Market Monthly

August 2017

Highlights

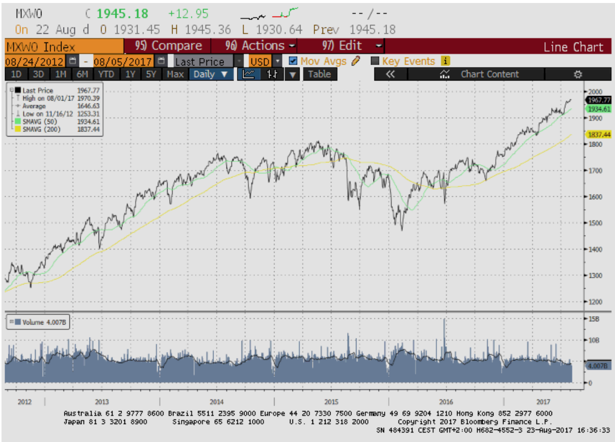
- **Economics:** The first estimate of 2Q17 came in just below expectations (2.6%, 2.7% expected), but above the last reading of 1.4%. Unemployment figures improved to 4.3% from the previous 4.3%. The Eurozone also released their first 2Q17 GDP reading that came in as expected at 2.1%, improved since the last quarter reading of 1.9% while the June unemployment rate also improved to 9.1% (9.3%).
- **Inflation:** US core CPI reporting for June show that the YoY inflation continues to slow as it came in at 1.6% (1.7% expected, 1.9% previous) with the expectations for FY2017 at 2.2%. The final Eurozone YoY CPI reading for June stayed constant at 1.3%, in line with expectations, the 2017 forecast has been decreased to 1.5%. The CPI's for 2017 forecasts are: for Russia 4.0%; for China 1.9%, Brazil 4.1% and the world 2.8%.
- **Central bank interest rates:** The July Fed meeting yielded no change of the fed funds rate that is at 1.25% the possibility of further hikes still open. The ECB confirmed their tapered asset purchase program at EUR 60bln a month since the end of April. 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% (-25bp), Russia's key rate at 9.00%; Brazil SELIC cut by 100bp to 9.25%.
- **Capital market rates:** US treasury yields continue to be range bound in the new range of 2.2% to 2.5% since the US elections, with a slight dip to 2.1 mid-June. The Bund also continues to be range bound. 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 June at 1.18. The median EURUSD forecast predicts USD at 1.17 for the end of 2017[ii] and then up to 1.20 for the end of 2018.
- **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 2023 maturities of European DM bonds to improve yield.
- **Equities (N):** The general market sentiment continues to be bullish on equities with the DAX and the S&P500 reaching a new all-time high mid-June. While the DAX corrected a bit, the S&P500 continued to grow to new highs.
- **Commodities (N):** Crude Oil (WTI) has continued to be very volatile throughout July, starting off with prices around 46$$/bbl, down to below 42.5$$/bbl before ending the month above 50$$/bbl. 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.
- Take profit on profitable equity investments that performed well YTD.



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 05.08.2017 (107 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