INVESTMENT COMMENT

February 2018

- **"As goes January, so goes the year"**

  Most economies around the world continue to pick up steam rather than cool off. However, points of contention remain: rising inflationary expectations, a reversal of the monetary stimulus with the Fed switching from net buyer to net seller of securities, the uncertain impact of automatization on employment, the increasing dependence on China for global growth, as well as political and geopolitical tail risks have been masked by the market's continuous rise.

  While we see little reason for the bull market run to end, overly positive investor sentiment coupled with the realization that the macro picture is changing (rising inflation) triggered the current overdue correction. When markets rise faster than the underlying economy's potential growth rate, they will have to contract at some point. Since 1945, we have witnessed 22 bull market corrections of more than 10%. Other factors that could extend this correction include unsustainable valuation excesses, indigestible central bank cooling measures and automatic ETF-selling. Once the dust on the current correction settles, we prefer value and large cap stocks as well as actively managed funds over ETFs.

- **Europe: credit terms are easing**

  The volume of loans issued to the private sector stands at a monthly post-crisis high. Both households and corporates benefit from this increase. It is testament to an improved risk outlook and a return of interbank competition. Stronger credit demand and more flexible supply conditions support the ongoing recovery in Europe with caveat of "parabank" loans proving more elusive during a crisis scenario.

- **Change is in the air**

  Interest rates and maturities rose globally during the past five months. As the global economy continues to expand, the employment picture improves (as reflected in the strong jobs report in the U.S. - more new jobs and higher wage growth). We see inflation creeping back into the system. There is now a 20%+ probability of four rate hikes in the US this year. This will trigger additional sales from fixed income investors and put further upward pressure on rates. It is time to dispose of developed market debt (regardless of its quality) and hold cash or emerging market debt.

- **USD and Gold**

  Earlier this month the Commodity Futures Trading Commission (CFTC) recorded the highest net long exposure in EUR (USD 23.1bn) since these numbers are being tracked and a net short in USD of 16.1bn. Long euro / short dollar has become a crowded trade that could reverse quickly if the interest rate differential between the U.S. and Europe widens.

  We expect gold equities to appreciate despite expecting a stronger USD and a strong inverse correlation between the dollar and gold. The sector is trading at historically low multiples. Besides, gold offers a store of value in times of uncertainty.

- **Crypto currencies are not for the faint of heart**

  We continue to shy away from investing in crypto currencies. Despite all the hype and the potential future merits, crypto currency technology still faces regulatory uncertainty. The closure of several exchanges and the complexity of the proposed value proposition make the sector a playing field for huge risk takers.