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Investment policy Q3/2019

English Version

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The negative "sentiment" defeated by the central banks?

Investment Policy

The trade tensions between Washington and Beijing, which could be extended to Europe, and in particularly affect the automotive sector, the monetary policies of central banks, fears of a slowdown in the economy, especially in China, and the escalation of the geopolitical crisis in the Persian Gulf, have generated nervousness and volatility in the markets. Tensions have also led many investors to lower their risk profile, increasing the proportion of liquidity and safe haven assets in their portfolios. However, we believe that, in many cases, the "sentiment" also linked to the accommodative monetary policies of the ECB and the FED has prevailed over the fundamental considerations and that the negative considerations have been excessive. Equities maintained positive results despite the increased volatility, as well as the bond in high yield segments, and the new scenario favored the revival of gold.

Outlook

We think that the trade war underway, which can actually act as a brake on the economic cycle, is destined to continue in the short to medium term, but that it will still find a pragmatic and satisfactory solution for Beijing and Washington, especially with the approaching presidential election campaign in the United States, which sees Donald Trump running for a second term. Obviously an agreement of a purely commercial nature does not resolve the issue, which is much broader in scope, such as to be called "New Cold War", on technological and strategic supremacy between the two shores of the Pacific Ocean and on geopolitical leadership. The international scenarios, rather than the fears associated with an unlikely recession, have therefore led the Federal Reserve to change its course. The "normalization" phase of its monetary policy has been interrupted and the market now expects a probable "precautionary" cut of 25 basis points for the Fed Funds (currently at 2.50%) by the end of 2019.
A new scenario is also opening up on Brexit, with the advent of a new leader of the Conservative Party and new Prime Minister, more "hawk" towards Brussels. A less compliant agreement, if not a "no deal" scenario, could potentially be positive for the United Kingdom.

The situation in Europe is more complex, with EU leaders in the process of renewal, pressures for a change in the economic-institutional strategy, the Italian crisis is worsening affecting the entire area and the European Central Bank is in difficulty. New ultra-expansive and unconventional maneuvers (new QE and TILTRO) may not prove to be more effective in the absence of fiscal intervention and the new choices are however from October in the hands of Mario Draghi's successor at the top of the ECB.
The expansionary policy (reference rate -0.10%) continues in Japan, with mixed results, and in Switzerland, where the National Bank maintains its negative interest rate policy (-0.75%), despite the "collateral" damages which it produces for financial and social security institutions, for savers, also helping to fuel speculative bubbles, starting with the real estate market and private debt.

Macro

US economic data remain substantially positive, with a limited slowdown in the economy (2019 GDP at + 2.5% compared to 2.9% in 2018) but without recessionary signals. Inflation is around 2%, in line with the objectives of the Fed.
In Euroland, domestic demand still stands while exports have slowed and confidence is deteriorating. The 2019 GDP was further lowered to + 1.1% compared to 1.8% in 2018, with an inflation forecast of 1.4%.
Switzerland has maintained a good growth rate but it is expected a sharp slowdown in GDP in 2019 (+ 0.7% compared to + 2.5% in 2018).
China, which has seen a deceleration over the past few months, is set to recover in the second half of the year, thanks to support measures decided by the Government, closing 2019 with GDP at + 6.3% (+6.5 % in 2018).
It should be noted that other Asian countries have benefited from the trade war between US and China, such as South Korea, Taiwan and Vietnam, whose economy is experiencing a real boom.

Fixed Income

The fixed income sector has seen inflows from the equity segment, despite the fact that the returns provided are small, especially for quality issues. The exception is US Treasury Bonds, which represent a safe haven in times of market

turbulence. In general, US bonds are still preferred, those of emerging markets in hard currency, have held up well, such as high-yield, whose outlook is still positive, especially in view of the now-expected expansive maneuvers by the Fed. Germans Government Bonds have returned to negative territory for the first time to over -0.30%, for the moment, they do not offer points of interest. Attention should however be focused on the selection of issuers, preferring also relatively short maturities.
Good results can also be found in the convertible sector, which makes it possible to benefit from the equity rally with some protection in the event of market slow-down.

Equities

Equity still represent the preferred asset class, although to be considered with a defensive attitude and accepting lower growth rates and higher levels of volatility. The focus is on the US market where, after a "bottom" between 2700 and 2800 points scored in the first days of June, the Standard & Poor 500 appears destined to recover in the second half of the year, supported by macroeconomic data, from good corporate profits and the massive buyback campaigns by many companies. Low rates also favor the asset class.
Neutral position on European markets despite their greater convenience and caution in particular for the banking sector.
Chinese market progressively advancing in the coming months and interest in the Asian market in general. The prospects for the Swiss market are also good, with the exception of the financial sector.
Among the most interesting topics to consider are those of Information Technology and communication.

Alternative Investments

The increased volatility that affected some of the asset classes favored some hedge funds.
On gold, now firmly positioned above the psychological threshold of $ 1,300 an ounce, investor interest has returned. The rally challenged the traditional negative correlation against the US dollar, thanks to economic and geopolitical uncertainties, as well as the massive purchases made by some central banks (in particular China, Russia, Central Asian Republics and Turkey).
Oil has seen a fluctuating but positive trend, subject on the one hand to fundamental pressures and uncertainties, regarding the evolution of the supply, the continuation of the cuts by OPEC and Russia, the Venezuelan and Libyan crisis, the trend in demand and stocks. On the other hand, the escalation of tension in the Gulf has intervened, after attacks on oil tankers in the Fujiarah sea and then near the Hormuz Strait, from which it transits one-sixth of the entire world crude oil production and one third of that coming from the Gulf. Iran is accused of such attacks, which have been subjected to heavy US sanctions and threatened to close the Strait. It is also known that for Saudi Arabia and other producers, not to mention OPEC's "hawks", the "ideal" price is between 70 and 75 dollars per barrel, so as to allow investments and balances in public budgets.
The "New Cold War" between Washington and Beijing has also renewed interest in the so-called "rare earth metals", fundamental in many high-tech applications, both civil and military, of which Beijing not only holds almost all of its production , but also the know-how for their processing.

Forex

A rate cut by the Federal Reserve may undermine the strength of the US dollar, which however continues to be favored by a rate differential in its favor, especially in the event of a choice of relative devaluation of the yuan by Beijing for the purpose to favor its export.
The Swiss franc, fully regaining its role as a safe haven, could be significantly strengthened should the European institutional and financial crisis worsen or the geopolitical scenarios deteriorate further, challenging the interventions of the SNB.
The uncertainty of Brexit has been overcome, whatever the outcome of the process, the pound, long neglected by investors, can return to appreciate, also because the UK fundamentals remain quite positive.

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