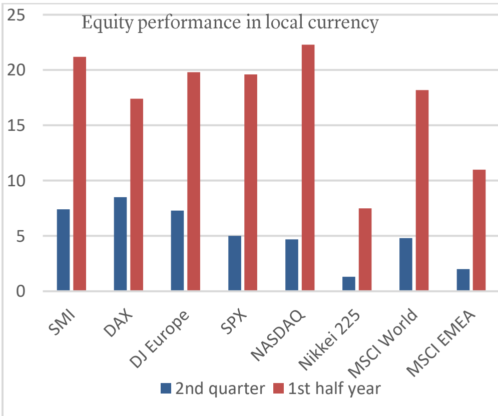
Q2 2019 interim report on investment policy

- The global economy has slowed further and international trade has flatlined, with economic weakness particularly evident in countries with a strong export base such as Germany. The leading indicators (PMI) of the world's largest economic areas generally trended downwards, with the decline in the US turning out surprisingly pronounced.
- One key reason for the economic slowdown was the escalating dispute over a trade agreement between the US and China, which pushed punitive tariffs up from 10% to 25% for a trade volume of USD 200 billion. Telecoms supplier Huawei was then denied almost any access to the US market and US products.
- The US Federal Reserve made it clear that it has completely changed course and is prepared to cut interest rates, including as a precautionary measure. Given the backdrop of a continuously stable inflationary environment and heightened economic risks, this volte-face went down well with market participants.
- In the Eurozone, inflation in May and June fell back to 1.2%, prompting Mario Draghi to announce the ECB's readiness to step up its measures to reach its target of 2% inflation. This caused the risk premiums for the government bonds issued by Eurozone countries to drop. A new President will, however, be at the helm of the ECB from the autumn.
- The European Parliament elections did not bring about the feared swing to the right, even if nationalist/conservative parties made gains. Significant changes were the losses sustained by the established Christian and Social Democratic parties and the rise of the Liberals and Greens.
- With the UK Parliament not able to come to an agreement, Brexit has been postponed until 31 October. It remains uncertain whether Theresa May's successor will enjoy greater success.



- The tensions between Iran and the US have intensified as a result of skirmishes in the Gulf of Oman and the prospect of a blockaded Strait of Hormuz, through which almost one fifth of the world's oil is transported, is becoming an important topic. Based on how oil prices have responded, however, there does not seem to be any real fear.
- The interest-rate policy shift in the US has put some pressure on the USD, pushing the CHF up against the EUR. Overall, things were relatively quiet on the currency markets and there have been only extremely minor shifts since the start of the year.
- The bond markets responded positively to the indications from monetary policy. The yields on ten-year US T-bonds dipped below 2% for some time, while the equivalent kind of CHF bonds actually "cost" investors an interest rate of 0.5% around the midpoint of the year.
- Despite losing the momentum from the first quarter, the stock markets made further gains, whereas their Asian counterparts unsurprisingly showed signs of weakness. Energy stocks fell slightly, while IT equities made the greatest gains.

Outlook

At the G20 summit at the end of June, the presidents of China and the US decided to resume negotiations on a trade agreement and keep import tariffs at the same rate for now. The Huawei embargo was then partially lifted, suggesting that this measure is more a negotiating tactic than the first shot in a technology war. We expect the road to an agreement to remain bumpy and the issue to continue to dominate financial markets. For the time being, relief looks set to prevail and stimulate investors' risk appetite. In light of the shift in US interest-rate policy and the loosening of monetary policy around the world, the stock markets are likely to continue on their upward trend.

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