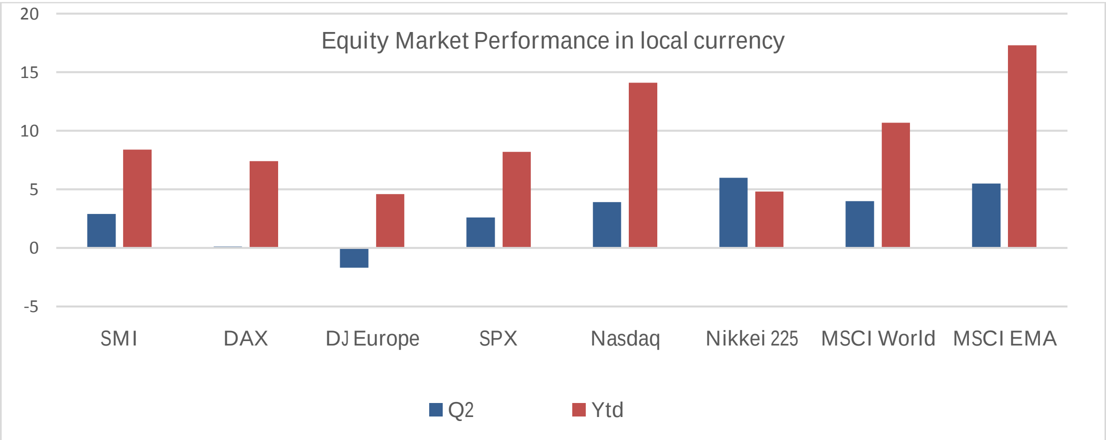
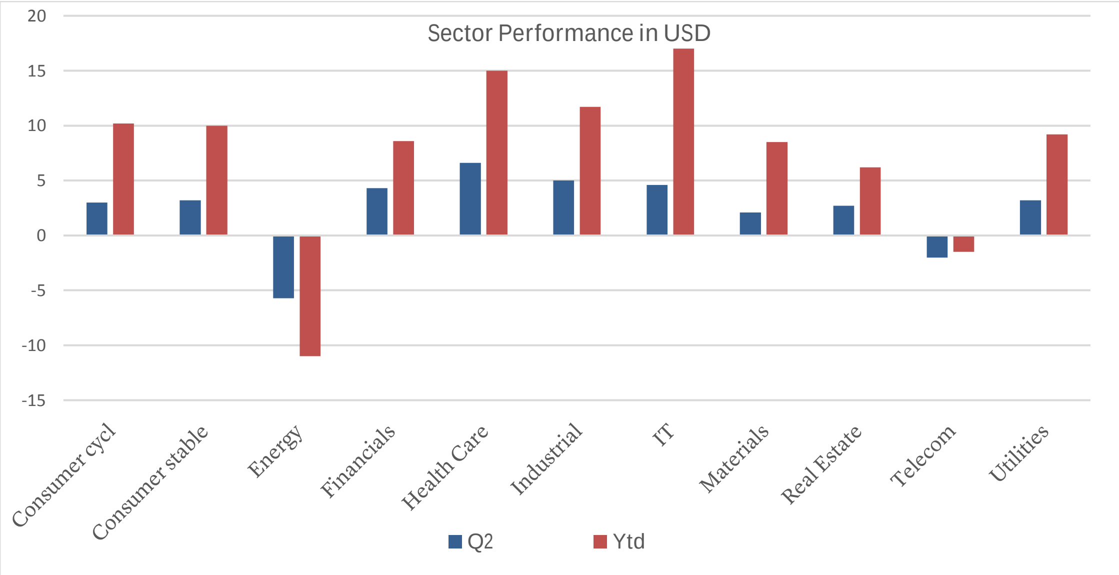
Q2 2017 interim report on investment policy

- Donald Trump has been making his mark on foreign policy. For instance, he has eased relations with China, which are so critical for geopolitical stability, while Saudi Arabia has clearly regained the US's favour – at the expense of Iran. At the same time, his demand that Europe pay more for its security did not come as a shock. In Emmanuel Macron, France elected a reform-hungry president who is keen on the EU, shortly afterwards delivering him a parliamentary majority as well. In the UK, by contrast, the Conservatives shocked everyone by losing their majority, destabilising a government that had intended quite the opposite when it called a snap election.
- Economic growth was satisfactory in all the key regions, with many indicators hitting record highs, although inflation remained low. This initially prompted surprise in the US, where wages are still not increasing at their usual rate despite a labour market that is running at capacity.
- Nevertheless, the Federal Reserve raised its key interest rate by a further 0.25% to a range of between 1% and 1.25%. A plan for taking monetary policy out of crisis mode was also outlined for the first time, with the aim being to minimise the impact on interest rates over the coming years. The ECB and SNB remained on track, even though they too made their first-ever statements on ending their unconventional policies.
- Although the yield on top-grade ten-year government bonds remained virtually unchanged, the premiums for France, Italy and Portugal fell. Risk premiums for private debtors dropped by around 40 basis points on average.
- On the currency front, the euro surged some 7% against the US dollar, reflecting lower euro policy risks amongst other factors. For its part, the dollar weakened across the board after interest rate forecasts were revised downwards. The strong euro also helped to ease the EUR/CHF situation, with the franc losing 2%; the sterling, meanwhile, dropped slightly more than this against the single currency.



- Most base and precious metal prices fell, although gold stayed more or less constant. The crude oil price shed a further 10% as most observers stuck to the view that overproduction will continue, fuelled by relatively high stockpiles and increased fracking.
- The equity markets gained around 4% compared with the World Index. With the threat of a trade war with the US receding, Asian markets were amongst the big winners. Europe performed poorly, allowing the US to catch up, while Switzerland continued to do relatively well. Healthcare stocks were the top performers across the world, adding 6.6% in Q2. By contrast, energy stocks remained on a downward trend. They lost 5.7% on average and have now fallen by as much as 11% since the start of the year.



Outlook

The threat posed by the geopolitical situation has eased, increasing investors' appetite for risk and leading everyone to ask once again whether equity markets are overvalued. We believe that the global economy will grow and that interest rates will remain low for the time being. Even in the US, a further hike in rates is unlikely to be on the table before the end of the year. In this environment, the equity markets will be bolstered by rising corporate earnings and we expect the upturn to continue, aside from any technical corrections.

Wangs, July 2017

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