ASPERMONT
FINANCIAL SERVICES

Market Monthly

October 2017

Highlights

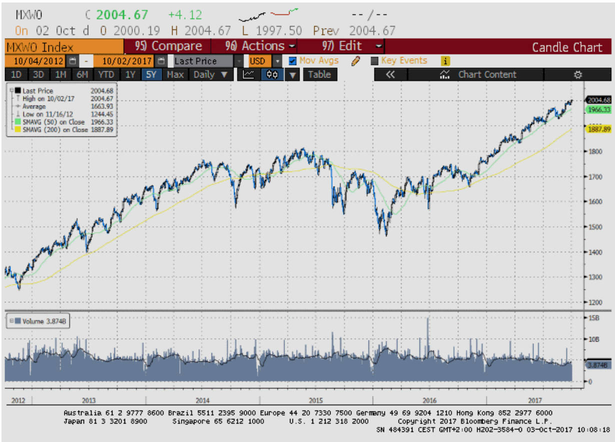
- **Economics:** The final estimate of 2Q17 came in above expectations (3.1%, 3.0% expected), above the last reading of 3.0%. Unemployment figures steady at 4.4%. The Eurozone also released their final 2Q17 GDP reading that came in slightly higher than expected at 2.3 % (2.2% expected), while the June unemployment rate steady at 9.1%, expected improvement to 9.0%.
- **Inflation:** US core CPI reporting for August showed an improvement in the YoY inflation to 1.9% from 1.7% previously, beating the 1.8% expected, expectations for FY2017 remain at 2.2%. The final Eurozone YoY CPI reading for July improved to 1.5% from the previous 1.3%, and in line with expectations. The 2017 forecast remains at 1.5%. The CPI's for 2017 forecasts are: for Russia 3.8%; for China 1.6%, Brazil 3.7% and the world at 2.7%.
- **Central bank interest rates:** The September 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 until end December 2017 or beyond. 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 50bps cut to 8.50%; Brazil SELIC 100bps cut to 8.25%.
- **Capital market rates:** US treasury yields continue to be range bound in the new range of 2.1% to 2.4% 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 August at 1.18 after briefly touching above 1.20 days before. The median EURUSD forecast predicts USD at 1.18 for the end of 2017[ii] and then up to 1.21 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 is positive on equities with the DAX up 6.4% and the S&P500 up almost 2% in September.
- **Commodities (N):** Crude Oil (WTI) has been mostly positive throughout September, starting off with prices around 47$$/bbl, before ending the month above 51$$/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 05.09.2017 (109 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