ASPERMONT
FINANCIAL SERVICES

Market Monthly

July 2018

Highlights

- **Economics:** In the US, the third estimate of 1Q18 came in below expectations and previous reading (2.0% vs 2.2%). Unemployment figures for May came in lower than expected at 3.8% and is expected to remain at that level. The Eurozone also released their final estimate for 1Q18 GDP as expected at 2.5%, while the April unemployment rate remained steady (8.4%).

- **Inflation:** US core YoY CPI reporting for May came in above expectations at 2.0% vs 1.9% expected, expectations for FY2018 are slightly higher than previously at 2.8%. The final Eurozone YoY CPI reading for May came in as expected at 1.9%. The 2018 forecast is at 1.7%. The CPI's for 2018 forecasts are: for Russia 2.7%; for China 2.4%, Brazil 3.5% and the world at 3.1%.

- **Central bank interest rates:** The Fed funds rate got hiked by 25bp in the June meeting to currently 2.00% with the Fed chair members implying possible further rate hikes. The ECB's tapered asset purchase program remains at EUR 30bln a month until the end of September 2018 and then at EUR 15bln until the end of 2018 when it is set to end. EM: China cut their RRR[i] by 50bp to 15.50%, 12M lending rate at 4.35% and 12M deposit rate at 1.5% remained. India raised its repo rate by 25bps to 6.25%, Russia kept its key rate at 7.25% and Brazil SELIC at 6.50%.

- **Capital market rates:** 10yr US treasury yields saw some moves in June, but remained in the general range of 2.8% to 3.0%. The 10yr Bund remains on a downward path since February, ending the month at 0.3% while the high was just shy of 0.5%. We see EUR bond prices as remaining supported over the longer term as QE continues at EUR 30bln/month until September and EUR 15bln/month until the end of 2018.

Tactical Asset Allocation

- **Forex:** EURUSD saw the USD remaining strong trading between 1.15 and 1.185 in June, keeping the currency pair back into the 1.16 – 1.20 range. The median EURUSD forecast now predicts USD at 1.19 for the end of 2018[ii] and then up to 1.26 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.

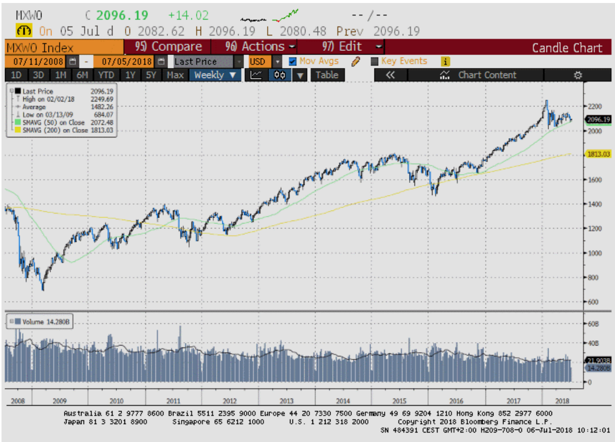
- **Equities (N):** After the recent market correction and subsequent rebound, markets remain uncertain due to geopolitical trade uncertainties, with fundamentals generally still strong. We continue to observe markets closely especially as current news about the looming trade dispute between the US and China continues.

- **Commodities (N):** Crude Oil (WTI) has been positive and strengthening up to 74$/bbl at the end of the month.

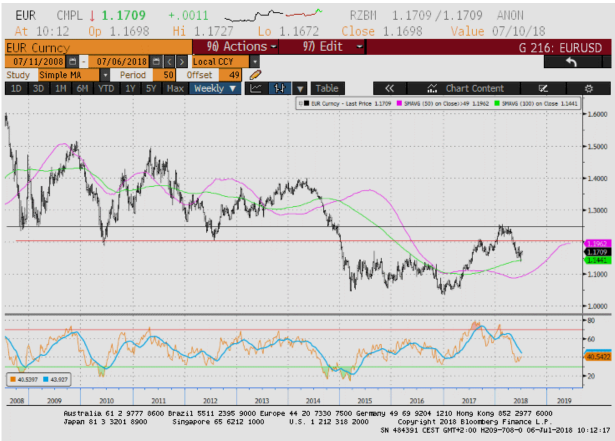
Investment Ideas[iv]

- 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 shifting 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 06.07.2018 (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