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PORTFOLIO UPDATE

NOVEMBER 2019

- POSITIVE FACTORS PREVAIL
- PORTFOLIO RETURN DEFINED BY CURRENCIES AND BONDS
- WHAT TO EXPECT AFTER PHASE ONE?

REVIEW

Positive factors prevail

Share prices were buoyed by four factors over the last few weeks of trading.

As it became more or less clear that a full trade deal between the US and China is not on the agenda, attempts have been made to divide up the process of finding a solution into phases. This would allow partial success to be achieved, while neither side is prepared to make any far-reaching concessions. Investors seemed encouraged by the fact that the negotiations were being revived at least. Both parties are showing willingness to sign a "phase one" trade deal at a possible meeting in mid-November. However, the details of the agreement remain blurred.

Progress has also been made in Europe, where the European Union and the UK have agreed to postpone the date of Brexit for a third time. The latest round of votes in the UK's House of Commons suggests that there is some consensus, minimising the risk of a no-deal Brexit. This has primarily benefited sterling, which gained 3% versus the euro in October.

In his statement on the monetary policy situation, the chairman of the US central bank, Jerome Powell, stressed the negative consequences of global trade restrictions. While he believes that these effects have eased recently due to the factors mentioned above, he expects them to translate to a decline in business investments and exports. To counter this, the central bank officials feel compelled once again to use all available options in the monetary policy toolbox. FOMC members alluded to the lack of fiscal policy support measures so far, but opted to preserve the positive sentiment on the markets with another rate cut and a revival of the central bank's bond purchase programmes.

The ongoing reporting season has also provided additional relief. While company earnings have done little to change the overall picture of an ailing global economy, they have largely surpassed analysts' forecasts thus far, much to the delight of investors. Average earnings growth in the US stands at -2%, with revenues up by 3.8% year-on-year. Meanwhile, earnings in Europe have declined by 2.6% amid revenue growth of more than 3.1% (as at 31 October 2019 based on data from Factset).

Equity indices 2019 total return

America	October	2019
Dow Jones Industrial Average (US)	7.6%	7.6%
S&P 500 (US)	11.6%	11.6%
NASDAQ Composite (US)	12.4%	12.4%
Brazil Ibovespa (BR)	24.2%	24.2%
Europe	**October**	**2019**
EURO STOXX 600 (EU)	14.2%	14.2%
FTSE 100 (GB)	9.3%	9.3%
CAC 40 (FR)	18.3%	18.3%
DAX (DE)	14.7%	14.7%
SMI (CH)	17.8%	17.8%
Asia/Pacific & Emerging Markets	**October**	**2019**
Nikkei 225 (JP)	7.9%	7.9%
Hang Seng (HK)	10.4%	10.4%
MSCI Emerging Markets (EM) in USD	10.3%	10.3%

Sources: Bloomberg, swisspartners

MANDATE RETURNS gross & POSITIONING

	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%
May 19	-1.3%	-3.0%	-4.7%	-1.7%	-3.3%	-5.1%	-1.1%	-3.0%	-4.6%	-0.8%	-2.4%	-4.0%
Jun 19	1.4%	2.7%	4.0%	1.3%	2.5%	3.8%	1.9%	3.4%	4.7%	1.7%	3.3%	4.6%
Jul 19	0.8%	1.2%	1.3%	0.7%	0.8%	0.8%	0.7%	0.8%	0.7%	1.2%	1.6%	1.5%
Aug 19	0.0%	-0.2%	-0.9%	-0.2%	-0.4%	-1.3%	0.1%	-0.3%	-1.1%	0.0%	-0.3%	-1.1%
Sep 19	0.4%	0.7%	1.2%	0.3%	0.6%	1.0%	0.4%	0.6%	1.0%	0.1%	0.2%	0.5%
Oct 19	0.2%	0.1%	0.4%	0.4%	0.6%	1.0%	0.7%	0.8%	1.3%	-0.1%	-0.3%	-0.1%
2019	**7.3%**	**12.4%**	**16.5%**	**6.8%**	**12.0%**	**15.2%**	**9.2%**	**13.8%**	**16.6%**	**7.7%**	**12.4%**	**15.3%**

While the equity markets have hogged the limelight after reaching new all-time highs, the performance of the portfolio has ultimately been shaped by the trend in currencies and bond prices. Bond yields have recovered sharply amid growing hopes of subsiding geopolitical tensions. This in turn has been reflected by a negative performance contribution from the bond allocation which – other things being equal – is subject to price losses when yields climb. If this trend continues, it is advisable to pay particular attention to interest rate sensitivity when structuring a portfolio.

Combined with the prospect of an approaching end to the Brexit chaos, the shrinking key rate differential between the US and Europe has led to a marked appreciation in the euro and sterling. This was primarily reflected by foreign currency positions in the portfolio. In this setting, USD and CHF strategies posted a positive contribution on the currency front, while the other strategies had a negative influence.

Despite the aforementioned effects, returns were positive at the portfolio level (except those for sterling strategies).

Equities (neutral)	Given the deteriorating economic prospects and the Trump administration's unpredictable trade policy measures, the equity allocation was reduced in June to a neutral level. While we still anticipate positive economic growth, we feel we have adopted the right positioning with a neutral allocation given the existing risks. The liquid funds available can be quickly deployed for new investment opportunities in the event of a market correction.
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 underweighting direct investments in government and European corporate bonds that offer too little compensation for risk.
Alternative Investments (overweight)	Combination of insurance securitizations, market-neutral or option-based volatility strategies, which exhibit low correlations, unlike traditional asset classes.
Liquidity (overweight))	Outside of the US dollar investment universe, there are few opportunities to avoid the negative interest rates applied by the central banks. If necessary, we are parking excess liquidity in cash and accepting a negative return, which is partially passed on to customers, especially as there are no other risk-free alternatives. Trustee investments offer opportunities in US dollars.
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.

TRANSACTIONS

McDonald's Corp Equities USA Consumption, restaurants	**Bought on 29/10/2019:** (dynamic strategies) The proceeds from the sale of MasTec have been allocated to the highest-selling fast food chain McDonald's. An interesting investment opportunity arose thanks to a fall in the share price after the company posted slightly disappointing quarterly results. McDonald's is a stable stock for our portfolio that exhibits low sensitivity to the overall market, offers growth opportunities – especially in the emerging markets – and additional cost-saving potential owing to its franchise system.
MasTec Inc Equities USA Construction & engineering	**Sold on 29/10/2019:** (dynamic strategies) The US infrastructure engineering and construction firm MasTec can look back on a successful year. The share price has gained more than 65% in the year to date thanks to quarterly profits that have clearly beat expectations. In light of its strong performance, we are taking profits on this position and selling residual holdings in our dynamic strategies (with reductions already made in June 2019).

OUTLOOK

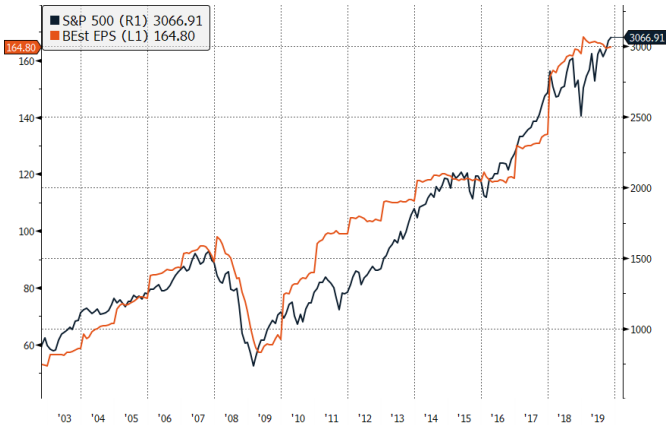
What to expect after phase one?

Last month was highly eventful and characterised by a number of conflicting developments. Strong US labour market data eclipsed the continued downswing in the manufacturing sector. A key rate cut in the US was followed by the Fed chairman's optimistic assessment of the current situation. The third delay to the Brexit date is considered a sign of progress while Donald Trump may be more likely to seek deals given the impeachment proceedings against him in the US.

In the midst of all these developments, there was evidence of a general pick-up in sentiment. The prevailing mood is that a trade deal would be in the interests of the US president given the domestic political challenges he faces. As things stand, it seems there is a good chance that reports of initial progress will emerge as early as mid-November. Growing confidence and appetite for risky financial investments have also received crucial support from the central banks. Everyone should now be aware that the monetary floodgates will remain open for some time yet. While the role of the central banks is being increasingly questioned, there is no doubt that the uptrend on the financial markets as a result of their actions is an added bonus.

It is also worth noting that, although the equity markets are considered massively overvalued, with some reaching new highs in October, the valuation ratios continue to paint a conflicting picture. For example, with a current price/earnings ratio of 17.4, the US benchmark S&P 500 index is not far from its long-term average. In Europe and Japan, the difference between the markets' current levels and their 10-year averages is even smaller. The following comparison of corporate earnings and the number of shares issued (EPS) provides a better illustration of the equity index levels.

S&P 500 equity index & earnings per share



Sources: Bloomberg

As assessments of the current situation are improving, we are maintaining neutral equity positioning for the time being. In our view, it is too soon to assume that the global economic cooldown is on the verge of a reversal, while a trade agreement is only ever one tweet away from collapse. In any case, financial market players tend to act according to the stock market adage of "buy the rumour, sell the fact". If bond yields continue to rise, we think underweighting bonds in favour of liquidity and alternative investments and minimising interest rate risks (with a low duration) is likely to be an appropriate strategy.

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This portfolio update was written by:

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