Market Monthly

December 2018

Highlights

- **Economics:** In the US, the second estimate of 3Q18 came in as expected (3.5%). Unemployment figures for October continues to stay strong and came in at 3.7% as expected and previous. The Eurozone also released their second estimate for 3Q18 GDP as expected at 1.7%, while the October unemployment rate came in a touch above expected at 8.1% vs 8.0% expected.
- **Inflation:** US core YoY personal consumption expenditure reported for October came in below expectations at 1.8% vs 1.9% expected, expectations for FY2018 are at 2.4%. The final Eurozone YoY CPI reading for October came in as expected at 2.2%. The 2018 forecast is at 1.8%. The CPI's forecasts for 2018 are: Russia 2.9%; for China 2.2%, Brazil 3.7% and the world at 3.1%.
- **Central bank interest rates:** After the Fed funds rates got hiked by 25bp in the September meeting to the current range of 2.00%-2.25%, the possibility of further rate hikes this year remains open. The ECB's tapered asset purchase program has been reduced to by half to EUR 15bln until the end of 2018 when it is set to end. EM: China RRR[i] at 14.50%, 12M lending rate at 4.35% and 12M deposit rate at 1.5%. India's repo rate remains at 6.50%; Russia remains at 7.50% and Brazil SELIC remains at 6.50%.
- **Capital market rates:** 10yr US treasury yields peaked at 3.23% at the beginning of November before retracting down to 3.0%. The 10yr Bund stayed range bound between 0.3% and 0.6% in the same period. We see EUR bond prices as remaining supported over the longer term as QE continues at EUR 15bln/month until the end of 2018.

Tactical Asset Allocation

- **Forex:** EURUSD saw a strong USD that strengthened to 1.1215 beginning of November, but remains around 1.14. The median EURUSD forecast now predicts USD at 1.16 for the end of 2018[ii] and then up to 1.20 for the end of 2019.
- **Bonds incl. High Yields (N[iii]):** Since near-zero/negative policy rates and negative real rates are seen persisting in Europe for several years, we continue investing in up to 2025 maturities of European DM bonds to improve yield.

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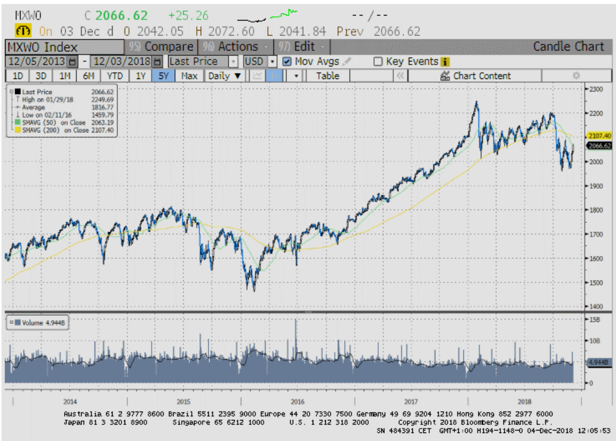
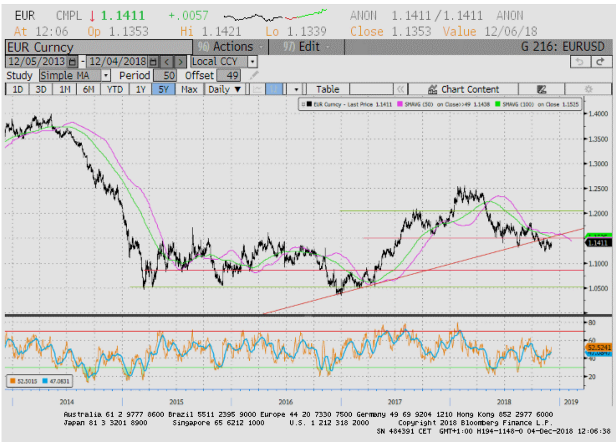
- **Equities (N):** Equity markets witnessed movements in both directions as markets remain uncertain due to geopolitical trade tensions. Fundamentals remain strong and the 3Q 2018 earnings season has been mostly positive. We continue to observe markets closely with various current news shaping the direction.
- **Commodities (N):** Crude Oil (WTI) started the month around 65$/bbl before dropping to almost 50$/bbl on the basis of substantial cuts to speculative long positions in the markets that came as a result in the rise of US oil inventories.

Investment Ideas[iv]

- In alternatives we have started investing in a special type of private debt fund.
- We are actively looking for bargain stocks that have sold off more than necessary in the correction to take advantage of a strong rebound.



Performance Equity Markets MSCI World YTD[v]



EURUSD Technical Chart, Bloomberg

[i] Required Deposit Reserve Ratio, or the minimum capital Chinese banks must hold with the PBoC. Currently at 14.5%, cut in from 20% at the beginning of 2015
[ii] Source: Bloomberg 31.10.2018 (98 bank contributors)

[iii] How to read: (U) underweight; (N) neutral; (O) overweight
[iv] See rationales on our web page www.aspermontcapital.ch
[v] Return from beginning of the year till current date