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Investment Policy | Q1/2019

English Version

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Investment Policy

The year 2018 closes on turbulent tones determined largely by geopolitical factors rather than by fundamentals. The divergence between the "normalized" monetary policy of the US Federal Reserve (FED) and those still largely expansives of the European Central Bank (ECB) and of the Bank of Japan (BOJ) have characterized the picture, as well as the better economic performance of the United States compared to other areas. In October, the Wall Street stock rally was interrupted by fears of a slowdown in global growth, the commercial friction between the US and China, the uncertainties related to Brexit and the widespread malaise, both in economic, financial and in institutional terms, has hit Euroland even more in anticipation of the results of the upcoming elections in May. Emerging markets have been impacted on one side by the appreciation of the US dollar, while on the other by the depreciation of a large part of raw materials, in addition to the increases in interest rates, already implemented or expected, by the FED.

At the turning point of the new year there is a fall in the risk appetite of many investors and a widespread pessimism. However, we believe that the conditions exist for a more favorable market trend than the consensus is indicating. Still, it is considered prudent to keep at times a good amount of liquidity while waiting for the evolution of events and scenarios.

Outlook

Among the themes that are likely, there is the possible slowdown in the US economy due to the phase out, at least partial, of the fiscal stimulus implemented by the Trump Administration. In addition to the macroeconomic effects, these measures also entailed a massive returns of capital initially held abroad by multinationals, a part of which supported share prices with buyback transactions. Contrary to the opinion of other investors, we believe that the FED can continue, as expected, in its careful policy of raising rates during 2019. Our opinion is supported by the good conditions of the two parameters that the central bank considers: the labor market and the trend in gross domestic product (GDP) growth. For its part, the ECB, which discontinued the purchase of securities in December, will continue to roll-over maturing bonds as well as to maintain ultra-expansionary and unconventional monetary conditions (negative rates) at least until the new governor appointment. The same applies to the Swiss National Bank, which is, in fact, coordinated with the ECB and fearful that turbulent situations could lead to an excessive appreciation of the Swiss franc.

Macro

If, for the USA, it is possible to foresee a certain economic slowdown, the European economic situation is more worrisome, both in respect of consumptions and investments, because it is part of an more uncertain and fragmented political and institutional context. Also in Japan growth is relatively weak, but the focus is mainly on what now appears to be, beyond the United States, the "new locomotive" of the global economy, i.e. China. The measures launched by Beijing in 2016 to slow down credit and debt and contain excesses, were then followed by other interventions on the money supply that inhibited investments, in the context of a general shift in the economic model, less directed towards export and more to internal consumption and a consolidation of national structures, international openness and the attraction of international investments in a global perspective.

The economic slowdown in the Red superpower and the trade war engaged with Washington, where the import-export of goods is only the pretext to ensure world leadership in the most advanced sectors of the economy and technology in particular, has led to a slowdown, which in 2019 could bring Chinese GDP growth from 6.6% to 6%. However, the Chinese authorities, based on their pragmatism, will adopt appropriate incentive measures.

Fixed Income

The differentiation of the cycle of monetary policies between the FED and the ECB, with the relative divergences on interest rates, favors US dollar loans, even more in view of new and more interesting issues coming in 2019. On the other hand a pause in the tightening cycle by the FED would end up favoring the emissions already in circulation. In some ways a win-win situation to be managed with caution in terms of issuers and a prudent choice of duration. It should be remembered how much the flattening and the reversal of the US yield curve has been debated, in the sense that short-term issues had higher yields than longer ones, and this has been interpreted as an indication of a looming recession. However, the scenario that has distinguished the past few years, with historically low rates and exceptional monetary interventions, makes this correlation perhaps less valid than it was in the past. For bonds in US dollars, however, we recommend a maturity of no more than 5 years or a focus on floating-rate notes, which offer attractive returns and protect against potential inflation which, however, is only marginal for the time being.

As far as Europe is concerned, the German Bund continues to act as a safe haven in turbulent phases, while the agreement on the Italian budget law has partly extinguished the tension on the sovereign debt of Italy, but has not dispelled the fears surrounding the weaker components of Euroland. Lower-rated securities are penalized by the fall in the risk appetite of investors, while in the context of portfolio diversification, it may be interesting to include emerging market bonds in local currency, but with a careful selection process and attention also towards currency risk.

Equities

Equity remains an attractive investment class, despite the abrupt interruption of the US rally in October and the signals of global bear market at the end of the year. Despite the greater attraction of bonds as an asset, the market potential remains attactive, also in terms of corporate profits and valuations. US GDP is still considerable, unemployment is at its lowest and it is possible that other forms of support will come from the Trump Administration in view of the candidacy for a second term. Frictions with China may ease, as some recent clues indicate, making again Wall Street the market leader. Among the sectors, high-tech has lost its glaze, but other topics of interest are not lacking, linked to megatrends such as aging population and healthcare, security, infrastructure, traditional and alternative energy sources and other so-called "disruptive" sectors, i.e. those able to radically transform entire economic sectors.

For the European stock markets the fundamentals are overshadowed by the pressure of unfavorable political and institutional conditions, which could also affect the common currency. In Japan, ultra-expansive monetary policy favors consumption and investment. In Switzerland, the solid economic situation, the defensive characteristics of the index and the strength of profits make the country attractive. A possible strengthening of the Swiss franc could represent a negative element for some export sectors, even if this correlation may not always play out. As a diversifier of the portfolio, emerging markets can still find their place, which would benefit from the slowing tensions between the US and China and a less decisive FED policy than expected, and therefore with a weaker dollar.

Alternative Investments

Very few alternative funds were able to demonstrate an uncorrelation with the trend of the financial markets in 2018. Raw materials have interesting valuations, although they are affected by the uncertainties linked to the global economic situation. Oil has sharply corrected after the rally generated by Iran sanctions. Exceptions to the embargo, high rates of shale oil production and uncertainties about OPEC's choices, led to a 40% fall in prices compared to the 2018 highs. However, it is possible that the feared imbalances between supply and demand may recompose during the course of 2019. Gold, for long neglected, has begun to show signs of revitalization towards the end of the year, trying to recover above the level of 1240 dollars per ounce, with a target of over 1300 dollars.

Forex

The US dollar is increasingly driven by the yield differentials with the Euro. The Swiss Franc is benefitting from international geopolitical tensions. The British pound is under pressure from Brexit, but maintains a positive potential in the long run, no matter what the outcome of the London-Brussels diatribe is. As for carry trades, but also for a diversification of fixed income, safe issuers in Norwegian kronor (NOK), Australian dollars (AUD) or New Zealand (NZD) should be looked at.

Asset Allocation Q1 | 2019

Private & Confidential

Classic Mandate

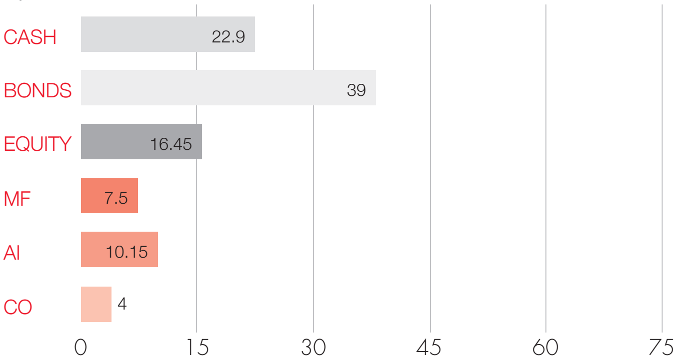
Axion SWISS Bank's classic mandate allocates at least 65% of assets to the reference currency of the mandate. The investment objectives are Income, Yield, Balanced or Growth. Mandates are available in CHF, EUR & USD.

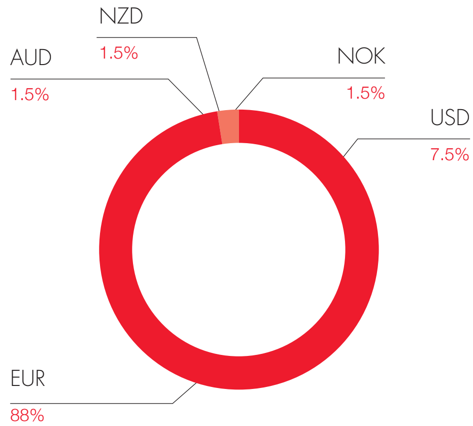
Multi Currency Mandate

Axion SWISS Bank's multi currency mandate allocates at least 20% of assets to the reference currency of the mandate. A balanced currency diversification is achieved for clients who wish to do so. The investment objectives are Income, Yield, Balanced or Growth. Mandates are available in CHF, EUR & USD.

Classic Mandate Yield Euro

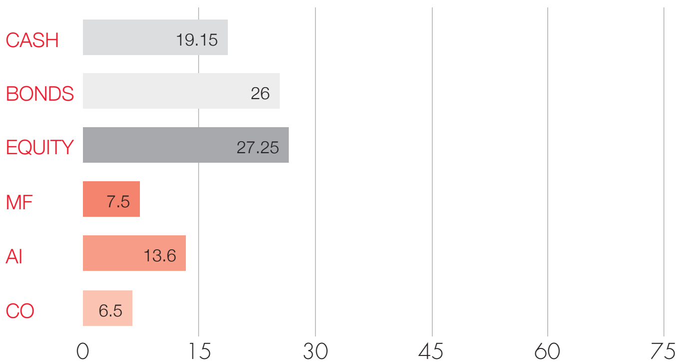
Up to 10.1.2019

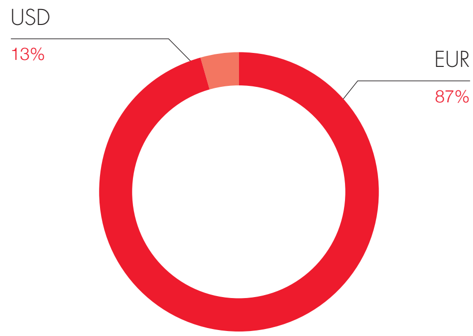




Classic Mandate Balanced Euro

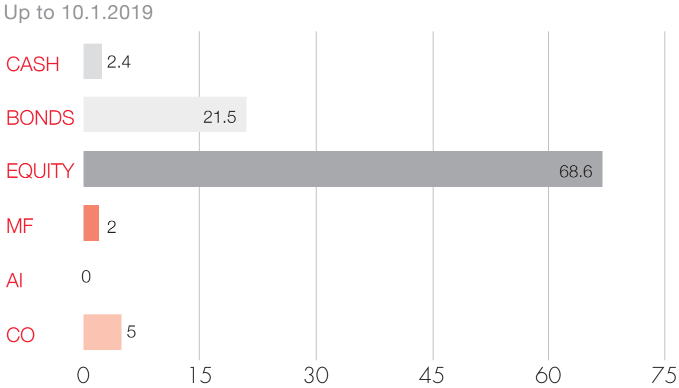
Up to 10.1.2019



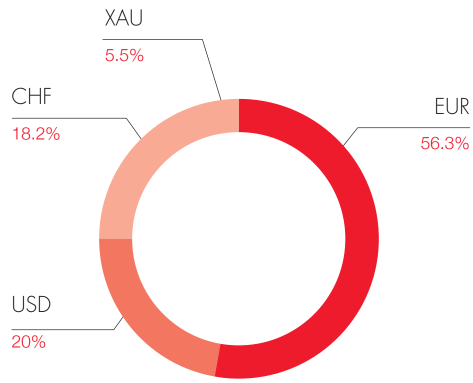


Multi Currency Growth Euro

Up to 10.1.2019



MF-> MIXED FUNDS | AI-> ALTERNATIVES | CO-> COMMODITIES



USD-> US DOLLAR | EUR-> EURO | CHF-> SWISS FRANCS
AUD-> AUSTRALIAN DOLLAR | NZD-> NEW ZEALAND DOLLAR
NOK-> NORWEGIAN KRONE | XAU-> GOLD

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