LGT Beacon
Global Market Update

April 19, 2017

Don’t be impressed by political noise and stay the course

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The latest chain of surprising US military actions in Syria, Afghanistan, and North Korea revived concerns among political risk analysts, while the French presidential election’s first round now looks like an open, four-way race, adding to the uncertainty. Nevertheless, the muted market responses, and the underlying macro trends continue to speak for a constructive investment outlook.

On April 6th, after a relatively long phase of general tranquility, global stock market volatility jumped again somewhat. The trigger was provided by US President Donald Trump’s surprising decision to order a cruise missile attack on a Syrian military airport. The decision came immediately after the first meeting with China's President Xi Jinping, and was quickly followed up by the diversion of a US carrier strike group to Korea, and the use of a new, huge bomb by US forces in Afghanistan. Meanwhile, a number of reports suggest that the first round of the French presidential election might still be completely open, while the British government yesterday unexpectedly announced a snap parliamentary election in June, potentially adding to the sense of political uncertainty. Since April 6th, the typical safe havens, i.e. Japanese yen (JPY), gold, and government bonds of leading industrialized countries - in that order - booked the strongest gains (see charts, page 2). Is the so-called Trump rally now finally over?

We must leave detailed geopolitical analyses to other publications, of course. Within our field of competence, however, we can at this point only reiterate our market assessment and positioning. Market-external events can trigger volatility - but these episodes usually don’t last long, while it is ultimately impossible to systematically predict such developments. Instead, we primarily base our tactical asset allocation (TAA) on structured assessments of the robustness of the fundamental and technical macro trends - and these have not changed thus far. We therefore reaffirm our constructive market outlook for the next three to six months.

Beware of the seemingly all-too obvious political conclusions

It is probably useful to recall that, for months now, many strategists have been warning of an imminent correction of the Trump rally, which from a bearish viewpoint looks as if it is primarily based on false or exaggerated hopes. Of course, there is nothing wrong with correction warnings, and every bull market has and needs its bears. Since last year’s Brexit vote, however, too many market participants seem to be susceptible to political noise and hasty conclusions. As a result, a meaningful correction has continued to elude us. Even the current volatility outburst - the one that began with the US missile strike on Syria - is actually very muted when viewed in the context of its overarching trend (see charts, page 2).

The problem may be that many investors are looking in the wrong places. Taking a step back to glance at the bigger picture reveals that there never really was much of a Trump rally. Nearly all TAA-relevant trends are fundamentally justifiable and long predated the US election across all regions and asset classes. As we highlighted in a recent LGT Beacon (see here), the rally began when Japan and China significantly relaxed their monetary stance in early 2016. So, President Trump may not have delivered much on campaign promises thus so far - but he does not really need to at this stage, and he has certainly not ended the preexisting trends either.

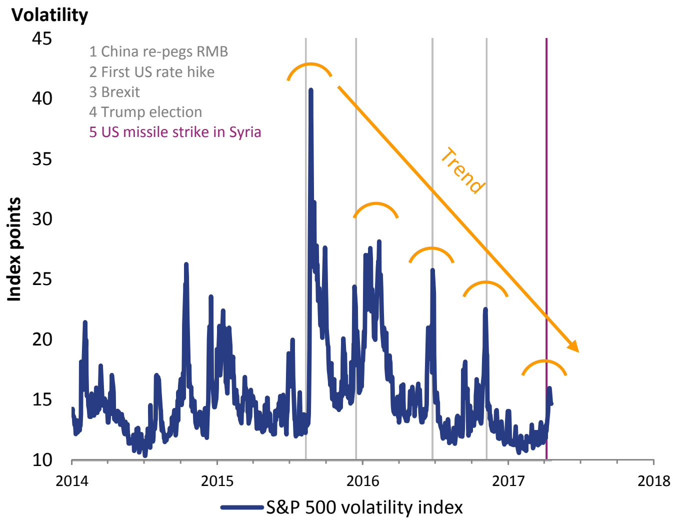
Strategic preparedness increases tactical confidence

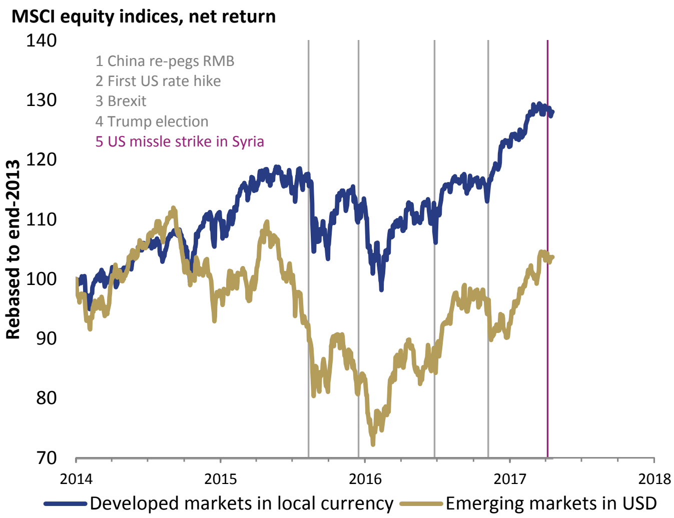
Finally, the following point is also important: our TAA is defined against our own proprietary strategic allocation (SAA), i.e. the long-term positioning of the Princely Strategy managed by LGT Capital Partners. Designed to perform well over a cycle of several years, our SAA already takes into account a whole range of likely and possible global macro scenarios (see page 2, here). Furthermore, we remedy the omnipresent and difficult to actively time risk of temporary or even longer-lasting volatility outbreaks by assigning a high allocation to alternative assets. This special scenario approach helps to increase our tactical confidence, allowing us to respond in a structured and calm manner even to unexpected market-external events, without losing sight of the underlying macro trends.

Charts and background information:

Moderate volatility eruption and shallow correction pattern

The first chart on the bottom left shows the volatility index, or VIX, for the S&P 500 of the US. Since August 2015[1], the VIX has been steadily declining, with every new high being lower than the previous one. Generally speaking, such a development is typically an expression of macroeconomic progress and/or stability. The chart on the bottom right shows how shallow the current and recent corrections have been so far. Ultimately, it is impossible to accurately predict the next volatility outbreak, while ad-hoc hedging strategies can prove expensive. As a rule, on a tactical level we therefore prefer to assess the robustness of underlying market and macro trends, and position ourselves accordingly. Smaller countertrends or higher-frequency market moves are captured by our managers and management teams as well as by the rule-based cross-asset strategies that we allocate to within our alternative assets quota.



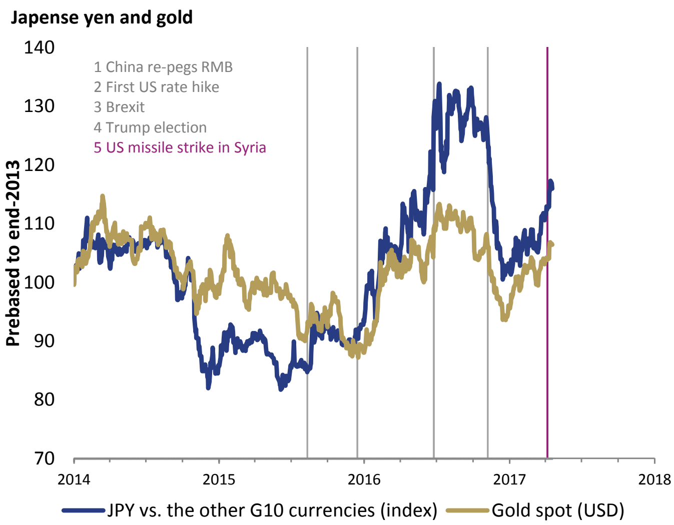


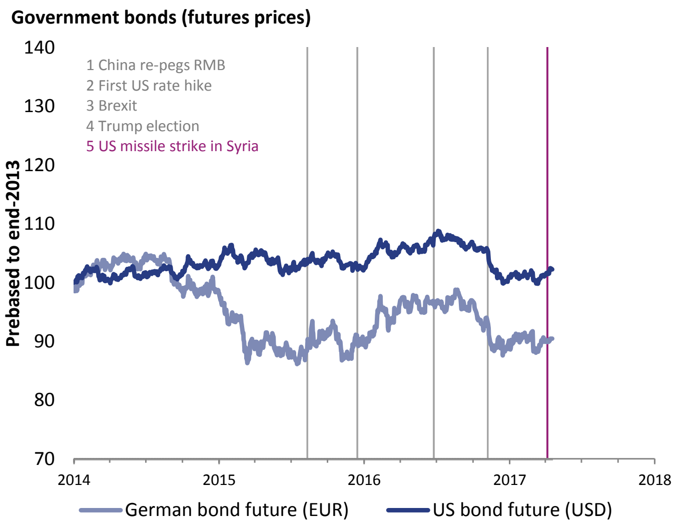
[1] In August 2015, China surprised markets by announcing that it would set the exchange rate of the yuan, or renminbi (RMB), against a broad basket of trading partner currencies, rather than just the US dollar (USD). Thus, Beijing signaled that it would tolerate a yuan depreciation against the USD, provided the RMB remained broadly stable against its trade partner currencies in the basket, which makes good macroeconomic sense. Nevertheless, at the time the news triggered a brief international market panic.

Save haven moves have remained mostly muted thus far

The next two graphs show the four typical so-called safe haven assets - i.e. the Japanese yen, gold, and the government bonds of Germany and the US. They have all gained in price since the April 6th missile attack, led most notably by the Japanese yen, which rose against major currencies and gold. At the same time, it is also clear that the recent risk aversion outbreak remains rather modest when compared to other brief market turbulences of the past few years.

The only exception is the yen - however, much of the JPY's recent strength is probably not an expression of risk aversion. Japan is a creditor nation and its currency is among the world's fundamentally most undervalued. The yen is therefore usually well-bid during interim periods in which the Bank of Japan (BoJ) remains inactive in terms of monetary policy - and tends to depreciate in short, abrupt, and large moves whenever the BoJ decides to act forcefully, or when market forces coincidentally come together to make its policy settings more effective, as was the case last November. The bottom line is that the current global volatility outbreak could also prove as another short and/or shallow one.





Market Performance

Equities		Global share	Mkt Cap. in $	Last price	5 days	1 month	3 months	6 months	1 year	Year to date	Trend over past yr
World	BBG World All Country	100%	71,624	205.2	-0.8%	-0.9%	4.3%	6.3%	6.3%	5.5%	Rising
Americas											
USA	S&P 500	36.6%	26,199	2,342.2	-0.6%	-1.5%	3.5%	9.2%	11.5%	4.6%	Rising
	Nasdaq Composite *	12.7%	9,122	5,849.5	-0.5%	-0.9%	5.6%	11.5%	18.4%	8.7%	Rising
	S&P 600 Small Cap *	1.0%	749	826.2	-0.4%	-2.7%	0.3%	11.6%	18.0%	-1.4%	Rising
Canada	TSX	2.9%	2,088	15,622.6	-0.7%	0.9%	1.4%	5.3%	12.7%	2.2%	Rising
Brazil	Bovespa	1.1%	798	64,158.8	-0.8%	-0.1%	0.3%	1.0%	19.5%	6.5%	Rising
Mexico	Mexbol	0.5%	378	48,762.5	-1.2%	0.3%	5.4%	0.6%	6.5%	6.8%	Rising
Europe											
Euroland	Euro Stoxx *	8.1%	5,810	365.7	-2.2%	-0.7%	3.9%	10.9%	10.3%	4.4%	Rising
UK	FTSE 100	4.7%	3,355	7,147.5	-2.7%	-3.7%	-0.8%	1.8%	11.6%	0.1%	Rising
Germany	DAX Price Ix	2.8%	2,017	5,801.2	-1.8%	-1.1%	2.8%	12.0%	12.7%	3.8%	Rising
Switzerl.	Swiss Perf Extra Pr Ix	2.2%	1,588	260.5	0.2%	0.9%	7.9%	10.9%	15.1%	10.1%	Rising
Poland	WSE	0.2%	165	2,237.4	-0.5%	-2.6%	11.0%	28.3%	13.9%	14.9%	Rising
Russia	Micex	0.8%	568	1,920.3	-2.9%	-5.7%	-11.2%	-2.4%	-0.5%	-14.0%	Falling
Asia											
Japan	Nikkei 225	7.4%	5,300	18,417.5	-0.7%	-5.7%	-3.4%	8.3%	9.1%	-3.6%	Sideways
Hong Kong	Hang Seng Ix	6.2%	4,449	23,737.8	-2.2%	-2.4%	3.0%	1.9%	10.7%	7.9%	Rising
China H	China Enterprises Ix	9.7%	6,962	9,946.8	-3.0%	-5.4%	1.6%	3.2%	7.6%	5.9%	Rising
China A	CSI 300	5.0%	3,568	3,436.8	-2.1%	-0.3%	3.2%	3.6%	6.1%	3.8%	Rising
Australia	ASX 200	1.7%	1,246	5,808.3	-1.8%	0.1%	2.0%	6.9%	11.9%	2.5%	Rising
India	Sensex	2.7%	1,912	29,319.1	-0.9%	-1.1%	7.4%	4.8%	13.6%	10.1%	Rising
Korea	Kospi	1.9%	1,353	2,137.4	0.4%	-1.3%	3.1%	4.7%	6.3%	5.5%	Rising
Taiwan	Taiex	1.5%	1,064	9,684.3	-1.4%	-2.3%	3.9%	4.3%	12.2%	4.7%	Rising

All indices: price indices (excl. dividends), in local currency. Market cap in billion USD at current exchange rates refers to country or index where marked with asterisk (*)

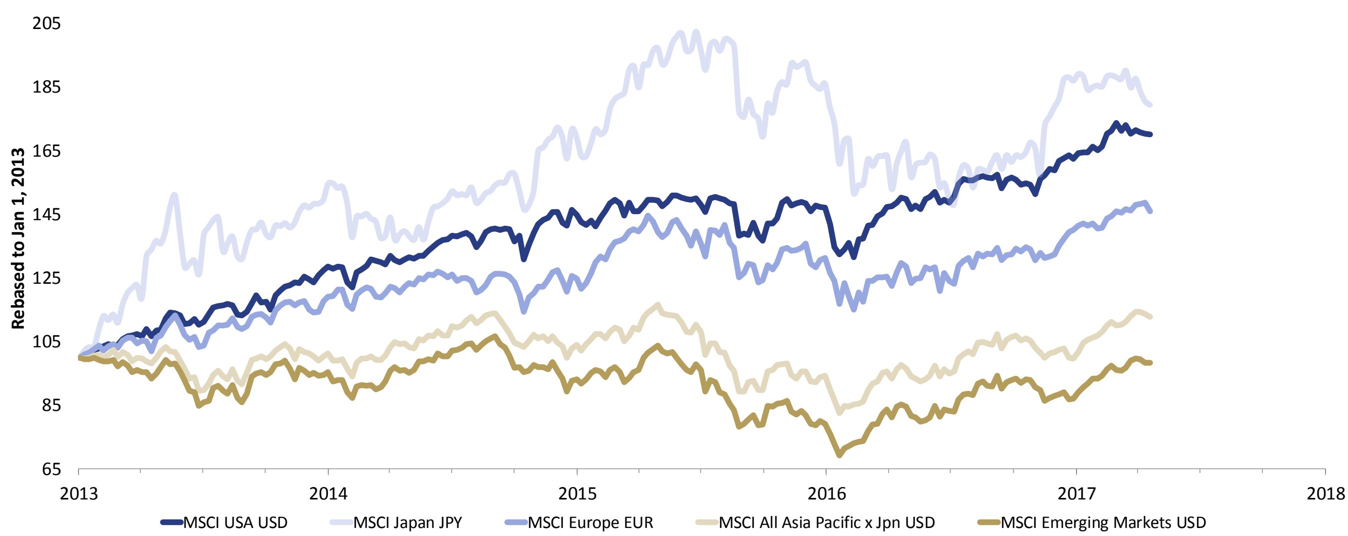
Currencies			Last price	5 days	1 month	3 months	6 months	1 year	Year to date	Trend over past yr
US Dollar, correlation-weighted index		USD	121.2	-0.5%	-0.2%	-0.6%	1.8%	5.7%	-2.4%	Sideways
Euro, correlation-weighted index		USD	97.4	0.1%	-0.3%	0.0%	-0.8%	-0.9%	-0.3%	Sideways
Japanese yen, correlation-weighted index		USD	370.1	0.1%	4.2%	5.9%	-3.5%	6.4%	6.1%	Rising
Swiss franc, correlation-weighted index		USD	347.1	0.2%	-0.1%	0.4%	0.8%	1.5%	-0.1%	Rising
Bonds										
US Treasuries **		USD	384.1	0.7%	2.0%	1.8%	-1.3%	-0.4%	2.1%	Rising
EMU Bonds (Germany) **		EUR	229.6	0.3%	1.7%	0.2%	-2.6%	-0.7%	-0.7%	Rising
UK Gilts **		GBP	660.1	0.4%	2.4%	4.0%	1.8%	8.7%	2.9%	Rising
EM Bonds USD ***		USD	816.9	0.6%	1.7%	3.0%	1.7%	8.7%	4.9%	Rising
EM Bonds Local ***		USD	276.0	1.7%	1.5%	6.7%	2.1%	5.7%	7.8%	Rising
Investment Grade USD +		USD	147.6	0.3%	2.3%	2.2%	0.0%	3.8%	2.7%	Rising
High Yield USD +		USD	175.4	0.0%	1.0%	2.0%	4.2%	14.6%	3.3%	Rising

**Total return, indices of bonds with maturities of more than 1 year ***JP Morgan Indices + Bloomberg Indices

Commodities			Last price	5 days	1 month	3 months	6 months	1 year	Year to date	Trend over past yr
WTI Crude oil (generic future)		USD	52.3	-2.0%	7.2%	1.8%	1.4%	27.3%	-2.6%	Rising
Industrial Metals Index (S&P GSCI)		USD	144.6	-3.0%	-5.4%	-2.6%	13.6%	19.2%	3.9%	Rising
Gold, spot price		USD	1,287.4	0.1%	4.3%	6.9%	1.4%	3.0%	12.2%	Rising

Source: Bloomberg. All data based on last traded price at cut off time: 4/19/2017 11:00

Net total return indices of major equity regions



Note: equity positions in the USA, Europe and Japan are always hedged against currency risk in our portfolios as a matter of principle.

Economic and Corporate Snapshots

Macro fundamentals		USA	Euroland	China	Japan	Germany	Britain	Brazil	Russia	Switzerl.
GDP, nominal, 2017 ¹	bn USD	19,417	11,729	11,795	4,841	3,423	2,497	2,141	1,561	659
GDP per capita, 2017 ¹	USD, PPP	59,609	38,322	16,676	42,860	49,815	44,001	15,485	27,466	61,014
Real GDP growth, expected 2017	Consensus	2.2%	1.6%	6.5%	1.2%	1.6%	1.7%	0.7%	1.2%	1.5%
Real GDP growth, expected 2018	Consensus	2.3%	1.6%	6.2%	1.0%	1.6%	1.3%	2.2%	1.6%	1.7%
Real GDP growth last quarter *	q/q annualized	2.1%	2.0%	5.3%	1.2%	1.6%	2.8%	-3.6%	-2.3%	0.4%
Unemployment rate ²		4.5%	9.5%	4.0%	2.8%	5.8%	4.7%	8.2%	5.4%	3.3%
Inflation, core rate (CPI)	y/y	1.8%	2.0%	0.7%	-0.1%	1.1%	3.1%	4.6%	4.5%	0.1%
Purchasing manager indices (comp.)	Neutral = 50	53.0	56.4	52.1	52.9	57.1	54.9	48.7	56.3	58.6
Structural budget balance/GDP 2017	IMF	-4.0%	-1.1%	-3.7%	-3.7%	0.2%	-2.8%	-7.6%	-2.5%	0.2%
Gross government debt/GDP 2017	IMF	108%	91%	49%	239%	65%	89%	81%	17%	45%
Current account balance/GDP 2017	IMF	-2.7%	3.0%	1.3%	4.2%	8.2%	-3.3%	-1.3%	3.3%	10.8%
International currency reserves	bn USD	40	262	3,009	1,169	37	111	185	330	713
			ESM / EFSF							
Govt bond yield 2yr **	p.a.	1.2%	-0.6%	3.7%	-0.2%	-0.9%	0.1%	9.4%	9.2%	-0.9%
Govt bond yield 10yr **	p.a.	2.2%	0.4%	4.4%	0.0%	0.2%	1.0%	7.4%	8.2%	-0.2%
Policy rate (or approximation) °	p.a.	1.00%	-0.40%	4.35%	-0.05%	-0.40%	0.25%	11.25%	8.25%	-0.75%

¹IMF estimates. *annualized, most recent qtr. ²PRC ex. migrant workers. ** Currency swap rates for China and Brazil, closest ESM or EFSF bonds for Eurozone. °Max target rate for Fed, SNB

Corporate fundamentals		USA	Euroland	China	Japan	Germany	Britain	Brazil	Russia	Switzerl.
Exchange capitalization*	USD	26,199	7,038	11,411	5,300	2,017	3,355	798	568	1,588
Growth in earnings per share, estimated (MSCI)										
Next fiscal year / current fiscal year	Consensus	12.5%	10.3%	13.7%	7.8%	8.5%	7.9%	11.4%	12.1%	11.0%
FY year after next / next FY	Consensus	10.7%	8.9%	11.9%	7.8%	7.7%	10.1%	18.5%	4.1%	9.2%
Growth in revenue per share, estimated (MSCI)										
Next fiscal year / current fiscal year	Consensus	5.4%	4.4%	10.6%	2.2%	3.3%	4.1%	6.2%	8.5%	3.9%
FY year after next / next FY	Consensus	5.1%	1.1%	5.6%	0.4%	2.8%	1.9%	6.4%	3.9%	1.3%
Valuation metrics (MSCI)										
Price-Earnings Ratio (est forward 12m)	Consensus	18.4	14.7	12.5	13.4	13.6	14.4	12.5	6.0	17.7
Price-Sales Ratio (est forward 12m)	Consensus	1.9	1.0	1.4	0.8	0.9	1.2	1.3	0.8	2.0
Dividend yield	Consensus	2.1%	3.3%	2.2%	2.3%	3.0%	4.4%	3.5%	5.4%	3.4%

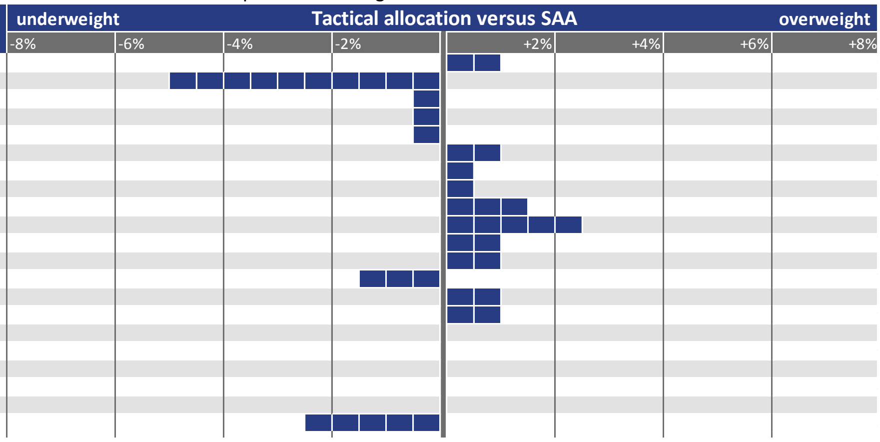
* China includes Hong Kong. Notes: Corporate fundamentals are based on consensus estimates ."Reversal +" denotes a return to profits, "Reversal -" an expected loss next year. Source: Bloomberg.

19.04.2017

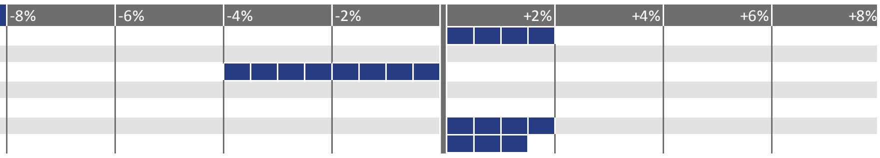
LGT Asset Allocation for Q2/2017 for a balanced model portfolio¹ managed by LGT Capital Partners

Overweight equities, mainly at the expense of sovereign bonds and LPE. USD and SEK preferred among currencies.

	Asset class	SAA
Fixed income	Short-term investments	0.0%
	Global sovereign bonds	9.0%
	Inflation linked bonds	9.0%
	Investment grade corporates	9.0%
	High yield bonds	7.0%
	Emerging markets bonds	7.0%
Equities	Equities defensive	6.0%
	Equities North America	7.5%
	Equities Europe	4.0%
	Equities Japan	2.5%
	Equities Asia/Pacific ex Japan	2.5%
	Equities emerging markets	7.0%
Real	Commodity producers	3.5%
	Real estate (REITs)	4.0%
	Infrastructure (MLPs)	1.0%
Alternatives	Insurance linked strategies	5.0%
	HF CTA	8.5%
	HF equity long/short	1.8%
	HF event driven	1.0%
	HF relative value	1.8%
	Listed private equity	3.0%



	Currency²	SAA
Currencies	USD	88.0%
	EUR	0.0%
	CHF	0.0%
	GBP	0.0%
	JPY	0.0%
	SEK	0.0%
	Others (TAA vs. base currency)	12.0%



Source: LGT Capital Partners. 1 Based on LGT GIM Balanced (USD). Tactical positions (TAA), i.e. the position versus the stratetic allocation (SAA), can be transferred to similar portfolios as a general rule, but investment restrictions or liquidity considerations may lead to deviations in implementation. 2 Position in other currencies (Others) is against base currency – in this case USD.

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