LimmatWealth

Investment Strategy – November 2019

Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs CHF)		
	GDP 18	GDP 19	CPI 18	CPI 19	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	2.6	0.8	0.9	0.5	12'482	→	↗	-0.51	-0.60	-0.60	-	-	-
Germany	1.5	0.5	1.9	1.9	13'162	→	↗	-0.36	-0.40	-0.40	-	-	-
Eurozone	1.8	1.1	1.7	1.7	3'668	→	↗	-	-	-	1.10	1.10	1.12
United Kingdom	1.4	1.2	2.5	2.5	7'384	→	↗	0.69	0.60	0.90	1.27	1.24	1.26
United States	2.9	2.3	2.4	2.4	3'067	→	↗	1.77	1.65	1.85	0.99	0.99	0.97
Japan	0.7	0.9	1.0	1.0	22'851	→	↗	-0.18	-0.20	-0.10	110	106	107

Emerging Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 18	GDP 19	CPI 18	CPI 19	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Asia ex Japan	5.2	5.2	2.6	2.6	649	→	↗	-	-	-	-	-	-
China	6.6	6.1	2.1	2.1	2'975	→	↗	3.30	3.00	2.80	7.03	7.20	7.20

Review – Another good month for equity markets

Equity markets worldwide finished another month with positive returns. While markets in Japan (+5.4%), Asia (+4.5%), and Germany (+3.5%) advanced significantly, the UK posted a negative return (-2.2%). The Swiss equity market increased as well (+0.8%).

Yields on ten-year government bonds increased worldwide last month. Yields increased in Switzerland (+0.19% to -0.56%) as well as in Germany (+0.16% to -0.41%), the UK (+0.14% to 0.63%), and China (+0.14% to 3.28%).

Currency markets moved within reason in October, only the British Pound led to increased volatility and strengthened significantly against the Swiss Franc (+4.1% to CHF 1.28), US Dollar (+5.3% to USD 1.29), and Euro (+2.9% to EUR 1.16). The Swiss Franc strengthened marginally against the US Dollar (+1.2% to CHF 0.99) and weakened slightly against the Euro (-1.1% to CHF 1.10). The Euro strengthened against the US Dollar (+2.3% to USD 1.12).

Alternative investments performed positively as well last month. Gold increased (+2.8% to USD 1,513 per ounce), while oil (WTI, +0.2% to USD 54.18 per barrel) and hedge funds (+0.3%) remained unchanged.

Outlook – Probability of a recession in the United States rises

As mentioned in last month’s investment strategy, political and economic uncertainties have continued to increase in the past few weeks. The ongoing trade war between the United States and China and the cooling economy now seem to have a negative impact on US companies. That is why the probability of a recession in the US in the next twelve months notes at the highest point of the past ten years (38% as per Haver Analysis and the Federal Reserve Bank of New York). Equity markets remain resilient despite this increased

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probability and even reached new highs in the case of the US. The US asset manager MFS recently published a checklist (below) with nine indicators which could indicate a potential recession. As of end of September, five of these indicators turned red and are therefore a cause for concern.

	Cause for concern? Yes	Maybe	No	Measure	*Notes*
Economic excesses	✓			High corporate debt	*Higher than prior to GFC*
			✓	Labor market running hot	*NFP growth slowing, more slack than feared*
Financial excesses		✓		Asset bubbles	*Credit spreads compressed by ultra-loose global monetary policy*
		✓		M&A activity elevated	*Below record pace but still elevated*
Late-cycle indicators	✓			Inverted yield curve	*Becoming persistent (3m-10-yr)*
	✓			Deteriorating profit margins	*Watching wage growth & interest expense*
	✓			PMIs weakening	*Growth slowing*
		✓		Jobless claims	*Watch for marked uptick from record lows*
External shocks	✓			Geopolitical risk	*China, Europe slowing/trade, Brexit, Iran*

Source: MFS, as of September 2019

We continue to expect sideways to slightly negative trending markets over the coming months and we continue to prefer the United States over Europe.

The US central bank FED cut rates once again in late October to a bandwidth of 1.50-1.75%. Market participants view another rate cut by the FED in the coming six months as possible (52% probability) while the ECB is not expected to cut rates again (43% probability).

Ongoing Brexit discussions and geopolitical tensions in general continue to quickly lead to strong moves in currency markets. The Swiss Franc has historically acted as a safe haven in times of trouble.

Hedge funds performed well so far this year and they are expected to continue to benefit from the increased volatility. We maintain our gold position for diversification reasons.

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Limmat Wealth Ltd.