Market View

update from 15.04.2019

LINVO
LIFE INVESTMENT OFFICE

Linvo view:

• Patient central banks, progress in US-China trade negotiations and economic stimulus in China have stabilized the global economy and helped financial markets to rebound. The odds are high that the US-China trade dispute will be eventually resolved at least for now, which would lift the global economic growth from the current lows and revive the global trade and industrial cycle
• Watch:
o US-China and Brexit negotiations
o High risk of real estate bubbles in Canada, Sweden, Australia and Hong Kong
o Inflation signs in US, Germany, UK and other countries with historically record low unemployment rate
o Oil price developments especially related to geopolitical risks in Libya, Iran and Venezuela
o Continuation of America First policy and new trade dispute with European Union
o Corporate debt overhang and wealth management products in China
o Geopolitical risks around the world
• Yield curve has much lower predictive power today than in the past due to QE influence on long-term interest rates. On average, it took 22 months from curve inversion to recession.
• Focus on companies with relative stable earnings und low leverage is a key at the current late stage of the cycle.

End of 2019 key economic forecast by Linvo:

• USD/CHF - 0.98
• EUR/USD - 1.18
• USD/JPY - 105
• GBP/USD - 1.36
• XAU/USD - 1250 USD
• WTI - 70 USD
• US 10y T - 3.0%

	USA	EUROPE	ASIA/APAC	EM Markets
Macro GO CAUTION	US economic growth is set to moderate to 2.3% in 2019 from 2.9% in 2018 due to closed output gap and fading fiscal stimulus starting from Q2 2019. However, pause in monetary tightening, low inflation, low unemployment and wage growth continue to support the consumption. In addition, consumption and business investment suggest the economy is not overheating.	Forecasted Eurozone growth of 1.1% in 2019 is very low but is expected to increase to 1.5% next year through recovery in global trade and industrial cycle from the second half of 2019. Low unemployment and wage growth with low inflation and very accomodative monetary policy continue to support the economy. The risk of Hard Brexit is deminishing with current Brexit extention. Government debt is high but managable due to very low interest rates and long maturities	In China, government monetary and fiscal stimulus is already underway and shows first results with PMI over 50 and with recovery in infrastructure investment. The risks from corporate debt overhang are under control for now. The whole region is set to benefit from US-China trade progress and recovery in global trade.	Emerging markets are benefiting from eased global financial conditions and expected US dollar softening. In addition, countries that had experienced (Brazil) or are still experiencing economic downturm (Argentina & Turkey) are recovering or are expected to get back to growth in 2020. Furthermore, India is expected to gain more growth momentum this and next year.
Equities CAUTION STOP	STOP CAUTION US equity market is currently too expensive by looking at historical averages for forward, Shiller P/E and P/B ratios. Share buyback cycle is mature but is expected to continue in 2019. Besides US-China dispute, unexpected pick up in long-term interest rates could derail the market. In addition, strong wage growth is likely to weight on corporate profits	CAUTION GO European equity market is currently undervalued by looking at historical averages for forward, Shiller P/E and P/B ratios. Share buyback cycle is about to start in Europe. Especially Spain and UK offer very attractive valuations and dividend yields. To a large extent, the political risks are already priced in.	STOP The valuations in the region are currently attractive and will benefit from stabilization in China over the short-term. However, the equity markets in the region are very cyclical and exposed to Chinese economy with strong imbalances in corporate debt.	GO EM equity markets are currently undervalued in comparison to the long-term average P/B ratio and offer high growth potential relative to advanced economy markets. Especially equity markets in Mexico, Brazil and Argentina are expected to benefit from economic growth momentum this and next year.
Bonds CAUTION STOP	CAUTION GO With still attractive yield, high coverage ratio and reasonable net leverage, US High Yield bonds with medium-term maturity are currently more attractive than US Investment-Grade bonds. Especially BBB-rated bonds carry high risk of fire sale from downgrade in case of recession, because the share of BBB-rated bonds in IG universe has increased from 35% in 2008 to 50% in 2018.	STOP CAUTION Thanks to very loose ECB monetary policy, the Eurozone bonds offer only return free risk!	STOP CAUTION Focus mainly on US and EM credit due to high corporate leverage and governance issues in China.	GO Corporate and sovereign EM bonds offer currently very attractive spread over US Treasuries. Government and corporate debt levels remain low in the most EM.

GO positive, buy/increase   CAUTION neutral, monitor closely   STOP negativ, sell/reduce position