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 – Trade tensions rise again

US-president Donald Trump surprised market participants at the beginning of May by announcing that he would increase tariffs on Chinese goods. Trump once again turned to tariffs to help speed up negotiations and win concessions from China. The United States and China were nearing a trade deal that would lift tariffs, open the Chinese market to American companies and strengthen China’s intellectual property protections but discussions fell apart when China called for substantial changes to the negotiating text. These rising trade tensions led to higher volatility in equity, bond, and commodity markets.

The majority of equity markets worldwide suffered last month. Markets in Russia (+3.1%), India (+1.7%), and Brazil (+0.7%) advanced, while the ones in Japan (-7.4%), Europe (-6.7%), the United States (-6.6%), and China (-5.8%) declined. The Swiss equity market fared relatively well and declined only a little (-1.6%).

Yields on ten-year government bonds decreased all over the world last month. Yields in Brazil (-0.53% to 8.45%), India (-0.38% to 7.03%), and the United States (-0.38% to 2.12%) decreased significantly. The yield on ten-year government bonds in Switzerland also decreased (-0.18% to -0.48%).

Volatility in currency markets remained within reason last month despite the increased volatility in other markets. The Swiss Franc strengthened against the British Pound (+5.1% to CHF 1.26), as well as the Euro (+2.3% to CHF 1.12) and the US Dollar (+1.8% to CHF 1.00). The Euro remained unchanged against the US Dollar (USD 1.12).

Alternative investments performed differently in May. Gold increased slightly (+1.7% to USD 1,305 per ounce) while hedge funds decreased (-1.0%). Renewed trade tensions between the United States and China led to a large drop in the Oil price (WTI, -16.3% to USD 53.50 per barrel).

Outlook – Uncertainty increases

As expected, US-president Donald Trump’s surprise announcement to increase tariffs on Chinese goods led to increased volatility in markets around the globe.

We already started to selectively reduce our equity exposure in April and 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. But such an agreement does not seem to be imminent.

The US central bank FED has no plans to increase interest rates further this year. Market participants actually expect the FED to already cut rates before the end of the third quarter (90% probability). The probability of a rate hike as well as a cut in the Eurozone before year end is still low (2% and 40%). We partially agree with the market. It seems like the FED is verbally preparing market participants for drastic measures to support the economy but they could do this in one form or another. It is still uncertain if they will cut rates once or twice or not at all.

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.