



LimmatWealth

Investment Strategy – August 2018

Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs CHF)		
	GDP 17	GDP 18	CPI 17	CPI 18	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	1.0	2.2	0.5	0.9	10'913	→	↗	-0.04	0.15	0.40	-	-	-
Germany	2.5	2.0	1.7	1.7	12'699	→	↗	0.40	0.50	1.00	-	-	-
Eurozone	2.5	2.1	1.5	1.5	3'503	→	↗	-	-	-	1.15	1.17	1.19
United Kingdom	1.7	1.3	2.7	2.7	7'691	→	↗	1.31	1.60	1.90	1.29	1.33	1.35
United States	2.3	2.9	2.1	2.1	2'850	→	↗	2.95	3.00	3.30	1.00	1.00	0.97
Japan	1.6	1.1	0.5	0.5	22'663	→	↗	0.12	0.10	0.10	112	110	112

Schwellenländer	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 17	GDP 18	CPI 17	CPI 18	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Brazil	1.0	1.8	3.4	3.4	81'051	→	↑	11.15	11.20	10.80	3.74	3.85	3.60
Russia	1.5	1.8	3.7	3.7	1'147	→	↑	4.79	7.80	7.50	63.55	62.50	61.00
India	6.3	6.6	4.5	4.5	37'730	→	↑	7.77	7.90	7.60	68.78	69.00	68.00
China	6.9	6.6	1.6	1.6	2'779	→	↑	3.49	3.50	3.30	6.84	6.60	6.60

Review – Good month for equities

Macroeconomic topics like the looming trade dispute between the United States and the rest of the world were not at the center of attention as investors mainly focused on positive company earnings reported in July. This led to a good month for equity markets.

Equity indices worldwide performed positively in July. Markets in Brazil (+8.9%), India (+6.2%), and Switzerland (+5.5%) appreciated strongly and those in Germany (+4.1%), Europe (+3.8%), and the United States (3.6%) performed positively as well.

Yields on ten-year government bonds remained mostly unchanged in July. While yields in Germany (+0.14% to 0.44%) and the United States (+0.10% to 2.96%) increased slightly, they fell in Brazil (-0.50% to 11.18%), Russia (-0.14% to 4.65%), and India (-0.13% to 7.77%). Ten-year yields in Switzerland increased slightly but still remain in negative territory (-0.01%).

Currency markets enjoyed a quiet month except for the Chinese Yuan and Brazilian Real which moved considerably against the US Dollar (CNY -2.8% to CNY 6.82 and BRL +3.2% to BRL 3.76). The Swiss Franc remained unchanged against the US Dollar (CHF 0.99) as well as the Euro (CHF 1.16) and the Euro remained unchanged against the US Dollar (USD 1.17).

Alternative investments performed negatively in July. Oil remains volatile and depreciated considerably (WTI, -7.36% to USD 68.76 per barrel). Gold (-2.3 % to USD 1,224 per ounce) and hedge funds (-0.1%) depreciated as well.

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Outlook – Markets still expected to trend sideways

As mentioned in last month's investment strategy, we remain cautiously optimistic on equity markets in general. July's moves seem a bit exaggerated in the short-term as geopolitical tensions are still looming. We still expect markets to trend sideways over the next couple of months.

The US central bank fed hiked rates twice so far this year (in March and June). The next rate hike is expected to take place in late September. Market participants are almost certain that this hike will happen and it should therefore not lead to any unwanted surprises. We expect gradually higher interest rates in developed markets in the mid-term and therefore bond markets should only be marginally impacted.

Geopolitical tensions can quickly lead to strong moves in currency markets. We expect volatility in currency markets to increase again after a quiet July.

Even though the environment should be beneficial for hedge funds, a lot of them still struggle to perform well. Smart hedge fund selection is essential to generate positive, uncorrelated returns in every environment. We maintain our gold position for diversification reasons.