Market Monthly

January 2018

Highlights

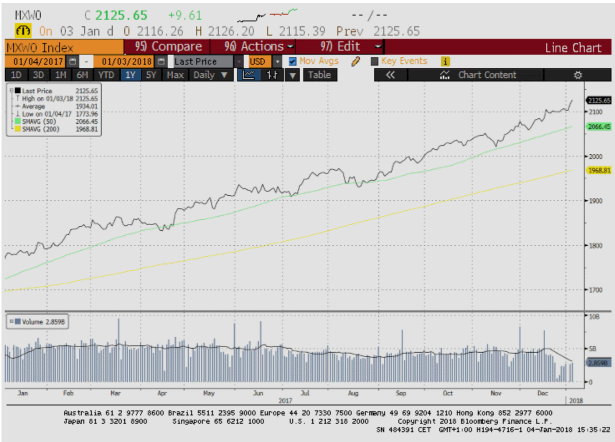
- **Economics:** The final estimate of 3Q17 came in just slightly below expectations (3.2%, 3.3% expected). Unemployment figures are steady at 4.1%. The Eurozone also released their final 3Q17 GDP reading higher than expected at 2.6% (2.5% expected), while the November unemployment rate is expected to improve to 8.7% from 8.8%.
- **Inflation:** US core CPI reporting for November increased to 2.2% as expected, up from previous 2.0% YoY, expectations for FY2018 are steady at 2.1%. The final Eurozone YoY CPI reading for November steady at 1.5%. The 2018 forecast was revised down to 1.4%. The CPI's for 2018 forecasts are: for Russia 3.6%; for China 2.5%, Brazil 3.7% and the world at 2.8%.
- **Central bank interest rates:** The December Fed meeting led to a +25bps hike of the fed funds rate to 1.5%. The possibility of further hikes in 2018 remains open. The ECB confirmed their tapered asset purchase program is to be decreased to EUR 30bln a month until the end of September 2018. EM: China still keeps their RRR[i] at 17.00 and kept its 12M lending rate at 4.35% and 12M deposit rate at 1.5%. India has its repo rate at 6.00%, Russia's key rate cut by -50bps to 7.75%; Brazil SELIC cut by -50bps to 7.00%.
- **Capital market rates:** US treasury yields continue to be range bound in the new range of 2.2% to 2.5% since the last rate hike in June 2017. The Bund also continues to be range bound below 0.5. We see EUR bond prices as remaining supported over the longer term as QE continues in terms of lower negative yield and allocation thresholds as well as the inclusion of non-bank HG corporate debt.

Tactical Asset Allocation

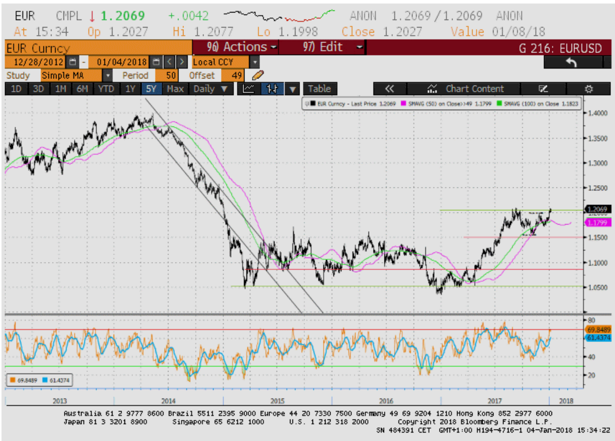
- **Forex:** EURUSD dropped briefly below 1.06 mid-April and has closed at the end of October at 1.16 before peaking at 1.20 at the start of 2018. The median EURUSD forecast predicts USD at 1.22 for the end of 2018[ii] and then up to 1.25 for the end of 2019.
- **Bonds incl. High Yields (N[iii]):** EM and HY bond prices have increased slowly and moderately since the beginning of the year but we remain cautious on EM and HY bond investments. 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.
- **Equities (N):** The general market sentiment remains positive going into the start of 2018 even though there was a slight correction (DAX -0.82%; S&P500 -0.12%) in December.
- **Commodities (N):** Crude Oil (WTI) has been mostly positive throughout December ending the month above 60$$/bbl, a level last seen mid 2015. The OPEC continues to be accommodating, but ongoing inventory concerns weigh on the price of crude oil.

Investment Ideas[iv]

- We look to continue to diversify the fixed income portions while we look for selected opportunities through dividend stocks in our Dividend basket.
- Reposition the equity portfolio to include world markets.



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 17%, cut in 5 steps from 20% at the beginning of 2015
[ii] Source: Bloomberg 08.01.2018 (104 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