



LimmatWealth

Investment Strategy – October 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	2.3	0.5	1.0	10'819	→	↗	0.05	0.15	0.30	-	-	-
Germany	2.5	1.9	1.7	1.7	12'314	→	↗	0.50	0.60	1.00	-	-	-
Eurozone	2.5	2.0	1.5	1.5	3'416	→	↗	-	-	-	1.14	1.14	1.19
United Kingdom	1.7	1.3	2.7	2.7	7'517	→	↗	1.58	1.60	1.90	1.28	1.29	1.31
United States	2.3	2.9	2.1	2.1	2'914	→	↗	3.08	3.10	3.30	0.98	0.98	0.98
Japan	1.6	1.1	0.5	0.5	24'246	→	↗	0.14	0.10	0.15	116	112	111

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	1.5	3.4	3.4	79'342	→	↗	11.76	11.00	11.00	4.05	4.00	3.80
Russia	1.5	1.8	3.7	3.7	1'192	→	↗	4.88	6.00	7.00	65.61	67.00	66.00
India	6.3	7.4	4.5	4.5	36'526	→	↗	7.99	8.00	7.90	72.91	72.00	70.00
China	6.9	6.6	1.6	1.6	2'821	→	↗	3.63	3.50	3.30	6.87	6.90	6.80

Review – A quiet month to end the third quarter

September was a quiet month with little volatility in most equity and bond markets.

Equity indices worldwide remained mostly unchanged in September (UK +1.0%, Switzerland +0.6%, US +0.4%, Europe +0.2%, and Germany -0.9%) except for the one in Japan (+5.5%). Indices in emerging markets mostly appreciated. Markets in Russia (+9.1%), Brazil (+3.5%), and China (+3.5%) appreciated, while India depreciated significantly (-6.3%).

Yields on ten-year government bonds appreciated slightly last month. While yields in the US (+0.20% to 3.06%), the UK (+0.15% to 1.57%), and Germany (+0.14% to 0.47%) increased, they fell slightly in Brazil (-0.44% to 11.76%), and Russia (-0.09% to 4.88%). Yields in Switzerland appreciated slightly as well and they are now back in positive territory (+0.13% to 0.04%).

Currency markets also experienced a quiet month. The Swiss Franc depreciated against the British Pound (-1.9% to CHF 1.28) as well as the Euro (-1.3% to CHF 1.14) and the US Dollar (-1.3% to CHF 0.98). The US Dollar remained unchanged against the Euro (USD 1.16).

Alternative investments performed differently in September. The oil price appreciated significantly (WTI, +4.9% to USD 73.25 per barrel), while hedge funds (-0.8%), and Gold depreciated (-0.7% to USD 1,193 per ounce).

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Outlook – Unchanged situation

We continue to expect sideways trending markets over the next couple of months. Market sentiment continues to be fueled by US president Trump's remarks. Even though we currently do not want to increase our equity exposure, we continue to believe that Chinese stocks are oversold and we are selectively adding to our China exposure.

The US central bank hiked rates for a third time this year in late September and it hinted at raising rates once again this year and another three times next year. The next rate hike is expected to take place in late December (probability ~77%). We expect gradually higher interest rates in developed markets in the mid-term and therefore bond markets should only be marginally impacted.

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.

Even though the environment should be beneficial for hedge funds, many of them still struggle to perform well. In terms of performance, the average hedge fund has a difficult but at least positive year so far. We maintain our gold position for diversification reasons.