

Reducing Risk

Tactical Positioning - June 2019

The global economy is still growing, but so too are concerns about a looming recession. Against this backdrop, we have decided to close the portfolio overweight in emerging market equities and introduce Insurance-Linked Securities (ILS) as an additional diversification element alongside gold.

Weak economic data and worries about the negative effects of various trade conflicts have roused the US Federal Reserve. If the outlook continues to darken, so the Fed is signalling, it stands ready to support the economy through interest rate cuts. The stock markets gratefully accepted this statement of intent and subsequently recovered most losses incurred in May. Derived from interest rate futures, the markets are now expecting two rate cuts from the Fed later this year.

This is creating a paradoxical situation. With poor economic data being received positively by market participants, because it makes an intervention by the Fed all the more likely. This may provide some short-term support for the stock markets, but the question arises whether too much has been read into the Fed's statement. Here, in our view, lies a potential for disappointment if the Fed does not follow through on its words with deeds.

In any case, leading economic indicators have faded over the past few weeks on a broad front, auguring a noticeable slowdown in the economy. In our view, this environment is a rich breeding ground for further recession worries. Combined with the unresolved trade disputes, we therefore consider it advisable, on the one hand, to reduce equity risk in the portfolio and to hedge the portfolio even more broadly with the addition of insurance-linked securities (ILS).



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Underweight Bonds

The lower quota for government bonds as well global bonds reflects their unattractive risk-return profile. We continue to be neutrally weighted in corporate bonds.

Equities reduced to neutral

Against the backdrop of seemingly never-ending trade conflicts and increased recession risks, we have reduced our equity position to the strategic level.

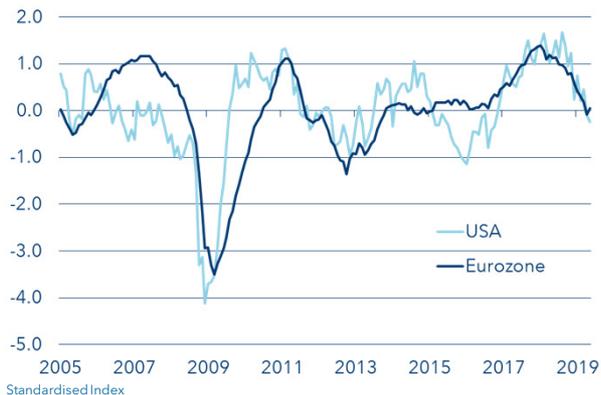
Gold and ILS for diversification

Our overweight on gold has been validated. We now add Insurance-Linked Securities (ILS) with an additional hedging function for the portfolio.

Hedged Currencies

Due to risk considerations, the currencies of the industrialised economies are strategically hedged. In EUR and CHF mandates, the USD is partially unhedged.

Economic sentiment deteriorates further



Tactical Allocation



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