

Market Monthly

February 2018

Highlights

- Economics:** The first estimate of 4Q17 came in below expectations (2.6%, 3.0% expected). Unemployment figures are steady at 4.1%. The Eurozone also released their first 4Q17 GDP reading as expected at 2.7%, while the December unemployment rate was steady at 8.7%.
- Inflation:** US core CPI reporting for December slightly down, but as expected at 2.1% YoY, while expectations for FY2018 are at 2.0%. The final Eurozone YoY CPI reading for December as expected at 1.4%. The 2018 forecast was revised up to 1.6% from 1.4%. The CPI's for 2018 forecasts are: for Russia 3.3%; for China 2.5%, Brazil 3.6% and the world at 2.9%.
- Central bank interest rates:** The January Fed meeting kept the fed funds rate steady at 1.5%. The possibility of further hikes in 2018 remains open. The ECB's tapered asset purchase program remains at EUR 30bln a month until the end of September 2018. EM: China still keeps their RRRⁱ 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 -25bps to 7.50%; Brazil SELIC cut by -25bps to 6.75%.
- Capital market rates:** 10yr US treasury yields broke out of the range of 2.2% to 2.5% to above 2.7%. The 10yr 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 at EUR 30bln/month until the end of September 2018.

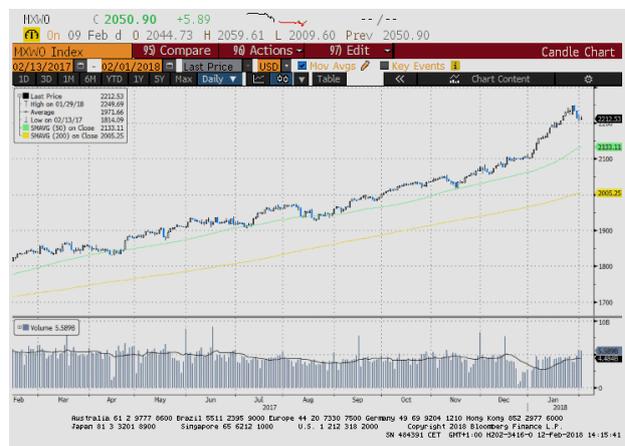
Tactical Asset Allocation

- Forex:** EURUSD has continuously moved upwards in 2018, strengthening the EUR from 1.19 levels up to above 1.24 at the end of January. The median EURUSD forecast now predicts USD at 1.25 for the end of 2018ⁱⁱ and then up to 1.26 for the end of 2019.
- Bonds incl. High Yields (Nⁱⁱⁱ):** 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 with a strong January (DAX +2.10%; S&P500 +2.27%), that ended with markets starting to correct at the beginning of February.
- Commodities (N):** Crude Oil (WTI) has been positive throughout January ending the month above 64\$/bbl while 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 by carefully increasing the equity exposure.



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 10.01.2018 (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

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