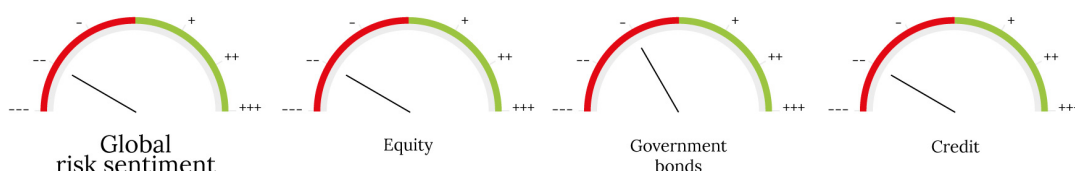


OUR MONTHLY VIEW ON ASSET ALLOCATION



➤ KEEP CALM AND 'CARRY' ON

Hopes of a rebound dashed

Let's get straight to the point – disappointments and concerns are mounting. First, economic growth momentum remains weak. While our scenario from the beginning of the year anticipated a more clear-cut rebound by now, tentative signs of a pickup in Chinese or European activity have been dashed by the most recent news flow.

Tariff uncertainty a drag on equities

Second, thanks to President Trump's tweets, trade war headaches are back. Tariffs per se should not push the economy into a recession. However, related uncertainties are counterproductive, limiting the odds of a quick and sharp improvement in the business cycle. The deterioration of sentiment will act as drag and source of volatility on risk-on assets, especially equity markets.

YTD rally unsustainable as earnings slow

Strong year-to-date returns were made on the back of a more accommodative US monetary policy, as well as expectations of improving growth and a resolution to the tariff situation. But it is difficult to get excited by the sustainability of a market rally that consists of expanding valuations in a slowing earnings environment. In other words, markets have likely run ahead of themselves.

But accommodative policies support fixed income

Fortunately, the lack of any inflationary pressures and the Federal Reserve's U-turn at the beginning of the year, combined with easy-for-longer monetary policies across developed markets, are providing some support and liquidity, especially to fixed income markets.

We took profits on equities, but maintain fixed income carry

As a result, it seemed quite obvious for us to reduce beta and volatility, taking some profits on the most cyclical part of the equity allocation, especially after strong year-to-date gains. However, we are keeping some carry in the fixed income space, particularly in emerging market hard currency debt. As the saying goes, a bird in the hand is better than two in the bush.



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➤ ECONOMIC BACKDROP IN A NUTSHELL AND GLOBAL ECONOMIC REVIEW

New Trump tariffs threaten growth in vulnerable China and Europe

President Donald Trump has done it again. By abruptly raising tariffs on \$200bn of Chinese goods imported into the US, Trump has brought trade tensions back to the forefront, just as a China-US deal seemed in hand – after months of ‘constructive’ talks. Without presuming the reasons behind this volte-face – a Chinese misstep, or electoral calculation perhaps – the resurgence in tensions is hardly good news for short-term global growth prospects. Europe and China have yet to see a significant pickup in economic momentum, and therefore remain vulnerable to shifts in sentiment and heightened uncertainty.

These two key regions displayed tentative signs of stabilisation in early 2019 – particularly China, where fiscal and monetary stimulus seemed to feed through to lending and business. However, recent data has failed to confirm the expected pickup in activity, leaving both economies in relatively fragile situations of lacklustre and momentum-less growth. In this context, revived trade tensions make for a potentially more dangerous headwind, as business, household and investor sentiment are more prone to be affected by the increased uncertainty.

Normalisation on hold but clouds on macro horizon

On the positive side, monetary policy has now clearly switched into support mode. Normalisation is off the cards for all major central banks, who are maintaining a dovish leaning in case things turn sour. This may prevent general debt levels from becoming a problem if global growth decelerates further. However, instead of displaying expected green shoots, the macro outlook remains clouded and faces the return of a dormant headwind.

DM/EM growth divergence prevails

Growth

The divergence in cyclical momentum between developed and emerging markets prevails. While the global growth outlook is constructive, supported by resilient final demand in large developed economies, the lack of clear growth acceleration in Europe and China is disappointing expectations..

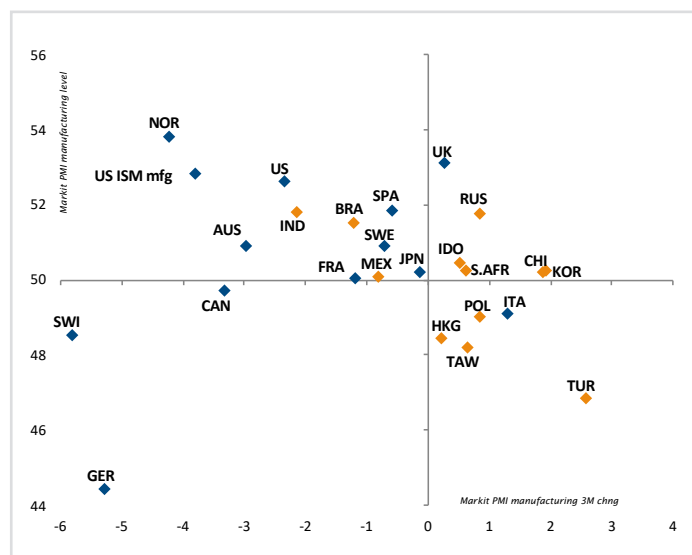
Inflation dull despite higher energy prices

Inflation

Inflation dynamics continue to be dull across most of the global economy, only modestly trending higher despite the rise in energy prices.

Slowing dynamics across developed economies, but most emerging ones improve

Sources: Factset, SYZ Asset Management
Data as of: 22.05.2019



Dovish policies support DM demand

Monetary policy stance

The dullness of inflation is allowing central banks to maintain accommodative monetary policies across the developed world, thus supporting domestic demand and the growth outlook. However, restrictive monetary policy stances can still be found in EM countries.

*Jobs and income growth
fuel US strength*

*Fed hints at extended
monetary support*

Global economic review

Growth momentum across developed economies has been on the soft side for several months now and this trend has not reversed. In this context, the US economy continues to stand out, thanks to firm and sustained domestic demand – even if the global growth context continues to curb down this dynamic. The strength of the job market, and mild but positive growth in real personal income keep fuelling GDP growth. Repeated hints by the Federal Reserve it is now willing to see inflation accelerate at or above its 2% target for some time before contemplating additional tightening implicitly guarantees monetary policy will remain supportive for a long time.



*Instead of expected green shoots, the macro outlook remains clouded and
faces the return of a dormant headwind.*

Adrien Pichoud

*Eurozone fragile – any
headwind could cause
growth to unravel*

*Political uncertainty weighs,
but UK surprises positively*

*Japan tax hike looms amid
lacklustre growth*

The economic situation in the eurozone can be seen as a glass half full, with domestic demand and activity in services keeping the growth dynamic afloat – as reflected by the pickup in Q1 GDP growth – and cyclical momentum is no longer deteriorating – as manufacturing activity indicators have stabilised around March lows. On the other hand, as there has not been any visible pickup in cyclical momentum, contrary to expectations, it can also be seen as a glass half empty. This relative disappointment leaves the eurozone in a fragile situation, where any headwind could lead the current modest growth to unravel – even a shift in sentiment. On reflection, with the return of trade tensions and political uncertainties – particularly around the European Parliament elections and Brexit – the glass is probably more half empty than half full in continental Europe. Surprisingly, the UK economy is somehow faring relatively well in terms of growth dynamic, with positive momentum fuelled not only by precautionary inventory building but also by firm final domestic demand. However, never-ending Brexit uncertainty still makes the medium-term outlook quite uncertain.

Similarly to the eurozone, Japan and Australia continue to exhibit lacklustre growth due to global trade softness, even though domestic demand is holding out for the moment. In this context, the prospect of a VAT hike in Japan later this year is a source of concern, as it may push the economy closer to a recession.

Emerging economies

*Chinese data fails
to confirm growth*

*Reforms needed to sustain
Brazil expansion*

China was, along with Europe, the main source of global growth weakness last year and, like Europe, was expected to pick up in 2019, when the impact of significant fiscal and monetary policy easing was expected to feed through to the economy. Encouraging signs have been witnessed earlier this year, but they have so far failed to be confirmed by a broader acceleration in macro data. As for Europe, the fact the economy is no longer slowing is reassuring, but the lack of positive momentum leaves it vulnerable to headwinds, especially renewed trade tensions and expanded US tariffs.

After a sentiment-driven pickup in activity in H2 last year, the Brazilian economy has recently lost momentum. Execution risk remains around key political reforms – especially on pensions – and concrete results are probably needed to turn the sentiment-driven expansion dynamic into a more sustainable, fundamentals-driven one.



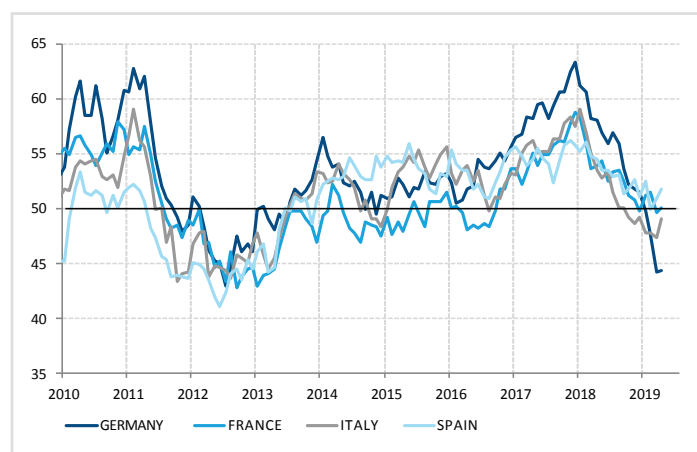
Adrien Pichoud

Chief Economist
Portfolio Manager

PMI Manufacturing in the four largest eurozone economies

Activity no longer deteriorating
in Europe... but fails to pick up
convincingly

Sources: Factset,
SYZ Asset Management
Data as of: 22.05.2019



➤ ASSET VALUATION & INVESTMENT STRATEGY GROUP REVIEW

Risk and duration

Downgraded equity risk on growth and trade war concerns

Tariff extension could hurt global economy

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

These changes emphasise our concerns about ongoing sluggish growth – with no signs yet of a pickup in activity – and potentially negative consequences of the trade war on sentiment. In fact, US-China tensions could also disrupt the actual global economic backdrop – especially given current lacklustre dynamics – if uncertainties and retaliation are extended to other goods, services or geographical areas, such as Europe or Japan.



The risk stance within equities was downgraded by one notch to a 'disinclination', but we are still keeping some exposure to riskier assets in the fixed income world, as they are supported by accommodative monetary policy regimes in most major developed economies.

Maurice Harari

Attractive carry in EMD and European subordinated debt

Taking into account stretched valuations, sluggish nominal growth and more accommodative monetary policies than six months ago, 'carry', particularly through emerging market hard currency bonds and European subordinated debt, may be favoured against the higher volatility of equity markets.

As a result, risk reduction has been implemented only in equities, by downgrading the preference of several geographical areas most at risk of a global growth disappointment and trade war risks, for instance China, South Korea, the eurozone and Japan.

Tailwinds for duration, but upside risks if activity and energy pick up

There is little value left in duration, but we kept some, given the lack of a growth impetus or inflationary pressures, which has led to supportive monetary policies. Trade war concerns are also a tailwind for duration as they reinforce this favourable backdrop.

On the other hand, potential upside risks on interest rates in the second half of this year could emerge if Chinese growth finally accelerates and US activity picks up, bringing European economies in their wake. If energy prices continue to edge higher, the oil price base effect may also become quite unfavourable later in the year.

Equity markets

Downgraded China, South Korea, eurozone and Japan – most at risk

The eurozone, China, South Korea and Japan were all downgraded to a 'mild disinclination', as they could be the first victims – either direct or collateral – of disappointing growth and prolonged trade war risks in the next few months. In addition, Japan and eurozone equity markets have seen valuations get more expensive.

No sector preference, but favour high dividend stocks

Given equity risk reduction, we prefer not to express a strong sector bias, nor a preference for defensives or cyclicals, as no particular sectors stand out in terms of both valuation and earnings momentum.

However, we are still keen on high dividend stocks, as they should be less at risk of a temporary interest rate repricing. They also offer a real medium to long-term alternative in this low-rate environment.

Bond markets

Real and EM hard currency bonds most attractive

No changes were made to our relative preference for real over nominal government bonds and emerging market hard currency bonds – where the current backdrop is favourable and valuations are attractive – over local currency bonds. Meanwhile, our 'disinclination' for investment grade and high yield credit remains valid.

Turkey outlook dims while Poland promises

Turkish foreign currency bonds were downgraded to a 'mild disinclination', as the outlook darkens, while Poland local bonds were upgraded to a 'mild disinclination', due to fairly strong growth, low inflation and a mildly accommodative monetary policy.

Forex, alternatives and cash

*Better yield and growth prospects for dollar vs. euro
Japanese yen better diversifier than Swiss franc*

We prefer the US dollar to the euro, despite the greenback's higher valuation, as it offers a better growth outlook and a positive yield differential.

For the Japanese yen, scored 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 rank 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 June, based on the Investment Strategy Meeting held 15 May 2019.

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

◀ Change from last month ▶