Multi Asset View Americas

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Staying flexible

Politics continue to drive markets, adding to investors' uncertainty. Recently, Italy dominated the headlines with the political drama surrounding the new Italian government, awakening some long-buried memories of the European crisis in 2011. We do not believe in a European-crisis-2.0 type of scenario but given the high sensitivity of market participants regarding this kind of topics, the situation requires close monitoring and its impact on sentiment in the region can be substantial.

In our view, the overall solid global fundamental picture has not changed significantly. Currently, the U.S. economy seems to have a moderately stronger growth momentum than Europe or Asia, but we stick to our base assumption of synchronized global growth. It is important to highlight, however, that the global economy seems to have entered the later stage of its expansion cycle. Expectations of more restrictive central-bank measures and slightly higher inflation accompanied by higher and rising volatility across asset classes should lead to more uncertainty among investors and companies. However, more risky asset classes like equity should still be able to outperform more defensive asset classes like investment-grade corporate bonds. Overall, portfolio risk allocation close to neutral seems to be an adequate response to this environment as it allows for flexible risk-taking. The cross check with our systematic indicators underpins this assessment as the macroeconomic and financial-market data as well as global data surprises continue to show a more fragile mix than at the beginning of the year.

To put things into perspective, we think the political noise around the world coincides with an environment of robust global economic growth and hence, the impact on financial assets should be limited as well as temporary in nature. However, as economies evolve in cycles and the current expansion phase seems to have the potential to become the longest in history it is important to watch out for signs of exhaustion.

In **equities**, we acknowledge that the Italian situation combined with the ongoing trade-tariff discussions has the potential to overshadow positive fundamental valuation arguments – at least for a while. Therefore, we closed our overweight in European equities and wait for the dust to settle. Our underweight in U.S. small caps worked well as portfolio diversifier. As the reduction of European equities has brought us close to a neutral risk exposure already, we closed the position in U.S. small caps as well. We keep our overweight in emerging-market equities as we still expect relative outperformance in an expansionary macroeconomic environment (see our recent Chart of the Week). As the dollar strength might be overdone in the near term, emerging markets should benefit.

In a nutshell

- Neutralizing overweight in European equities and underweight in U.S. small caps
- Staying underweight credit
- Keeping risk exposure at a neutral stance

Within **fixed income**, we continue to use underweights in high-yield and investment-grade bonds to balance our portfolio risk as we expect equities to outperform credit in the current economic environment. On top of this, we expect higher supply from new issuances of investment grade bonds before summer, adding to the current downward pressure on prices.

Sentiment for emerging-market bonds was negatively impacted by the dollar strength as flows into these regions tend to be negatively correlated with the value of the dollar. Nevertheless, we expect this to be temporary and see the positive growth environment continuing to support this sector. On mortgage-backed securities (MBS), we believe that the expected negative effect of the balance-sheet reduction by the Fed is widely priced in, so we closed the underweight in this sector.

The recent volatility in yields confirms our neutral stance on rates for now. Strategically, we continue to believe that yields should be higher, but from a cross-asset point of view we see little value from a total-return as well as from a risk-contribution perspective in having a directional position in place. German Bunds currently tend to be driven by different factors. They still are viewed as safe-haven investments particularly when there is heightened uncertainty around the European Union. .

At current levels, we do not see any investment opportunity in **commodity** prices. The rise in oil prices seems overdone in the very near term.

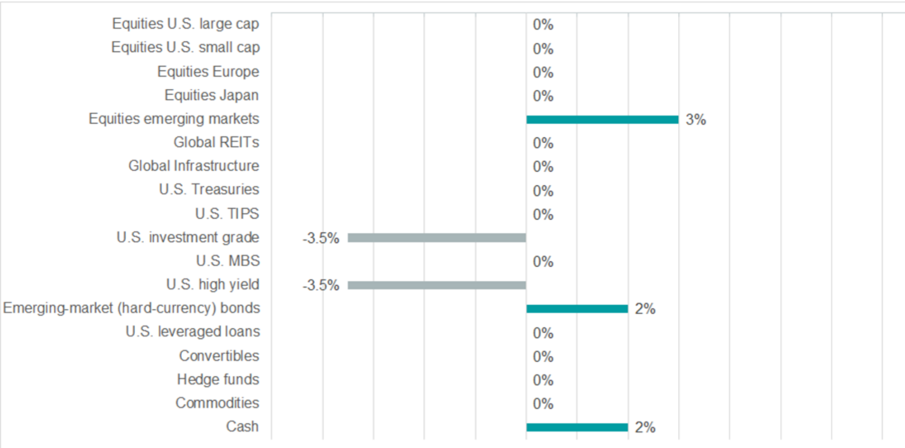
In **currencies**, we judge the last leg of the dollar strength more as a function of the European concerns and do not expect it to continue its pronounced appreciation trend of recent weeks. Strategically, we consider the USD to be close to fair value now.

Active allocation changes since last publication

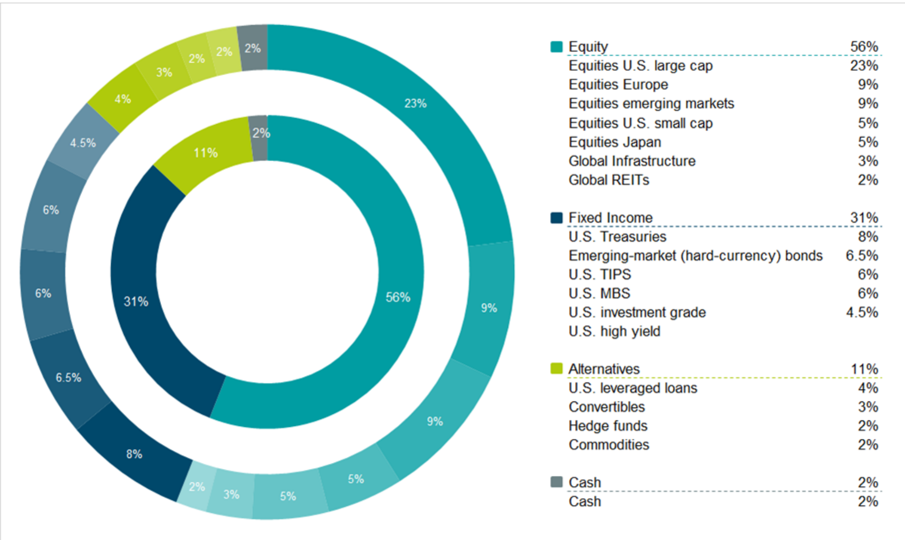
- Reduced overweight in European equities to neutral
- Neutralized U.S. small-cap underweight
- Closed underweight in MBS
- Reduced small underweight in U.S. Treasuries

Portfolio metrics

Active positioning



Portfolio allocation



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Glossary

Bunds

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

Commercial mortgage-backed securities (CMBS)

Commercial mortgage-backed securities are mortgage-backed security backed by commercial mortgages rather than residential real estate.

Defensive investment strategy

A **defensive investment strategy** is a conservative method of portfolio allocation and management. It aims at choosing and managing assets in a way that generates stable returns and tries to minimize the risk of losing capital.

Emerging markets (EM)

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

High Yield (HY)

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

Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

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.

Small cap

Small cap firms generally have a market capitalization of less than $2 billion.

Systematic indicator

A **systematic indicator** is a value calculated based on macroeconomic, financial-market and other global data.

Treasuries

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

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.

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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