Multi Asset

Multi Asset View Americas

Embrace diversification

Market movements, like the one in February of this year, are unpleasant for many market participants and show two things: The need for a solid view of market fundamentals and the ability to actively explore opportunities that arise during such times.

We continue to assess the macroeconomic environment of the world economy as solid and in the state of well-synchronized expansion. In our view, monetary policy of the major central banks remains moderate and is supportive of further growth. Though we acknowledge that the market environment might no longer be described as goldilocks but more as late-cycle. Our systematic indicators, monitoring macroeconomic and financial-market data as well as global data surprises (the extent to which the previous data beat or missed expectations), are still in risk-on mode but start to show a slightly more fragile mix. The spike in volatility has led to more risk aversion and global economic data seem to have more difficulties beating the estimates.

We do not consider this environment as one that may automatically result in market turbulences or sustained downturn, but rather one that may lead to higher realized volatility. From an asset-allocation perspective, this requires a higher degree of tactical activity, as well as a stronger focus on diversification and relative-value positioning.

Within the **equity** allocation, we still believe that regional equity markets with higher beta should outperform markets with lower beta. We prefer equities from the Eurozone, Japan and emerging markets. U.S. equities should be supported by tax cuts and repatriation of cash that might be used for share buybacks and higher payout ratios. From a valuation perspective, we see more significant upside potential for equities outside the U.S..

In the **fixed-income** space, it is our opinion that underweights in investment-grade credit and high yield offer some reasonable diversification benefit. Therefore we have implemented these to fund the equity overweight and reduced the U.S. Treasury underweight respectively. To put this into perspective, we believe that both sectors can continue to deliver positive total return in the current environment. From a relative value perspective, however, these sectors might underperform equities in a late-cycle scenario and suffer substantial losses in case of heightened risk aversion.

Emerging-market bonds should be well supported by the positive growth environment. As the Fed is expected to reduce the support for mortgage-backed securities (MBS), we feel better positioned by underweighting this asset class.

After the recent rise in yields, we keep a more neutral stance on duration for now. Strategically, we continue to believe that yields should be higher. Nevertheless, from a cross-asset point of view

Werner Eppacher
Head of Multi Asset Strategies
Americas

In a nutshell

- Favor equities over credit assets
- Emerging markets in the sweet spot
- Higher volatility offers opportunities for tactical positioning

we see little value, neither from a total-return nor from a risk-contribution perspective, with having an active position.

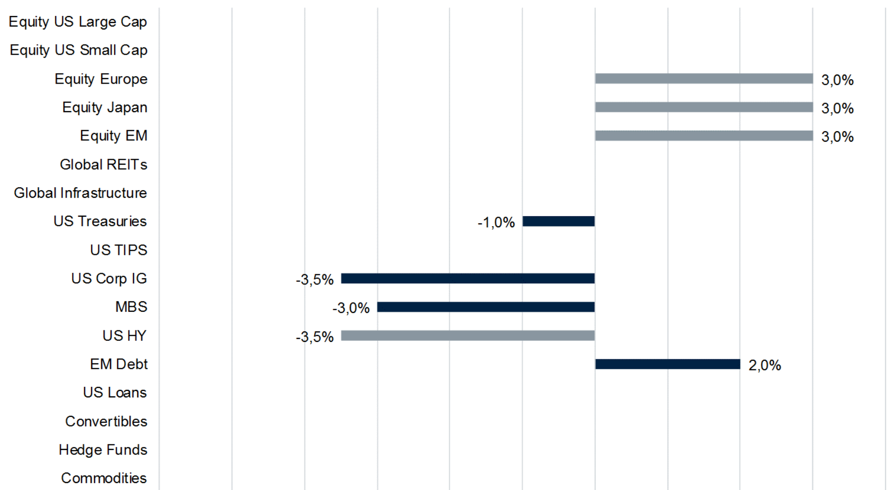
In **currencies**, we think the dollar has entered a consolidation phase after the recent weakness. Strategically, the dollar is supposed to have room for appreciation over the medium term, but we do not believe that the current levels offer an attractive risk/reward ratio.

Allocation changes since last publication:

- Neutralized short duration position in 10-year German bond market
- Reduced, then increased European and Japanese equity overweight during February market correction
- Reduced underweight in U.S. Treasuries
- Added underweight in U.S. investment-grade credit
- Neutralized the hedge on euro assets

Portfolio metrics

Active positioning



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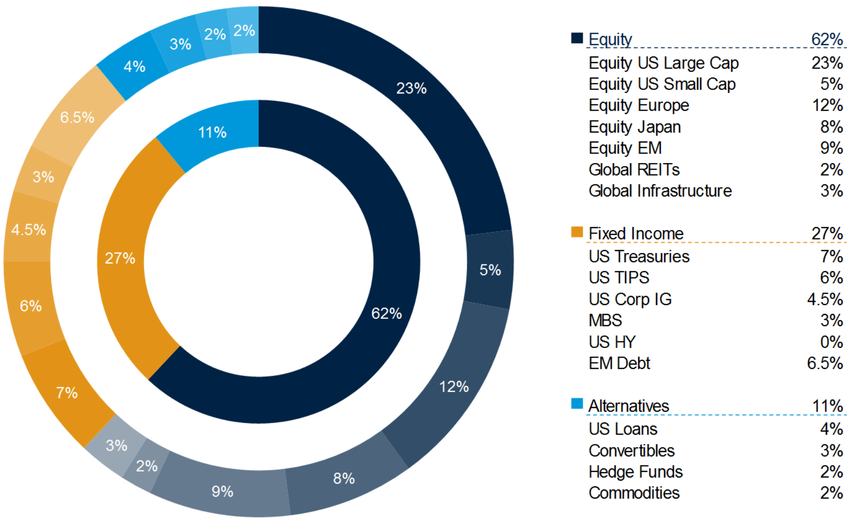
Portfolio allocation



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Glossary

Beta

Beta is a measure of volatility that captures a security's systematic risk according to the capital asset pricing model

Diversification

Diversification refers to the dispersal of investments across asset types, geographies and so on with the aim or reducing risk or boosting risk-adjusted returns.

Mortgage-backed security (MBS)

A **mortgage-backed security (MBS)** is a special type of asset-backed security where the holder receives interest and redemption payments from pooled mortgage debtors, secured by the underlying mortgages.

Payout ratio

The payout ratio is the proportion of earnings paid our as dividends to shareholders, typically expressed as a percentage.

Systematic

Systematic, in a trading context, are strategies using quantitative models to generate buy and sell signals.

U.S. Federal Reserve Board (the Fed)

The **U.S. Federal Reserve Board**, often referred to as "**the Fed**", is the central bank of the United States.

Valuation

Valuation attempts to quantify the attractiveness of an asset, for example through looking at a firm’s stock price in relation to its earnings.

Volatility

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

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