NAHMANI GRUNDER
WEALTH MANAGEMENT & MULTI-FAMILY OFFICE

MARKET INSIGHTS

A QUARTERLY REVIEW AND PERSPECTIVES ON FINANCIAL MARKETS

26 October 2017

Dear Investor,

The third quarter (Q3) of 2017 presented itself as another friendly period in financial markets, with **equities and bonds continuing their joint rally**, developed market equities reaching all-time highs, emerging market equities at multi-year highs and the broad underlying narrative remaining unchanged. The **backdrop with abundant liquidity, subdued but improving economic growth with benign inflation persisted, supporting the low volatility regime which began in mid-2016.** Lower-than-expected inflation has been positive for risky assets as it limits the need for central banks to tighten policy decisively. With the global economy now on a more clear upward trajectory, our reflationary sweet spot scenario that should last into 2018 is playing out.

Underlying **global economic growth has strengthened in 2017,** coming in the form of the first synchronized global economic growth phase since 2007. OECD estimates that all 46 of the economies it tracks will see positive growth in 2017. At the same time, IMF has just increased its forecast for global real GDP growth to 3.6% and 3.7% respectively for 2017 and 2018, breaking the long string of downgrades in recent years. These forecasts still assume US growth of 2.2% - 2.3%, implying upside potential even if Trump manages to only implement a small part of his pro-growth agenda.

This acceleration in global growth has occurred against **mysteriously tame inflation,** which has allowed most central banks to keep short-term interest rates at exceptionally low levels. Relatively low inflation has ensued so far during 2017 despite much less slack in many developed market economies as measured by lower unemployment rates. Wage pressures are probably being kept in check through structural headwinds around technology innovation and demographics, both of which have proved to be deflationary.

At the same time, central banks are still flushing the system with unprecedented liquidity through their money printing programs. As seen in the table below, while the FED was still sitting on its $ 4.5 trillion balance sheet during Q3 (it will start a slow, multi-year exit process during October), other major central banks have continued their respective QE programs purchasing an additional $ 1.9 trillion of instruments during 2017 so far. For example, the ECB continues on its current program of buying EUR 60 billion of sovereign and investment grade (IG) corporate debt per month. This has brought the total **cumulative size of global central banks' balance sheets to a whopping $ 15.5**

trillion by the end of September 2017, or 20% global GDP, from "only" $ 4.0 trillion in mid-2008. That translates into **a massive liquidity injection of $ 11.5 trillion globally over the last 9 years,** finding its way into all asset classes globally in our view. Interestingly, the absolute size of the European Central Bank (ECB) and Bank of Japan (BoJ) balance sheets are now each larger than the one of the FED's, at an incredible 42% and 86% of GDP, respectively.

Table 1: Size of Central Bank balance sheets (in millions, except BoJ in billions in local currency)

		FED	ECB	BoE	BoJ	SNB	TOTAL
in Local currency	2016	4,451,451	3,661,439	430,159	476,498	746,502	
FX rates			1.05	1.23	0.008547	0.98	
in USD, millions		4,451,451	3,850,735	530,816	4,072,628	732,692	**13,638,323**
in Local currcency	**2017***	**4,455,661**	**4,318,624**	**430,159**	**531,399**	**799,888**	
FX rates			1.18	1.34	0.008887	1.03	
in USD		4,455,661	5,102,022	576,327	4,562,572	826,125	**15,522,707**
% of total GDP		**24%**	**42%**	**22%**	**86%**	**125%**	**20%**

*Source: Bloomberg, FED, ECB, BoE, BoJ, SNB. * as of end-September 2017*

This wall of liquidity in the system has not only kept long-term sovereign rates at historic low levels, but also further compressed corporate credit spreads and boosted valuation multiples in equity markets. Accordingly, long-term real rates continue to be negative in the Eurozone, and have remained well anchored around 0.4% - 0.6% in the US during 2017 supporting valuations across asset classes in this perennial hunt for yield.

In the midst of such an overall positive backdrop, global equities and bonds both delivered positive returns during Q3, as they had already done in H1 2017. **Global equities did easily outperform global bonds again, with developed markets actually reaching all-time high levels.** The big winners for Q3 were commodities with Oil and Copper, and emerging market (EM) equities, such as Brazil and Russia, all gaining more than 10% in USD terms for the quarter. The laggards were Corn, Wheat and the Greek equity market, all down for the quarter. The USD index continued its weakness seen since the start of 2017, further falling by -2.7% in Q3. In global bond markets, sovereign bonds witnessed very modest positive returns of less than 1% with yields staying flattish, but corporate spreads continued to tighten.

The key takeaways for Q3 were (all figures in USD terms):

(1) Equities performed strongly again with MSCI World (a proxy for developed market equities) at +4.4% for Q3 driven by improving EPS growth, with Europe and the US delivering returns of +5.8% and 4.0% respectively. This brings overall MSCI World performance to +14.2% year-to-date. MSCI Emerging Markets (EM) did even better again at +7.0% in Q3 to remain the best per-

forming equity market year-to-date (+25.5%), also aided by the surprising weakness in USD. Within EM, standout performers were Brazil (+23%) and Russia (+15%). On a sectoral basis, our preferred sectors Technology and Health care continued to perform well in Q3, reaching year-to-date returns of +26.6% and +17.3% respectively. Energy had a very strong month of September to finish Q3 +8.2% for the quarter, although it is still lagging at -3.8% for the year so far. We continue to believe that the catch-up in Energy stocks can continue into Q4, especially after the strong performance of Oil prices in Q3, with both WTI and Brent crude prices now above $ 50 per barrel.

(2) Bonds (as measured by Barclays Global Aggregate) were also up in Q2 with a more modest total return of +1.8%, bringing year-to-date performance to +6.3% and thus underperforming global equities by 690bps in this 9-month period. The 10-year Treasury was in a range of 2.05% - 2.33% during Q3, ending the quarter at 2.33%, with the Trump reflation slowly making a come-back as of early September. This after more details about the Trump tax reform plan were released and a higher probability of tax cuts by early 2018 started to be priced in by markets. For Q3, IG and HY spreads continued to narrow, with US credit spreads at 136bps and 312bps respectively further approaching all-time low levels. On a granular level, best total returns year-to-date came from EUR HY and IG debt at 18.5% and 14.2% in USD (helped by ECB QE program and, more importantly, the strength of the EUR), while US HY debt delivered +6.2%. Developed market (DM) sovereign bonds were rather flattish, with rates having reached what we believe are multi-year trough levels especially in the US and Europe. Despite our negative stance, all EM bonds still delivered a return of +13.0% year-to-date, aided by the weakness in USD which is not sustainable in our view.

(3) Interestingly, while the Trump reflation trade made a come-back in September and inflation readings started to slowly improve, the **US yield curve continued to flatten during Q3,** with the 2s30s spread finishing the quarter at 137bps, versus 145bps at the end of Q2. The FED has hiked short-term rates twice so far in 2017, with the Fed Funds rate now at a band of 1.0% - 1.25%. In this regard, the fact that the **2s30s spread is now the flattest it has been since 2007** is surely a red flag for risk assets in general, as bond markets seem to be signaling their worry whether the FED is hiking rates too aggressively amidst benign inflation. We continue to see improving inflation readings into the end of 2017 and in 2018, and don't foresee a recession on the horizon until 2019. This should normally lead to a steeper yield curve, in our view.

(4) Global commodities were rather mixed in Q3, with the Bloomberg Commodity index increasing by +2.2% in Q3 and bringing year-to-date performance to -3.5%. For the quarter, the recovery in Crude Oil prices with Brent +15% and Copper +9.2% was somehow offset by weakness in soft commodities such as Wheat and Corn, as well as further decline in Iron Ore prices (-4.5%). Gold delivered a return of +3.1%, taking the year to +11.5% and is still one of the best performing commodity segments in 2017.

(5) USD continued to weaken against EUR in Q3 with -3.3% for the quarter, despite more evidence that interest rate differentials will widen and not narrow to the benefit of USD. The USD index fell by -2.7% in Q3 taking the year-to-date depreciation to -8.9%. The depreciation against EUR is even larger at -12.3% for the year. EUR was actually stronger against all major currencies including CHF, on the back of increasing confidence that the Eurozone recovery is accelerating with potential monetary policy normalization to follow soon. We don't see any interest rate changes in the Eurozone before 2019.

(6) Lastly, as we have mentioned before, we follow 10-year US real rates very carefully, as we believe it is a primary driver of various risk asset prices from global equities to Gold . **US real rates closed Q3 at 0.48%, versus 0.57% at the end of Q2 and 0.47% at the end of 2016.** We expect real rates in the US to remain well-anchored around 0.40 – 0.60% (and surely below 1.0%) for the foreseeable future, also aiding our ongoing positive bias on Equities. **Higher real rates would certainly compromise valuation multiples** on the high growth, high momentum, high ownership parts of the equity market, such as the Technology sector. But we are **not worried about that for now, as long as central banks approach the eventual reduction of their bloated balance sheets in a gradual and progressive manner.**

Table 2: Risk assets dashboard – A recap of Q3 and year-to-date 2017

	2016	H1 2017	Q3 2017	YTD 2017
Equitites				
MSCI World (USD)	5.3%	9.4%	4.4%	14.2%
S & P 500 (USD)	9.5%	8.2%	4.0%	12.5%
Eurostoxx 600 (USD)	– 1.2%	5.0%	2.3%	7.4%
Nikkei (JPY)	0.4%	4.8%	1.6%	6.5%
MSCI Emerging Markets (USD)	8.6%	17.2%	7.0%	25.5%
Bonds				
Barclays Global Aggregate TR (USD)	2.1%	4.4%	1.8%	6.3%
US TReasury 10y	0.8%	1.0%	– 0.2%	0.8%
US Corporate	5.9%	3.8%	1.4%	5.3%
Bund 10y	3.5%	– 1.4%	– 0.5%	– 1.9 %
EU Corporate	4.4%	0.3%	1.0%	1.2%
Currencies				
USD Index	3.6%	– 6.4%	– 2.7%	– 8.9%
EUR/USD	– 3.2%	8.6%	3.4%	12.3%
GBP/USD	– 16.3%	5.6%	2.9%	8.7%
USD/JPY	– 2.7%	– 3.9%	0.1%	– 3.8%
USD/CHF	1.7%	– 6.0%	1.1%	– 5.0%
EUR/CHF	– 1.5%	2.1%	4.5%	6.7%
Other				
US Libor	0.5%	0.5%	0.3%	0.8%
WTI Crude	45.0%	– 14.3%	12.2%	– 3.8%
Iron ore	81.1%	– 17.6%	– 4.5%	– 21.3%
BBG Commodities Index	11.4%	– 5.6%	2.2%	– 3.5%
Gold	8.6%	8.2%	3.1%	11.5%

Outlook: Reflationary window open into 2018; prefer Equities over Bonds with a USD bias

Our global macro framework and the resulting playbook for our approach to financial markets remain unchanged at the core, and rest on the following key constituents which we summarize again below:

1 **Global economic growth should stay reasonably strong over the next 12 months,** with global real GDP growth of +3.7% growth in 2018 versus 3.0% in 2016. Global growth is running well above trend in 90% of the countries under Goldman Sachs' coverage, for example. Financial conditions in most countries have eased substantially since the start of 2017 thanks to rising equity prices, flattish bond yields and narrower spreads. Easier financial conditions tend to lift growth with a lag of 6 to 9 months. This bodes well for economic activity for the remainder of this year into 2018. Overall, we believe the global economy is entering a blow-off stage where growth will get better before it gets worse again, given structural headwinds to growth.

2 **Following the announcement on 27 September, Trump's tax reform in the US is finally starting to move.** The White House proposal includes a $3 trillion in reduced tax revenue over the next 10-years. By contrast, the Senate appears to be willing to allow only $1.5 trillion in tax cuts over the same period. The White House's more ambitious tax reform proposals may take more time but recent developments suggest a rising probability Senate's tax cut proposal could be realized by early 2018. Our optimism was further augmented on 19 October when the Senate voted 51-49 in favour of a FY18 budget resolution that House GOP leaders agreed to accept. According to the report, the budget will unlock a special procedure allowing Republicans to pass a subsequent tax code rewrite without Democratic support. The House and Senate tax-writing committees plan to release draft legislation by early November. **Tax reform and the prospect for increased fiscal spending in the US should both support US economic momentum,** and accelerate US GDP growth towards 2.5% by 2018 from 1.6% in 2016 and 2.2% in 2017. The reduction of the US corporate tax rate from 35% to 20% would also create meaningful upside for earnings estimates of listed US companies.

3 Core inflation readings were surprisingly weak between March and August 2017 in the US. But this transitory weakness has stabilized in September for the August figure, and we continue to **expect higher US inflation readings for the remainder of the year,** due to even less slack in the workforce as well as wage inflation finally rearing its head with the latest figures coming above 2.5%. This should drive the 10-year inflation breakeven rates back above 2.0% in H2 (from 1.87% today), also taking the 10-year Treasury yield above 2.75% by early 2018, in our view. We also expect FED to increase rates one more time in 2017, and also think that FED Funds futures are under-pricing the amount of further rate increases in 2018 (currently at two hikes).

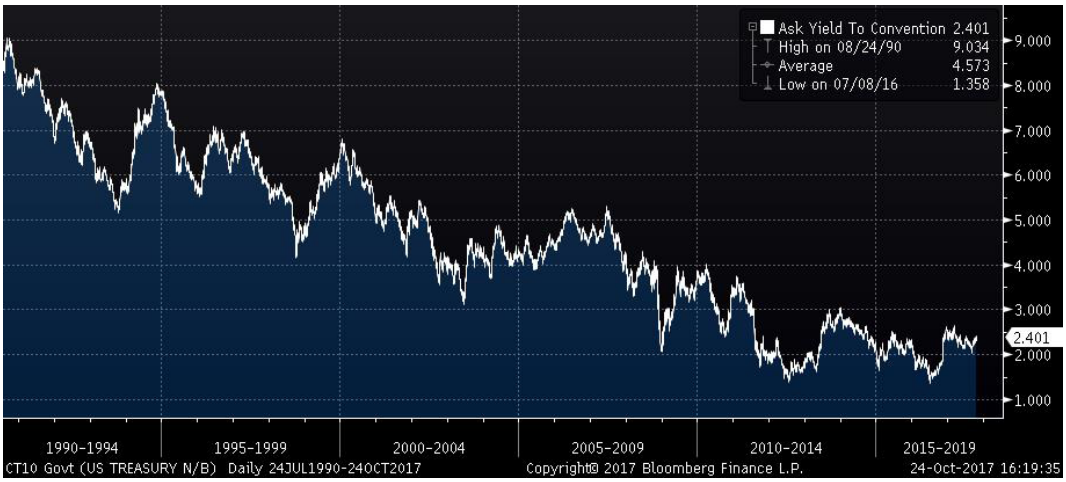
4 Thus, **we continue to see slightly higher global and US economic growth in 2017 and 2018, more inflation and higher US policy rates than before, which are the pillars of our reflationary sweet spot thesis together with real rates staying well-anchored.** In our **base case of a reflationary sweet spot that stays open until H2 2018,** financial conditions tighten, largely reflecting higher bond yields and a stronger trade-weighted US dollar, but only partially offset the fiscal policy upside. Thus, a moderate pace of FED and financial-condition tightening, and a gradual slowdown in China's growth will somewhat constrain reflation but not derail it also in 2018, as long as there is no political upheaval in the EU.

5 The biggest challenge for us is the need to balance our short-term reflationary optimism for 2017 and 2018 with our ongoing mid-term worries for the global economy in our approach to financial markets. In contrast to our near-term views, **for the mid-term, our existing thesis of subdued growth (in historical context), lower inflation (even short bouts of deflation) and slow monetary policy normalization is also fully intact, though.** There are some powerful **structural headwinds to growth that will persist, such as an ongoing overhang of debt, the peak in globalization, and adverse demographics in most major economies.** Global economic growth should thus stay rather subdued, with debt levels remaining elevated almost everywhere. And, ultimately in the 2018/2019 time frame, wage inflation could become a drag on corporate margins. More importantly, Trump's fiscal thrust and higher inflation readings will come at crossroads with FED, possibly leading to a cycle ending monetary policy tightening. We think a US recession in 2019 is possible.

6 In this reflationary sweet spot during 2017 and 2018, **we also expect earnings fundamentals to be healthy, with the recovery in corporate earnings that began in mid-2016 to be sustained at least in the next 12 months.** We expect global EPS to expand by +9% for MSCI World and +10% - 11% for MSCI EM in 2018. S&P 500 EPS expanded by +13.9% year-on-year (YoY) in Q1, which was the best level since Q3 2011, and subsequently by +10.3% in Q2. We expect EPS growth to come in at +7% to 8% YoY in Q3, translating into low-teens growth for 2017 driven by Technology and Financials. **EPS growth will be the primary driver of equity returns over the next 12 months,** in our view, with a total return profile of high-single digit on slightly contracting market multiples. And, this on our underlying assumption that the FED's wind-down of its $ 4.5 trillion balance sheet progresses very gradually. As a comparison, in the year-to-date 2017 period, S&P 500 returned +12.5% (excluding dividends), with expected 2017 EPS growth of +12.1% YoY, implying that current year S&P 500 P/E multiple remained flattish around 19x.

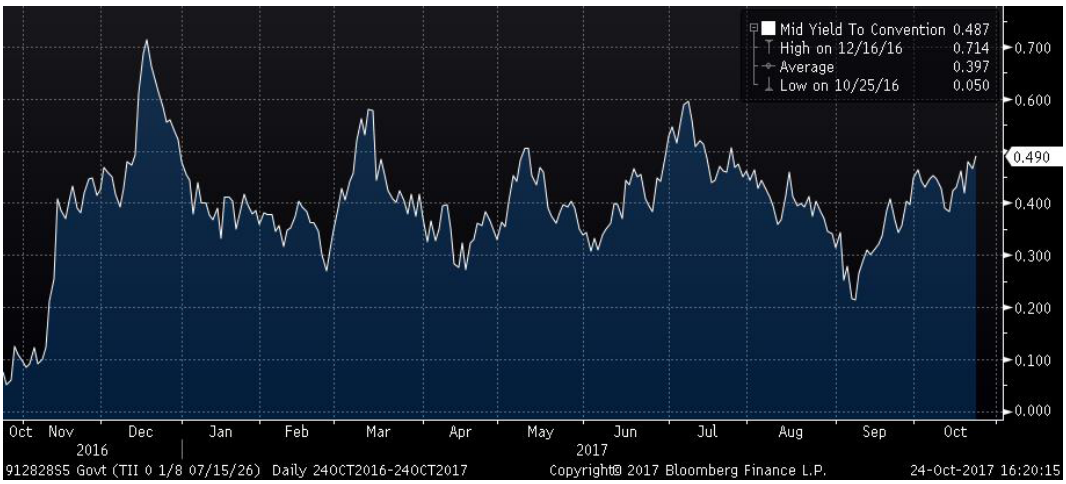
7 **The 35-year bond bull market is over,** with nominal rates having now bottomed (also see Table below). We have made both the secular low in inflation and the secular low in bond yields relative to inflation. **We see a normalized fair value nominal yield range above 2.75% for the 10-year Treasury by early 2018,** compared to 2.40% today, under the scenario that US economic growth stays stuck in its current mid-term 2.0% run-rate, albeit with a temporary acceleration in 2017 – 2018. Without any sustainable acceleration in US real economic growth to 2.5 – 3.0%, we also conclude that **it will be difficult for long-end Treasury yields to move meaningfully higher,** especially if neutral real rate in the US economy is currently close to zero. The potential for the 10-year Treasury to move meaningfully above 3.0% will depend on how aggressive Trump follows up on his ambitions while still keeping the bond markets on board, and also Fed's reaction to this inflationary upside with potentially a new Chairperson by February 2018.

Table 3: 10-year Treasury yield has bottomed (1990 – 2017)



8 Higher real rates would be detrimental to all risk assets. In this regard, the 10-year Treasury Inflation Protected Securities (TIPS) yield, which effectively show the 10-year real sovereign yield in the US, currently stands just below 0.5% and has remained under control since the election of Trump, despite a short-term spike in December 2016 as shown below. **We expect real rates to remain in their current range over the near-future. A well-anchored real rate around 0.4% - 0.6% is very supportive for Equity markets,** in an environment of slightly better growth and higher inflation, in our view.

Table 4: 10-year TIPS yield imply real rates remain under control (2016 – 2017)



We see two big risks to our overall positive assessment of the global economy and global equities:

First, current FED chair Yellen's 4-year term is ending on 3 February 2018. The **potential replacement of Ms. Yellen** with a more aggressive, hawkish chairperson could damage the current delicate balance that the FED has orchestrated by tightening too much, potentially leading to a recession in the US by 2019. Current chatter is John Taylor, who is widely seen to be much more hawkish than Ms. Yellen, to be the front-runner among the candidates for next Fed chair position. Second, we are now slowly moving from a period of unbounded quantitative easing (QE), which has unleashed $11.5 trillion of incremental liquidity into the system, to a normalization of these central bank balance sheets. This wind-down, or quantitative tightening (QT), will have to be done gradually in a multi-year process, starting with the Fed as of Q4 2017. **The normalization of the $ 15.5 trillion total overall balance sheet** will be crucial for financial markets, as any policy mistake would swiftly also pressure valuation multiples back to normality without corresponding economic strength to offset.

Our Investment outlook into 2018: Trump reflation trade to make a forceful return; clearly prefer Equities over Bonds

The first nine months of 2017 were characterized by a "Goldilocks" environment with prices trickling up in almost all asset classes on exceptionally low volatility. We now suspect this constellation has run its course and that the delicate balance of abundant liquidity, improving economic growth with tame inflation is about to change. **This should mean more volatility, a more difficult backdrop for bond markets but a still ongoing upward trajectory for global equities. This means an even more** accentuated preference for equities over bonds for Q4 and into 2018.

First of all, we expect inflation readings in the US (but also in EU to a smaller extent) to move higher in 2018. Second, FED has announced that it will start to wind-down its balance sheet as of October 2017. We also see the ECB to start tapering its EUR 60 billion per month in purchases as of January 2018 over a period of 12 months. This clearly means that we are slowly moving to a new post-QE world where liquidity will rather be taken out of the financial system. Between the prospect of rising inflation expectations, more government spending, less demand for Treasuries from the slow reversal of QE by the FED, and a US economy that is rolling forward on a healthy path, none of these 4 factors is consistent with the current 10-year Treasury yield at 2.40%, in our view. Above-trend GDP growth and rising inflation are likely to push up long-term bond yields in most economies over the next few quarters. In this regard, we see steeper yield curves both in the US and the EU, but also think the yield curve in the euro-area should steepen more than in the US, since the ECB has pledged not to raise rates until well after its QE program is complete. In terms of corporate credit, spreads have now fallen back to their post-recession lows after widening in the wake of the global manufacturing recession, and we think spread compression should also be over now. This creates a backdrop in which it will be virtually impossible to generate any meaningful real returns (inflation adjusted) in global bond markets in 2018, compared to +6.3% in nominal returns for the BarCap Global Aggregate for year-to-date 2017 so far (with less than 2% inflation).

On the other hand, we expect healthy corporate earnings fundamentals to persist in 2018, driving ongoing positive equity returns even on slightly lower valuation multiples. Moreover, the likely implementation of corporate tax cuts in the US by early 2018 would constitute a further key pillar to augment EPS growth beyond current expectations. For example, **Goldman Sachs estimates that every 1% of corporate tax cut should represent $ 1.50 of S&P 500 index earnings, implying that a possible 10-percentage point corporate tax rate from 35% to 25% would translate into $ 15.0 of additional S&P 500 EPS.** At the current P/E multiple of 19x, this would imply 285 S&P 500 index points, or an additional upside potential of 10% from current levels assuming some of this is not already priced in yet through higher multiples in recent weeks.

Accordingly, **our asset class views into Q4 and 2018 become even more accentuated:** We are now even more positive on Global Equities versus Global Bonds (including corporate credit) due to the relative valuations at this stage of the growth and inflation outlook. For example, we find it noteworthy that the Stoxx 600 dividend yield at 3.3% is now 75bps higher than the average yield on EUR-denominated HY corporate bonds in Europe (as inferred from iTraxx Crossover). Historically credit spreads tend to widen in advance of a recession and total returns in credit have high exposure to rates compared with growth, while equities tend not to sell off until closer to recessions (which we don't see before 2019) and have more leverage to the growth environment remaining strong. Under our overall global macro framework, our pecking order among asset classes remains unchanged. We continue to like global equities over bonds, USD and CHF over the rest, IG corporate bonds within Fixed income space if it need be, while positioning ourselves for higher equity markets into year-end 2017 but also during the course of 2018. However, we also think investors should also be prepared to scale back risk during H2 2018.

A summary of our main views would be:

1. We don't see how total returns in 2018 can come anywhere close to 2017 returns, even for global equities.
2. Global equities can still generate mid-to-high single total returns until the end of 2018, with a preference on developed market equities also given our positive USD bias. For the S&P 500, we foresee a potential level of 2,650 – 2,700 without any tax cuts, and level of up to 2,850 if we get a lower corporate tax rate of 25% by early 2018.

3 With higher inflation readings, a steeper yield curve and credit spreads at multi-year lows, it is difficult to create a scenario under which global bonds generate positive returns during 2018.

4 Gold prices do well in situations where real rates are falling and the USD is weakening. That's not the environment we find ourselves into 2018. With Gold prices around $ 1,300 per ounce, we the think the upside case is getting weaker for now, until a potential stagflationary period after 2020. We expect flattish USD returns from Gold during 2018, with prices of $ 1,250 – 1,300 per ounce.

5 We keep our bullish USD stance, and believe we will reach the low-end of the new trading range of 1.10 – 1.20 versus EUR over the next 6 – 9 months.

Equities: More earnings growth driven upside; prefer Technology, US Banks, Health care but also Energy with some more catch-up potential

More specifically on equities, we continue to believe that valuation multiples will remain at current "high" levels, especially as US real rates remain well-anchored at current levels of 0.4% - 0.6%, the FED's balance sheet exit takes a delicately slow form, and global liquidity remains abundant with money potentially moving from fixed income to equities. In this regard, we thus think S&P 500 P/E multiples should remain at current levels of 18.5 – 19.0x. **This translates into an S&P 500 level of 2,650 – 2,700 by the end of 2018, using an estimate of $ 140 – $ 145 for S&P 500 earnings** in 2018 (from $ 131 in 2017e). Obviously, an eventual tax reform agreement as explained above would constitute upside scenario for overall EPS, with part (but surely not all) of this upside possibly to be captured by further P/E multiple expansion in Q4 2017. Overall, the Trump reflation trade should come back more forcefully in Q4, and that would mean higher equity markets, higher Treasury yields, a steeper yield curve and higher USD, with US Banks stocks benefitting too. Banks, in particular, will benefit from steeper yield curves, faster credit growth and ongoing declines in NPLs. Energy stocks are also attractive, as they still have some catch-up potential, especially following the performance of Oil prices in Q3 and still modest valuations with internally funded 5+% dividend yields across the sector. These are 2 sector we would highlight in addition to our long-term favorites, namely Technology and Health care. As one looks beyond the next 12 months, the skies also begin to darken for global equities. As stated earlier, the stock market usually sniffs out recessions before they happen, but the lead time is quite variable and generally around 6 months between peak of S&P 500 and the official start of a US recession.

Currencies: Ongoing positive stance on USD, despite the sentiment driven depreciation this year so far

Lastly, as mentioned, we remain constructive on the US Dollar. Relatively stronger US growth and relative tightening of US policy versus the rest of world should be USD-bullish, and thus, despite the sentiment/flow driven move this year so far, **we think the dollar should appreciate over the next 12 months by around 5% - 8% on a trade-weighted basis.** In this regard, EURUSD should go back to the low-end of its new 1.10 – 1.20 trading range, from 1.1760 today.

It is not the absolute level of real interest rate spreads that matters for FX rates, but how spreads evolve relative to market expectations. In this regard, FED will deliver more tightening over the next 18 months than the market is expecting while the ECB will deliver less, in our view. Forward markets are still pricing in a 30% chance of a rate hike by the ECB by the end of 2018, whereas we take Mr. Draghi by his word that any rate changes will only come well past the end of its QE program. This would be potential rate changes by ECB only as of H2 2019. At the same time, the Fed Funds Futures now imply that markets price in 60bps of hikes, or slightly more than 2 interest rate increases over the next 15 months until January 2019. In contrast, we believe it will rather be 3 to 4 further hikes over this period due to our macro framework explained above.

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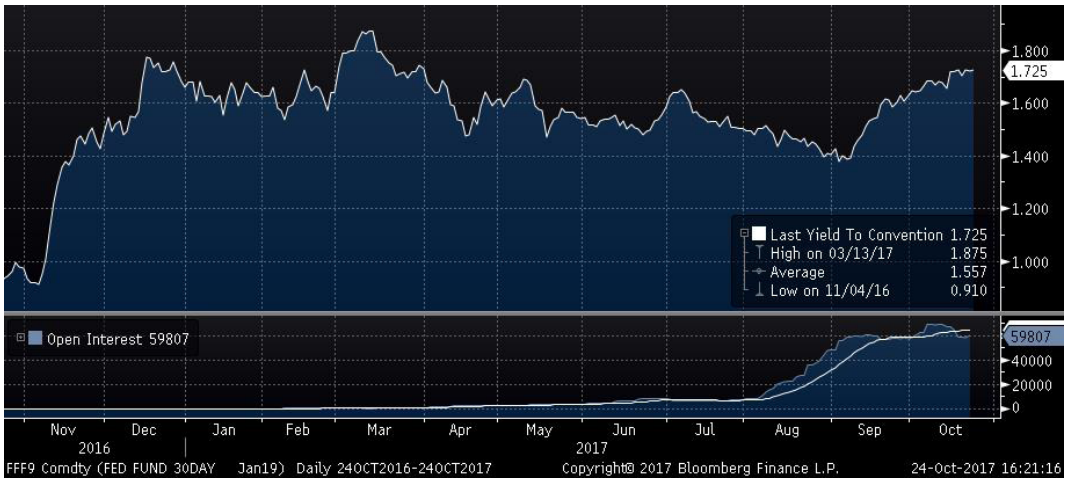
Table 5: Fed Funds Futures, January 2019 contract implies a 1.725% rate by end-2018 (from 1.125% today)



Below, you can find our Asset Allocation Grid for a Global Balanced mandate:

Asset Classes	Positive	Neutral	Negative
Fixed Income & Cash –	Money market T-Bills	US IG Corp EU IG Corp TIPS	US Treasury Bonds High yield EU Sov. Bonds Sov. & Corp. EM
Equities (regional view) +	Switzerland	US Japan Europe	EM
Equities (sectoral view) +	Technology Healthcare Insurance US Banks	Consumer Staples Consumer Discr. EU Banks	Industrials Metals & Mining
FX	USD CHF	EUR GBP JPY	CNY EM
Commodities +	Precious metals	Oil	Copper, Iron ore

Please do not hesitate to call us, should you have any questions and/or feedback.

Kind regards,

Can Elbi
Chief Investment Officer

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