

Outlook III° Q-2019

July 2019

Fixed Income	USA	Positive	FED kept interest rates unchanged during its June FOMC, but it hinted at possible rate cuts in the coming months as economic growth is slowing down. This dovish move by the US Central Bank is putting downward pressure on bond yields, while pushing up prices.
	Europe	Core: Neutral - Positive	Following ECB comments with regard to inflation stimulus, the number of bonds giving negative interests increased considerably in the latest weeks. A further decline in yields, may push prices of core EU Economies even higher, making the so-called Europe's "Japanification" more marked. Furthermore, in case of an escalation of geo-political tensions, high-quality safe haven assets like German bunds can benefit in terms of price, even though their curve remains deep negative.
		Peripherals: Neutral	Despite political uncertainties as well as lack of growth of Countries belonging to his area, a potential comeback to the QE from ECB with falling yields of global bonds (especially those considered as safe havens), may make these bonds more attractive to investors looking for positive yields.
	Emerging	Positive	The step back taken by the FED and by other major Central Banks, along with the depreciation of the USD, is supporting this asset class. The so-called Large Traders have been reducing their long positions on the Dollar Index, pointing at a stablization of the greenback which is known to be negatively correlated with this asset class. To be closely monitored the evolution of the situation in Turkey and Argentina.
Equities	USA	Neutral - Positive	Even though valuations remain quite expensive, the recent announcements from the FED on the possibility of a rate cut could represent a boost for US equities. We prefer anti-cyclical sectors (e.g. healthcare, insurance, consumer staples, utilities) over cyclical ones, given US should be considered in a late cycle.
	Europe	Neutral - Negative	Brexit, spreading populism and anti-European sentiment among nations, as well as disappointing macroeconomic data, make this region not attractive at the moment. Furthermore, if the USD will weaken against the EUR, the exports of some European economies can be negatively impacted. The recent rally of EU stocks may seem more backed by rumors of more accomodative monetary policies rather than on improved fundamentals.



**Emerging
Asia** **Positive**

Considering the weakening of the USD and the growth rates of these Economies, we consider this asset class an interesting bet with a long-term view. To be monitored closely the evolution of the trade war, which can impact these Countries too.

Equities	Emerging Latin America	Neutral	We remain neutral on this geographical area, since its major economies are facing several challenges, ranging from structural reforms (in Brazil), Presidential elections (in Argentina) and uncertainties on the trade side with the U.S. (in Mexico).
	Emerging Eastern Europe	Neutral - Negative	Turkey faces a choice between rebalancing the economy and pursuing short-term growth. Russia is facing further U.S. Sanctions, which is implementing a second round of restrictions, punishing Russia over the use of chemical weapons. Only the joint decision with Saudi Arabia to cut oil output will sustain this economy in the coming quarter.
	China	Positive	Attractive valuation multiples, the transition to a consumer economy, heavy R&D investments and an ageing population are all factors that make China one of the most interesting investment opportunities at the moment. The main threat to be considered is the trade war with the USA, despite the exposure to US export is not significant.
	Japan	Neutral	Japan has cheaper multiples than US and the dovish monetary policy of BoJ can support this economy. Nevertheless, the growth outlook remains not attractive and returns may not justify the risks supported.
Commodities		Positive	Gold rose above 1,400 USD/oz. in June following the dovish approach of major Central Banks, FED in primis, and it will be further supported by lowering rates, a weakening USD and rising geo-political tensions. Crude oil recovered after the escalation between the USA and Iran, but it may be dragged down by the potential escalation of the trade war as well.
Forex	USD	Neutral - Negative	The greenback should depreciate versus other currencies, as FED hinted at a possible rate cut already in July. Only, a comeback by the FED or the escalation of the trade war can revamp the US Dollar, still perceived by investors as a safe haven.
	EUR	Neutral	Even if the USD weakened during the past few weeks, the ECB hinted at possible accommodative monetary measures in order to stimulate inflation. This can put downward pressure on the Old Continent currency.
	Emerging	Neutral - Positive	These currencies should recover against the USD following the dovish tones set by the FED. However, caution is needed, since some of these Countries are experiencing a deep status of crisis and a lack of growth, which put downward pressure on these currencies.
	YEN	Neutral - Positive	The Yen may surge if the U.S. and China fail to progress in their trade talks. Considering the numerous catalyst events influencing global markets at the moment, we consider it a good portfolio hedge.