Market Monthly

July 2017

Highlights

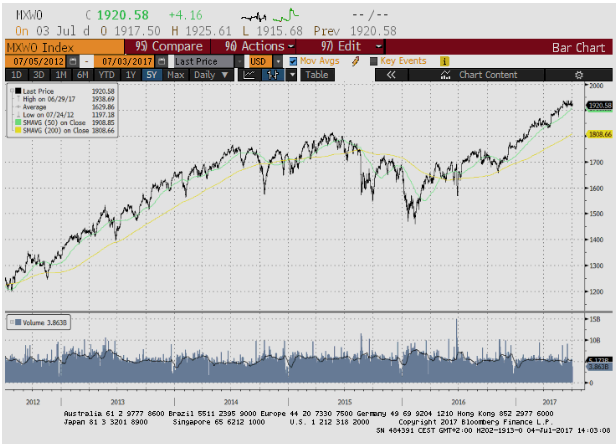
- **Economics:** The third and final estimate of 1Q17 came in above all previous expectations at 1.4% (1.2%). Unemployment figures reversed slightly by coming in at 4.4% vs 4.3% previous, but this reflects that more people are trying to join the work force again. The Eurozone the final 1Q17 GDP reading came higher than expected at 1.9% vs. 1.7% while the May unemployment rate stayed at 9.3%.
- **Inflation:** US core CPI reporting for May show that the YoY inflation continues to slow as it came in at 1.9% (2.0% expected, 2.2% previous) with the expectations for FY2017 at 2.3%. The final Eurozone YoY CPI reading for May came in lower than previous at 1.4%, but in line with expectations, the 2017 forecast remains at 1.7%. The CPI's for 2017 forecasts are: for Russia 4.0%; for China 1.9%, Brazil 4.1% and the world 2.9%.
- **Central bank interest rates:** The June Fed meeting came with a 25bp hike bringing the fed funds rate to 1.25% with 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 6.25%, Russia's key rate was cut by 25bp in June to 9.00%; Brazil SELIC stayed at 10.25%.
- **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

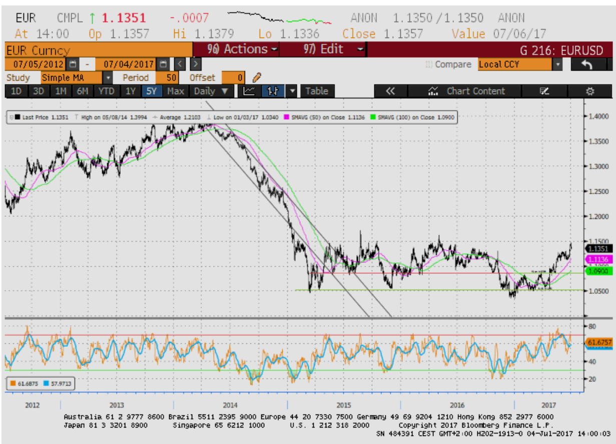
- **Forex:** EURUSD dropped briefly below 1.06 mid-April and has moved to above 1.14 at the end of June. The median EURUSD forecast predicts USD at 1.14 for the end of 2017[ii] and then up to 1.15 for the end of 2018.
- **Bonds incl. High Yields (N[iii]):** EM and HY bond prices have increased slowly 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. Most economic indicators continue to improve.
- **Commodities (N):** Crude Oil (WTI) has continued to be very volatile throughout june, starting off with prices right below 50$$/bbl, down to below 43$$/bbl before ending the month around 47$$/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 09.07.2017 (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