2'862	→	↗	3.24	3.20	3.00	6.91	6.70	6.70

Review – Stock markets rally at the beginning of summer

Investors shook off the short correction in equity markets in May and the sentiment switched to positive from one day to another at the beginning of June. Equity markets as well as bond markets concluded the first half of the year positively.

Equity markets worldwide increased significantly last month. Markets in Russia (+7.3%), the United States (+6.9%), and Europe (+5.9%) advanced significantly, while the one in India (-0.8%) declined slightly. The Swiss equity market continued its upward path as well (+3.7%) and finished the first half of the year with a return of +21.8%. This return marks the best result in the first half of the year since 1998.

Yields on ten-year government bonds further decreased all over the world last month. Yields in Brazil (-1.00% to 7.45%), Russia (-0.28% to 3.93%), and India (-0.15% to 6.88%) decreased significantly. The yield on ten-year government bonds in Switzerland also decreased (-0.05% to -0.53%).

Volatility in currency markets remained within reason last month. The Swiss Franc strengthened against the US Dollar (+2.5% to CHF 0.98), as well as the British Pound (+2.0% to CHF 1.24) and the Euro (+0.7% to CHF 1.11). The Euro strengthened against the US Dollar (+1.8% to USD 1.14).

Alternative investments also performed positively in June. Gold (+8.0% to USD 1,409 per ounce) and Oil (WTI, +9.3% to USD 58.47 per barrel) advanced significantly, and hedge funds gained as well (+1.5%).

Outlook – Few opportunities and a lot of risks

We are currently in an upward trend in equity markets albeit in a shaky environment. It is questionable whether this continues for longer or not. On one hand, there are basically only two opportunities for equity markets not to run out of steam: US-president Donald Trump and his Chinese counterpart Xi Jinping agree on a trade deal and the US central bank FED preemptively cuts rates. This would lead to a rally in equities worldwide, at least short-term. The probability of those two events happening is relatively high at the moment. Trump and Jinping agreed to restart Unites States-China trade talks at the G-20 summit in Osaka (Japan) in late June. It seems to be a done deal that the FED will cut rates soon. On the other hand, there are a lot of risks that lead investors to act more cautiously. Doubts about the trade negotiations between the United States and China, recession fears, indebtedness of countries and companies, political issues in Europe, and acts of war of any kind are just a few risks for equity markets. Ironically, the skepticism with regards to the markets has a big advantage. Indices like the SMI, Nasdaq Composite, or S&P 500 are trading at or near their all-time highs. It would be a dangerous signal if markets were trading at their peak while investors are euphoric. The cautiously optimistic approach of investors today just shows that most of them are already invested and the positive expectations are already priced in but we are nowhere near euphoria. Scepticism alone does not lead to higher equity prices but unexpected, positive signals could boost markets.

We already started to selectively reduce our equity exposure a few months ago. We continue to expect sideways to slightly negative trending markets over the summer. We currently prefer the United States and emerging markets in Asia over Europe. Should the United States and China agree on a trade deal sometime in the near future, this will probably be very positive for equity markets.

The FED is expected to preemptively cut rates soon. Market participants expect a rate cut as soon as this month with 100% certainty. The probability of a rate cut in the Eurozone before year end increased significantly in the past few weeks and seems very likely at this point (84%). Contrary to our expectations, it seems already a done deal that the FED and European Central Bank (ECB) will cut rates. This is already priced in in the markets and should therefore have no major impact on bond prices.

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.

Hedge funds performed well at the beginning of this year and they should continue to yield good returns in the coming months. We maintain our gold position for diversification reasons.

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Limmat Wealth Ltd.