Monthly Asset Allocation

Private Banking Europe Investment Committee

February 15, 2017

In a nutshell

- **Continued solid global economic outlook, political risks looming**
- **Equities benefit from friendly earnings season and a positive outlook for corporations**
- **While U.S. Treasuries are very rangebound, the USD still has potential**

Leading indicators continue to signal solid global economic outlook

Global economic data still shows a very pleasant picture of the different economies. Especially the leading indicators seem to accelerate continuously. This tendency can not only be witnessed in Western economies, but also in emerging countries. The United States of America appear to be the furthest in this economic cycle with the job market data near full employment. This led to a significant wage inflation increase in the last months. Being an important driver for the desired reflation scenario, we expect this trend to continue in the next quarters. In any case, the Federal Reserve will observe this indicator attentively.

Heightened political insecurity, caused by the new U.S. administration, is currently suppressing global capital markets. The volatility in most asset classes is at a multi-year-low. Whether this is the infamous "quiet before the storm", remains to be seen. We expect insecurities to increase in the months to come, also on grounds of multiple trend-setting elections in the Eurozone, and a huge gap between reality and promises of the Trump administration.

Graph 1: Generic Tactical Asset Allocation LGT Private Banking Europe (February 14, 2017)

	Asset Class	SAA	Current USD	Current EUR*	Current CHF*
Equities	US equities	19.0%	19.0%	14.0%	14.0%
Equities	Europe equities	5.0%	9.0%	12.0%	8.0%
Equities	UK equities	3.0%	1.0%	2.0%	0.0%
Equities	Switzerland equities	1.0%	3.0%	4.0%	10.0%
Equities	Japan equities	3.0%	5.0%	5.0%	5.0%
Equities	APAC ex JP equities	3.0%	2.0%	2.0%	2.0%
Equities	Emerging markets equities	6.0%	5.0%	5.0%	5.0%
Equities	**Total Equities**	**40.0%**	**44.0%**	**44.0%**	**44.0%**
Fixed Income	Government bonds	10.0%	3.0%	3.0%	0.0%
Fixed Income	Inflation-linked bonds	5.0%	6.0%	6.0%	6.0%
Fixed Income	Investment grade bonds	12.0%	14.0%	14.0%	19.0%
Fixed Income	High yield bonds	6.0%	6.0%	6.0%	6.0%
Fixed Income	Emerging markets bonds	6.0%	4.5%	4.5%	4.5%
Fixed Income	**Total Fixed Income**	**39.0%**	**33.5%**	**33.5%**	**35.5%**
Alternatives	Hedge funds	8.0%	6.0%	6.0%	6.0%
Alternatives	Listed private equity	2.0%	1.5%	1.5%	1.5%
Alternatives	Real estate trusts	2.0%	4.0%	4.0%	4.0%
Alternatives	Insurance-linked bonds	3.0%	4.0%	4.0%	4.0%
Alternatives	Commodities	2.0%	0.0%	0.0%	0.0%
Alternatives	Precious metals	2.0%	4.0%	4.0%	4.0%
Alternatives	**Total Alternatives**	**19.0%**	**19.5%**	**19.5%**	**19.5%**
	Cash	**2.0%**	**3.0%**	**3.0%**	**1.0%**
Currencies	USD	84.6%	89.6%	11.4%	11.4%
Currencies	EUR	0.0%	0.0%	77.7%	0.0%
Currencies	CHF	0.0%	0.0%	0.0%	78.3%
Currencies	GBP	0.0%	0.0%	0.0%	0.0%
Currencies	JPY	2.0%	0.0%	0.0%	0.0%
Currencies	Others (incl. EM)	13.4%	10.4%	10.9%	10.3%

Tactical allocation versus SAA: underweight -8% -6% -4% -2% | +2% +4% +6% +8% overweight

Source: LGT Investment Services Europe

*all calculations based on a "Balanced" portfolio in USD including AI. For EUR and CHF portfolios weights differ for subclasses; over– and underweights apply analogously

Graph 2: Current asset allocation preferences

Next meeting: March 13, 2017	What we like	What we dislike
Equities	Swiss equity European equity Japanese equity Oil and gas sector stocks Low volatility products	UK equity
Bonds	Corporate investment grade bonds	Sovereign bonds
Alternative Investments	Insurance linked bonds Gold REITS (Real Estate Investment Trusts)	
Currencies	USD	JPY

Sources: LGT Investment Services Europe

Equities: Positive earnings season and positive outlook for 2017

The focus of global equity markets currently lies on the corporate earnings season, rather than on political skirmishes and rising uncertainties with regard to world trade and geopolitical tensions. Companies in the U.S. as well as in Europe were able to excel market expectations. Last quarters' earnings recession appears to be definitely over and growth should accelerate again. High market estimates of over 10% for the coming quarters are within reach again. The anticipated higher GDP growth on the backdrop of an expanding U.S. fiscal policy and the connected reflation scenario continues to vivify the hopes and fantasies of equity investors. In addition, market participants hope for friendlier U.S. corporate tax policies of the Trump administration and thus a backflow of huge amounts of offshore assets back into the U.S., causing new investments, higher dividends or stock repurchases. A drop of bitterness are the historically high valuation, being in the topmost quartile, and the very low volatility. Regarding the Trump administration, we expect the first 100 days in office to deliver enough critical situations for a potential spike in volatility.

Fixed Income: Tight range in U.S. Treasuries

The global fixed income markets are still in a consolidation period after the steep yield increase in the fourth quarter of 2016. Year -to-date, particularly the market for U.S. government bonds is very rangebound and bobs up and down. Though it is expected that the accelerated debt-friendly rhetoric of the Trump administration will move yields up at the long end of the yield curve. The capital markets anticipate further rate tightening on the part of the Fed in the first half of 2017. Up to three rate hikes until December 2017 could be quite possible. Of course this depends on the inflation pressure of the coming months. We think the U.S. central bank is slightly behind the curve, which is not that inappropriate because reflation is crucial at the moment. We do not expect a noteworthy positive return for a pure fixed income portfolio with governments bonds and hence keep our significant underweight. Our preference for corporate bonds remains, although we do not expect to earn more than the carry. Likewise the investor will probably not benefit anymore from a spread narrowing in high-yield bonds, as they trade on a very low level. In the hybrid segment, we still see potential within CoCos and subordinated bonds.

Currencies: The U.S. dollar still has potential

The U.S. dollar still owns upwards potential since the rate differential against the euro and especially the yen remains interesting. However, the "fat" years for the Greenback – from 2014 to 2016 – are over. The potential in regard to fundamental factors like purchasing power parity as well as balance of payments situation are limited in the middle and long term for the dollar. We anticipate the most appreciation potential for the U.S. dollar against the Japanese yen, and in the short term also for the British pound on the backdrop of the upcoming Brexit negotiations. In the case of the euro and the Swiss franc, revaluation fantasies are limited, particularly in the long term.

If you require further information or advise, please contact your LGT relationship manager.

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