INVESTMENT COMMENT

September 2017

- **US dollar: Expect short-term weakness and further gold appreciation**

  The dollar index "DXY" (a measure of the dollar against a basket of six major currencies) has retreated about 10 percent since the beginning of this year. From a fundamentals point of view, we see further weakness in the short-term. Not only did Treasury Secretary Mnuchin recently confirm the administration's preference for a weaker currency, political measures also point in the same direction: President Trump cut a deal with the Democrats for a 3-month extension of the debt ceiling and three additional months of funding for the government, and in doing so opened the door for further cooperation with the Democrats – which could mean higher budget deficits and national debt. The US federal debt has just surpassed the psychologically important $20 trillion mark and will continue to rise further. Higher debt levels and more government spending weaken a currency and due to the high negative correlation between the US currency and gold we see further upside in the latter.

- **Bitcoin: a worthy investment?**

  Even though Bitcoin has provided early investors with extremely high returns – and has soared over 300% so far in 2017, we still cannot put our arms around it – at least not yet – let alone participate in any of the numerous initial coin offerings (ICO). Aside from all the obvious hesitations about the cryptocurrency, regulatory authorities are also playing a role. China has just announced that it will shut down all bitcoin exchanges (in an attempt to minimize the risk to the country's financial system). Why is this relevant? Chinese exchanges accounted for 90% of all global trading in bitcoins as of early 2017, and after exchanges were mandated to adhere to anti-money laundering rules and levy fees which reduced volumes, they still account for 1/3 of the global volumes. A retreat in China would have a large impact on the dynamics of the Bitcoin market.

- **Emerging markets are turning**

  The tidal wave caused by the financial Tsunami of 2007/2008 with unprecedented quantitative easing measures delivered profits in a few major trades – long U.S. securities, short emerging markets and long German bunds. This macro trend has started to reverse, partly due to fundamentals and growth prospects, partly due to valuation. While the ECB is still hesitating to return to a more normal fiscal policy, the Fed has started raising rates. Given the long period of disaffection by global investors, emerging markets have held up amazingly well. With a gradual reversal in sentiment towards emerging markets, they will outperform other regions across all asset classes: fixed income, equities and foreign exchange. The best way from a risk return point of view is to buy local emerging market debt in local currency.

- **High yield: reduce in Europe and the U.S.**

  There is really no more "high yield" debt in Europe and the U.S. In reality, they are "low yield" with high risk. Unprecedented buying by central banks and investors have pushed yields to historically low levels. With the reversal of the abovementioned tsunami wave, this trade is coming to an end and positions should be exited over time. Structured credit strategies have also run their course.

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