Monthly Asset Allocation
Private Banking Europe Investment Committee

July 03, 2019

In a nutshell

- **As volatility rises, we recommend investors to be patient and to take advantage of anti-cyclical buying opportunities**
- **We focus on equities with strong cash flow, good operating margins, solid balance sheets and attractive dividends**
- **We prefer investment-grade corporate bonds to high-yielding investments**

After the summit is before the summit

The G20 summit, which took place last weekend, was eagerly awaited. The highlight was the meeting between US President Donald Trump and Chinese President Xi Jinping. A positive sign is that both parties were willing to negotiate and no further escalation occurred, which gave the markets an initial boost. However, there were no tangible results. Economic data has stabilized at best in recent weeks, so the question arises: how long do the counterparties want to wait before reaching an agreement in the trade conflict? Or do they even speculate badly at the end? The central banks – above all the US Fed – will try to support economic growth despite this challenge. The first signs of weakening can already be observed, triggered by the often described second-round effects on consumers, which should not be underestimated. Recent surveys of US consumers have been quite sobering.

For the coming months, strong nerves, discipline and patience will be the key equipment for investors: volatility is likely to increase in the third quarter due to the US reporting season and will be the central theme for the rest of the calendar year, when investors should wait for anti-cyclical buying opportunities. At the asset allocation level, our positioning remains cautious. We overweight liquid assets at the expense of the bond quota. In equities, we remain temporarily weighted neutrally and focus on the health and non-cyclical consumer goods sectors.

Table 1: Generic Tactical Asset Allocation LGT Private Banking Europe (July 03, 2019)

	– – –	– –	–	+	++	+++
Equities (total)						
USA						
Europe						
UK						
Switzerland						
Japan						
Asia-Pacific ex. Japan						
Emerging markets						
Fixed Income (total)						
Government bonds						
Investment Grade bonds						
Inflation-linked bonds						
High yield bonds						
Emerging markets bonds						
Alternatives (total)						
Hedge Funds						
Listed Private Equity						
Real estate trusts						
Insurance-linked bonds						
Commodities						
Precious metals						
Cash (total)						

Source: LGT Investment Services Europe

Table 2: Current asset allocation preferences

	What we like	What we dislike
Equities	German stock index (DAX) Staples Healthcare	
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		

Sources: LGT Investment Services Europe

Equities: The upcoming US reporting season will be groundbreaking for the rest of the year

The upcoming US earnings season will heavily influence the remainder of the year. It will become clear whether the weak earnings growth in the first quarter was a "slip-up" or whether it can be seen as a first sign of a profit recession. In addition to the effectively reported figures, the outlook of the CEOs and CFOs will also be of crucial importance, as they will be forecasting the course of business and possible investment programs by mid-year. During this period, it will be critical to monitor very closely whether the US-Chinese trade conflict has dampened corporate sentiment. Sales and profit expectations have already been sharply revised downwards in recent months. A further deterioration in the outlook could temporarily affect the stock market, as price gains in recent months were primarily driven by an increase in valuations. We recommend focusing on quality, i.e. on companies with strong cash flow, good operating margins, solid balance sheets and attractive dividends. The focus should first be on meaningful selection and only then on allocation.

Fixed income: Low, lower, German government bonds

Uncertainty about the further course of the US-Chinese trade conflict and the associated fears about the state of the global economy have caused yields on government bonds in developed countries to fall further. Nevertheless, it is surprising that Bulgarian, Portuguese and Latvian government bonds have negative five-year interest rates. The renewed stimulus programs of the ECB and the US Fed have provided further impetus to the markets. At the moment, capital market participants expect interest rates in the USA to be lowered by 125 to 150 basis points in the coming 18 months. We only share this assessment to a limited extent, as various macroeconomic indicators point to a possible achievement of potential growth in the USA. We prefer investment-grade corporate bonds to high-yield investments. Until we have clarity about the further course of the trade conflict between the US and China, we will remain on the sidelines with emerging market exposures.

Alternative investments: Gold remains in focus despite a short-term record high

In June, gold gained almost ten percent and thus reached its highest level in the past five years. Although a consolidation can be expected in the short term, the medium- to long-term prospects for the precious metal are unlikely to deteriorate. On the one hand, the opportunity costs – gold pays neither a dividend nor an interest rate – are lower than they have been for a long time. On the other hand, gold effectively hedges against high market volatility. This momentum was already successful in the fourth quarter of 2018. We expect similar momentum in the coming quarters. Following the recent moves of the Japanese yen against the US dollar, we are realizing gains and close this position.

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

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