

ECONOMIC OUTLOOK

Despite the rather positive on-going stock markets, we are clearly facing a deteriorating economic growth with indicators worsening. Brexit and the still unsolved trade conflict between the US and China further increase insecurities. So, why are investors fairly calm these days? Did we miss something?

First things first: **Brexit. It is a complete mess.** The votes in the British Parliament are becoming rather a comedy show. Although they all were rejected, the results of the individual votes differed considerably. The proposal of a permanent custom union with the EU, which was rejected by only eight different votes, met with the most approval. The proposal for a second referendum also received a high proportion of yes votes. On the other hand, a No-Deal Brexit and the withdrawal of the resignation request were clearly rejected. It seems as if politicians are working on a second referendum behind the curtains. Story to be continued.

In the **US, growth slowed sharply** in Q4 to an annual rate of 2.2 percent. There are concerns of a further deteriorating growth in Q1 this year as global weakness, fading government stimulus and rising trade tensions have taken on a toll on the economy. Economic indicators and PMI are coming under pressure although from elevated levels. **All in all, the US economy is not on the bright side.** Obviously, the **FED** is in a waiting position, but more on the central bank in the special topic section on page 3. The **EZ's economy remains under pressure** from weak global demand and political uncertainty, after a regional poll suggested manufacturing activity was now performing at its worst in more than five years. When you see Germany and France struggling then investors should be cautiously for European exposure. The

stabilization of sentiment indicators was not confirmed in March. But we expect in H2 a slight upturn in growth.

Surprisingly, **equities are still holding steady** despite of the divergence between stock markets and real economy. What we have seen in the past is the phenomenon that central banks are backing up for any issue while equity markets continuing to rise. Also, today, the **loose financial conditions and expecting falling interest rates are positive for equities**, and likely have been responsible for the bulk of the move out of safety and into risky assets. However, we are more cautiously today and changed our stance a notch down to "neutral" for equities.

In **credit**, the **US yield curve turned inverted for the first time since 2007.** Credit Spreads retreated as well in line with the risk-on mood in equity markets. However, we would like to take the opportunity to focus more on safety than on yield and increase high-graded credit. We increase our bond allocation to neutral as well as our duration to a neutral duration.

On the **currency markets**, the USD offers superior interest rates and the still soft global growth backdrop is supportive due to its role as a safe haven currency. Since the market is heavily short EUR/USD, there might be upside surprises in the coming weeks. **Gold** should trade sideways due to the stronger USD unless any turmoil occurs. **Oil** price increased lately but we do not see a rally from here. The softness in the global economy as well as the ability of US oil producers to ramp up production when prices spike are just a few reasons keeping oil in check.

TACTICAL ASSET ALLOCATION*

Liquidity	Neutral
Bonds	Neutral (↑)
Equities	Neutral (↓)
Alternative Investments	Neutral

EQUITY INDICATORS

Valuation	Underweight
Momentum	Neutral
Seasonality	Attractive
Macro	Underweight

*no changes to previous month

Should you require further information or advise, please do not hesitate to contact your Clarus Capital relationship manager.



MARKET OVERVIEW AS OF MONDAY, 01 APRIL 2019, 10:43 PM

FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd		Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Overnight	2.38	0.00	-0.01	0.00	USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD 1y Swap	2.57	-0.10	-0.18	-0.18	USD Aggregate 1-3y	0.7%	1.2%	2.4%	1.2%
USD 3y Swap	2.38	-0.23	-0.22	-0.21	USD Aggregate 3-5y	1.4%	2.1%	4.0%	2.1%
USD 5y Swap	2.36	-0.24	-0.21	-0.21	USD Aggregate 5-7y	1.7%	2.6%	4.7%	2.6%
USD 10y Swap	2.50	-0.26	-0.21	-0.21	USD Aggregate 7-10y	2.2%	3.1%	5.3%	3.1%
EUR Overnight	-0.36	0.01	0.00	0.00	EUR Overnight	0.0%	-0.1%	-0.2%	-0.1%
EUR 1y Swap	-0.23	-0.02	0.00	0.00	EUR Aggregate 1-3y	0.2%	0.3%	0.6%	0.3%
EUR 3y Swap	-0.14	-0.10	-0.06	-0.06	EUR Aggregate 3-5y	0.7%	1.1%	1.8%	1.1%
EUR 5y Swap	0.03	-0.14	-0.17	-0.17	EUR Aggregate 5-7y	1.3%	2.3%	3.3%	2.3%
EUR 10y Swap	0.50	-0.21	-0.31	-0.31	EUR Aggregate 7-10y	2.0%	3.6%	4.9%	3.6%
CDX Xover 5y	3.41%	-0.02%	-1.08%	-1.08%	US Corp. HY	0.9%	7.3%	2.2%	7.3%
iTraxx Xover 5y	2.58%	-0.22%	-0.95%	-0.95%	EUR HY	0.8%	4.9%	1.1%	4.8%

EQUITY

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	6,088	15.7	2.6%	5.6%	MSCI World	0.8%	12.5%	-2.8%	12.5%
S&P 500	2,864	17.2	2.0%	5.1%	S&P 500	2.2%	14.3%	-2.1%	14.3%
NASDAQ	7,474	20.8	1.1%	4.3%	NASDAQ	4.5%	18.1%	-2.2%	18.1%
Euro Stoxx 50	3,385	13.5	3.8%	7.3%	Euro Stoxx 50	2.2%	12.8%	-0.8%	12.8%
SMI	9,538	15.7	3.5%	10.0%	SMI	1.3%	13.2%	4.5%	13.2%
FTSE 100	7,317	13.0	4.8%	5.2%	FTSE 100	3.0%	8.8%	-2.4%	8.8%
DAX	11,682	12.8	3.5%	1.7%	DAX	0.7%	10.6%	-5.3%	10.6%
MSCI Asia Pacific	160	13.5	2.9%	6.6%	MSCI Asia Pacific	0.5%	8.9%	-3.1%	8.9%
FTSE China A50	13,353	10.1	3.2%	16.4%	FTSE China A50	3.7%	30.3%	12.5%	28.6%
MSCI Emerging Market	1,058	12.6	3.0%	5.7%	MSCI Emerging Market	0.6%	9.6%	1.1%	9.6%
PH Semiconductor	1,431	16.3	1.9%	5.5%	PH Semiconductor	5.0%	23.9%	4.4%	23.9%

COMMODITY

	Price	FCST 19	FCST 20	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1,288	1300	1366.88	0.0%	Gold	-0.9%	0.5%	8.5%	0.5%
Silver	15.08	16.0	17	9.4%	Silver	-1.2%	-3.5%	2.6%	-3.5%
Platinum	854	869	972	11.3%	Platinum	-1.2%	6.7%	3.1%	6.7%
Palladium	1,391	1247	1,116	-15.4%	Palladium	-7.7%	17.7%	33.4%	17.7%
Crude Oil	61.54	60.4	65	10.6%	Crude Oil	9.5%	32.3%	-17.2%	32.3%
Brent Oil	69.04	67.5	70	8.0%	Brent Oil	6.0%	26.5%	-16.6%	26.5%

FOREIGN EXCHANGE

	Price	FCST 19	FCST 20	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.1207	1.1700	1.2200	8.5%	EUR/USD	-1.4%	-2.3%	-3.2%	-2.3%
GBP/USD	1.3119	1.3600	1.4300	8.6%	GBP/USD	-0.6%	3.0%	0.6%	2.9%
USD/CHF	0.9994	0.9900	0.9700	-3.0%	USD/CHF	0.0%	-1.8%	-1.5%	-1.7%
USD/JPY	111.40	109.00	105	-5.9%	USD/JPY	0.4%	-1.5%	2.3%	-1.5%
EUR/CHF	1.1201	1.1500	1.1800	5.2%	EUR/CHF	1.4%	0.6%	1.7%	0.5%
USD/RUB	65.24	67.00	67.30	3.1%	USD/RUB	1.1%	6.9%	-0.4%	6.9%
EUR/RUB	73.11	79.45	83.50	13.3%	EUR/RUB	2.5%	8.8%	2.9%	8.7%

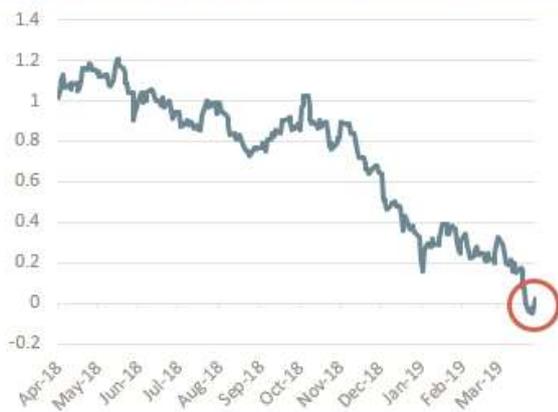
Source: Clarus Capital Group, Bloomberg

FED AFTERMATH

TIME TO FASTEN YOUR SEATBELT?

After the last FOMC meeting, the **FED confirmed a longer interest-rate pause**. The majority wants the base rate unchanged this year. Just last December there were two more, for September even three interest rate hikes priced in for 2019. The growth and inflation forecasts have been revised downwards and the reduction in the balance sheet is to be reduced as early as May and then stopped in September. So, where do we go from here and will investors face higher volatility this year? Let's outline this topic a bit further.

Spread Analysis (US10Y Note - US3M Bill)



Source: Bloomberg, Clarus Capital Group

When one of the most important government bond benchmarks drops below zero – the 10Y German Bund now sits with its Japanese equivalent in negative territory – **investors in equities and credit should rightly be worried**. In the US, the Treasury yield curve, measured by the difference between the three-month bill and 10Y note, has turned negative, for the first time since 2007. As recently as October, the 10Y note yield was 100 bps above the implied three-month bill yield. The subsequent flattening between the two is a warning from the US bond market that weaker growth **will at some point end in a recession**. This outcome holds the answer as to whether equities and credit can hang in there or, instead, face the rapids this summer.

Economists say a sustained yield curve inversion entails below average returns for the equity market over the two years that follow. Analysis show, that based on the last nine such episodes, the current fledgling inversion is the bond market's way of leading the FED towards easing monetary policy. Therefore, if they follow through, **the cycle will likely carry on**. If not, and the FED tries to hold a pegged rate above the market clearing rate – proxied by the long end of the curve – **then the risk of a downturn will intensify**. A further drop in US real yields as well as break-even inflation rates would suggest that fears of a growth shock are intensifying.

That would likely prompt a stronger response not only from the FED but from others as well. However, lower bond yields and central banks staying on **hold or lower for longer has supported risk assets such as equities and credit in the past**. Hence this would suggest that looser financial conditions and falling interest rates are positive for stocks. But also due to lack of alternatives!

If the bond market is proved right and the US economy slows more than the FED predicts, then the surge in corporate earnings growth that analysts predict for later this year looks ever more helpful. That is bad news for highly indebted companies and why the recent weakness in small-cap indices is another warning sign.

Global Composite Purchasing Manager Indices

	Current	1m ago	3m ago	1y ago	2y ago
USA	54.3	55.5	54.4	54.2	53.0
Eurozone	51.3	51.9	51.1	55.2	56.4
Germany	51.5	52.8	51.6	55.1	57.1
France	48.7	50.4	48.7	56.3	56.8
Italy	49.6	48.8	49.3	56.0	54.8
Spain	53.5	54.5	53.9	57.1	57.0
United Kingdom	51.5	50.3	50.8	54.5	53.9
Japan	50.7	50.9	52.4	52.2	52.2
Emerging Markets	51.6	51.6	52.6	53.2	52.1
Brazil	52.2	52.0	51.3	52.7	46.4
China	51.1	53.6	53.8	54.2	52.6
India	53.8	53.6	54.5	49.7	50.7
Russia	54.1	53.6	55.0	55.2	55.4

Source: Bloomberg, Clarus Capital Group

The hope is that the dovish actions of leading central banks will deliver a rebound in economic growth, an outcome heavily depend on Chinese stimulus weaving its magic. Whether it can is an open question, but for the time being it looks unlikely that China will unleash a massive round of spending.

Another key ingredient in the FED averting a global slowdown that turns **far more dangerous for risk assets is a weaker USD**. However, after the FED's big shift in policy expectations last week, the USD index is pretty unchanged. As the EUR has taken a hit. That is a reminder how, in a slowing global economy, the USD remains the cleanest shirt in the laundry. Often forgotten by investors and caught on the wrong foot.

As a conclusion and as per end of Q1, **the smooth paddling for risk assets since January may be in danger** of being replaced by a sense of dread that the water can become a lot rougher, as we have seen in during the course of 2000 and from 2007 into 2008.



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IMPRESSUM

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