LimmatWealth

Investment Strategy – October 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	0.6	12'233	→	↗	-0.74	-0.80	-0.60	-	-	-
Germany	1.5	0.5	1.9	1.9	12'428	→	↗	-0.56	-0.50	-0.40	-	-	-
Eurozone	1.8	1.1	1.7	1.7	3'569	→	↗	-	-	-	1.09	1.10	1.11
United Kingdom	1.4	1.2	2.5	2.5	7'408	→	↗	0.49	0.70	1.00	1.23	1.21	1.24
United States	2.9	2.3	2.4	2.4	2'977	→	↗	1.70	1.70	1.90	1.00	1.00	0.97
Japan	0.7	0.9	1.0	1.0	21'885	→	↗	-0.15	-0.20	-0.10	108	106	108

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	1.0	3.7	3.7	104'745	→	↗	7.05	6.50	7.00	4.16	4.00	3.80
Russia	1.8	1.1	2.9	2.9	1'334	→	↗	3.51	4.50	6.00	64.94	66.00	64.00
India	7.4	6.4	4.1	4.1	38'704	→	↗	6.69	6.30	6.60	70.91	72.00	71.00
China	6.6	6.2	2.1	2.1	2'905	→	↗	3.14	3.00	2.80	7.15	7.20	7.20

Review – Positive returns to end the third quarter

The positive trend in equity markets that started in mid-August continued last month. Most equity markets worldwide advanced, especially in Europe (+4.2%), in the United States (+1.7%), and in Switzerland (+1.4%).

Yields on ten-year government bonds worldwide mostly increased for the month for the first time since April; in Switzerland by +0.26% to -0.76%, in the United States by +0.17% to 1.66%, and in Germany by +0.13% to -0.57%.

Currency markets settled down last month as the Swiss Franc was unchanged against the US Dollar (CHF 1.00) and the Euro (CHF 1.09) but weakened against the British Pound (-1.8% to CHF 1.23). The Euro depreciated slightly against the US Dollar (-0.8% to USD 1.09).

Alternative investments performed differently last month. The oil price spiked by up to 20% mid-September after a drone attack on the world's largest oil processing facility in Saudi Arabia caused the country to shut down about half of its oil output. Experts do not expect a major impact on international oil markets despite the production losses and therefore the oil price decreased again relatively quickly and even closed the month down -1.9% to USD 54.07 per barrel (WTI). Gold decreased last month despite increased political and economic uncertainties (-3.2% to USD 1,472 per ounce), whereas hedge funds finished the month with a positive performance (+0.4%).

Outlook – Uncertainties increase

Political and economic uncertainties have increased in the past few weeks. The ongoing discussions about Brexit, the tensions in the Middle East, the trade war between the United States and China, the launch of a formal impeachment inquiry against US-president Donald Trump, and the cooling global economy are just a few topics which could negatively impact markets in the short- but also in the long-term. Equity markets remain resilient despite the mentioned uncertainties as all smaller corrections this year were quickly recovered, thereby postponing a prolonged downswing.

We continue to expect sideways to slightly negative trending markets over the coming months and we continue to prefer the United States over Europe but we realized some of the gains and decreases the overweight to US equities. Additionally, we adjusted our exposure to emerging markets and reduced it back to a neutral level.

Both the US Federal Reserve (FED) and the European Central Bank (ECB) cut rates again in mid-September as expected. Market participants view another rate cut by the FED before year end as likely (71% probability) while the ECB is not expected to cut rates again this year (32% probability). Even though the next FED rate cut is only partially priced in by the markets, it will likely not have a 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 and we do not expect this to change going forward.

Hedge funds performed well so far this year and they are expected to continue to benefit from the increased volatility in the coming months. We increased our exposure to hedge funds by investing in a fund which offers uncorrelated returns to the equity and bond markets. We maintain our gold position for diversification reasons.

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Limmat Wealth Ltd.