CBH | Asset Management

Quarterly Insight

Spring Edition

VERSION 2019 01 04

CREATIVITY WITHIN EXCELLENCE

Index

Asset Allocation

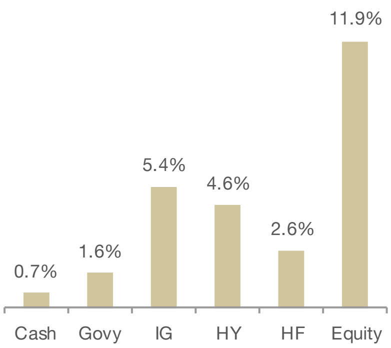
		Benchmark	Underweight	Neutral	Overweight	Change
CASH	$	5%		4%		
	€			21%		
Libor 3m	$	5%	4%			
Euribor 3m	€				21%	
CORE BONDS	$	50%		43%		5%
	€			26%		5%
Government 1-5Y	$	15%		15%		3%
	€		1%			
Government 5-10Y	$	10%			12%	2%
	€		4%			
Investment Grade 1-5Y	$	15%	10%			
	€			15%		5%
Investment Grade 5-10Y	$	10%	6%			
	€		6%			
SATELLITE BONDS				10%		-5%
High Yield 1 - 5 years					2%	-2%
EM Hard currency					2%	
EM Local currency					2%	-1%
Senior loans					2%	
Convertible					2%	-2%
EQUITIES		40%		33%		-2%
North America		15%		15%		
Europe		10%	6%			
Japan		5%	2%			
Asia Pacific (ex-Japan)		3%		3%		-1%
China		3%		3%		
Latin America		2%		2%		-1%
Emerging Markets		2%		2%		
OTHERS		5%		10%		
Gold		2%			3%	
Other investments		3%			7%	

Allocation Commentary

With the US curve turning negative and other end of cycle signs, we adopt a refined asset allocation by reducing our exposure to risky assets through our bond allocation. This movement aims to offer a more dynamic and reactive asset allocation to better face future challenges. After the positive beginning of this year performances, we move from a "capital growth" to a "capital preservation" investment approach.

During the first quarter of 2019, despite a moderation in global economic growth and the appearance of several end-of-cycle signs, the revival in investment sentiment, the decreasing fears of a slowdown in China, a dovish tilt by major central banks and the rebound in oil prices drove a technical rebound. This brought major financial indices to their September highs, recording one of the best first quarters ever.

Asset classes performances
(in $, YTD)



Even if at the beginning of the year our equity allocation was more conservative compared to the benchmark (35% vs 40%), our real adjusted asset allocation was more constructive and aggressive. Indeed, the investment committee on-boarded risks on the bond's allocation, mainly through positions into convertible bonds, high yields bonds as well as a relatively important allocation toward emerging market bonds.

This positioning does not come as a surprise as it is our investment trademark since several years, and the justification of this approach was always the same: we considered these asset classes as offering a better risk-return profile compared to a pure equity allocation.

Adjusted by the beta relative to equity markets, we therefore started the year with a relative 10% over-exposure to risky assets. This proved to be a good choice given the performance of financial markets during the first quarter of 2019.

Looking forward, the investment committee is at a turning point as it expresses today the wish to reduce its "traditional" exposure to risk towards the bond allocation. This choice is an important paradigm shift in our management approach. After years of promoting risky bond assets, we are returning to a purer and easier to read asset allocation. If we continue to see value in the bond universe, a lower visibility on the evolution of financial markets as well as on the dynamics of growth of the real economy leads us to adopt a more purist investment approach to offer more dynamism and reactivity in our future allocation choices.

Considering that we are approaching the end of the current expansion cycle and anticipating that one of the largest systematic risks lies in the fixed income universe, the investment committee initiates a movement aiming to increase the average quality of the bond allocation and turns slightly conservative in the overall adjusted exposure to risky assets.

After the positive beginning of the year returns, "capital preservation" takes over "capital growth".

In our global bond portfolio, we increase our exposure in high quality bonds (government and investment grade) and reduce the exposure to convertibles and high yields bonds. We continue to consider as attractive the bottom end of the capital structure (subordinated bonds) of companies with a strong balance sheet and a dominant market position. In this segment, we focus on large financial institutions.

Because of lower indebtedness, higher GDP growth rates, younger population and stabilizing economies, we continue to see value in the Emerging Markets fixed income spectrum, and therefore maintain our exposure to this asset class.

In our pursuit of returns, we remain invested in the crossover segment (whose rating oscillates between BBB- and BB-) which, although riskier, continues to offer an attractive risk-return profile.

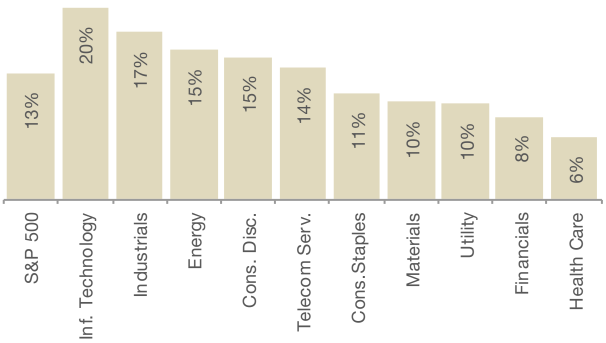
Concerning the equity allocation, we further reduce our exposure by two percent by retuning neutral on Asia Pacific and Latin America. Beta-adjusted, our overall exposure to equity will be around 38%.

North America

The “normalization” of central banks policies was naively anchored in investor’s mind until recently, but things turned very quickly. The good news is no clear sign of recession is on the table yet. The bad one is future market performance should come from corporate earnings at this point and the outlook is not so bright.

After the debacle of the end of 2018, US equities posted one of the best quarter ever (+13%) and recovered the major part of the 4Q18 drawdown. No surprise when looking at sectors: information technology led the pack, up 17%. The remaining best-of is composed of real estate and cyclicals sectors such as Energy, Industry and Consumer Discretionary all performing around +14%. While high yield bonds naturally followed the move and posted up to 6% performance, US treasuries held steady in positive territory. But let’s come back to the big picture.

US sectors performances



Quite surprisingly, over the past few weeks, we observed a significant switch in monetary policies. It started with the announcement of a new TLTRO program in Europe then followed by a very dovish tone from the Fed during its latest meeting. In fact, the next interest rate hike was postponed from end of 2019 to first quarter of 2020 and the pace of balance sheet reduction was half downsized. More important, market sentiment switched more radically, some expecting the next move of the Fed would be a rate cut.

This move is even more significant given that never before the Fed has paused for so long during the hiking cycle nor purely ended the hiking cycle at levels so close to the ground. If we look at history, the only pauses happened in 1984 and 2016 when situations were very different (short pause for the first, beginning of the cycle for the second).

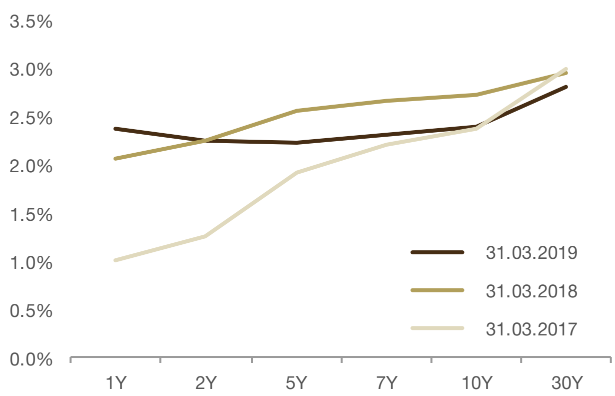
We can’t rely on a past comparable configuration, while we still observed that US equities have usually done well in the year following the end of the cycle, US treasuries tended to rally but high yield spreads rather widened. And at this point, earnings growth was likely to remain the key driver of equities with defensive sectors leading the way. This leaves us with the question of 1Q19 US earning season expectations.

As of today, the market consensus for the coming US earning season is expecting negative earnings growth for the companies of the S&P 500. Sector wise, Financials and Construction sectors are expected to post strong pace of growth while Oil & Gas and Metal & Mining are due to contract. Overall, the EPS growth expectation has been cut in half since October (10% to 4%).

Now let’s look at the guidance: 73% of S&P 500 companies have issued negative ones, above the 5Y average of 70%. And more interesting to note almost half of these negatives guidances come from Information Technology as well as Healthcare sectors, respectively the worst number since 4Q12 and 2006. At this point, we can say we have some arguments in favor of a portfolio risk reduction, but we couldn’t write this quarterly without evoking the famous “inversion of the curve”.

After months of articles on the subject, the US yield curve has finally inverted! The first time since 2007.

US interest rate curve



We know that a curve inversion preceded the last seven recessions. But usually, the yield curve tends to flatten when the Fed is rising the short leg in a move to prevent economy overheating while the economic cycle perception weights on the long one. As a result, the 2Y-10Y spread normally inverts before the 3M-10Y. Indeed, 2Y rates incorporate subsequent hikes expectations.

However, this time is different as the 3M-10Y curve inverted alone while the 2Y-10Y curve "bull flattened". "Bull flattening" occurs when the 2Y rates fall more slowly than the 10Y rates. In opposite, a "bear flattening" occurs during the last cycles when 2Y rates rises faster. That's why this inversion is probably not as significant as in the past, especially given credit spreads did not increase accordingly.
If we rather focus on a 2Y-10Y flattening, then equities and other risky assets have performed low but positive returns in the previous similar contexts. Furthermore, significant drawdowns occurred only when the flat curve started steepening again. Hence, medium-term recession risk based on the curve analysis remains limited.

In summary, we agree the dovish turn engaged again by central banks means world economies are showing some weaknesses. We also note that the coming US corporate earning's season will probably confirm a slowdown. But when approaching the subject of the curve inversion, we are more positive than negative. Again, the flattening does not come from central banks trying to break an overheating economy. It comes from deteriorating long term growth and inflation expectations. In that context, we keep thinking dovish monetary policies will remain a structural put for risky assets on the medium term.

As a result, we decided to keep our neutral stance on US equities for the time being and rather focus on the bond allocation by reducing the exposure to high yield and convertible instruments.

Europe

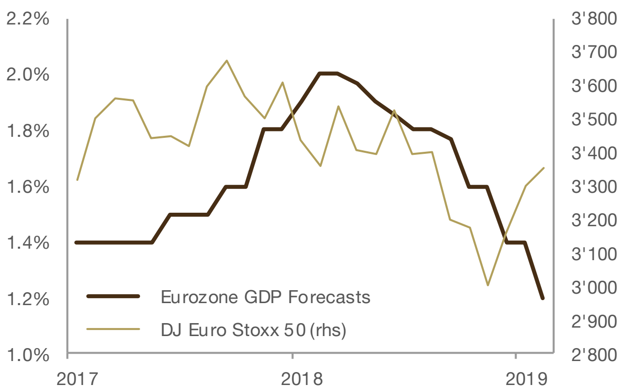
1Q19 was marked by a strong rally in risky assets, which permitted to recover most of the 4Q18 losses, driven by central banks' actions and improved valuations. Nevertheless, Europe remains trapped in a muted low growth and low inflation environment and we think that the latest ECB's actions are not the right medicine to solve its structural problems. In conclusion, we don't see any reason to change our underweight stance on the region.

During the first quarter, export-dependent European economies have been vulnerable to the weakening global economy and to risks linked to a potential escalation in the trade war between the US and China. A resolution of these trade tensions and more certainty surrounding Brexit would clearly offer some relief, but a clear resolution on these fronts is still not behind the corner.

The global economic downtrend has led to continued decline in orders, which suggests that significant manufacturing weaknesses are likely over the next few months. German industrial output fell sharply in 1Q19, spreading concerns that Europe's powerhouse might also be heading for recession. On the positive side, domestic demand is holding up relatively well. Fundamentally, domestic final demand is stable and resilient, sustained by consumption.

In contrast, the European cycle is mainly influenced by changes in external demand (dominated by the Chinese cycle). The effect of the slowdown in global manufacturing cycle has been influenced lately by a decline in car productions in Germany. We think that this temporary decline should lead to a recovery in German industrial production in future quarters. Therefore, we are not forecasting a recession in Europe, but only a slowdown. The European Commission revised lower its growth forecast to 1.3% in 2019 and 1.6% in 2020. In the same vein, the ECB is now forecasting an anemic 1.1% growth rate in 2019 and 1.6% in 2020. Inflation will therefore remain way below the 2% ECB target over this period.

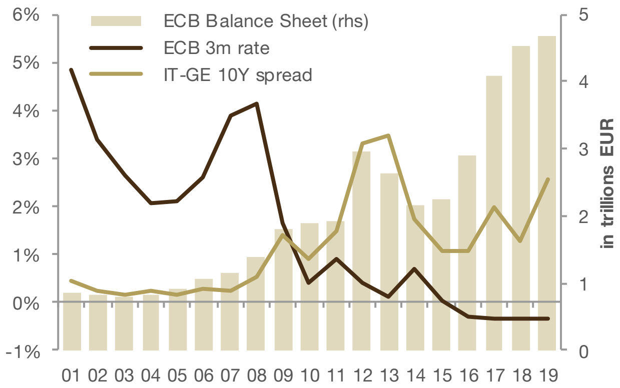
Eurozone GDP forecast and equity market divergence



Other factors that are likely to cloud the outlook in the short term are the continued uncertainty linked to the Brexit saga and the forthcoming European election in May, which could bring some volatility. The possible rise of populist (and potentially anti-European) political parties might highlight the growing divide between the traditional establishment and their electorates.

Against this backdrop, the ECB has become even more dovish, holding rates steady in negative territory through 2019 and postponing a potential move (if any) in 2020.

Dovish ECB's measures



Moreover, it adopted more Quantitative Easing measures by launching a TLTROIII (Targeted Longer-Term Refinancing Operations) program in an effort to avoid any credit squeeze.

The ECB itself is actually reflecting on possible measures that can preserve the favorable implications of negative rates for the economy, while mitigating the side effects like low bank profitability (which could hamper credit supply and prevent stimulus from reaching the economy), the zeroing of savings for future generations, and so on. Nevertheless, we continue to think that the ECB is perpetuating the error of negative interest rates, which are now lasting since 2014, consolidating the "Japanification" of Europe.

In contrast to the FED, the ECB failed to take advantage of the economic strength in 2017 to raise key rates at least to zero, putting an end to the undesirable consequences of negative rates and earn some ammunitions to cope with future slowdowns. In fact, we advocate that Europe's structural problems cannot be solved via monetary solutions.

What is needed in Europe is the resolution of structural bottlenecks that are impeding to reach higher growth (and inflation) levels. The adoption of multi-year infrastructure investment plans, less rigid labor markets and other factors that are obstructing EU economies to become more competitive and dynamic are the real solutions that EU politicians need to put in place in order to give new impetus to economic growth. Unfortunately, this does not seem to be the case in the near future.

Continental Europe is therefore faced with prospects of low interest rates for longer. Investors are penalized for holding cash in Euro. The famous saying "cash is king" (keeping cash aside for rainy days) can be a reasonable strategy, but come at a large cost, especially when it is a large component of the portfolio and you hold it for a long period of time.

This is the case for European investors that are obliged to find alternatives in order not to lose money by keeping high cash balances. This situation is unlikely to change any time soon. This is why in our asset allocation we are advocating to adopt cash like strategies, which can earn some positive returns, and to increase exposure on bonds issued by investment grade sovereign or corporate issuers in order to preserve capital. Structured products that offer some assurance of capital protection at maturity could also be an alternative, but the expected return will realistically be low, due to the current negative yield environment.

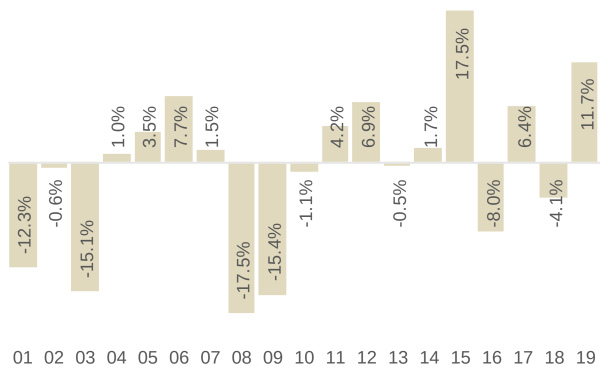
For more aggressive investors, high yield bonds could be a valid alternative, but valuations are far less compelling compared to the start of the year. More stretched high yield issuers are likely to face much higher volatility during phases of market stress and are likely to struggle even more to stay afloat once interest rates will start to increase again to more normal levels or if Europe should fall into recession, leading to an increase in default rates.

Moreover, in the current shaky growth environment and with important political risks ahead, EU high yield bonds could face heightened phases of volatility. Also considering the more dovish ECB stance, security selection and market timing is key, even more in a late cycle environment. This is why we think this asset class should be approached only using dedicated investment vehicles. In the EU fixed income space, we prefer to invest in low investment-grade bonds, which are relatively well diversified across both sectors and countries and still offer fairly attractive spreads. We also like subordinated bonds of companies with a strong balance sheet and a dominant market position, with a focus on large financial institutions (banks and insurances).

Equity markets have had the best start of the year in nearly three decades. Valuations of developed market equities remain attractive, both in relative and absolute terms. A rebounding EU economy in forthcoming quarters, driven by Germany, should be positive also for European equities. However, over the short term, and considering the potential risks (US-China trade row, Brexit uncertainty, upcoming European elections, etc.), we think that better opportunities lie in other regions. This explains our underweight exposure in European stocks.

Nevertheless, these negative factors should not only be seen as potential risks, but also as potential opportunities. This is why we expect that we could face some better entry opportunities sometimes in the not too distant future. Keep some dry powder and wait for these potential short term shocks before putting your money at work into European equities.

A strong first quarter

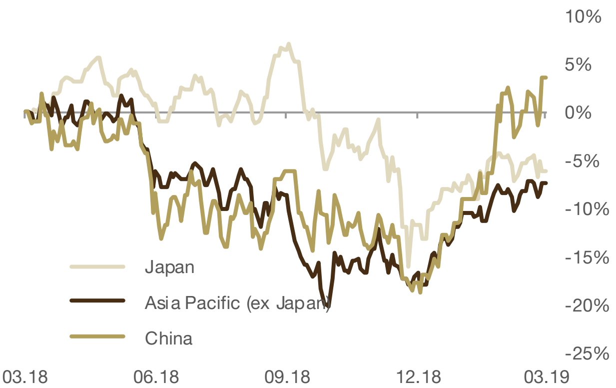


Asia

Asia Pacific remains a region that is impossible to ignore. The region continues to be a key driver in global economic growth throughout the first quarter of 2019. MSCI inclusion of China, easing trade tensions, an emerging middle class continue to be catalysts to the region.

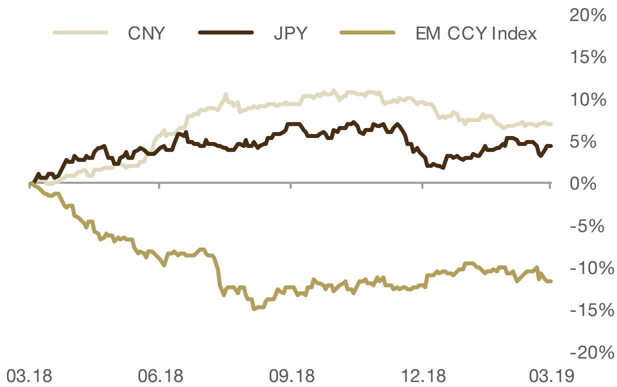
Markets rebounded strongly after a dismal 2018. Year-to-date, Nikkei 225 is up 7%, Hand Seng Index rose 10%, while CSI 300 mounted up 24%, outperforming global markets. Technology, Industrial, and Healthcare are the outperforming sectors in overall Asia, while oil & gas and Financials lead the CSI 300 rally. Asia assets remain attractive especially in the credit space as financial condition improves with accommodative lending policies and central banks across the region keep rates low.

Asian equity markets returns



In light of strong YTD performance, we see a few reasons that justify the current rally. First, central banks in the region are also taking an easing stance, which gives equity investors reasons to price in a lower cost of capital. Second, easing trade tension and a possible deal between China and U.S. has lifted market sentiments, a trade truce and progress in subsequent trade talks has given a boost to investor confidence. Third, strong passive fund flow into EM has directly provided support to the current rally, especially at a time when developed markets passive flows have not been as strong, which signals a rotation back into EM equities. We continue to see positive momentum in Asia throughout the second quarter.

Currency performances (vs $)



On the trade front, we believe China and U.S. no longer takes a hostile stance against each other. A 90-day trade truce has been reached to allow for further talks as the U.S. postponed further tariff hikes on the US$200 billion imports. While uncertainties remain whether China will fully comply with its promises, we do not see further risk of escalation as China took steps to roll back retaliatory tariffs. China had already begun additional purchases of U.S. soybeans (+95%). We see this as a positive sign that shows China's willingness to ramp up purchases of U.S. goods. In the coming months, we expect a trade agreement to be reached some time in the second quarter, while the U.S. might continue to uphold existing tariffs to ensure compliance. We see the possibility that existing tariffs will be rolled back in multiple stages. As trade talks continue to make progress, we see that no further risk of escalation to be the likely scenario.

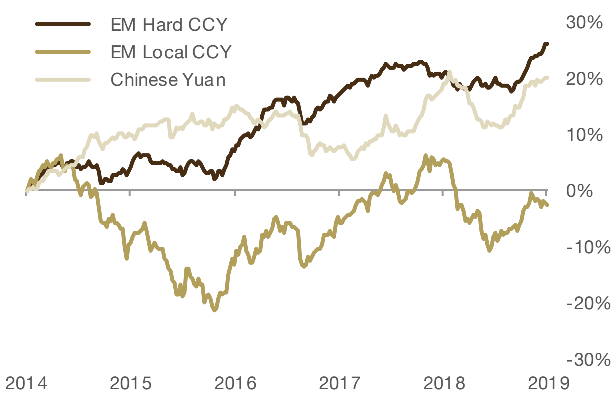
That brings us to the macro picture, we believe first quarter manufacturing data was dragged down by the trade war tariffs. However, domestic consumption remains positive, as seen in inflation and sales data, which leads us to believe that the economy is still growing at a healthy pace. Manufacturing PMI, particularly in Japan and China, are showing signs of weaknesses, while services PMIs across Asia are still expanding. CPI and retail sales has cooled a bit, but stayed mildly positive. We expect sales in Japan to pick up in second quarter as consumers front load goods in anticipation of sales tax increase in October. Along with growing disposable personal income, this supports our thesis that domestic consumption in Asia is still a very attractive market.

Concerning balance of payments, we are seeing China's current account surplus has come down, but this was largely offset by an increase in South East Asian countries. Data shows the combined surplus of Thailand, Korea, Taiwan, and Singapore increased by around $150 billion, this rise of surplus offsets much of China's fall after discounting its own adjustments. In fact, all manufacturing PMI in ASEAN region remained in expansionary territory. That leads us to believe that Asian economy still has room to grow.

On the equity market, we are constructively positive on China with two major reasons, first we see debt situation improving, and second, we believe favorable fiscal and monetary policies will directly benefit the country. China is gradually positioning itself to open up its economy, from allowing more foreign ownership to speeding up foreign drug approvals, we are seeing constructive plans being put in place, and we expect future policies to also follow the same direction. We believe risk of default has come down substantially as accommodative policies continue to fuel a recovery in China's credit cycle. We believe targeted stimulus and tax cuts to address weaknesses in the economy are constructive to China's recovery, and political stability will give China a comparative advantage among other EM countries.

In addition, we see positive funds flow as a continued catalyst to the market. On February 28th, MSCI announced the expected increase of China A-shares' weight in its emerging markets Index to over 3.3% from a current 0.8%, with implementation taking place in May, August, and November. Inclusion of Chinese bonds in the Bloomberg Barclays Global Aggregate index should continue to push yields down during the next 3–12 months. Along with increase in Hong Kong Stock Connect daily quota, we believe global flow into China will continue to provide liquidity for the market. Overall, we continue to believe the outlook will be positive for Asian markets.

Local and Hard currency bonds returns



Latin America

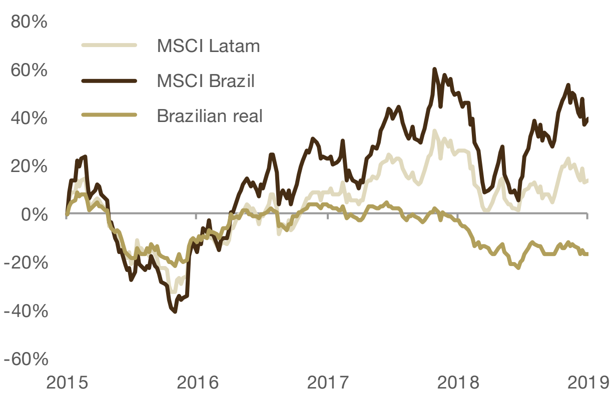
In Brazil, after significant appreciation at the beginning of the quarter, local assets had a correction in the last month. The government of President Jair Bolsonaro has shown awareness of the Brazilian fiscal challenge in his proposal for the new pension plan. The prioritization of the Social Security reform theme in relation to other guidelines and the size of the economy proposed by the text of the reform are evidences of the commitment of the Bolsonaro government to the fiscal agenda.

With the disclosure of the pension reform proposal, the traditional noises of political articulation begin, with its usual market volatility. Still, we believe that there are several factors that should help approve the reform this year.

First, the new government benefits of a popular legitimacy for its reformist program. Second is the social security maturity : indeed, the opinion polls have been pointing to greater support to the reform. Third, the government has sent some more pragmatic signals regarding political articulation. Finally, the precarious fiscal situation of the Brazilian states. Local leaders need the reform to enjoy a functional administration in the next four years.

With the SELIC rate at historical low and with inflation below target, the Central Bank of Brazil new nominated president, Roberto Campos Neto, will face an important challenge due to the slow recovery of activity and the persistence of high unemployment. Despite these positive signs, the external environment remains challenging (global deceleration process continuation, recessionary risks in Europe, trade disputes and Brexit).

Brazilian market



Brazilian equity market largely outperformed it main peers in Latin America when reported in USD since the 2018 elections. Indeed, Brazil is the only one showing a positive aggregate earning revision and its Return on Equity is catching back the leader, namely Mexico. That says, the market appears now ripe for a correction. This one can be substantial as the market carry intrinsically an above average volatility.

We remain positive both on Brazilian currency, hard and local credit market.

The new Mexican administration has sent mixed signals about certain policies, while the President Lopez Obrador (AMLO) continues to focus his efforts on some campaign promises but with no clarity on specific measures to implement them.

President AMLO is expected to deliver on the macroeconomic front, keeping public finances in relatively good shape, supporting Pemex as much as is politically possible, keeping Banxico autonomous and not drastically interfering in the financial sector. However, on the political side, we feel the president is clearly trying to exert control over all aspects of the state ahead of the 2021 elections.

Mexican and Argentinian markets

Markets participants maintain a fundamentally bearish view of MXN as the fiscal outlook remains challenging while domestic policy uncertainty and execution risks persist in many areas. It might cost one sovereign rating downgrade if tax reform is delayed given the ambitious fiscal goals. Although, easier external borrowing conditions may favour high-carry and current-account-deficit economies with high beta to US rates, as is the case of Mexico. This could clearly play in favour of the MXN.

For the equity market, our position is mitigated. The Mexican equity market can be considered as cheap. But it is suffering from a negative earning dynamic and it is technically speaking subdued. Unless it’s some specific stock picking, we see no reason to rush into it.

In summary, we have a positive view on MXN, hard and local debt market.

The Argentina government is using all tools to prevent sharp weakening of the exchange rate, which poses the main risk to economic recovery. Considering macro fundamentals and policy action, we expect the FX to trade around the lower bound of the non-intervention zone in the coming months. Yet, we cannot rule out the possibility of a sell-off if the opposition party's popularity increases. If the economy recover materializes, Macri's electoral competitiveness could rise.

On top of that, the central bank is implementing strict monetary base targeting combined with an almost zero primary deficit target. The framework has been working so far in the way it is designed to. Interest rates declined until mid-February as the exchange rate appreciated below the lower bound of the non-intervention zone and have increased again since as the exchange rate weakened.

According to the polls, the most likely scenario remains a second round between Macri and former President Cristina Kirchner, Macri with the slight lead. Given our baseline macro scenario, we think Cambiemos's position is set to strengthen between now and October from the forecast that polls currently show, in the midst of recession.

In conclusion, Argentina has no choice and the Venezuela example leads the idea. At the end, reforms will be mandatory. But the question mark is: "when is the end?". The majority of the local society is not historically known for its comprehensive pragmatism.

We will follow what the market is telling us and simply avoid the country financial market for now.

Growth is set to remain stronger in Chile than in most countries in the region with inflation below the 3.0% target throughout 2020 and declining inflation expectations.

In 2020, market participants expect growth to be stable, based on supportive external demand, high copper prices (despite a small decline forecast for 2Q19), and a monetary stance that we expect to remain accommodative. Downside risks to our forecasts include a faster deceleration in global growth, particularly in China. Watching the leading indicators, the picture appears differently, while it seems Chile's economy is going toward contraction.

We expect the Banco Centrale de Chile to remain on hold throughout the rest of the year, which is lower than consensus expectations for one 25bp hike by December. Market participants expect inflation to remain below target throughout 2020. The BCCh emphasizes external market conditions, which means that the central bank will be more dependent on external data.

That said, we will rather follow what are telling the leading indicators, namely that we have more risk to get negative surprise than positive ones. We will not add exposure to the CLP, despite the currency appears clearly cheap. The same reasoning is applied the local bond market.

For the equity market, as for Mexico, we do not distinguish clear motivation to be overweight on it. True, the market is clearly cheap, but for good reasons: below average return on equity and negative earning dynamic.

Commodities

Commodities ended the first quarter up 12% on a “Goldilocks” rally; further gains will need to be fundamentally-driven, as all safe and risky assets rebounded from an aggressive 4Q18 sell-off.

The rally in commodities may continue into 2Q19, but its sustainability will depend on improved global growth. China’s activity data seems to have stabilized and a US-China trade deal could help sentiment further.

Commodities participated in the global markets lift produced by the dovish tilt of the Fed and other central banks around the world, along with promising prospects of a US-China deal that could put a halt to the trade war and maybe reverse the tariffs in place. The rally was led by energy (+21.8%), particularly oil amid the ongoing tightening of oversupplied markets due to OPEC+ cuts. Base metals (+10.2%) and to a lesser extent precious metals (+2.8%) also contributed to the outperformance of the asset class. Agricultural commodities (-2.2%) proved to by the exception, under pressure from the consequences of the US-China trade tensions.

What is interesting is that the rally in commodities and other asset classes has occurred despite the environment of synchronized global sluggishness, with the major drag on growth coming from the business sector where sentiment has been deteriorating in the face of rising geopolitical tensions.

Amid widespread de-risking in the sector, steady flows out of commodities throughout 2H18 sunk total outflows from commodities exchanges to nearly $100bn for full year 2018. Flows have turned more uneven over the past month following the typical January boost, but have generally tracked higher so far in 2019, culminating in nearly $70bn of inflows YTD across all commodities.

WTI price is up 30% YTD, making oil one of the strongest performing asset classes so far in 2019.

At this stage, given the strong price elasticity of supply and the unsustainability of OPEC+ cuts if oil prices or non-OPEC production were to rise unabated, we have low conviction about the direction oil prices could take in 2H19.

While a positive outcome of the US-China trade talks could be supportive for oil demand, its impact on prices could be very quickly offset if OPEC+ does not extend supply cuts or if US supply increases well above the expected growth for 2019.

End of 2018 heightened recession worries and equity market sell-off have led to a strong build in gold as a hedge against negative movements in risky assets. Gold price is up by 1% year-to-date and we continue to advise investors to add some gold to their portfolios as a long-term buy-and-hold position. Low and falling US unemployment rate and European growth, geopolitical tensions and less pressure on emerging currencies should support gold price in 2019.

Gold vs. Gold Miners

A closely watched measure by investors is the spread between the performance of gold and gold miners. During the first decade of the 21st century that saw gold prices rise from 250 to 1’900 US Dollars per troy ounce, gold miners added excessive financial leverage to increase production and profits. The decrease of gold price after 2011 has put the sector under important pressure (-80%), with companies no longer profitable, and the spread relative to gold’s performance significantly widening. To adapt to lower gold prices, gold miners have been progressively fixing their balance sheets by selling assets and slash spending. But, we do not expect this spread to reclose in the short term since the majority of gold miners continue to restructure. We therefore prefer to approach the sector via the biggest players that are grabbing the best mines to give themselves the strongest cash flows.

Currencies Market Expectations

Major Currencies

		Q2-19	Q3-19	Q4-19	Q1-20	Q4-20
EURUSD	1.12	1.14	1.15	1.17	1.18	1.22
EURCHF	1.12	1.13	1.14	1.15	1.15	1.18
EURGBP	0.85	0.85	0.85	0.85	0.86	0.85
EURJPY	125.2	125.0	126.0	126.0	127.0	128.0
EURNOK	9.64	9.60	9.50	9.50	9.40	9.10
USDCAD	1.34	1.32	1.31	1.31	1.31	1.29
USDCHF	1.00	1.00	1.00	0.99	0.98	0.97
USDJPY	111.4	111.0	110.0	109.0	108.0	105.0
USDCNY	6.72	6.72	6.70	6.70	6.68	6.65
GBPUSD	1.32	1.34	1.34	1.36	1.37	1.43
NZDUSD	0.68	0.68	0.68	0.69	0.69	0.71
AUDUSD	0.71	0.72	0.72	0.73	0.73	0.74

Other Currencies

		Q2-19	Q3-19	Q4-19	Q1-20	Q4-20
USDMXN	19.24	19.40	19.50	19.50	19.50	19.50
USDBRL	3.87	3.80	3.78	3.80	3.80	3.68
USDARS	42.85	43.00	44.00	45.00	44.08	49.12
USDTRY	5.65	5.60	5.80	5.95	6.00	6.23
USDILS	3.60	3.63	3.60	3.57	3.50	3.48
USDHKD	7.85	7.84	7.84	7.83	7.82	7.80
USDINR	68.93	71.00	71.50	70.75	69.85	69.70
USDRUB	65.29	66.00	66.89	67.00	67.65	67.30
USDPLN	3.82	3.75	3.74	3.70	3.65	3.53

The table above provides an overview of market forecasts for major currencies. It is composed of dozens of individual forecast providers and delivers a consensus forecast. These consensus forecasts represent a median number and all forecasts evaluated correspond to calendar quarter-end dates.

Market Performances

	Name	QTD *	YTD **	2018	2017	2016	2015	2014	2013
Cash	LIBOR 3m Total Return	0.7%	0.7%	2.4%	1.1%	0.6%	0.2%	0.1%	0.2%
	EURIBOR 3m Total Return	-0.1%	-0.1%	-0.4%	-0.4%	-0.2%	-0.1%	0.3%	0.2%
Government bonds	US 3-5	1.7%	1.7%	1.5%	1.0%	1.3%	1.6%	2.2%	-1.0%
	Eurozone 3-5	0.7%	0.7%	0.1%	0.1%	1.5%	1.8%	5.6%	2.4%
	US 7-10	2.8%	2.8%	0.9%	2.6%	0.8%	1.7%	8.8%	-5.9%
	Eurozone 7-10	2.8%	2.8%	1.4%	1.3%	3.5%	2.1%	16.9%	2.9%
Corporate bonds IG	USD Corp 1-5	2.7%	2.7%	1.0%	2.6%	2.9%	1.2%	2.1%	1.5%
	EUR Corp 1-5	1.3%	1.3%	-0.5%	1.2%	2.6%	0.6%	4.0%	2.6%
	USD Corp 5-10	5.4%	5.4%	-1.7%	5.6%	5.6%	0.9%	7.3%	-1.6%
	EUR Corp 7-10	4.8%	4.8%	-2.4%	4.2%	7.0%	-1.5%	15.3%	2.0%
Corporate bonds HY	USD Corp 1-5	6.7%	6.7%	-1.8%	7.0%	16.5%	-4.5%	1.9%	7.6%
	EUR Corp 1-5	4.8%	4.8%	-3.8%	6.9%	9.1%	1.0%	5.8%	10.1%
	USD Corp 5-10	4.0%	4.0%	-1.9%	7.6%	7.3%	1.8%	4.8%	16.9%
	EUR Corp 5-10	5.5%	5.5%	-4.4%	8.0%	10.8%	0.4%	7.3%	9.7%
EM bonds (in $)	Hard currency	5.3%	5.3%	-2.5%	8.2%	9.9%	1.3%	4.8%	-4.1%
	Local currency	3.0%	3.0%	-3.4%	14.3%	5.9%	-10.4%	-1.9%	-4.3%
	Chinese Yuan	3.7%	3.7%	3.0%	5.0%	-4.7%	3.6%	8.0%	0.0%
Other	S&P Senior Loan Index	4.0%	4.0%	0.4%	4.1%	10.2%	-0.7%	1.6%	5.3%
	Global Convertible	8.0%	8.0%	-1.2%	7.2%	4.6%	-0.8%	3.8%	
Equities	North America	12%	12%	-6%	19%	9%	-1%	11%	30%
	Europe	11%	11%	-13%	7%	0%	5%	4%	16%
	Japan	6%	6%	-17%	18%	-3%	8%	8%	52%
	Asia Pacific (ex Japan)	10%	10%	-16%	39%	3%	-11%	2%	1%
	China	20%	20%	-21%	32%	-7%	-7%	62%	-15%
	Latin America	6%	6%	-9%	21%	28%	-33%	-15%	-16%
	Emerging Markets	8%	8%	-17%	34%	9%	-17%	-5%	-5%
Other investments	HFRX Alternative	3%	3%	-7%	6%	3%	-4%	-1%	7%
	VIX	-39%	-39%	130%	-21%	-23%	-5%	40%	-24%
	G7 Currency Volatility	-20%	-20%	21%	-36%	22%	-6%	14%	5%
	DJ Global Commodity	7%	7%	-13%	1%	11%	-25%	-17%	-10%
	Gold	3%	3%	-2%	14%	8%	-10%	-1%	-28%
	Industrial metals	10%	10%	-21%	28%	20%	-27%	-7%	-14%
	Agriculture index	-1%	-1%	-13%	-12%	2%	-16%	-9%	-14%
	WTI Oil	32%	32%	-25%	12%	45%	-30%	-46%	7%
Currencies(vs. $)	Dollar Index	1%	1%	4%	-10%	4%	9%	13%	0%
	EM Currency Index	1%	1%	-11%	6%	0%	-16%	-12%	-7%
	Euro	-2%	-2%	-4%	14%	-3%	-10%	-12%	4%
	British Pounds	4%	4%	-6%	10%	-16%	-5%	-6%	2%
	Swiss Francs	-1%	-1%	-1%	5%	-2%	-1%	-10%	3%
	Japanese Yen	-1%	-1%	3%	4%	3%	0%	-12%	-18%
	Australian Dollar	1%	1%	-10%	8%	-1%	-11%	-8%	-14%

* Last quarter
** Year to date

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