# Multi Asset View Americas

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## Stick to fundamentals

Global capital markets and market participants' complacency continues to be tested in 2018. After the more endogenous volatility shock in February, markets now have to deal with a more endogenous factor, a potential trade war. The political dimension of this kind of environment adds a certain amount of uncertainty to the equation when assessing the macroeconomic environment and relative attractiveness of asset classes.

Taking all this into consideration at this stage, we acknowledge that a potential trade war imposes a risk to our global economic outlook. However, we think that the measures taken by the U.S. so far, are too small to have major macroeconomic repercussions (see "A closer look" by Josh Feinman, DWS's Chief Global Economist from 03/28/18). We continue to focus on the fundamentals and view the macroeconomic environment of the world economy as solid and in the state of well synchronized expansion. Monetary policy of the major central banks should continue to be moderate and supportive of further growth for at least 2018. We see the market environment in a transition phase to late-cycle after a period that could be described as goldilocks. Our systematic indicators, monitoring macroeconomic and financial-market data as well as global-data surprises, show a slightly more fragile mix than at the beginning of the year. A lot of investors have become more risk averse resulting in higher volatility and higher risk premiums for asset classes that can be described as more risky. Analysts' high expectations about future macroeconomic developments have become harder to beat by the actual data releases. This is already the case in Europe where the recently released economic data on average surprised negatively.

The described set-up typically leads to higher realized volatility but doesn't automatically trigger a sustained downturn. From an asset-allocation perspective, this requires a higher degree of tactical activity and a stronger focus on diversification and relative-value positioning.

After the correction in global **equity** markets in February, some segments recovered strongly, one example being U.S. small caps. We used this opportunity to reduce our weight in this sector in order to counterbalance our overweight in the higher beta markets Europe, Japan and emerging markets. Specifically, European equity markets are currently trading near the highest discount to the United States seen in history. We acknowledge that there are good reasons for the U.S. market to have outperformed. One being the higher relevance of the outperforming technology sector in the S&P 500, another being the ongoing weakness of the dollar. However, these factors should fade going forward and allow for some catch up of European equities.

**In a nutshell**

- Reduce equity via U.S. small caps
- Balance risk via underweighting corporate-bond spreads
- Add to alternatives via commodities

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In the **fixed-income** space, our strategy to underweight sectors like investment-grade credit and high yield to add some diversification benefit to the overall portfolio, worked nicely so far as corporate-bond spreads widened on the back of heightened risk aversion. We continue to believe that from a relative-value perspective these sectors might underperform equities in a late-cycle scenario as well as suffer substantial losses in case of increasing risk aversion.

Emerging-market bonds should be supported by the positive growth environment. As the Fed is expected to reduce the support for the MBS market, 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. However, from a cross-asset point of view we see little value from a return as well as from a risk-contribution perspective in having on a directional position. Even though from a relative-value perspective German government-bond yields are too low compared with U.S. Treasury yields, they do not properly reflect the relative growth and inflation dynamics in the respective economies. Hence, we implemented an active position in long 10-year U.S. Treasuries vs. short German bunds.

**Commodities** should offer an attractive investment opportunity at current levels. The asset class has also suffered from higher risk aversion. If our assessment of the global economic environment is correct, commodities should face continuing high demand. Additionally it should offer some protection against geopolitical events that might have a significant positive impact on oil prices. Hence, we increased our allocation within the Alternative allocation.

In **currencies** we believe that after the recent weakness, the dollar continues to be trapped in a consolidation phase. Strategically, the dollar should have room for appreciation over the medium term but the current levels do not seem to offer an attractive risk/reward ratio.

Active allocation changes since last publication:

- Underweight U.S. small caps
- Added long 10-year U.S. Treasury vs. short German Bunds (neutral duration)
- Overweight commodities

**Portfolio metrics**

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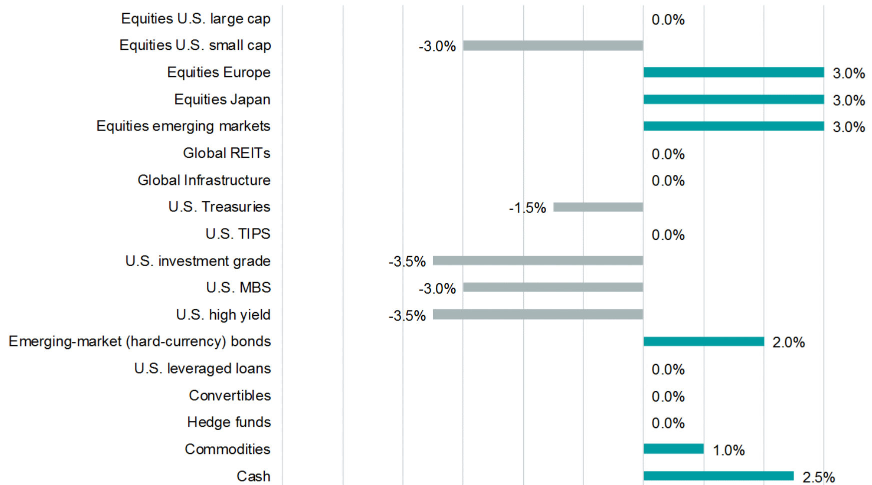
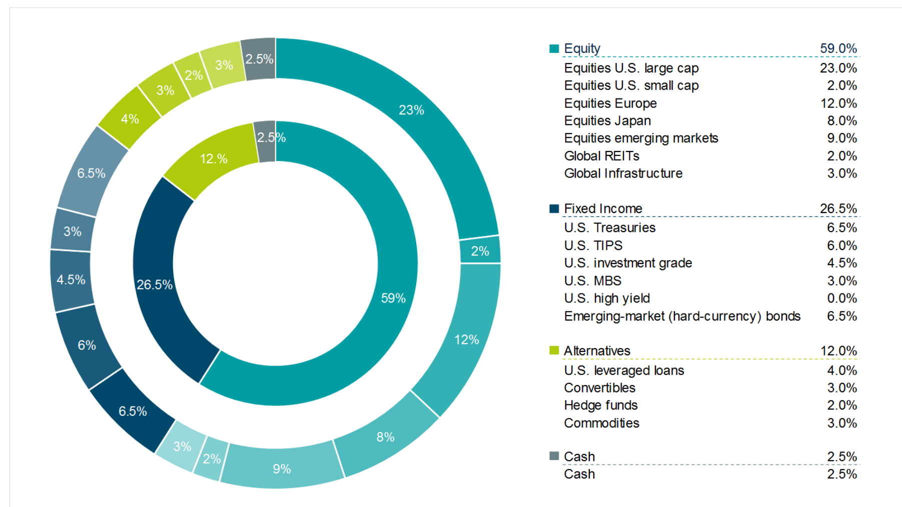
## Active positioning




## 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

### Duration

**Duration** is a measure expressed in years that adds and weights the time periods in which a bond returns cash to its holder. It is used to calculate a bond's sensitivity towards interest-rate changes.

### High Yield (HY)

**High-yield** bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

### Investment grade (IG)

**Investment grade (IG)** refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

### 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.

### S&P 500

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

### Spread

The **spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality.

### 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.

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