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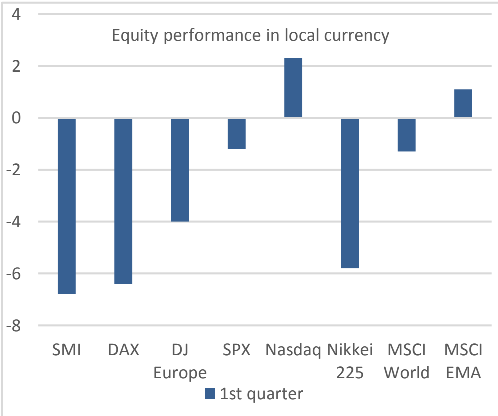
Q1 2018 interim report on investment policy

- The equity markets got off to a flying start in 2018, which was brought to an abrupt halt in February by rising fears of inflation and thus the prospect of sharper rises in interest rates. The global economy is currently in its best shape for many years, which has prompted earnings forecasts to be revised significantly upwards.
- Whilst the US's tax reform, which has mainly delivered tax cuts for the corporate sector, was welcomed on the financial markets, President Trump's trade policy dealings were met with increasing disfavour by the global stock markets. Fears of a trade war and confrontation between the two major powers of the US and China made investors much more risk-averse.
- As expected, the US central bank raised key lending rates by a further 0.25 per cent, also signalling its plans for further hikes as the year goes on. The changing of the guard at the Fed, with Jerome Powell replacing Janet Yellen as Chair, went without a hitch, indicating that, at the very least, the centres of monetary policy power are enjoying some stability.
- Capital market interest rates trended slightly upwards, while the spread for Italian government bonds remained unaffected by the right-wing parties' election success. However, risk premiums for private debtors rose by around 50 basis points on average.
- The US dollar lost some 2 per cent in trade-weighted terms on average, falling as much as 6 per cent against the yen. The sterling mounted a recovery to 1.40 on the back of the marginal progress made in Brexit negotiations.



- The Brent crude oil price rose by 5 per cent, due in part to the Trump administration's threat to terminate the nuclear deal with Iran. The resumption of sanctions would have a negative impact on global supply.
- The equity markets lost around 1 per cent compared with the World Index, while the emerging markets and the NASDAQ index remained on an upward trend. The DAX and SMI fared poorly, each shedding 6 per cent. In sector terms, only tech stocks (+ 3 per cent) and consumer goods (+2 per cent) put in a reasonably satisfactory performance.

Outlook

We expect economic growth and inflation in the key markets to develop within the desired bounds and thus do not anticipate any shocks on the monetary or interest rate policy front. The US/China trade dispute poses a lasting threat to the markets. However, there remains scope for a solution to be found despite the gathering storm clouds.

Wangs, April 2018

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