Monthly Asset Allocation
Private Banking Europe Investment Committee

May 2, 2019

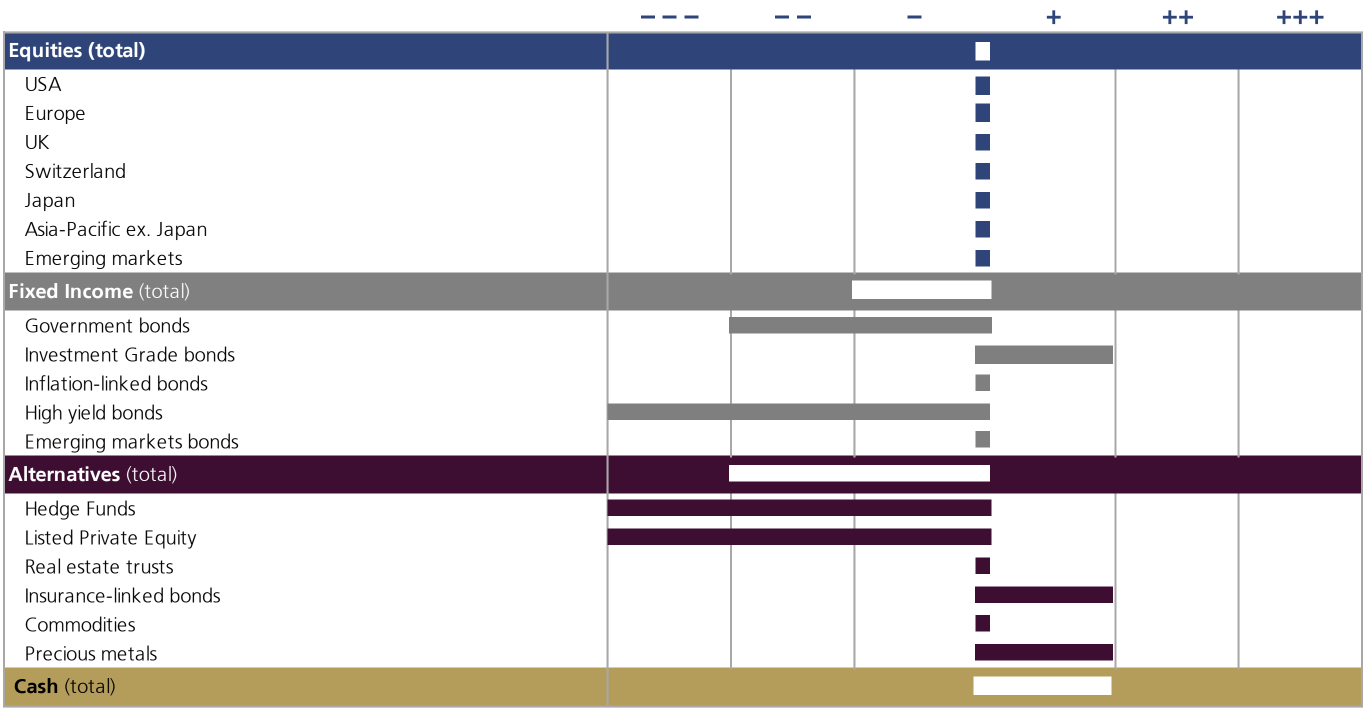
In a nutshell

- **Risk of investors' complacency in view of the unshakeable belief in the omnipotence of central banks**
- **Outlook for equities remains subdued, while yield opportunities for bonds are still limited**
- **We increase our allocation to corporate bonds at the expense of liquid funds and prefer the German stock market**

Between hope and complacency

In recent weeks, market participants' hope for a recovery of the global economy in the course of the second half of 2019 has been nurtured. Classic leading indicators such as the Purchasing Managers Index are partly inducing a first turnaround, while macroeconomic signals, particularly from the Chinese economy, remain fragile. Besides insecurities regarding China, economic tendencies in the euro zone are still hard to predict, in particular due to the ongoing trade conflict with the United States. However, the likelihood of a recession seems likely to decline steadily. As a result, the risks of investors' complacency seems to have returned as stock exchanges are currently responding to negative news in a carefree or apathetic manner, similar to the situation in 2017, when in volatility were recorded in the equity and bond markets. This phenomenon goes hand in hand with the major central banks' market-friendly monetary policy and the unshakeable belief in the omnipotence of the global monetary watchdogs.
On this backdrop, we have tactically increased the investment category of corporate bonds at the expense of liquid funds at the asset allocation level. Due to our cautiously optimistic economic outlook, corporate bonds should continue to yield better yields than government bonds, which remain underweighted. The risk at portfolio level remains balanced, but we allocate it primarily on the equity side. Within the equity allocation, we have increased the allocation for German equities at the expense of the entire euro zone, as we want to increase cyclicality.

Table 1: Generic Tactical Asset Allocation LGT Private Banking Europe (May 2, 2019)



Source: LGT Investment Services Europe

Table 2: Current asset allocation preferences

	What we like	What we dislike
Equities	German stock index (DAX) Staples Technology	
Fixed Income	Low duration Shortterm US Treasuries Investment grade bonds	Swiss government bonds EU government bonds High-yield bonds
Alternatives	Gold Insurance-linked bonds	Hedge Funds Listed Private Equity
Currencies	Japanese yen	

Sources: LGT Investment Services Europe

Equities: Outlook is subdued despite a promising start into the earnings season

The first earnings reports for the first quarter of 2019 on both sides of the Atlantic were eagerly awaited. To date, expectations have been met or even exceeded. This, on the other hand, is not a masterstroke, as analysts' expectations have been revised downwards in recent weeks and months to such an extent that it was very easy for companies to surpass this rather deep hurdle. The verdict remains mixed, as on the one hand profit growth in the US during the first quarter declined compared to the previous year, but on the other hand we nevertheless expect full-year profits to rise by around 5%. The gains on stock markets in recent weeks are mainly due to an expansion of the price-earnings ratio, while the profit outlook has not improved substantially. The non-cyclical consumer goods sector and the US technology sector remain our preferred sectors in a portfolio context. Within the euro zone, we now have a preference for the German stock market (DAX). A stabilization of the Chinese economy and a short-term trade agreement between the US and China should boost the cyclical DAX. The attractive valuation and the appealing dividend yield round off the picture.

Fixed income: Return opportunities remain limited

Yield return opportunities in the area of fixed-interest investments remain limited unless investors accept high risks. The current monetary policy stance of the major central banks – Federal Reserve, European Central Bank, and the Bank of Japan – hardly gives conservative investors a chance to generate a risk-free return. Swiss and European government bonds remain unattractive. The yield curve in the G7 regions is so flat that it is not worth extending the remaining term. The duration at portfolio level should remain short and we recommend a maturity of three to a maximum of five years. As we expect solid global GDP growth in the coming year, we are increasing our corporate bond exposure from neutral to overweight. Although high-yield investments offer an even higher credit risk premium compared to corporate bonds, we recommend a strong underweight in a mixed portfolio, as the risks in this asset class are currently not adequately covered. The decline in emerging market bonds is still too small to consider a tactical increase.

Alternative investments: Discount expansion in Listed Private Equity

The Listed Private Equity (LPE) sector has of course benefited from the rally in public equity. However, in a late-cycle environment, this asset class can rarely outperform traditional equities. Nevertheless, a widening of the discount – the difference between NAV and market valuation – has been observed in recent weeks. This increase is still too small to consider a purchase commitment. Within alternative investments, our insurance against capital market volatility – gold – remains overweighted and should also benefit from a weaker US dollar in the second half of the year.

If you require further information or advise, please contact your LGT relationship manager.

Author: Thomas Wille, Head Research & Strategy

Editor: Alessandro Fezzi, Investment Strategy & Communication

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