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Investment policy Q2/2019

English Version

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BancaStato

Normalization walks away

Investment Policy

After the strong fall of the markets towards the end of 2018, which was excessive and not justified by fundamental reasons, the marked recovery phase has favored the investment classes most exposed to risk, althought still discounting the geopolitical uncertainties and the difficulties of international trade mainly impacted by the trade war taking place between the United States and China. The shares have thus recovered a substantial part of the losses suffered and remain the primary class of the investment policy thanks to the potential that the market still possesses. The most interesting markets are the US and Asian ones, with China in the lead. The outlook is also positive for gold, which failed to function as a "safe haven" in 2018 and now appears to be well set up despite the ongoing relative strength of the US dollar.

Outlook

Economic and social imbalances, linked for example to the growth of inequalities and polarizations, as well as the orientation of liquidity created by central banks more towards supporting financial and real estate values than towards the real economy, does not seem for the moment to negatively affect the markets. If anything, the increasing use of algorithms in trading can be a factor in increasing volatility for the future. Global economic growth is still at good levels, central banks are waiting and, from the Federal Reserve, the most advanced on the path of normalization, we can now only expect a 0.25% increase in rates in autumn. The recession fears created with the flattening and reversal of the US Treasury yield curve in dollar appear excessive and not justified by published macroeconomic data. Growth may be more modest than in previous cycles, but it could last longer before recessive signals emerge. The scenario favors America and emerging markets both in equity and bonds markets, but some risk factors remain, for example, in some government bonds, which appear to be overvalued, as well as for some real estate markets, or for sustained growth of private debt.

Macro

The signals coming from the US are positive for the labor market. The unemployment rate has now fallen below the 4% threshold and in various sectors there are difficulties in recruiting and pressures towards an increase in wages. Growth remains strong and inflation low. However, the Federal Reserve slowed its process of normalization of monetary policy by indicating, through its President Jerome Powell, a phase of "patience" pending the evolution of the domestic and international scenario, but continues in its healthy reduction plan of balance sheet assets. For the time being the blockade of federal activities, "the shutdown", has been avoided and the trade tensions with China seem to have been reduced, in view of a possible solution satisfactory for both parties. It should not be underestimated the "pre-electoral" period towards which America is entering, a period in which economics and finance in positive terms favor historically the administration in charge; and Donald Trump certainly aspires to re-election.

In Europe, the markets have been affected for months now, not only by the economic slowdown, but by political and institutional risks, with the now closeby elections. The Brexit issue moves ahead with new postponements, data on exports and industrial production are down, with the PMI index at 7-year lows, and in these conditions the European Central Bank has had to postpone the timing of a possible reversal of the monetary policy, in the meantime announcing new long-term financing plans for the banking system.

Positive signals are coming from China: Beijing responds to the economic and exports slowdown (GDP at + 6.6% compared to 6.8% in 2017), with massive interventions of support, credit and fiscal stimulus. News on the trade war are improving and the latest data on industrial production and retail sales appear to be positive.

Fixed Income

The role of central banks remains crucial. The slowdown in the process of normalization of the Federal Reserve and the reversal of the European Central Bank, still maintain a significant gap between the two sides of the Atlantic, favoring issues in US dollars, but still represent an element of support for prices on the bond market in general, favored by the general decline in yields.

Central banks "hold", on both sides of the Atlantic, has favored government bonds, eventhough some of the European ones appear to be overrated. Both the "investment grade", with lower ratings, and "high yield" are attractive, but pending macro developments it is better to choose short durations. With a view to diversification, emerging market bonds can provide interesting contributions to performance, but fixed income management must take a tactical approach, with active portfolio management, rather than long-term buy-and-hold choices.

Equities

Equity remains the most attractive investment class. The Wall Street main index, as well as a global reference, Standard & Poor 500, which recently broke the psychological threshold of 2,800 points, seems to have room for a further rebound. Buybacks continue favored by the impressive liquidity enjoyed by the companies. Earnings levels remain good in many sectors and, although the effects of the tax breaks decided by the Trump Administration will decrease in the course of 2019, a further stimulus could come from an impressive infrastructure investment plan.

In Europe the fundamentals remain interesting and the equity valuations are cheap, with an average price / earnings ratio of 14, but the political and institutional uncertainties weigh on it.

For the Swiss market, characterized by its defensive nature and high average dividend levels, a continuation of the positive trend is expected, which could be negatively affected by an excessive appreciation of the franc.

Japan remains the country with the most expansive monetary policy, both in terms of rates and especially of purchases of bonds and stocks by the central bank, and the Tokyo Stock Exchange can also benefit from the recovery in domestic consumption and investments.

If the US is still, in our opinion, the market leader to look at, the whole area of emerging countries presents reasons of interest, with China leading with its "precious" A Shares.

In terms of investment themes, we highlight the sectors most closely linked to demographic trends, which include health and innovative medical technologies.

Alternative Investments

The volatility that has returned to manifest itself has brought to the fore the hedge funds that pursue long-short strategies and that, in the course of 2018, however have not taken advantage of a scenario in many ways favorable to them. 2019 could be the year of their "come back".

In the area of raw materials, while the downward revision of the estimates of world growth does not favor them in general terms, especially in the agricultural-food and industrial metals sub-sectors, with the exception of the rare metals that find use in particular technologies, like the anti-pollution ones or in the new generation batteries, the outlook is different for gold and oil. The yellow metal, which did not play its role as a safe haven in 2018, now appears well set beyond the $ 1,300 ounce threshold and destined to appreciate further despite the relative strength of the US dollar, with which the correlation was traditionally negative.

For oil, the will to maintain the current thresholds was reiterated by the leader of OPEC, Saudi Arabia, the strategic alliance with Moscow appears solid and the geopolitical risk factors, from Venezuela to the Middle East, in addition to the possible widening of US sanctions, should support the price of crude oil, despite the growth of the American shale industry.

Forex

The dollar remains in a position of relative strength compared to the other main currencies and the euro is affected by the economic and political tensions that afflict the EU area. The interest differential between the two currencies seems to have peaked during 2018.

The British pound is held hostage by the uncertainties linked to Brexit and the Swiss franc struggles to maintain its role as a safe haven currency. The exchange rate of the Japanese yen is stable. The carry trade strategies with low-cost debt can be oriented towards the Norwegian krone (NOK), given the role of the Scandinavian country as the main European oil producer, or to those southern currencies, such as the Australian dollar (AUD) and New Zealand (NZD), more linked to the Chinese economic trend.

Asset Allocation Q2 | 2019

Private & Confidential

Classic Mandate

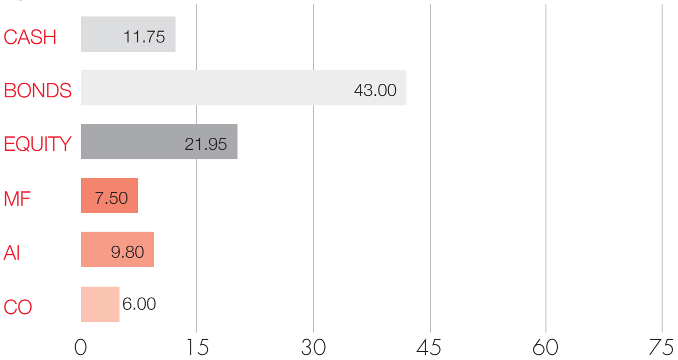
Axion SWISS Bank's classic mandate allocates at least 65% of assets to the reference currency of the mandate. The investment objectives are Income, Yield, Balanced or Growth. Mandates are available in CHF, EUR & USD.

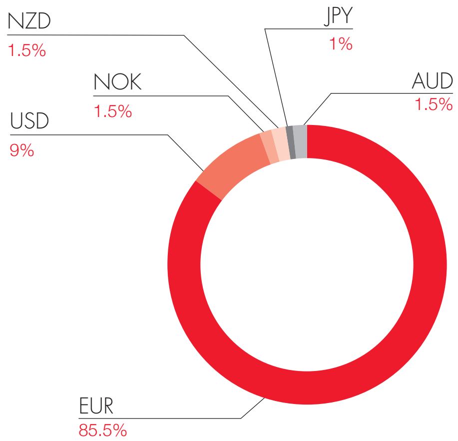
Multi Currency Mandate

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

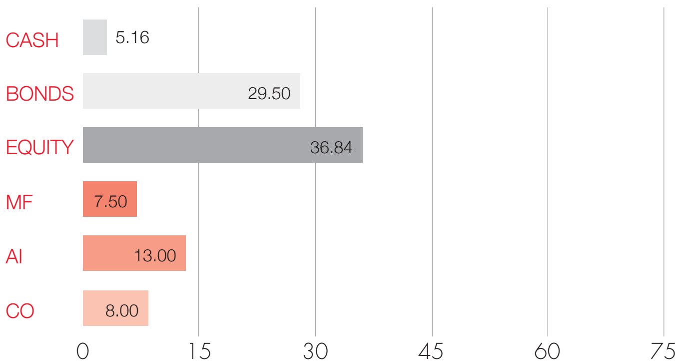
Up to 22.03.2019

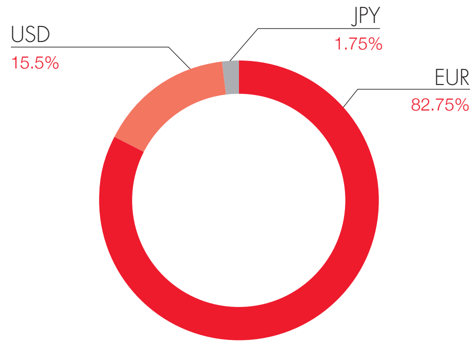




Classic Mandate Balanced Euro

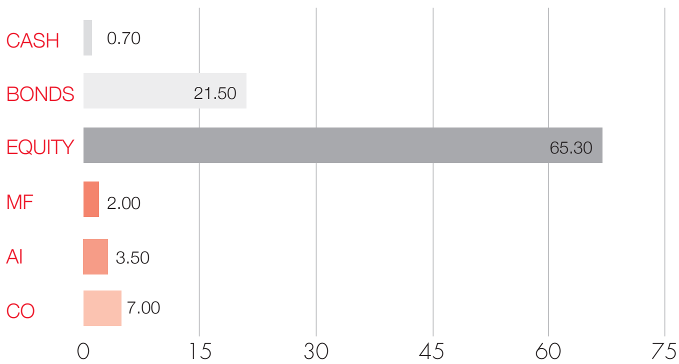
Up to 22.03.2019



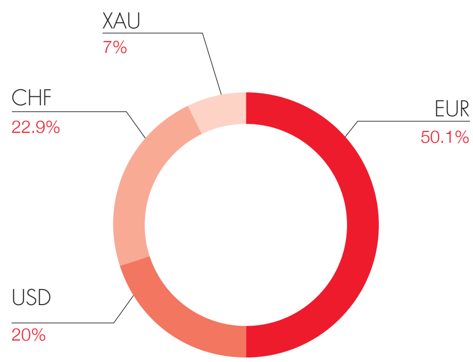


Multi Currency Growth Euro

Up to 22.03.2019



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 | **JPY** -> JAPANESE YEN

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