Monthly Asset Allocation

Private Banking Europe Investment Committee

January 30, 2019

In a nutshell

- **In the context of a mixed mandate, we temporarily reduce the risk at an asset allocation level**
- **We reduce our overweight in equities and take a more defensive position at portfolio level**
- **Gold as an "anti-dollar" has further potential in the medium term**

A shutdown, a conflict and a separation

The longest shutdown in the history of the USA is over. There are hardly any winners, but another proof of the latent dysfunctional tendencies around the US government. We do not expect the situation to improve significantly in the coming months either, which in turn should lead to continued volatility in the markets. The trade conflict between the US and China has reached the next phase. The equity market remains extremely sensitive to any new information regarding the results of the complex negotiations. As it is in the interest of both parties to reach a deal, we expect a solution towards the end of the first quarter of 2019. The "divorce" of the United Kingdom and the EU with the chaotic Brexit negotiations is increasingly resembling a soap opera with currently only one certainty: the upcoming deadline end of March. Market participants expect a "last-minute" solution that is more likely to be a weak compromise for both parties. In the context of a mixed mandate, we temporarily reduce the risk at asset allocation level. Following the strong rebound in equities, we are reducing our overweight in this asset class and take a more defensive position at portfolio level. The reduction benefits liquidity in order to have the anti-cyclical flexibility to rebuild equities once the uncertainties mentioned above have subsided. However, we see no need to adjust our positive outlook for equities. They will remain in focus with increased volatility.

Table 1: Generic Tactical Asset Allocation LGT Private Banking Europe (January 30, 2019)

Asset class	Position (- - - / - - / - / + / + + / + + +)
Equities	
USA	+
Europe	neutral
UK	neutral
Switzerland	neutral
Japan	neutral
Asia-Pacific ex. Japan	neutral
Emerging markets	neutral
Total Equities	+
Fixed Income	
Government and Investment Grade bonds	neutral
Inflation-linked bonds	neutral
High yield bonds	- - -
Emerging markets bonds	+
Total Fixed Income	-
Alternatives	
Hedge Funds	- - -
Listed Private Equity	- - -
Real estate trusts	neutral
Insurance-linked bonds	+
Commodities	neutral
Precious metals	+
Total Alternatives	- -
Cash	+ +

Source: LGT Investment Services Europe

Table 2: Current asset allocation preferences

Next meeting: February 25, 2019	What we like	What we dislike
Equities	USA	
Fixed Income	Low duration Shortterm US Treasuries Investment Grade bonds	Swiss government bonds EU government bonds High yield bonds
Alternatives	Gold Insurance-linked bonds	Hedge Funds Listed Private Equity
Currencies	Japanese yen	

Sources: LGT Investment Services Europe

Equities: After a strong rebound, we now take "a few chips off the table"

In January, equities were already able to make up for the losses of last December. The increase in the first trading weeks of the new year was so strong that we took advantage of the countermove to temporarily reduce our overweight tactically. However, nothing has changed in our constructive assessment of equities for the year as a whole. As described in our "Outlook 2019 – Quality is King", we continue to focus on quality equities. Market participants are currently focusing on the corporate earnings season. The outlook of the companies is of decisive importance. The impact of the trade conflict and the weakening global economy on sales and earnings growth is currently the big question. On a global basis, we expect earnings growth in the mid single-digit percentage range and favour companies with attractive dividend growth. However, despite the strong counter-movement, the time for experimentation is over. At the country level, we favour the US, where we have the best visibility in terms of margins and profit growth. In Europe, Brexit is creating uncertainty in the coming weeks, which is why we are reducing our overweight to neutral in the short term.

Fixed Income: portfolio stability

The severe turbulences in the equity market in December 2018 led many investors to switch to US government bonds, which pushed the entire yield curve some 50 basis points lower. We consider this to be a temporary move and would continue to keep the remaining maturity of the portfolio short as the yield curve is too flat. As a substitute for liquidity, we see short-term US government bonds in a USD portfolio as attractive. On the other hand, we remain underweight on both sides of the Atlantic with regard to long-term government bonds. In the Eurozone and Switzerland, first-class corporate bonds offer improved yield potential again and should bring the necessary stability to the portfolio with increased equity volatility. We believe that the rise in credit spreads on high-yield bonds is still too low to consider a return to exposure. The strong underweight remains. Emerging market bonds will stay the focus in the medium term as a "wildcard" with increased volatility.

Currencies: Gold as an "anti-dollar" has further potential in the medium term

The rhetoric of the US Federal Reserve has changed considerably in the recent weeks: away from further continuous interest rate steps towards a central bank policy that is now more geared to the changing economic environment in the USA and on a global basis. Thus, an important pillar for further upward potential of the US dollar is missing. The time of gold – the so-called "anti-dollar"– seems to have come, and should remain so for the time being. We see further yield potential here in the medium term. In recent weeks, the precious metal has also once again proved its worth as an effective hedge against rising stock market volatility at the asset allocation level. We will maintain our overweight in the Japanese yen, which serves as a clear portfolio stabilizer in volatile phases.

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

Author: Thomas Wille, Head Investment Strategy & Communication

Editor: Natija Dolić, Senior Investment Communication Officer

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