Monthly Asset Allocation
Private Banking Europe Investment Committee

February 27, 2019

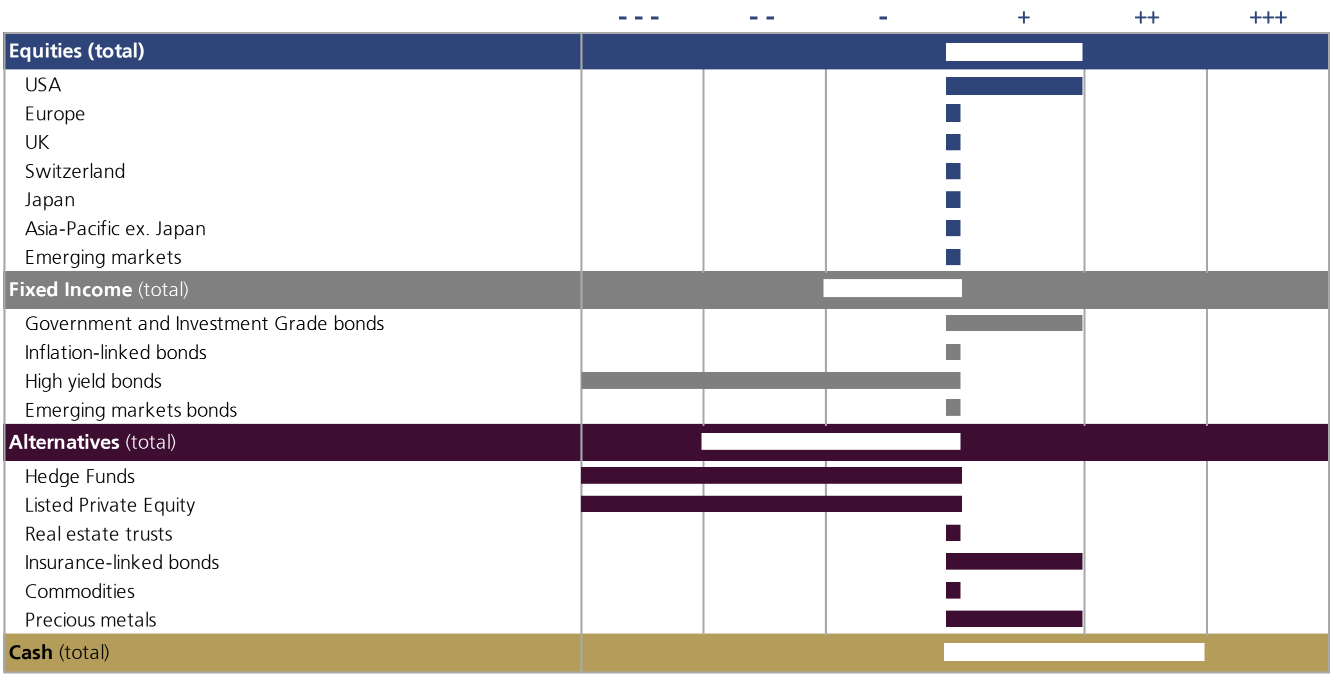
In a nutshell

- **At asset allocation level, we remain cautiously positioned and prefer a so-called "barbell strategy"**
- **We realize gains in Emerging Markets Local Currency bonds and increase our quota of Investment Grade bonds**
- **We hold on to gold and the Japanese yen as further portfolio stabilizers**

Dysfunctional environment 2.0

In the USA, a second "shutdown" of the government was averted at the last second, while the Brexit negotiations between the EU and the United Kingdom are in what seems like an endless loop. Both developments testify to dysfunctionalities at the highest level of government. US President Trump, for example, recently used the declaration of a national emergency as a means of persuading the Congress to fully finance the construction of the wall on the Mexican border. And in Europe, the Brexit is causing unrest, also - or perhaps precisely – because of the inability of the British parliament to agree on the way to leave the EU. A second Brexit referendum, or even a so-called "Hard Brexit", does seem like one of the possible options. The dysfunctionalities of the past year continue, but the perception of market participants has changed: The muddled situation is now coming up against an almost tacit acceptance. We continue to believe that the biggest uncertainties will come from the trade conflict between the US and China. We therefore remain cautiously positioned at the asset allocation level and prefer a so-called "barbell strategy", i.e. an overweight in liquid assets and equities at the expense of the bond and alternative investments quota. Within the bond quota, we are temporarily adopting a more defensive stance by reducing emerging markets bonds in local currencies to "neutral". In return, we increase the proportion of Investment Grade bonds. We are holding on to gold and the Japanese yen as further portfolio stabilizers.

Table 1: Generic Tactical Asset Allocation LGT Private Banking Europe (February 27, 2019)



Source: LGT Investment Services Europe

Table 2: Current asset allocation preferences

	What we like	What we dislike
Equities	US equities	
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: focus on earnings growth and valuation

In recent weeks, analysts have sharply reduced the earnings outlook at the global level. For this year, they expect profit growth of 5-6% in the US and 1-2% in Europe. Against the backdrop of drastically lowered expectations, however, there is also the possibility that companies will surprise positively. This cautious attitude is also reflected in the current valuations of equities. The valuation of the MSCI World Index is close to the long-term average of 15x. The G3 central banks have provided additional support in recent weeks, announcing that they do not expect further interest rate hikes and that the Fed balance sheet reduction is likely to be completed by the end of 2019. Moreover, according to the Fed, the inflation outlook for the US economy remains moderate, so that some market participants are already dreaming of a new "Goldilocks" scenario, which currently seems premature to us. We remain true to our motto for 2019: focus on selection and quality. US equities remain our favorite as they have the best visibility in terms of turnover, margins and earnings at a global level. In addition, share buybacks have started in 2019 with new record highs, providing support for prices.

Fixed income: realisation of gains on emerging market bonds in local currency

The stock market rally of recent weeks has had hardly any significant impact on the interest rate level of government bonds of developed countries. During the turbulence on the stock markets in December 2018, these still served as "safe havens" among asset classes. Neither in the USA, nor in the euro zone, nor in Switzerland have long-term government bonds begun to rise. We are even close to the absolute record lows of 2016 with the German Bund (0.1%) and the Swiss bond (-0.3%). We therefore maintain our negative assessment for this asset class. The only exception are short-term US government bonds. Here investors can park their money for an interest rate of 2.5%. For emerging markets bonds in local currencies, we realize gains in view of the ongoing negotiations in the trade conflict between the USA and China as a more cautious approach towards bonds is advisable in the coming weeks.

Currencies: gold should take a breather in the short term

After the rapid rise in recent months, we expect a consolidation of the gold price, which had climbed steadily despite risk-on positioning in the capital markets. A breather is justified after the advances and would leave our positive medium-term outlook unclouded. In the coming months, we see only limited potential for the rest of the commodities sector until there is more clarity regarding the latent growth uncertainties of the Chinese economy.

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

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which we expect a relative outperformance compared to sector/quality peers among comparable maturities. We recommend "Hold" if we expect an average performance compared to sector/quality peers among comparable maturities. We recommend "Unattractive" if we expect a relative underperformance compared to sector/quality peers among comparable maturities.
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