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## ➤ ECONOMIC BACKDROP IN A NUTSHELL AND GLOBAL ECONOMIC REVIEW

*Weak growth across the board fuels dovish policy*

The economic backdrop has not changed much over the past few weeks. Global growth momentum continues to soften as manufacturing activity in Europe remains under pressure. Additionally, the strong US dynamic of 2018 is fading as fiscal stimulus wanes, and the Chinese economy has yet to feel the full impact of economic policy stimulus. While absolute growth levels are still positive across the main economic area, the growth trend remains weak.

*Mild growth pickup anticipated, but still not materialised*

If anything, this persistent uncertainty about the ability of economic growth to find a floor after a sustained slowdown is pushing central banks to adopt an ever-more neutral and accommodative stance. This is predicated on continuing downside risks to the growth outlook, in a context of low inflation and subdued inflationary pressures. It also implicitly reflects the willingness of central bankers to prevent expectations of tightening credit conditions from hampering a growth pickup.

Our feeling the global economy is at a crossroad persists. On the one hand, there is no evidence the negative scenario of a more pronounced slowdown or recession will prevail. On the other hand, we acknowledge our scenario of a mild growth pickup from the soft growth experienced in Q1 has yet to be backed by concrete evidence. We continue to think the strength of domestic demand in developed economies, fuelled by supportive central banks and fiscal and monetary policy easing in China, will engineer a global growth pickup. But we need to see evidence before we can build on this outcome.

### Growth

*Domestic demand props up DM expansion; EMs starting to improve*

We are seeing more of the same from last month. Developed economies are continuing to slow down but remain in expansion for the moment, thanks to domestic demand. Tentative signs of improvement across emerging markets (EMs) are also appearing.

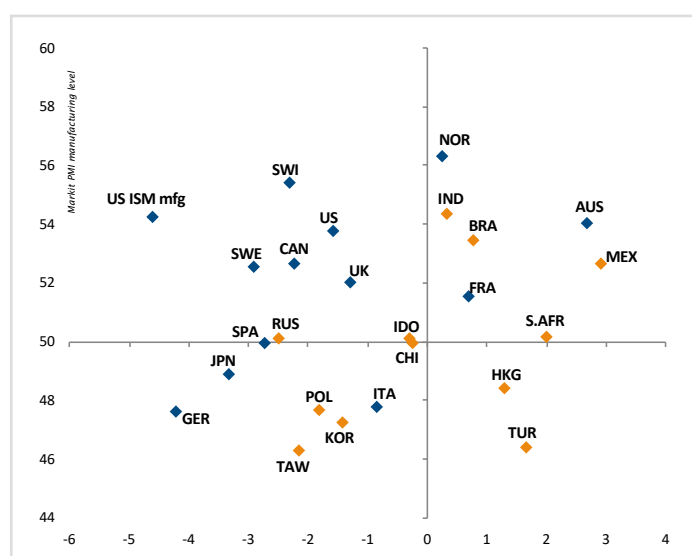
### Inflation

*Inflation broadly contained*

Inflation is low and trendless among developed economies. Trends are more diverse across emerging economies, but generally remain contained, with only a few exceptions.

**Growth momentum still slowing in developed economies**

Sources: SYZ Asset Management  
Data as of: 22 March 2019



### Monetary policy stance

*DM normalisation on pause; EMs glad for slower dollar*

Central banks in large developed economies have now completely paused monetary normalisation. They are in 'wait and see' mode, waiting for positive signs of growth pickup before they can resume the normalisation which they contemplated last year. The end of the US dollar appreciation is also relieving pressure on EM central banks.

*US economy softens but services still going strong*

### Global economic review

The overall economic dynamic in the US is continuing to get softer. However, most indicators are still at levels consistent with decent GDP growth. And the domestic service-related part of the economy appears to be holding up well, as reflected by the rise in service activity indices, back to fairly strong levels in February. In this context, the Federal Reserve has dampened policy normalisation expectations and is now in a dovish 'wait and see' mode.



*Our feeling that the global economy is at a crossroad remains.*

**Adrien Pichoud**

*Weak dynamics across euro 'Big Four'*

In the euro area, business cycle dynamics remain weak in general. Industrial activity in Germany is still plunging, as measured by the manufacturing PMI, the Ifo Business Climate Index, and industrial production. However, domestic demand is maintaining the economy in very mild expansion – retail sales picked up in January and PMI services rebounded in February. This may ultimately help the economy avoid a recession. The French economy is also supported by domestic demand and household consumption, and is recovering from the soft patch caused by the Yellow Vests movement. Meanwhile, Italy has already drifted towards the edge of a recession, under the pressure of external headwinds and politically-driven domestic uncertainties. The Spanish economy, although losing steam, remains the most dynamic of the eurozone 'Big Four'. In this context of growth uncertainty, reinforced by the approaching Brexit deadline, the ECB has also dampened expectations for monetary policy normalisation over the next 12 months, by postponing rate hikes to 2020 at the earliest and announcing fresh targeted longer-term refinancing operations (TLTROs) to avoid unwarranted, passive tightening which would have resulted from the maturing of previous TLTROs.

*ECB postpones normalisation as a result Japan also loses momentum; central bank signals support*

Japan's growth momentum is also fading, as uncertainties around global trade and soft China growth weigh on business sentiment and activity. Here too, the central bank has clearly signalled its readiness to maintain or even increase its accommodative stance.

*Some green shoots, but recovering China still weighs on South East Asia*

### Emerging economies

The Chinese economy has yet to feel the pickup in domestic demand after the pronounced slowdown experienced last year. A few encouraging green shoots have appeared, especially in the form of a resumption in domestic lending flows, that suggest monetary and fiscal easing measures are finally filtering through to real economic activity. This will be required to offset US trade tariffs, the impact of which is due to materialise this year. South East Asia in general continues to face strong headwinds from these global trade uncertainties.

*New presidents boost LatAm sentiment*

Latin America somewhat stands out. Positive growth momentum has been driven by the favourable impact on sentiment of newly elected presidents in Brazil, where business confidence has improved, and Mexico, where household sentiment has benefited.



**Adrien Pichoud**

Chief Economist  
Portfolio Manager

### Global Manufacturing PMI, Trade and Industrial Production

The Global Economy at a crossroad: Still slowing, but still growing

Sources: Factset,  
SYZ Asset Management  
Data as of: 22 March 2019



## ➤ ASSET VALUATION & INVESTMENT STRATEGY GROUP REVIEW

### Risk and duration

*'Goldilocks light' cannot last forever – growth will either pick up or falter*

During the month under review, we kept both risk and duration at a mild disinclination in our asset allocation.

Our view remains that while markets and asset prices are once again supported by accommodative monetary policies – with the central bank put back in place – the current 'goldilocks light' environment cannot last forever. Either global growth will rebound, in which case markets will quickly become concerned with inflation and the removal of accommodative monetary policies, or growth will falter and we will be stuck in a Japanese-style scenario.



*No major changes to the asset allocation this month: we kept a fairly balanced approach towards risky assets and interest rate sensitive ones.*

**Maurice Harari**

### Equity markets

*Swiss equities downgraded*

Switzerland was downgraded for valuation reasons, as it now sits in the mildly expensive camp.

*US better positioned for downturn*

We continue to prefer US equities relative to the eurozone, for their defensive characteristics. If global equity markets correct, we prefer to have risk in the US than in the eurozone – despite more expensive valuations – because we believe US markets would fare better.

*UK attractive pending Brexit*

UK equities still look attractive on valuation metrics, but they carry a bit more risk as we approach the new Brexit deadline. We may negatively review our investment case for UK equities depending on which outcome the country seems to be heading for, and especially if general elections are on the way.

*In EMs, look to Asia and Russia*

In the emerging markets space, we prefer Asia – even if valuations have recently gotten more expensive – and Russia, over Latin America and South Africa, for valuations reasons.

### Bond markets

*Relative preference for real government bonds and hard currency EMD*

We have not made any changes to our relative preference for real over nominal government bonds and emerging market hard over local currency bonds. Meanwhile, our disinclination towards investment grade and high yield credit remains valid.

*Limited upside on core rates, but maintain some duration*

In a growth stabilisation scenario, core government rates have even more limited upside, as rates have once again fallen to historically low levels. However, it is worth having some duration in our portfolios to balance the overall risk. In addition, the macro dynamic is still losing strength and the pause in monetary policy normalisation does not support a significant increase in rates.

### Forex, alternatives and cash

*Pound, yen and gold at a mild preference versus franc*

In terms of currency allocation, we kept the British pound at a mild preference, taking into account appealing valuations. For now, these compensate for potential volatility linked to the Brexit saga. We also hold the Japanese yen at a mild preference. Our assessment of the currency continues to be favourable compared to the Swiss franc, which, on the margin, lost its safe haven status on the back of the Swiss National Bank's monetary policy easing bias. Finally, we ranked gold at a mild preference, for its diversification characteristic in a risk-off environment.




**Maurice Harari**

Senior Portfolio Manager

## INVESTMENT VIEWS

These are our investment preferences for April, based on the Investment Strategy Meeting held 20 March 2019.

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<b>Equities</b>			Euro Zone Switzerland  Scandinavia Brazil Australia India Mexico South Africa	United States Canada United Kingdom Japan South Korea China Russia		
<b>Bonds Asset Allocation</b>		IG Credit HY Credit	Nominal Govies EM Local	Real Govies EM Hard		
<b>Indexed-Linked Government Bonds</b>	United Kingdom Germany	Canada France Italy		United States		
<b>Government Bonds</b>		Canada United Kingdom United States France Australia Italy				
<b>IG Credit</b>	United Kingdom	United States	Europe			
<b>HY Credit</b>		United States	Europe			
<b>Emerging Bonds - Hard (HC) and local currency (LC)</b>		Brazil (LC) Russia (LC) Poland (LC) South Africa (LC) Indonesia (LC) Hungary (LC)	Brazil (HC) Poland (HC) Indonesia (HC) Mexico (LC) Hungary (HC) Turkey (LC) South Africa (HC)	Mexico (HC) Russia (HC) Turkey (HC)		
<b>Currencies</b>		CHF	EUR CAD AUD	GBP JPY Gold		

 Change from last month 