Monthly Asset Allocation
Private Banking Europe Investment Committee

April 03, 2019

In a nutshell

- **After a strong performance in the first quarter of 2019, we are now further reducing risks and realize profits**
- **We reduce the overweight in US equities to "neutral", positioning ourselves more defensively**
- **Within the bond allocation, we have a preference for corporate bonds with good borrower quality**

Unbroken belief in the global monetary authorities

After a phase of mixed economic data in recent weeks, the economy has now regained ground, but there can be no talk of a reversal of the generally rather sobering trend. As expected, the slowdown due to the lack of fiscal stimulus in the USA has materialized. The trade conflict between the US and China is now also having a negative impact on the euro zone. The European Central Bank (ECB) has recently pointed out that economic concerns are flagging up again. The central factor that has continued to support the markets positively is the unshakeable belief of investors in the global central banks, above all the US Federal Reserve and the ECB. But this firm belief also harbors the danger that numerous trouble spots will disappear from the markets' focus, such as the exorbitantly high budget deficit in the USA, the lack of willingness to reform in the euro zone, the never-ending Brexit saga and the complex negotiations surrounding the trade conflict.
After a strong performance of the capital markets in the first quarter of 2019, we are now further reducing risks. This allows us to realize profits while increasing liquidity to take advantage of attractive entry opportunities in the near future. In a mixed portfolio, we are now reducing our exposure to equities from "overweight" to "neutral". The underweight in bonds remains in favor of cash, as opportunity costs are very low, especially in the euro zone. In alternative investments, we remain overweight in gold.

Table 1: Generic Tactical Asset Allocation LGT Private Banking Europe (April 03, 2019)

	- - -	- -	-		+	++	+++
Equities (total)				■			
USA				■			
Europe				■			
UK				■			
Switzerland				■			
Japan				■			
Asia-Pacific ex. Japan				■			
Emerging markets				■			
Fixed Income (total)			■	■			
Government bonds		■	■	■			
Investment Grade bonds				■			
Inflation-linked bonds				■			
High yield bonds	■	■	■	■			
Emerging markets bonds				■			
Alternatives (total)		■	■	■			
Hedge Funds	■	■	■	■			
Listed Private Equity	■	■	■	■			
Real estate trusts				■			
Insurance-linked bonds				■	■		
Commodities				■			
Precious metals				■	■		
Cash (total)				■	■	■	

Source: LGT Investment Services Europe

Table 2: Current asset allocation preferences

	What we like	What we dislike
Equities	Staples Technology	Banks
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: securing short-term gains on US equities

After a brilliant start to the first quarter of 2019, the positive trend on the global stock markets continued in March. This was particularly true of US equities, which are now close to their all-time high measured by the S&P 500. There has been little change in our positive attitude towards this asset class in recent weeks. In view of the strong performance, however, we are securing our profits in the short term and are therefore reducing our overweight in US equities to "neutral". Although the valuation is only slightly above the historical average, we are still positioning ourselves more defensively in the run-up to the upcoming earnings season for the first quarter of 2019. We would like companies to have more visibility into the expected course of business in the second quarter and the rest of the year. In Europe, the focus remains on selection, particularly against the backdrop of weaker economic growth within the euro zone. The focus remains on quality stocks with strong cash flow, stable margins and an attractive dividend.

Fixed income: TINA 2.0 in Europe and Japan

Following the strong turnaround by the US Federal Reserve at the beginning of the year, yields on government bonds in developed countries fell sharply once again in March. For example, the German Bund again reported a yield of below 0%; the ten-year US government bonds have meanwhile yielded less than 2.4%. In the euro zone and Japan, a return to the TINA scenario ("There Is No Alternative") can even be observed. We expect a reversal of this current exaggeration of ultra-low yields. Our preference of a short duration remains valid after the rally in the bond markets. With the exception of short-term US Treasuries (one to three years), we favor a clear underweight in G7 government bonds. Within the bond ratio, we have a preference for corporate bonds with good borrower quality. Credit spreads remain attractive in the current economic environment. Subordinated bonds can be selectively added to the portfolio as an addition with increased risk. Emerging market bonds have long-term potential, but our positioning remains cautious in the context of the ongoing negotiations between the US and China in the coming months.

Alternative investments: realize profits with REITS

On a global level, REITS have benefited strongly from falling interest rates at the long end of the curve. Based on our assessment of yields that will tend to rise again, we recommend realizing profits at these levels and increasing liquidity in order to have greater flexibility in the event of setbacks. Our favorite among alternative investments remains gold, which in addition to classic insurance properties also brings excellent diversification capabilities with increased volatility on the stock markets. Gold also protects against inflation, which could well increase in the coming quarters due to higher wages.

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

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