Monthly Asset Allocation
Private Banking Europe Investment Committee

May 29, 2019

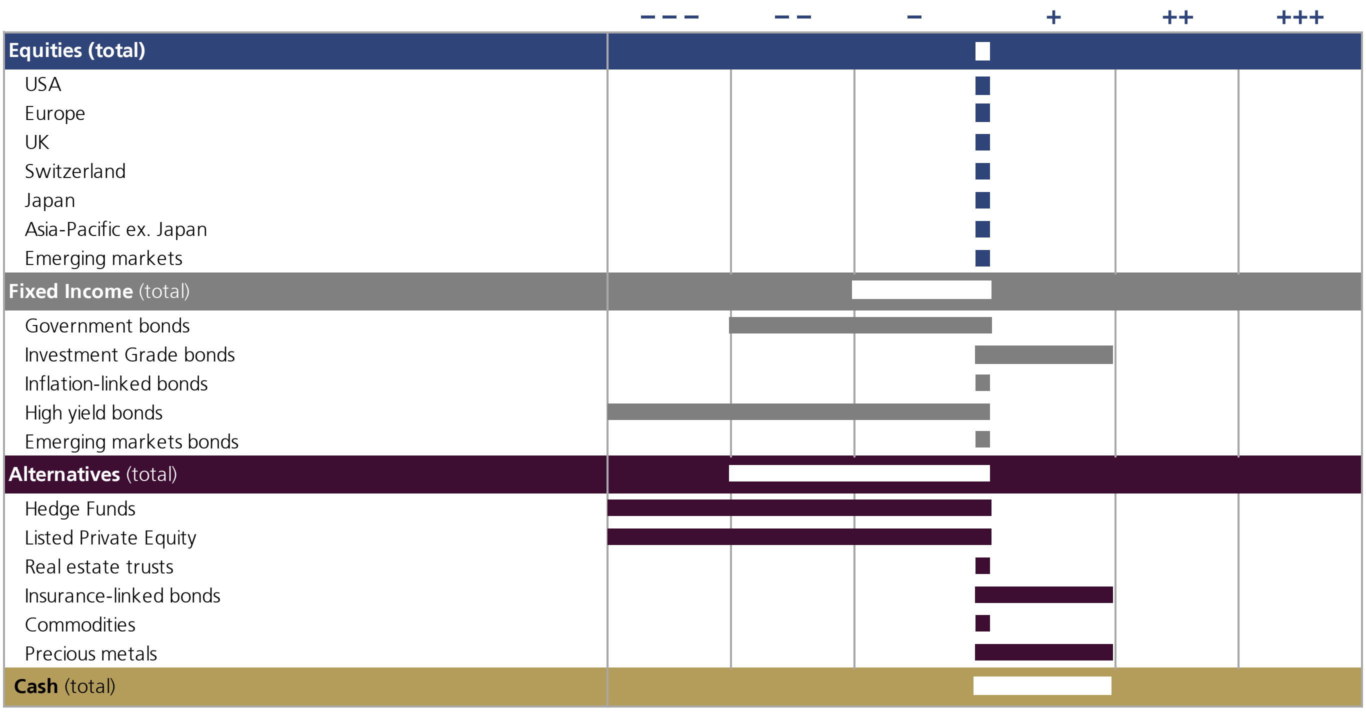
In a nutshell

- **Due to the US-China trade conflict, we are currently hedging partial performance gains for the current year**
- **We are downgrading the technology sector to "neutral" and are now also favoring the healthcare sector**
- **We try to profit from the constant credit risk premiums and see again potential in gold**

Short-term hedging of performance due to intensified rhetoric in the US-China trade conflict

A tweet by US President Donald Trump has abruptly changed the rhetoric in the trade conflict between the USA and China at the beginning of May. Until that time, both parties had celebrated the constructive talks several times in public. All the more incomprehensible for most capital market participants was the next escalation stage in the conflict between the two superpowers. It is becoming increasingly clear that this is not a simple trade dispute over tariffs, but that the situation is more complex and there is much more at stake, as the recent example of the US boycott of Huawei shows. Negotiations are about, among other things, the supremacy in the technology sector, but also about questions of patent protection or intellectual property. The G20 summit at the end of June 2019 is the next deadline for an agreement in the trade dispute. The media presence is enormous and leaves little room for reporting on other topics. The global economy is not yet on solid footing and needs a quick solution to get back on track so that the acceleration can materialize in the second half of the year. In order to counteract this short-term uncertainty and secure performance gains in the current year, we decided to temporarily hedge half of the US equity quota. In the medium term, we are sticking to our constructive approach to equities, but would like to adopt a more defensive stance in the coming weeks. At the asset allocation level, bonds remain underweighted in favor of the cash ratio. We would like to maintain this liquidity for countercyclical buying opportunities. Gold remains our biggest overweight in alternative investments.

Table 1: Generic Tactical Asset Allocation LGT Private Banking Europe (May 29, 2019)



Source: LGT Investment Services Europe

Table 2: Current asset allocation preferences

	What we like	What we dislike
Equities	German stock index (DAX) Staples Healthcare (**NEW**)	
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: Companies under the spell of the trade conflict

To date, profit growth for 2019 has been significantly lower than in the previous year, but this does not come as a surprise: This year there is no US fiscal stimulus, which contributed around 15 percentage points to the 25% jump in US corporate earnings in 2018. Nevertheless, companies in the USA and Europe were able to exceed their sales and profit forecasts, which had been sharply revised downwards. By contrast, the outlook for companies was very cautious and reflects the uncertainty surrounding the US-Chinese trade conflict. The majority of the economy's heavyweights are currently waiting on the sidelines, which can not only slow economic growth but also interrupt supply chains abruptly and in the short term. This applies especially to industries and sectors that are not only heavily dependent on global trade, but also have margin problems due to upcoming tariffs. This also prompted us to downgrade the technology sector to "neutral" after a brilliant rally. The semiconductor sector in particular is likely to be at the center of the impending turbulence. Within the equity quota, the healthcare sector is now one of our favorites alongside the non-cyclical consumer goods industry. For the coming months, the focus will remain on defensive quality stocks that are not too heavily dependent on the China-USA factor.

Fixed income: Focus on government bonds in the USA and Germany

After the trade conflict flared up again, market participants hedged their portfolios with ten-year US government bonds and the counterpart in Europe – the German Bund. For 2019, this resulted in the lowest yields of 2.26% for US Treasuries and again negative -0.16% for German government bonds. For Swiss government bonds, we are even at -0.45% for ten-year bonds. In the medium term, we expect a trend reversal and recommend keeping the duration short due to the almost flat yield curve. We remain overweight in corporate bonds and are trying to profit from the low but constant credit spreads. Within emerging market bonds, we remain cautiously positioned, with a current preference for hard currency over local currency bonds. In the sportier environment, we see the advantages of subordinated bonds over high-yield bonds, which we would still not recommend to hold.

Alternative investments: After grounding, gold again has potential

After a brilliant rally at the turn of the year, gold has been in a consolidation phase for several months now. The rise that began last summer had to be digested first. Now the precious metal has potential to rise again. On the one hand, the rise in recent months was slowed by the strong US dollar, while on the other, inflation rates tended to fall. Both factors should weaken or reverse in the following quarters. In addition, gold remains a very efficient portfolio hedge in times of high stock market volatility.

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

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