Monthly Asset Allocation

Private Banking Europe Investment Committee

March 15, 2017

In a nutshell

- Equity markets seem to ignore increasing political insecurities on both sides of the
- The expected consolidation in the U.S. Treasury market might be completed
- The U.S. dollar's upward trend is intact in the short term – but potential is limited in the medium

The U.S. central bank remains in the spotlight of capital markets

Positive economic news continued to be convincing. Not only the data from G7 countries have a clear positive tendency, but also emerging markets have picked up speed. For the first time since the global financial crisis nearly nine years ago, we can observe globally synchronized economic growth. By virtue of a broad-based recovery of the economies we can expect a continuation of the positive trends in the coming months. The development of the U.S. economy is of such quality that the Federal Reserve (Fed) could raise interest rates three times this year. Indeed the U.S. labor market is near full employment and accelerating wage inflation is currently having its effect on expectations for future rate hikes. On the other hand, it has been 50 days since Donald Trump was inaugurated and the new U.S. government leaves many questions about the anticipated tax reform, or expected fiscal stimulus, as well as massive infrastructure projects unanswered. We expect that we will see first indications from the Trump administration regarding these "promises" in the second quarter. Following the Fed's decision, the presidential election in France will be the second major event in the coming months. As with the Italian referendum, the French elections will bring the question about Europe's future center stage again.

Graph 1: Generic Tactical Asset Allocation LGT Private Banking Europe (March 14, 2017)

	Asset Class	SAA	Tactical allocation versus SAA (underweight -8% … +8% overweight)	Current USD	Current EUR*	Current CHF*
Equities	US equities	19.0%		19.0%	14.0%	14.0%
	Europe equities	5.0%		9.0%	12.0%	8.0%
	UK equities	3.0%		1.0%	2.0%	0.0%
	Switzerland equities	1.0%		3.0%	4.0%	10.0%
	Japan equities	3.0%		5.0%	5.0%	5.0%
	APAC ex JP equities	3.0%		2.0%	2.0%	2.0%
	Emerging markets equities	6.0%		5.0%	5.0%	5.0%
	Total Equities	**40.0%**		**44.0%**	**44.0%**	**44.0%**
Fixed Income	Government bonds	10.0%		3.0%	3.0%	0.0%
	Inflation-linked bonds	5.0%		6.0%	6.0%	5.0%
	Investment grade bonds	12.0%		14.0%	14.0%	18.0%
	High yield bonds	6.0%		6.0%	6.0%	6.0%
	Emerging markets bonds	6.0%		4.5%	4.5%	4.5%
	Total Fixed Income	**39.0%**		**33.5%**	**33.5%**	**33.5%**
Alternatives	Hedge funds	8.0%		6.0%	6.0%	6.0%
	Listed private equity	2.0%		1.5%	1.5%	1.5%
	Real estate trusts	2.0%		4.0%	4.0%	4.0%
	Insurance-linked bonds	3.0%		4.0%	4.0%	4.0%
	Commodities	2.0%		0.0%	0.0%	0.0%
	Precious metals	2.0%		4.0%	4.0%	4.0%
	Total Alternatives	**19.0%**		**19.5%**	**19.5%**	**19.5%**
	Cash	**2.0%**		**3.0%**	**3.0%**	**3.0%**
Currencies	USD	84.6%		90.1%	11.9%	11.9%
	EUR	0.0%		0.0%	77.7%	0.0%
	CHF	0.0%		0.0%	0.0%	78.3%
	GBP	0.0%		0.0%	0.0%	0.0%
	JPY	2.0%		0.0%	0.0%	0.0%
	Others (incl. EM)	13.4%		9.9%	10.4%	9.8%

Source: LGT Investment Services Europe

*all calculations based on a "Balanced" portfolio in USD including AI. For EUR and CHF portfolios weights differ for subclasses; over– and underweights apply analogously

Graph 2: Current asset allocation preferences

Next meeting: April 10, 2017	What we like	What we dislike
Equities	▪ Temporary hedge U.S. equity exposure **NEW** ▪ Swiss equity ▪ European equity ▪ Japanese equity ▪ Oil and gas sector stocks ▪ Low volatility products	▪ UK equity
Bonds	▪ Corporate investment grade bonds ▪ Low duration **NEW**	▪ Sovereign bonds
Alternative Investments	▪ Insurance linked bonds ▪ Gold ▪ REITS (Real Estate Investment Trusts)	
Currencies	▪ USD	▪ JPY

Sources: LGT Investment Services Europe

Equities: Markets ignore increasing political insecurities on both sides of the Atlantic

Political insecurities have continuously increased on both sides of the Atlantic in the last few months, but have been taken with a grain of salt by global equity investors, having hardly attracted any attention. Volatility continued to decline and is currently on all -time lows. Various financial market indicators even signal a full-fledged indifference of investors. Examples for this are record-high insider selling, which usually is an indication for a temporarily overbought stock market. Furthermore, we can observe that market participants are implementing hardly any hedging, which is represented in a very low Call-Put ratio. Also recent data on hedge-fund positioning point to a temporarily overheated, and therefore vulnerable stock market. Our sentiment indicators show an increased probability in the short term of a possible consolidation, or a stock market correction, respectively. This has induced the Investment Committee of the LGT Private Bank (PBE IC) to temporarily hedge part of the profits on U.S. equity exposure via a PUT option, putting the focus on capital protection. We expect volatility to rise in the second quarter, not the least because of the French elections, whereby we hold on to our medium-term positive assessment of equity markets, favoring Europe on a global basis.

Fixed Income: Expected consolidation in the U.S. Treasury market might be completed

The anticipated consolidation of the U.S. bond market following the strong rally in the fourth quarter of 2016 might be close to completion. The expected rate hike by the Fed on the backdrop of accelerating inflation expectations should move yields at the long end higher. We assume that the upward trend will continue and expect a 10-year U.S. Treasury yield of about 3%. Despite the continued quantitative easing (QE) of the European Central Bank (ECB) the bond market in the Eurozone will probably not be able to escape this trend. The ECB will primarily focus on the short end – 1 to 3 years. We have the tendency to expect no flattening of the yield curve in Europe, while we could see a parallel upward move in the U.S. We anticipate that this process will stretch gradually into the next quarters. On this backdrop we keep our underweight in the fixed income area of our asset allocation. Within this allocation we continue to prefer the field of investment grade bonds versus sovereigns. The high-yield sector, as well as inflation-linked bonds are neutrally weighted against the strategic allocation.

Currencies: The U.S. dollar's upward trend is intact in the short term – but potential is limited in the medium term

Given expectations of short-term monetary tightening and political insecurities, the Greenback's upward trend is still intact in the short term. However, the medium-term potential might be limited from today's view, as markets have priced in already seven interest rate hikes by the Fed until the end of 2018. We think in particular medium-term factors, such as purchasing power parity and inflation differentials could come back into focus. These aspects speak clearly against a further massive appreciation of the U.S. dollar. Insecurities in the Eurozone will probably increase in the second quarter due to the pending elections. On this backdrop, the investment committee has decided to increase the share of Swiss francs against the single European currency in Euro mandates.

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

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Our recommendations are based on publicly accessible information we consider to be reliable. For the compilation of the analysis, publications by domestic and foreign media and news services (e.g. Reuters, Bloomberg, VWD, etc.), business publications (e.g. FAZ, Handelsblatt, etc.), trade publications, statistics (e.g. Bilanz, X-Press, Börse, Online, etc.), rating agencies (e.g. Fitch, Moody's, Standard & Poor's, etc.) were used, together with information from the issuer of the analysed securities – mainly via the Internet, but also in writing (e.g. E-mail) or by telephone.

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We employ a "hybrid approach" (fundamental analysis of us, followed by the "theScreener" using a technical approach). The assessment of theScreener need not to coincide with that of the equity analysts. LGT Bank (Switzerland) Ltd. categorises its analysis recommendations into three ratings: Buy for shares where we expect a relative outperformance to their sector by a meaningful margin. For shares categorised as hold, we expect a performance largely in-line with their sector. Sell recommendations are based on the expectation of relative underperformance to their sector by a meaningful margin. The ratings reflect a relative view on a share versus its sector. The risk assessment is based on the individual judgement of the analyst (e.g. we consider that the risk is "high" for illiquid shares or for shares from developing countries).

Timeframe of planned updates: The news situation of the analysed companies is monitored continuously. If necessary (in the event of a major change of fundamental or technical factors, as well as extraordinary events) an update, which is as current as possible, will take place. At periodic intervals, at least every quarter, there will be a new evaluation of the analysis. This will also contain an update of automatically read-in financial ratios and chart analyses. The exclusive reading-in of financial ratios takes place at shorter intervals (at least weekly) and independently of any new evaluation if no factors have arisen that would make a new evaluation necessary.

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AAA/Aaa: Borrower with exceptionally strong credit quality. Extremely strong capacity to meet its financial commitments.

AA/Aa: Borrower with very strong capacity to meet its financial commitments. It differs from the highest rated borrowers only in small degree.

A: Borrower with strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than borrowers in higher rated categories.

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BB/Ba: Borrower with weak credit quality. Major ongoing uncertainties and exposure to adverse business, financial, or economic conditions could lead to the borrower's inadequate capacity to meet its financial commitments.

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For more information on our methodology for bonds please contact your LGT relationship manager or the next LGT Group Company.

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