Investment Policy | Q4 2018

English Version

Axion | SWISS Bank

Gruppo BancaStato
BANCA DELLO STATO DEL CANTONE TICINO

Macro

While the global economic picture remains good, the shape of the yield curve on the US dollar is the subject of debate, which, after a flattening phase, has inverted, assuming an almost negative slope, with the yield of 2-year Treasury Bonds almost equal to that of the homologous ten-year issue. This is traditionally seen as a sign of a possible future recession over the 6-12 months ensuing an inversion.

Equity

Equity remains the top investment class in the portfolios under management. In the United States, in particular, it confirms the positive trend that has been going on for some time, supported by good macroeconomic fundamentals (GDP growth of over 4%, unemployment at historic lows), corporate profits, the return of capital partly used by companies in the repurchase of own shares (buyback).

The main indices are at their highest levels, although there may be a slight slowdown in the technological sector compared to the previous phases, in which it had represented the main driving element of Wall Street. We believe it is still time to remain invested in the stock market and benefit from a final bullish phase before the emergence of a possible economic slowdown and a subsequent consolidation of the stock exchanges.

In Europe, where the markets were affected by institutional tensions and particularly diversified economic conditions, corporate profits are however recovering and benefiting from the weakness of the euro. Valuations are interesting, especially in comparison with US counterparts, and we believe it is possible to recover both in absolute and relative performance terms vis-à-vis the US. For the Swiss Stock Exchange, expectations are positive with the unknown represented by the strengthening of the Swiss franc. Japan remains the country with the most expansive monetary policy and benefits from the recovery of domestic consumption and investment.

In emerging countries, the strength of the US dollar has generated volatility and problems, even where fundamentals are interesting. We believe that emerging markets, in particular China and India, can serve as the engine for the world economy in the coming years.

Investment Policy

The euphoria that has characterized the previous quarters has been easing, even if the risk level of most of the investors remains high. Equity remain the main component of our discretionary mandates, especially in its US exposure, even if signs of a slow-down, with consequent corrections in indices, could materialise in the medium term and lead us therefore to look more closely at Europe. The uncertainties are broad-based and range from the Chinese economic cooling and the effects of the ongoing trade war, with duties, sanctions, various countermeasures triggered by the Washington Administration, to the outcome of mid-term elections that could condition the White House's policy, in addition to developments in geopolitics in general. In Europe, too, instability factors are not lacking, above all because of the increased "Italian risk".

The management of the bond component of the portfolios is becoming increasingly complex, due to the divergence of the monetary policies of the various central banks and the crisis affecting several emerging markets. Selectivity of issuers, duration and use of active management tools are decisive.

In a progressively more uncertain and complex scenario, gold has partly lost its role as a safe haven, to the benefit of the German Bund, US Treasury, the dollar, the Swiss franc and, in some phases, even the Japanese yen.

The increase in volatility is creating an investment opportunity to be taken advantage of.

Fixed Income

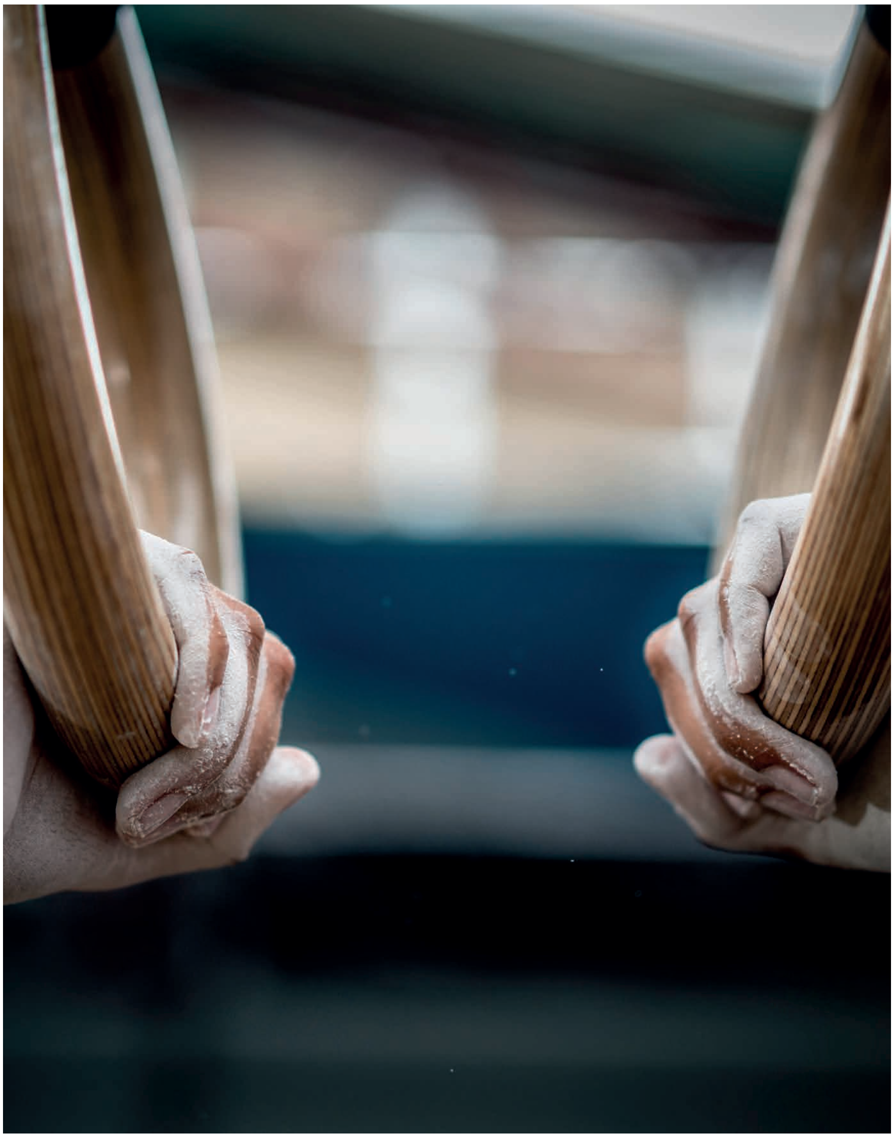
The management of the bond component appears to be the most complicated and difficult area, also due to the divergence in monetary policies implemented by the various central banks. Some raise rates to follow the US economic cycle or, like those of many emerging markets, are obliged to implement a restrictive policy of high rates for the sole purpose of defending their currencies. Others, such as the European Central Bank (ECB) and the Bank of Japan (BOJ) maintain an accommodating policy. In Europe, the outlook is complex due to institutional differences within the European Union and in particular tensions over Italy, which is confronted with various economic and political problems.
We operate with near-zero duration, variable coupons and actively managed instruments. Attention must be paid to the High Yield sector, maintaining exposure to short maturities and taking into account the increasing levels of leverage, especially by US issuers.

Alternative Investments

The increased volatility of the equity markets has favoured the performance of the long / short funds present in the portfolio and of those instruments that make volatility itself the object of investment.
Gold appears under pressure due to the strength of the US dollar and for abdicating its role as a safe haven.

Forex

The US dollar remains strongly supported by the interest rate differential in its favour and by the currency crises in emerging countries. In the past few months, it has temporarily broken the level of 1.15 against the euro but, given the political will against an excessive strengthening, we consider a wide range of oscillation of 1.15-1.25 as valid. Political and geopolitical tensions have strengthened the Swiss franc and as a result of the turbulence in Turkey and Argentina, emerging currencies which today are more or less under pressure (such as the ruble and the South African rand) may constitute investment opportunities.
The extremely negative forecasts made on the Brexit process could ultimately favour the British pound in the medium term.



Outlook

We believe that setting-up the equity allocation on a continuation of the rally is valid, despite the signs of an inversion of the Treasury yield curve, at least for the next few months, supplemented by the use of alternative investments in long / short instruments. The technology sector is still preferred but with a possible progressive shift towards sectors linked to consumption and other defensive activities. With an end of the purchases of securities by the European Central Bank, which will however retain the other elements of the QE, a delicate phase is opening up for Europe, which remains marred by institutional uncertainties within the European Union and the Italian issues. For its part, the US Federal Reserve, on the other hand, appears ready to respond to any signs of a slowdown in the US economy, also considering the levels of its reference rates that it expects to reach in the course of 2019-2020. The economic and financial consequences of a worseing of the relations between Washington and Beijing remain to be assessed.

Asset Allocation Q4 2018

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.

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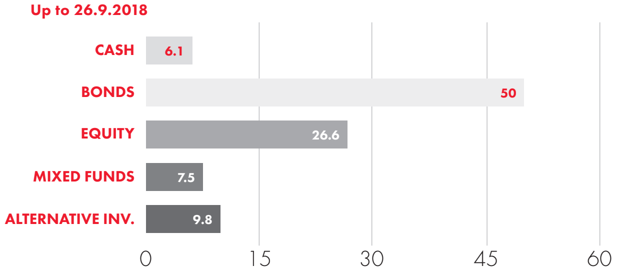
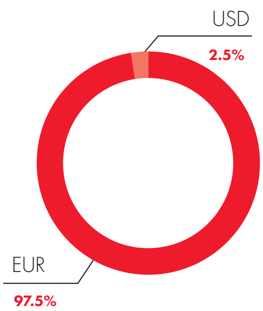
Classic Mandate Yield Euro

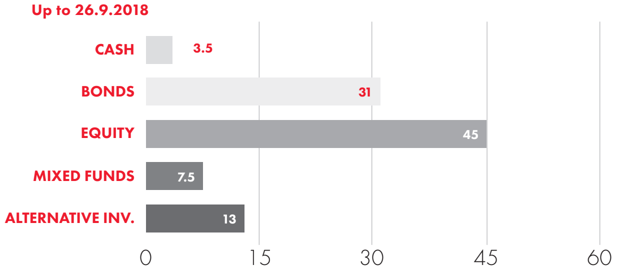
Up to 26.9.2018

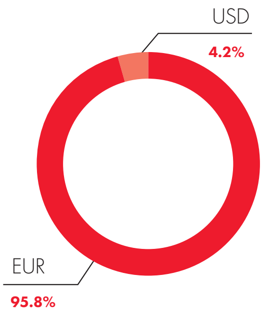




Classic Mandate Balanced Euro

Up to 26.9.2018





Multi Currency Growth Euro

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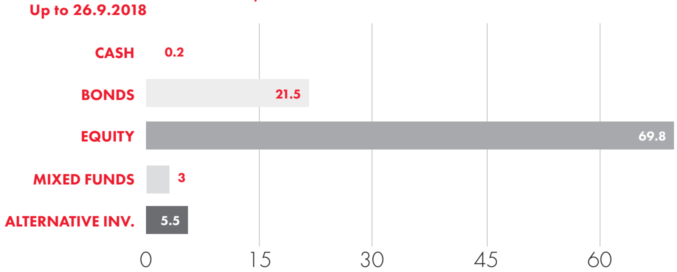

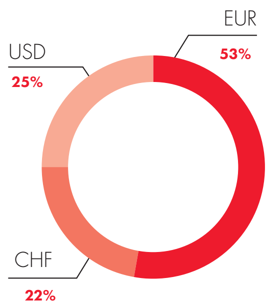

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