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Portfolio Update

April 2019

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- When will we see consolidation?

Review

Investors in a carefree mood

The recovery on the equity markets is in full swing. While only around half of companies have published their quarterly results, the tendency so far is for revenues and earnings to come in better than expected. Analysts are increasingly revising up their annual forecasts in line with the latest results.

This trend is likely to have been bolstered by China's economic data, which have been stronger than expected. Stable GDP growth, rising industrial output and higher retail sales have eased concerns about a recent global economic slowdown. This may be an initial indication that the Chinese government's efforts to revive the economy via monetary and fiscal policy are finally bearing fruit. As the following chart shows, China's Citi Economic Surprise Index has trended upwards.

Rise in Chinese Citi Economic Surprise Index

Sources: Bloomberg, swisspartners

While a marked economic recovery has not yet materialised in the US and Europe, the prospect of a Sino-US trade agreement being concluded in the near term has fuelled hopes of further price gains. The postponement of the Brexit negotiations has temporarily removed another risk factor from the headlines, buoying the happy-go-lucky sentiment amongst investors. This has been reflected by the positions taken by hedge fund managers, who are increasingly betting on declining volatility.

Equity indices 2019 (Total return)

Americas	April	2019
Dow Jones Industrial Average (US)	2.7%	14.8%
S&P 500 (US)	4.0%	18.2%
NASDAQ Composite (US)	4.8%	22.4%
Brazil Ibovespa (BR)	1.0%	9.6%
Europe	**April**	**2019**
EURO STOXX 600 (EU)	3.8%	17.3%
FTSE 100 (GB)	2.3%	12.0%
CAC 40 (FR)	4.9%	19.0%
DAX (DE)	7.1%	16.9%
SMI (CH)	4.4%	18.8%
Asia/Pacific & Emerging Markets	**April**	**2019**
Nikkei 225 (JP)	5.0%	12.3%
Hang Seng (HK)	2.3%	15.4%
MSCI Emerging Markets (EM) in USD	2.1%	12.3%

Sources: Bloomberg, swisspartners

Despite the ascent of the equity markets, various central bank officials have decided against tightening the monetary reins given the muted inflation outlook. The party for bonds has also continued thanks to accommodative monetary policy, with spreads on riskier paper narrowing sharply. In other words, demand for corporate and high-yield bonds has been high, while investors have largely avoided government bonds.

MANDATE RETURNS gross

	Euro			Swiss Franc			US Dollar			British Pound		
	CONS	BAL	DYN	CONS	BAL	DYN	CONS	BAL	DYN	CONS	BAL	DYN
2012	**6.6%**	**7.4%**	**10.5%**	**4.3%**	**6.5%**	**10.9%**	**5.9%**	**8.4%**	**11.8%**			
2013	**1.5%**	**6.5%**	**13.5%**	**1.9%**	**8.3%**	**16.7%**	**2.8%**	**9.4%**	**18.5%**			
2014	**6.1%**	**8.0%**	**10.2%**	**4.9%**	**6.5%**	**9.2%**	**1.6%**	**2.2%**	**3.1%**			
2015	**2.7%**	**6.3%**	**9.9%**	**-0.8%**	**0.0%**	**1.8%**	**-0.3%**	**0.0%**	**1.0%**			
2016	**2.3%**	**5.3%**	**7.1%**	**1.3%**	**3.9%**	**5.7%**	**2.8%**	**6.2%**	**7.2%**	**4.6%**	**9.5%**	**12.1%**
2017	**3.5%**	**7.3%**	**10.8%**	**4.3%**	**8.9%**	**15.0%**	**7.1%**	**12.7%**	**18.1%**	**4.7%**	**8.7%**	**14.2%**
2018	**-4.3%**	**-9.0%**	**-10.5%**	**-5.6%**	**-10.1%**	**-12.1%**	**-2.5%**	**-7.9%**	**-9.8%**	**-3.3%**	**-8.6%**	**-10.4%**
Jan 19	2.4%	4.4%	6.0%	2.6%	4.7%	6.3%	2.6%	4.8%	6.1%	2.1%	4.0%	5.4%
Feb 19	1.4%	2.5%	3.3%	1.4%	2.4%	3.1%	1.4%	2.6%	3.0%	1.2%	2.3%	2.8%
Mar 19	0.7%	1.3%	1.9%	0.6%	1.1%	1.5%	0.8%	1.1%	1.5%	0.9%	1.3%	1.9%
Apr 19	1.1%	2.2%	3.2%	1.5%	2.6%	3.8%	1.2%	2.5%	3.3%	1.2%	2.3%	3.2%
2019	**5.7%**	**10.9%**	**15.3%**	**6.1%**	**11.3%**	**15.4%**	**6.2%**	**11.4%**	**14.6%**	**5.5%**	**10.2%**	**13.9%**

We are delighted to report the mandate returns for April. While the majority of last year's losses were recouped in the first three months of the year, the strategies are now firmly back in positive territory, with attractive growth in returns last month.

Cyclical names were increasingly in demand, driven by the positive market sentiment. These sectors were correspondingly overweight in the portfolios, as reflected by the excess returns of our strategies. In terms of individual names, securities such as Airbus, Western Digital or Alibaba have already gained more than 35% in the year to date.

At the same time, with regard to bonds we avoided a negative performance contribution from government bonds thanks to a higher allocation in the credit markets. This has enhanced the excess return relative to peer groups since the beginning of the year. Taking the example of balanced strategies, the performance in the year to date is some 1.5 percentage points higher on average. The excess return for dynamic strategies is even more pronounced. The composition of the peer group and individual performance comparisons are available upon request.

TRANSACTIONS (most recent first)

Total SA Equities Europe Energy sector	Bought on 26 April 2019: (for all balanced and dynamic strategies) Oil prices have already climbed by more than 50% since bottoming out in December. While the price recovery is reflected by the quarterly results published by oil producers, refiners and suppliers, significantly better results can be expected in the subsequent quarters. With Total, we have opted for a broadly diversified energy company. Besides the extraction, processing and sale of oil, the company also focuses on fast-growing alternative energy sources such as liquid gas or solar energy. As well as the dividend yield of 5%, we are attracted by the company's healthy balance sheet, plans to continuously step up investment in production and capacity to remain profitable even when oil prices are low.
Ubisoft Entertainment SA Equities Europe Video games sector	Bought on 26 April 2019: (for all balanced and dynamic strategies) We took the opportunity to invest in this French video games developer to benefit from its favourable relative valuation and the mega trend of digital consumption. We expect further revenue potential due to the company's renowned video game series such as Assassin's Creed, Far Cry and Rainbow Six. After Ubisoft successfully averted a takeover bid by Vivendi, the Chinese gaming giant Tencent acquired a 5% stake in the group. As a result, Ubisoft has gained a key partner in the Chinese market, which could be a major advantage for marketing its own software.
Louis Vuitton Moët Hennessy SE Equities Europe Luxury goods	Sold on 26 April 2019: (for all balanced and dynamic strategies) The luxury goods segment has achieved disproportionately high growth in the year to date. With a gain of more than 34% and a share price close to EUR 345 (expected price/earnings ratio of 24), we now consider the stock fairly valued and decided to liquidate this position in our mandates.

Airbus SE Equities Europe Aerospace group	**Sold on 26 April 2019: (for all balanced and dynamic strategies)** Airbus has achieved impressive gains in the year to date. Solid revenues, restructuring efforts and, last but not least, the problems at US rival Boeing are the likely contributors to its strong performance. At this level, we are taking profits and selling the position.
AXA WF US Credit Short Duration IG Bond fund Corporate bonds, low duration	**Submitted for subscription on 18 April 2019: (for all conservative and balanced strategies)** The AXA US Credit Short Duration Investment Grade bond fund invests almost entirely in highly-rated US corporate bonds, with a clear focus on a shorter maturity. This would make the fund less vulnerable in the event of rising interest rates. While yields on European and Swiss bonds remain very low, this bond fund allows us to benefit from a higher yield level in the US.
AXA WF Global Inflation Short Duration Bond fund Inflation-protected, low duration	**Submitted for redemption on 18 April 2019: (for all conservative and balanced strategies)** Due to the muted inflation expectations, we no longer see the need for an inflation-protected bond fund in our strategies. In the prevailing market situation, this investment vehicle generates a lower return than typical investments due to its inbuilt inflation hedge, which is why we decided to swap the position for a corporate bond fund that also has a low duration.

POSITIONING

Liquidity Neutral	Liquidity is allocated to money market investments where necessary to avoid punitive interest rates at banks.
Bonds Underweight	Focus on global flexible strategies in combination with high-yield bonds, senior loans and floating-rate investment products with low interest rate sensitivity, while avoiding direct investments in government and European corporate bonds.
Equities Overweight	The equity allocation is being increased to the detriment of bonds. We still expect the global economic growth trend to remain intact. In our view the concerns over an economic recession are overdone. Although our baseline scenario assumes a further slowdown, we do not believe there will be negative growth. The trade war continues to weigh on valuations. If an agreement is reached – which we expect – share prices will make further gains. In regional terms, we have moved closer to a neutral weighting in recent months and reduced our overweighting of Europe as a result.
Alternative Investments Overweight	Combination of insurance securitisations, market-neutral or option-based volatility strategies, which exhibit low correlations, unlike traditional asset classes.
Foreign currencies Underweight	The foreign currency allocation is reduced in the portfolio by deploying foreign exchange futures transactions. A higher share in the reference currency is favoured at present on the basis of risk considerations.

OUTLOOK

When will we see consolidation?

Several chart-technical signals actually point to a possible consolidation. At the same time, the S&P 500 is trading close to its 2018 high. Until this is clearly surpassed, it will remain a resistance level according to technical jargon. A resistance level will only become a support level if it is breached over several days of trading. Accordingly, market volatility tends to increase around important levels such as these.

S&P 500 Index development

Sources: Bloomberg, swisspartners

There is a growing risk of negative surprises given the upcoming trade talks, European parliamentary elections and unresolved Brexit situation. In any case, market liquidity tends to drop over the summer months, which makes the stock markets more vulnerable to price turbulence. “Sell in May and go away” is a well-known slogan for this time of year.

In light of these risks, we see potential for a temporary consolidation, but do not expect weakness to persist on the equity markets in the medium to longer term given the current improvement in China's economic situation. We also expect economic activity in Europe to stabilise and see US economic output remaining intact overall. On average, the quarterly results have been higher than originally anticipated, albeit at a low level. Moreover, the guidance issued by the majority of companies has improved or at least remained unchanged. This creates potential for an economic upswing beginning at a low level.

The expansionary monetary policy of the central banks remains supportive. A muted inflation outlook will also ensure that financing conditions for companies remain low going forward and that consumer loans are issued at attractive conditions. In this type of market environment, equities are our preferred asset class.

This portfolio update was written by:

Nick M. Jenni, Partner
Head Investment Management & Solutions (CH)