LimmatWealth

Investment Strategy – January 2020

Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs CHF)		
	GDP 19	GDP 20	CPI 19	CPI 20	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	0.8	1.2	0.4	0.5	12'860	→	→	-0.54	-0.55	-0.55	-	-	-
Germany	0.5	0.6	1.4	1.4	13'050	→	→	-0.30	-0.30	-0.25	-	-	-
Eurozone	1.2	1.0	1.2	1.3	3'737	→	→	-	-	-	1.09	1.10	1.12
United Kingdom	1.3	1.0	1.8	1.8	7'558	→	→	0.75	0.75	0.95	1.27	1.29	1.31
United States	2.5	1.8	1.8	2.1	3'235	→	→	1.78	1.80	1.90	0.97	0.98	0.97
Japan	0.9	0.3	0.6	0.8	23'205	→	→	-0.02	-0.10	-0.10	112	110	108

Emerging Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 19	GDP 20	CPI 19	CPI 20	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Asia ex Japan	5.0	5.0	2.6	2.6	694	→	→	-	-	-	-	-	-
China	6.1	5.9	2.8	3.1	3'083	→	→	3.13	3.00	2.90	6.97	7.05	7.05

Review – An excellent year for equities ends with another positive month

Equity markets worldwide finished the last month of 2019 with positive returns. Markets in Asia (+6.4%), China (+6.2%), and the United States (+2.9%) saw strong gains last month. Switzerland (+1.3%) finished the year with another good result as well. Equity markets worldwide surprised with very high returns last year. Returns in Switzerland and Europe were the highest in 14 and 20 years, respectively.

Developed Markets	2019	Best Year since
Switzerland	30.6%	2005 (35.6%)
Germany	25.5%	2013 (25.5%)
Eurozone	24.8%	1999 (46.7%)
United Kingdom	12.1%	2016 (14.4%)
United States	28.9%	2013 (29.6%)
Japan	18.2%	2017 (19.1%)

Emerging Markets	2019	Best Year since
Asia ex Japan	15.4%	2017 (38.7%)
China	22.3%	2014 (52.9%)

Returns of selected equity indices in 2019 (Source: Bloomberg, Limmat Wealth)

Yields on ten-year government bonds around the globe increased slightly last month. Yields increased in Germany (+0.18% to -0.19%), Switzerland (+0.14% to -0.47%), and the United States (+0.14% to 1.92%), while they remained unchanged in China (-0.03% to 3.14%).

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Currency markets moved within reason last month. The Swiss Franc strengthened against the US Dollar (+3.3% to CHF 0.97), as well as the Euro (+1.6% to CHF 1.09) and the British Pound (+0.8% to CHF 1.28). The Euro strengthened against the US Dollar (+1.8% to USD 1.12).

Alternative investments appreciated as well last month. Gold (+3.6% to USD 1,517 per ounce), oil (WTI, +10.7% to USD 61.06 per barrel), and hedge funds (+1.3%) all posted gains.

Outlook – Trade war, tensions in the Middle East, and the US presidential election

After several months of negotiations, the United States and China finally agreed to the terms of a trade deal which should be signed by both parties later this month. This phase 1 trade deal will not end the trade dispute between the two countries, however, more interventions in terms of tariffs will be postponed for the time being. Now that a trade truce has been agreed with China, the United States will shift its focus to the Europeans and Europe will become the focus of the United States' trade policy this year. Additionally, tensions between the United States and Iran in the Middle East increased further. This conflict culminated in a drone strike by the United States last week. The deadly airstrike killed Iranian general Qassem Soleimani as well as Abu Mahdi al-Muhandis, the leader of Hezbollah in Iraq. This targeted killing led to uproar in Iran and Iraq and Iranian leaders threatened to take revenge. We expect that markets over the next months will be mainly driven by the upcoming US presidential election, trade tensions, and to a smaller degree by the conflict in the Middle East. This will likely lead to more volatility in security prices, which should offer good entry points.

We continue to expect sideways trending markets over the coming months and we continue to prefer the United States over Europe. We focus on equities of companies with strong balance sheets and high dividend yields.

Market participants do not expect more rate cuts in the United States (40% probability) and in Europe (12% probability) over the coming six months.

Ongoing trade discussions and geopolitical tensions in general continue to quickly lead to strong moves in currency markets. The Swiss Franc has historically acted as a safe haven in times of trouble.

Hedge funds performed well last year and will continue to benefit from the increased volatility. We maintain our gold position for diversification reasons.

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Limmat Wealth Ltd.