CITYWIRE / TOP 50
INDEPENDENT ASSET MANAGER

clarus capital

MONTHLY PULSE MONDAY, 03 JUNE 2019

ECONOMIC OUTLOOK

It comes as no surprise that fundamentals have taken a backseat in recent weeks. Markets fluctuate between hopes and fears in the all-dominant trade conflict. Although investors agree economic and financial risks have increased due to the intensification of the trade conflict, they do not wish to write off the possibility of a later settlement in the trade conflict.

The outcome of the European Parliament elections was broadly in line with expectations. Pro-EU parties secured a clear majority of total seats, although parliament looks more fragmented than it did five years ago, with traditional centre-right and centre-left groups losing seats to Liberals and Greens, and Euro-sceptic parties increasing their share of votes. Ironically, for most of the economists, trouble for the nationalists is good news because their policies are generally bad for growth. Of course, it is too early to conclude that we are out of the woods in terms of their influence on policies, to be sure, lots of damage has already been done to the global outlook for growth – story to be continued.

Looking at the US macro, the escalating trade conflict with China has apparently thoroughly corrupted the mood of US companies. The Purchasing Manager Indices for example, deteriorated considerably in May according to the provisional evaluation. The data was collected in the second half of the month, i.e. after the increase in US punitive tariffs, Chinese goods imports were also included, which fully reflects the shock about the intensification of the trade conflict. Hence, the business outlook for the next 12 months has been more pessimistic than ever since the survey began in July 2012. At the current level, the PMI survey data signal an annualized growth of only slightly more than 1 percent, which would be well below the long-term potential. Not surprisingly, the FED has confirmed its wait-and-see monetary policy at the last FOMC meeting. It is convinced that the patient approach is still appropriate for some time. Therefore, markets do not expect an interest rate hike for this year.

Fixed income markets continued to post a positive performance last month. While we expect financial conditions to remain accommodative and growth moderate, the yield curve is still inverted, and short-term bonds are yielding more. Hence, we favour a mix of short-duration credit risk and capital structure exposure and have a neutral position.

Equity markets have been somewhat mixed. Corporate data released in the past couple of weeks have surprised on the upside, supporting an improvement in earnings revisions. More importantly, major central banks have confirmed their patient stance and should support financial conditions and lead to an extension of the Equites by mid-term. However, in the short-term, trade tensions could nourish volatility further and lead to temporary setbacks. We stay at a slight underweight.

EUR/USD should continue to range trade. Its low volatility won't change soon unless we see a shift in monetary policy – which is unlikely – or a spill over effect from other asset classes such as equities. JYP and CHF are facing higher demand as safe have currencies. Gold remains stuck around USD 1'300. The USD remains a key driver, but the inverse correlation with US yields has been picking up lately. Despite the recent price dip in oil, the US decision to end Iran sanctions waivers should keep near-term spot risks skewed to the upside and curves steeply backwards.

TACTICAL ASSET ALLOCATION*

Liquidity	Neutral
Bonds	Neutral (↑)
Equities	Slight Underweight (↓)
Alternative Investments	Neutral

EQUITY INDICATORS

Valuation	Underweight
Momentum	Neutral
Seasonality	Underweight
Macro	Neutral

*no changes to previous month

Should you require further information or advise, please do not hesitate to contact your Clarus Capital relationship manager.

clarus capital

MARKET OVERVIEW AS OF MONDAY, 03 JUNE 2019, 8:59 AM

FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	2.36	-0.03	-0.03	-0.02
USD 1y Swap	2.28	-0.25	-0.38	-0.48
USD 3y Swap	1.94	-0.38	-0.62	-0.66
USD 5y Swap	1.94	-0.39	-0.62	-0.64
USD 10y Swap	2.10	-0.40	-0.61	-0.62
EUR Overnight	-0.37	0.00	-0.01	-0.01
EUR 1y Swap	-0.28	-0.05	-0.07	-0.04
EUR 3y Swap	-0.23	-0.10	-0.19	-0.16
EUR 5y Swap	-0.10	-0.14	-0.27	-0.30
EUR 10y Swap	0.33	-0.18	-0.37	-0.48
CDX Xover 5y	3.77%	0.53%	0.29%	-0.72%
iTraxx Xover 5y	3.14%	0.66%	0.37%	-0.38%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD Aggregate 1-3y	0.5%	1.4%	2.7%	1.9%
USD Aggregate 3-5y	0.9%	2.3%	4.6%	3.2%
USD Aggregate 5-7y	1.1%	2.7%	5.4%	3.8%
USD Aggregate 7-10y	1.5%	3.5%	6.7%	4.6%
EUR Overnight	0.0%	-0.1%	-0.2%	-0.2%
EUR Aggregate 1-3y	0.0%	0.2%	0.4%	0.3%
EUR Aggregate 3-5y	0.1%	1.0%	1.8%	1.4%
EUR Aggregate 5-7y	0.3%	1.9%	3.5%	3.0%
EUR Aggregate 7-10y	0.8%	3.1%	5.5%	4.7%
US Corp. HY	-0.9%	1.5%	5.5%	7.9%
EUR HY	-1.1%	1.0%	4.4%	4.9%

EQUITY

	Price	P/E	D. Yield	FCF yield
MSCI World	5,998	15.5	2.6%	4.9%
S&P 500	2,789	16.8	2.1%	4.6%
NASDAQ	7,245	20.3	1.1%	4.5%
Euro Stoxx 50	3,269	13.1	3.9%	7.7%
SMI	9,500	15.9	3.5%	7.6%
FTSE 100	7,150	12.4	4.9%	5.2%
DAX	11,701	12.7	3.6%	1.2%
MSCI Asia Pacific	152	13.2	3.0%	5.6%
FTSE China A50	12,722	9.6	3.3%	19.4%
MSCI Emerging Market	995	12.3	3.1%	7.0%
PH Semiconductor	1,315	15.1	2.1%	5.8%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	-4.8%	-0.2%	2.4%	10.8%
S&P 500	-5.3%	0.2%	1.0%	11.2%
NASDAQ	-6.9%	2.1%	4.3%	14.5%
Euro Stoxx 50	-7.0%	-0.9%	3.0%	8.9%
SMI	-2.8%	1.2%	5.1%	12.7%
FTSE 100	-3.6%	1.1%	2.4%	6.3%
DAX	-5.2%	1.6%	3.9%	10.8%
MSCI Asia Pacific	-6.2%	-4.0%	-0.8%	3.8%
FTSE China A50	-6.9%	1.7%	15.6%	22.5%
MSCI Emerging Market	-7.8%	-5.3%	0.0%	3.0%
PH Semiconductor	-15.5%	-2.6%	6.1%	13.9%

COMMODITY

	Price	FCST 19	FCST 20	Δ Future
Gold	1,296	1325	1,371	2.0%
Silver	14.50	15.9	17	6.7%
Platinum	793	875	930	6.9%
Palladium	1,363	1300	1,126	-6.6%
Crude Oil	55.10	60.8	64	5.2%
Brent Oil	64.51	68.5	70	5.1%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	0.8%	-1.5%	6.2%	1.1%
Silver	-3.2%	-7.8%	0.7%	-7.7%
Platinum	-11.1%	-9.9%	-2.2%	-1.6%
Palladium	-1.2%	-8.4%	21.0%	16.9%
Crude Oil	-13.9%	-5.8%	6.7%	16.5%
Brent Oil	-10.5%	-2.6%	7.5%	17.8%

FOREIGN EXCHANGE

	Price	FCST 19	FCST 20	Δ Spot
EUR/USD	1.1152	1.1600	1.2100	8.2%
GBP/USD	1.2584	1.3300	1.4000	10.7%
USD/CHF	1.0038	1.0000	0.9800	-2.4%
USD/JPY	108.73	108.00	106	-2.5%
EUR/CHF	1.1195	1.1500	1.1800	5.3%
USD/RUB	65.54	65.75	63.20	-3.6%
EUR/RUB	73.09	75.90	77.47	5.8%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	-0.6%	-2.0%	-1.5%	-2.6%
GBP/USD	-3.5%	-5.1%	-1.3%	-1.3%
USD/CHF	1.5%	-0.6%	-0.6%	-2.1%
USD/JPY	2.4%	2.4%	4.5%	0.9%
EUR/CHF	2.1%	1.4%	1.0%	0.5%
USD/RUB	-1.4%	0.6%	2.2%	6.4%
EUR/RUB	-0.7%	2.5%	3.9%	8.7%

Source: Clarus Capital Group, Bloomberg

clarus capital

BLACKROCK GEOPOLITICAL RISK DASHBOARD

INCREASING RIVALRY BETWEEN CHINA AND THE U.S.

We see geopolitical risk as a material market factor in 2019, especially in an environment of slowing growth and elevated uncertainty about the economic and corporate earnings outlook. At the center of the geopolitical debate? Increasing rivalry between the U.S. and China across economic, ideological and military dimensions. We believe these tensions are structural and long-lasting. With that in mind, we are taking a deep dive into the race between the two countries for global technological leadership.

Our geopolitical risk dashboard features both data-driven market attention barometers and judgment- based assessments of our top-10 individual risks. We show the market attention to each risk, assess the likelihood of it occurring over a six-month horizon, and analyze its potential market impact. We adjust the market impact reading for how much each risk may already be priced into markets. The greater the market's attention to the risk, the lower the potential market impact. Lastly, we highlight assets sensitive to two key risks that are on the market's radar screen: Global trade tensions and European fragmentation.

We see trade remaining at the center of U.S. foreign policy in 2019. Market attention to our global trade tensions risk has fallen sharply from last July. Yet we are keeping our likelihood of the risk at a high level. This points to potential for greater market impact should the risk be realized. We could ultimately see an agreement between the U.S. and China on the trade deficit and tariffs as well as on China's market conduct and access. Implementation and enforcement will be challenging, however, and we expect structural issues related to China's industrial policy to persist. Global trade tensions could rise if the U.S. implements tariffs on imported autos and parts from Europe or should ratification of the U.S. trade deal with Canada and Mexico become more uncertain.

Market attention to our European fragmentation risk is among the highest on our list. We see the European economy stabilizing later in the year but worry about a confluence of political risks. A six-month delay to Brexit has reduced the risk of a disruptive no-deal exit in the near-term. Yet divisions within the UK political system are preventing a deal being agreed upon and remain unresolved. European Parliament elections in May will be the next test of populist sentiment within the region, and election campaigns are underway. Populist leaders from both the far right and the far left are expected to deliver their strongest showing to date, although they remain far from gaining a majority. Key to watch will be whether populist groups can operate in a unified fashion, thereby allowing them to wield influence in line with their voting share. Further out, budget negotiations between Italy and the EU are set to restart in September and we see significant confrontation ahead.

We have reframed our U.S.-China risk to focus on the strategic competition between the countries. Our U.S.-China competition risk now reflects how U.S.-China relations have transitioned from a broadly cooperative state to a more competitive phase. Competition is sharply focused on technology and is coming to a head in the rollout of 5G cellular networks. We see three issues at play: national security, economic competitiveness and global systems dominance. The evolution of these issues and their impact on global markets are key themes of our 2019 research agenda. We preview this tech race in our focus risk section.

This month, we raise the likelihood of two of our risks: Gulf tensions and LatAm policy. The U.S. ratcheted up pressure on Iran by allowing sanctions waivers on Iranian oil exports to expire on May 2. This move will increase tensions between the U.S. and Iran and put upward pressure on oil prices. Meanwhile, U.S. relations with Saudi Arabia remain under some pressure amid a Congressional push for sanctions related to Saudi Arabia's campaign in Yemen. In Latin America, we worry about a challenging policy environment in Brazil, a rapidly deteriorating economic situation amid election uncertainty in Argentina, and worsening crisis in Venezuela with spillover effects for global oil markets and neighboring countries.

The effect of geopolitical shocks on global markets often is short-lived, according to our analysis of asset price reactions to 50 risk events since 1962, but can be more enduring in markets where the event occurs. The global impact has been more acute and long-lasting when the economic backdrop was weak. We see markets becoming more sensitive to geopolitical risks as global economic growth slows. We see U.S. Treasuries and gold providing a potential buffer against risk asset selloffs triggered by geopolitical crises. These perceived safe havens have historically rallied ahead of "known unknowns" such as elections, then lagged after the event as fading uncertainty boosted risk assets.

Tracking geopolitical risks and their market impact is as much an art as a science. We are continuously updating our risk scenarios and fine-tuning our methodologies. The scenarios are hypothetical, and our analyses related to market impact are not recommendations to invest in any particular investment strategy or product.

Source: BlackRock, Geopolitical Risk Dashbord, May 2019. Find more on: https://www.blackrockblog.com/blackrock-geopolitical-risk-dashboard/

DISCLAIMER

This document has been prepared by Clarus Capital Group AG ("Clarus Capital"). This document and the information contained herein are provided solely for information and marketing purposes. It is not to be regarded as investment research, sales prospectus, an offer or a solicitation of an offer to enter in any investment activity or contractual relation. Please note that Clarus Capital retains the right to change the range of services, the products and the prices at any time without notice and that all information and opinions contained herein are subject to change.

This document is not a complete statement of the markets and developments referred to herein. Past performance and forecasts are not a reliable indicator of future performance. Investment decisions should always be taken in a portfolio context and make allowance for your personal situation and consequent risk appetite and risk tolerance. This document and the products and services described herein are generic in nature and do not consider specific investment objectives, financial situation or particular needs of any specific recipient. Investors should note that security values may fluctuate, and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Individual client accounts may vary. Investing in any security involves certain risks called non-diversifiable risk. These risks may include market risk, interest-rate risk, inflation risk, and event risk. These risks are in addition to any specific, or diversifiable, risks associated with particular investment styles or strategies.

Clarus Capital does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon, either in general or with reference to specific client's circumstances and needs. Recipients should obtain independent legal and tax advice on the implications of the products and services in the respective jurisdiction before investing. Certain services and products are subject to legal provisions and cannot be offered world-wide on an unrestricted basis. In particular, this document is not intended for distribution in jurisdictions where its distribution by Clarus Capital would be restricted. Clarus Capital specifically prohibits the redistribution of this document in whole or in part without the written permission of Clarus Capital and Clarus Capital accepts no liability whatsoever for the actions of third parties in this respect. Neither Clarus Capital nor any of its partners, employees or finders accepts any liability for any loss or damage arising out of the use of all or any part of this document. Source of all information is Clarus Capital unless otherwise stated. Clarus Capital makes no representation or warranty relating to any information herein which is derived from independent sources. Please consult your client advisor if you have any questions.

IMPRESSUM

PUBLISHED BY CLARUS CAPITAL GROUP AG, GUTENBERGSTRASSE 10, CH-8002 ZURICH,
RESEARCH@CLARUSCAPITAL.CH, WWW.CLARUSCAPITAL.CH

EDITORS ROGER GANZ, HEAD ASSET MANAGEMENT, DEJAN RISTIC, ASSET MANAGEMENT