



In a nutshell

- Global equities seem unaffected by geopolitical uncertainties
- Yields on 10-year US government bonds have declined to the lower end of their trading range
- We recommend reaping profits on gold and the Swedish Krona

Hurricane series in the USA might be a possible turning point in Trumps presidency

Within a short period of time, the USA was struck by two devastating hurricanes over the past few weeks. First, "Harvey" raged in Texas, then "Irma" followed, leaving behind a trail of destruction along the west coast of Florida. Both hurricanes have caused considerable damage. For the presidency of Donald Trump – to date a rather unsuccessful one in view of the implementation of the major points of his political agenda – the hurricanes and caused damages could mean a possible turning point, and thus a decisive factor for the further development of the capital markets. In the past few months, the US government has hardly found any majorities for its agenda, whether it be for the budget planning, possible infrastructure projects or fiscal impetus. To make matters worse, the approach of the debt ceiling added to the already challenging situation as well as the associated risk of a government shut-down, as was already the case in 2013.

With the hurricane series, some signs seem to have changed. Emergency aid has become necessary, and the reconstruction of the disaster areas will consume hundreds of billions of US dollars. Against this backdrop, the US government will likely have an easier time now when requesting funding from the Congress for infrastructure reconstruction. Trump has used the situation also to maintain his image, the success of which is reflected in rising approval rates for the US president. It remains to be seen whether this momentum will remain temporary. If it continues for the longer term, the current situation can revive a reflation scenario that hopes for a significant fiscal impulse. Looking ahead, the global macroeconomic picture is painted in bright colors for Q4 2017, too. The

Graph 1: Generic Tactical Asset Allocation LGT Private Banking Europe (September 13, 2017)

Asset Class	SAA	underweight				Tactical allocation versus SAA				USD	EUR	CHF
		-8%	-6%	-4%	-2%	+2%	+4%	+6%	+8%			
Equities												
US equities	20.0%									20.0%	15.0%	15.0%
Europe equities	6.0%									9.0%	12.0%	8.0%
UK equities	3.0%									3.0%	4.0%	2.0%
Switzerland equities	1.0%									1.0%	2.0%	8.0%
Japan equities	4.0%									5.0%	5.0%	5.0%
APAC ex JP equities	3.0%									2.0%	2.0%	2.0%
Emerging markets equities	6.0%									6.0%	6.0%	6.0%
Total Equities	43.0%									46.0%	46.0%	46.0%
Fixed Income												
Government bonds	6.0%									3.0%	3.0%	0.0%
Inflation-linked bonds	6.0%									6.0%	6.0%	5.0%
Investment grade bonds	12.0%									12.0%	12.0%	16.0%
High yield bonds	6.0%									0.0%	0.0%	0.0%
Subordinated Debt	0.0%									3.0%	3.0%	3.0%
Emerging markets bonds	6.0%									8.0%	8.0%	8.0%
Total Fixed Income	36.0%									32.0%	32.0%	32.0%
Alternatives												
Hedge funds	7.0%									6.0%	6.0%	6.0%
Listed private equity	2.0%									0.0%	0.0%	0.0%
Real estate trusts	3.0%									3.0%	3.0%	3.0%
Insurance-linked bonds	3.0%									4.0%	4.0%	4.0%
Commodities	2.0%									0.0%	0.0%	0.0%
Precious metals	2.0%									2.0%	2.0%	2.0%
Total Alternatives	19.0%									15.0%	15.0%	15.0%
Cash	2.0%									7.0%	7.0%	7.0%
Currencies												
USD	86.5%									85.5%	10.0%	10.0%
EUR	0.0%									0.0%	75.1%	0.0%
CHF	0.0%									0.0%	0.0%	75.7%
GBP	0.0%									0.0%	0.0%	0.0%
SEK	0.0%									0.0%	0.0%	0.0%
Others (incl. EM)	13.5%									14.5%	14.9%	14.3%

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: Oct 09, 2017

	What we like	What we dislike
Equities	<ul style="list-style-type: none"> European equity Japanese equity Oil and gas sector stocks Low volatility products 	
Bonds	<ul style="list-style-type: none"> Low duration Emerging Market Local Currency bonds Subordinated debt 	<ul style="list-style-type: none"> Sovereign bonds High yield bonds
Alternative Investments	<ul style="list-style-type: none"> Insurance linked bonds 	<ul style="list-style-type: none"> Listed private equity
Currencies		

Sources: LGT Investment Services Europe

synchronous growth pattern is likely to continue in the coming year. This also means that we are confirming our positive position for equities at the asset allocation level, overweighting this asset class at the expense of the bond market.

Equities: global equities seem unaffected by geopolitical uncertainties and continue their consolidation phase

After their rise in the first half of the year, the global equity markets are still in a consolidation phase. Despite the unfavorable seasonality as well as geopolitical challenges, the most important equity market barometers are close to their all-time highs. Volatility remains very low in historical terms. This is largely attributable to the continually expansive monetary policy of the central banks. Our outlook for global equities remains constructive, as profit and revenue growth continues to be positive. Added to this is the fact that, for example, earnings yields in Europe are still over 5% above the bond yield. At country level, we prefer securities from the euro zone, which focus on growth within the euro zone. Due to the euro's strength we remain cautious with European export companies that make a large part of their sales in US dollars. The weak US dollar has also prompted the Private Banking Investment Committee to raise US equities from underweight to a neutral weighting. We expect earnings growth to accelerate in the coming quarters – not least because of the weak greenback.

Fixed Income: long-term US interest rates at the lower end of their trading range

Geopolitical tensions as well as a possible real test in US domestic policy have lowered the yields on 10-year government bonds in the USA to the lower end of their trading range. After the uncertainties mentioned above have cleared again, we expect a renewed increase in yields. US economic growth is solid and appears to have overcome the growth dent of the second quarter. The labor market has nearly reached full employment, which in the medium term could lead to wage pressures, resulting potentially in interest rates tilting towards the upper end.

Our strong underweight in government bonds, especially in the euro zone, has been confirmed by the Private Banking Investment Committee. We recommend our clients to continue with investments in bonds with a short duration on the portfolio level. We favor emerging market bonds in local currencies, which still provide an attractive yield pick-up over bonds in developed countries. We see potential for subordinated bonds as a portfolio mix, but little to none in the high-yield segment at the current valuation level.

Precious metals and currencies: taking profits with gold and the Swedish Krona

After the US dollar has weakened during the summer months due to the rhetoric of the Federal Reserve and the ECB, some stability, or consolidation respectively, seems to have taken place. In the next few weeks, there is the possibility of a short-term counter-movement of the greenback. The Swedish Krona has shown a strong performance against most currencies over the last few weeks: we recommend our clients to reap profits.

As a result of geopolitical tensions, a weak US dollar and lower long-term US interest rates, gold has seen a strong increase during the past weeks. For this reason, we have decided to reap profits and reduce our overweight in gold to a neutral ratio at portfolio level. In the long term, we continue to consider gold as a strategic portfolio hedge.

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

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