BBGI GROUP Global Investments

Investment Strategy

July 2019

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Graph sources: Bloomberg/BBGI Group

INTRODUCTION

Letter to Investors - Investment Climate

- Once again a highly volatile and uncertain quarter
- Interest rate markets remain pessimistic
- What is the actual likelihood of key rate cuts?
- Risks of further disappointment in August return
- Caution is advisable in a particularly uncertain context

The month of June ended with positive quarterly performances for the vast majority of asset classes and geographical areas. After an exceptional first quarter characterised by the virtually uninterrupted rise of stock indices, Q1 ended on a positive note. Nevertheless, it will have been much more volatile than results over three months may suggest. Indeed, monthly performances alternated between positive and negative results following the development of contradictory scenarios marked by political and economic events which essentially caused greater general uncertainty. Yet, in this ever more uncertain context, most assets posted significant growth.

The month of May had abruptly thrust investors into uncertainty when it appeared that negotiations between the US and China had stalled and might even be suspended, although it seemed that an agreement had almost been reached a few weeks earlier. In that same period, manufacturing PMI indicators continued to fall almost everywhere, leading to fears of a contraction in industrial activity related to the absence of a trade agreement between the two leading global economies. The almost 50-basis-point drop in the US government's ten-year interest rates accompanied and supported this pessimistic scenario, raising expectations of a reversal in US monetary policy in June or July.

Prospects of a slowdown that could turn into a recession in the US thus drove investors to bet on a 25-basis-point rate cut by the Fed. Meanwhile, the economic contraction scenario continued to affect ten-year interest rate markets, which actually dropped below 2% in the US and fell deeper into negative territory in the Eurozone (-0.33%) and in Switzerland (-0.52%). The idea that the US economy was potentially moving into recession, an idea which threw equity investors into a panic and penalised risky assets earlier in May, suddenly raised hopes of a rate cut, thereby helping markets rebound strongly in June.

At the end of the quarter, interest rate markets still seemed doubtful as to the strength of the economy and were still driving long-term rates down. On the equity investor side, prospects of a rate cut in July seemed sufficient to dismiss factors of uncertainty even though the latter have not disappeared. After all, the G20 summit culminated in the absence of a deal, and negotiations are unlikely to progress in any notable way over the summer. In the beginning of this 3rd quarter, the Fed thus faces a complex dilemma. It will have to decide whether to continue its current status quo policy or yield to market pressure by changing its policy and announcing a rate cut.

In the next few weeks, it will have to assess the actual risks, already factored in by interest rate markets, of the country sliding into recession and determine if it can afford to take the risk of maintaining a status quo in its policy until September in order to get a better view of the economy's actual state. On 31 July, the Fed will thus have to choose whether to cut rates, bowing to market threats in order to offset risks of an economic collapse, as first interest rate markets and then all investors demanded, or grant themselves a little time to analyse and assess the risks.

A change in monetary policy at this stage in the cycle is not easy and may have counterproductive consequences for the central bank. This decision could be interpreted as evidence that the normalisation policy went too far, but also as a sign of the central bank's weakening independence from political influence at the risk of losing some serious credibility. Equity markets, which gambled heavily on a rate cut in July and temporarily rebounded based on that idea, to our mind, should reflect on the meaning on this decision. A rate cut motivated by the risk of a recession is unlikely to leave indifferent those investors who are aware of the risks of such a scenario on corporate earnings and the valuation levels of equity markets.

Only a preventive and temporary rate cut with no real change in monetary policy presented in a convincing way could prevent investors from becoming aware of the evolving risks and avert a consequent correction in equity markets. It is less and less likely that the Fed will stay put in July, even if economic statistics support the argument that US growth remains robust. A rate cut motivated by the persistence of international risks and low inflation might still trigger a reaction in financial markets in August, which could cause further volatility as well as value adjustments in both rate and equity markets. A 40-basis-point recovery of US long-term rates would then be conceivable and favourable to the dollar, while equity markets could suffer some profit-taking that might weaken stock indices to levels seen in May.

We believe the optimism on display in equity markets in the beginning of the summer is excessive. Risks are once again present and justify more cautious asset allocation. Unless there is greater evidence of a risk of recession, we believe it is unlikely that rate markets will continue on their recent trend. Should that be the case, however, the risks of consolidation of equity markets would then have to be considered as clearly under-estimated, which would herald a much more severe and significant price correction. In this particularly uncertain environment that could negatively affect the valuation of most asset classes, we recommend a certain degree of caution and reduced risk-taking in investment strategies for Q3 2019.

Alain Freymond
Partner
CIO BBGI Group

Graph sources: Bloomberg/BBGI Group

BIG PICTURE

Key Convictions

- Global economy is stronger than implied by leading indicators
- Growth in global liquidity picks up
- Inflation slowly heats up, driven by job creation and crude prices
- Recession scenario still unlikely
- Risks once again elevated in most markets

Global economy is stronger than implied by leading indicators

The first half of the year was marked by fears of a global economic slowdown caused primarily by the crisis in the industrial and manufacturing sectors resulting from the ongoing trade tensions between China and the US. Investors' concerns probably peaked in May, when talks were suspended and prospects of an agreement evaporated. Manufacturing PMI indices persistently pointed to a collapse in confidence and raised fears of an economic slowdown that could turn into a recession. We believe that these fears likely peaked in May with regard to leading indicators and in June in rate markets. Economic growth likely slackened here and there in Q2, but it is also likely that resilient consumption and strong job markets shored up economic activity both in the US and in Europe. Thus, we should be able to establish that leading indicators' slide down to levels sometimes nearing their growth threshold (50) was driven more by prevailing uncertainty than by actual conditions. Global growth is thus likely more resilient and positive than currently implied by leading indicators.

Growth in global liquidity picks up

Central banks will have to remain vigilant during the second half of 2019 given the evolving situation and persisting uncertainty tied to the trade tensions between China and the US. The solid economic fundamentals that had supported the shift in monetary policy and the normalisation of interest rates are increasingly threatened by this wrestling match, which has lasted for many months and has had an increasingly negative effect on business leaders' mindset and confidence. Over the past few months, PMI leading indicators have been showing that concerns regarding manufacturing and industry, which have been growing over the past year, have now spread to other sectors not directly tied to the trade war. The drop in the services PMI to a level close to its growth threshold is a clear sign that the uncertainty resulting from the lack of a trade agreement between the two countries could impact the economic outlook more broadly than initially anticipated. Central banks have been more or less unanimous in noting the increase in global political risks and have thus for the most part relaxed their respective positions, adopting more flexible strategies. In the US, rate stabilisation is the most rational scenario in our view, but the likelihood of a cut in July is now quite high. In Europe and Switzerland, it is not impossible that the stated stabilisation policy should turn into rate cuts, especially if the US should decide to proceed with easing monetary conditions. However, we think it more likely that central banks will continue to pursue rate stabilisation in H2, while adopting policies favouring the expansion of the money supply and available liquidity, in particular by authorising central banks' balance sheets to expand further.

Inflation slowly heats up, driven by job creation and crude prices

Inflation certainly does not constitute a risk yet for financial markets and the economy. Nevertheless, the continuing strength of the job market and steady growth in household disposable income overall will likely contribute positively to price growth. Inflation, which cooled off at the end of 2018, stabilised in February and then started to pick up slightly, reaching 2% in April in the US. It thus rather clearly tracked crude prices over the period and could rise once again given mounting geopolitical tensions favourable to energy prices. University of Michigan one-year inflation expectations stood at +2.7% in June, namely significantly higher than current inflation. Momentum in the job market remains solid, and wage growth appears strong enough to have a lasting impact on inflation ex food and energy. While economic uncertainty overall may put a brake on price growth, increases in tariffs on Chinese imports could already be having an impact on prices for US consumers.

Recession scenario still unlikely

In spite of the fall in manufacturing leading indicators in many countries through May, we believe there is only a low likelihood that the recession scenario, which drove rate markets down in H1, will come to pass. The stabilisation of PMI indices in June in the US, and to a lesser extent in the euro area, Japan and China, may indicate that the bottom of the cycle has been reached. The fall in PMI leading indicators may also be linked to the ongoing adjustments in inventories, which are likely coming to an end as suggested by the likely high point reached by the inventory/sales ratio. The +0.4% uptick in industrial output in the US in May compensated for the decrease in April, although it remains a fragile indication. Fears of net losses in the job market, which would be proof of a potential slowdown underway, have turned out to be unfounded to date, particularly following the 224,000 new jobs reported in June, bringing three- and six-month averages back up over 170,000 new jobs per month, although the pace of job creation is still slower than in 2018. However, the most compelling factor remains the robust health of private consumption, which is expected to grow by close to +3% in Q2. Finally, while uncertainty persists with regard to the trade talks, the latest meeting between the US and Chinese leaders lowered tensions and reduced risk, in particular thanks to the suspension of threats of new tariffs.

Graph sources: Bloomberg/BBGI Group

Risks once again elevated in most markets

Market volatility over the past two months strongly impacted the level of risk associated with the equities asset class during this period. In April we noted that the latest stock market developments indicated an increase in the risk of a correction in the share price of risky assets in May. At the end of May we then noted that the correction occurred as expected and reduced the level of risk associated with equity markets, thus supporting a return to neutral exposures to Swiss and international equities. A month later, the rapid upswing in share prices, driven primarily by expectations that the Fed will cut rates in July, has pushed equity markets back into the danger zone.

Uncertainty continues to dominate this summer, only a few weeks before US Q2 GDP is announced and the Fed makes its next monetary policy decision, which will be made public on 31 July. Thus, one may wonder how rate and equity markets will react if the Fed does not proceed with the anticipated rate cut in July?

This binary situation is thus clearly not very reassuring given that the factor that drove the upswing in equity markets in June was precisely the expectation of a rate cut, which was based on the anticipation of a significantly weaker economy. The Fed's upcoming decision will likely be crucial with regard to financial markets' immediate future, as markets are expecting the Fed to reverse its normalisation policy in favour of an economic stimulus policy.

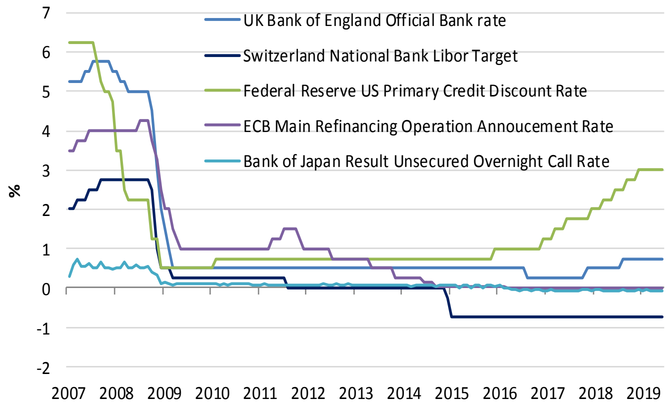
Rate markets are beset by fears of a recession and believe monetary policy must be eased immediately. However, the fall in yields does not reflect current economic conditions, which remain positive overall, as yields are still too strongly affected by fears that a trade war between China and the US could lead to economic collapse.

As for equity markets, their outlook is somewhat schizophrenic, as they refuse to factor in the risk of lower earnings tied to the risk of a recession while welcoming a possible rate cut warranted by this same risk. Following the increase in Swiss and international equities of close to +22% and +17%, respectively, risk levels are once again elevated. The Fed's decision will likely be critical and could lead to a sharp increase in volatility in August. In this context, the Fed's decision on 31 July will have a significant impact on financial markets, an impact which will depend on macroeconomic data available at that time. If the Fed's decision is accompanied by a series of positive economic data, long-term rates will likely rise.

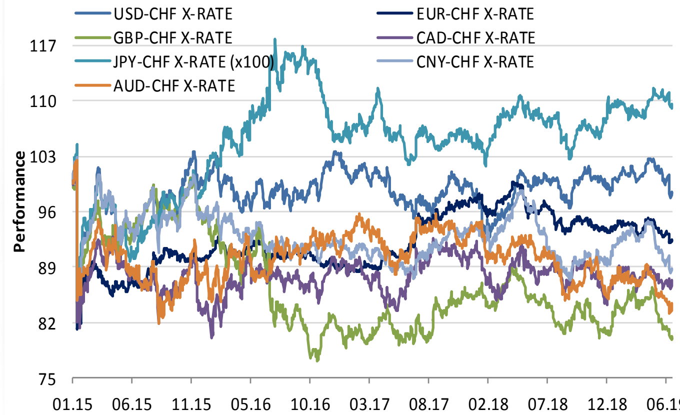
In this case, it is far from certain that equity markets would not react negatively as well to this increase in long-term rates. Both bond and equity markets might then correct simultaneously, which would potentially benefit gold prices. If on the other hand the Fed's decision is not based on improving economic data and is founded instead on the need to wait until September to have better visibility on economic developments, then rates could slide further. In this event, equity markets could correct as brutally as they did in December 2018. In the current context, it is appropriate and warranted to reduce exposure to equities, regardless of how the next few weeks play out.

The valuation levels of risky assets call for added caution on equities, private equity, high yield, and more broadly on most assets whose valuation increased in H1. Rate markets also seem close to a trend reversal whereby rates would start to rise. Real estate investments that most benefited from falling interest rates could also be penalised by these developments, which will likely drive further increases in gold prices and the dollar.

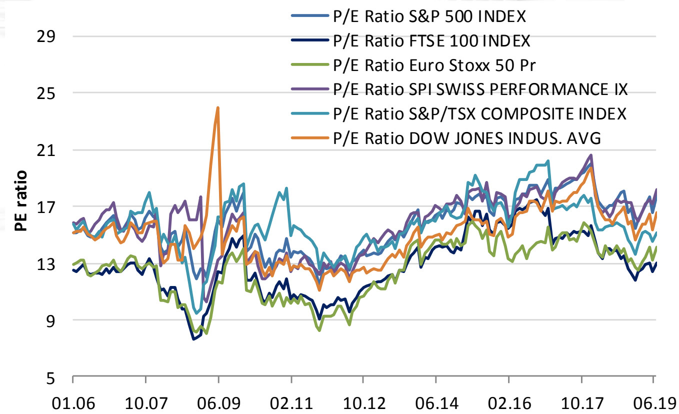
Central Bank rate (EUR, CHF, GBP, USD, JPY)



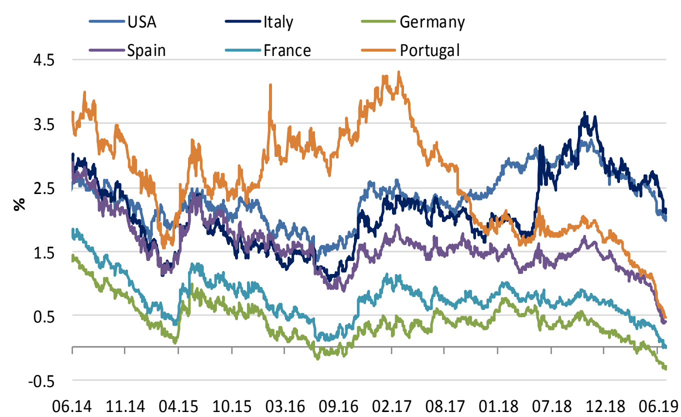
7 Major currencies against CHF (Normalized at 100)



Price/Earning Ratios in developed Markets



Government Bond yield (10 years)



Graph sources: Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

Graph sources: Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

Global Outlook

- US growth not under threat
- Eurozone seeking a second wind
- Chinese slowdown mitigated by strong consumption
- A more favourable second half of the year in Japan
- Outlook remains strong in Switzerland

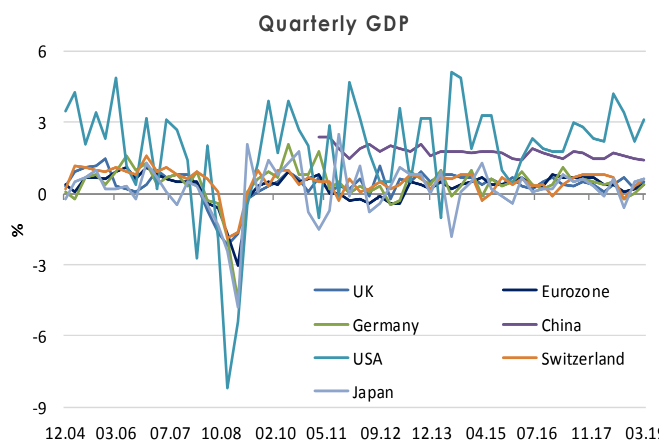
US growth not under threat

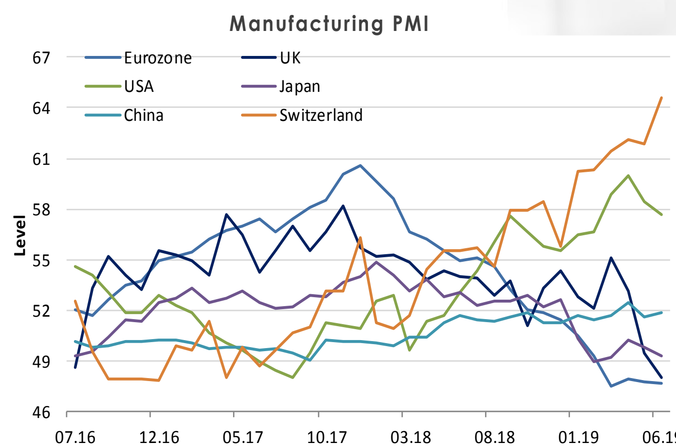
The month of May will have been particularly negative for the confidence of purchasing managers. Indeed, the renewed tension between Washington and Beijing strongly influenced their perception of economic risks and opportunities, until the prospect of a constructive meeting between the US President and his Chinese counterpart during the G20 summit raised hopes of an improved dialogue and fresh prospects for trade negotiations. June PMIs certainly do paint a slightly more optimistic picture. The manufacturing PMI rebounded from 50.1 (growth threshold 50) to 50.6 in June, while the services PMI rose from 50.7 to 51.5. The composite index hit 51.5, which reduces risks of an economic slowdown and will certainly give the Fed a little more leeway when it assesses the situation at the end of July. In the job market, wage pressures are increasing and thanks to rising disposable income, consumption will likely remain high and push price indices up. In the context of a relatively tight employment market, wage growth is logically continuing in the US, strengthening the outlook for private consumption, which remains the main driver of economic growth. In this context, average hourly earnings in May decreased slightly to +3.1%, which remains high in statistical comparison to the last ten years. If household income growth is not interrupted by geopolitical issues and by the uncertainty associated with the trade war, economic growth will likely follow a sustained positive trend close to +2% in Q2 and H2.

Eurozone seeking a second wind

Euro area GDP surprised on the upside with +0.4% growth in Q1 and +1.2% yoy. Nevertheless, this positive surprise does not denote a clear trend reversal, as the annualised growth rate was the same in March as in December (+1.2%). All the same, it is a positive and rather reassuring sign, as the threat of recession in Germany was generating high levels of uncertainty with regard to economic momentum in Europe overall.

Thankfully, GDP growth thus accelerated in the Eurozone at the beginning of the year, somewhat contrary to expectations. Household consumption turned out to be much more resilient despite a challenging domestic and international environment, contributing to a large extent to the euro area's strong economic performance with an increase of +0.5% over the quarter (+1.1% yoy). Exports also rose by +0.6%, while public spending inched up a mere +0.1%. GDP growth for the European Union (+0.5%) was slightly better than for the Eurozone (+0.4%) due to the strong performance of countries such as Poland (+1.5%), Hungary (+1.5%), and Romania (+1.3%). Growth thus thankfully strengthened at the beginning of the year, warding off the threat of recession. In spite of these encouraging quarterly results, the German economy, which for a long time had been the driver of European growth, must contend with falling global industrial demand. Furthermore, the second half of the year will likely be weaker if we are to believe the PMI leading indicators, which have dropped, as in most regions, and the confidence indices. Services are faring better than industry, and the recovery of industrial output in May was thus welcomed in this context. However, it will not drive growth in Q2. Companies are still quite concerned with global risks, and we will likely have to count on the resilience of consumption as well as some pickup in exports to contribute positively to European GDP.





Graph sources: Bloomberg/BBGI Group

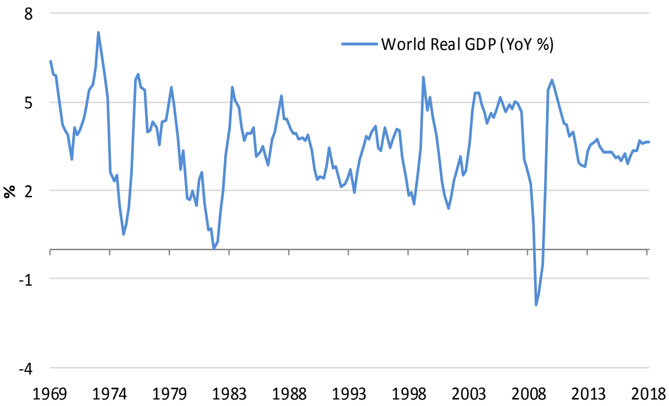
Chinese slowdown mitigated by strong consumption

In the last few weeks, Chinese economic data have pointed to a likely ongoing economic slowdown. In the current context of trade negotiations, which are still deadlocked, growth expectations of +6.2% in 2019 for China's economy remain robust, although slightly below 2018 results. Given the tax support measures, the downward pressure on growth will likely remain limited. The slowdown in the real estate sector could also have a negative impact on growth, although a decrease in supply has fuelled price growth of more than +10% over twelve months. The PBoC will likely cut its policy rate and the RRR in H2. Corporate earnings posted a welcome rebound of 1.1% yoy in May, even though they contracted by -3.7% the previous month. Consumption rose by +8.1% yoy and will continue to be the main driver of Chinese growth, as was the case in 2018, when it represented 76.2% of GDP. Tax policies to stimulate consumption will likely be successful, while greater emphasis is now placed on modernising processes and communication means. Consumption will play a key role in mitigating the risks relating to the adverse effects of the escalating trade war. China will thus pursue its policy to boost consumption and seems fairly confident, noting that the situation is under control despite declining trade volumes.
The government is consolidating existing laws and regulations while also amending laws that are incompatible with rules and regulations on foreign investments in order to ensure that the law on foreign investment is correctly implemented on 1 January 2020. China has also reduced restrictions regarding market access for foreign investors and now permits investments all over China in sectors that were previously only authorised in China's free trade zones. These elements also keep hopes of successful trade negotiations in the future alive.

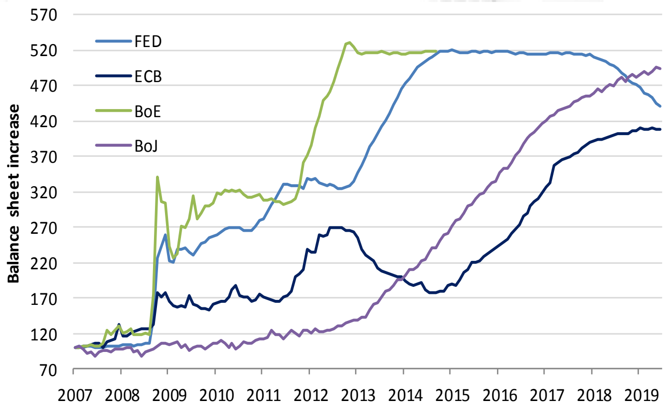
A more favourable second half of the year in Japan

Q1 GDP growth of +0.5% in Q1 exceeded economists' forecasts and confirms the trend reversal that occurred in Q4 (+0.5%) following the -0.6% contraction in the previous quarter. Japan's quarterly economic performance, which was unstable all through 2018, thus seems to be stabilising at an annualised pace of +2%. Economic growth thus turned out to be more significant than expected for the second consecutive quarter, in spite of a challenging environment for the Japanese export sector. Japanese economic momentum is thus in synch with that of other industrialised nations, which have been posting better results than expected since the beginning of the year. The trade conflict between the US and China did not have any further impact on confidence in Q1, but the recent escalation of tensions and rising uncertainty could exert some effects going forward. This uncertainty remains the foremost threat to GDP growth in Japan, in particular given that the yen will likely depreciate in the coming months. Indeed, the monetary factor is still key in terms of generating positive GDP growth. The Japanese economy should nevertheless remain on the upswing in 2019 and exceed the current forecast for full-year growth of +0.7%. Uncertainty continues to weigh on leading indicators, which nevertheless improved somewhat since the end of Q1. Japanese business sentiment did not really improve in May, while rising tensions between the US and China raised concerns once again among Japanese business leaders. The uncertainty affecting Japan's two largest trade partners is no doubt having an impact on purchasing managers' morale. Weak economic conditions in Asia have also affected Japanese exports, heightening producers' concerns. In this context, PMI indices in June have stabilised, while industrial output surprised everyone with an increase +2.3% higher than expected. Japan, which is also in Washington's crosshairs because of its trade surplus, thus saw its new orders indicator contract again for the sixth month in a row. Growth in Q2 may slow somewhat before picking up in the second half of the year, in particular once the support measures implemented by the Chinese government start to have a positive impact on the Japanese economy.

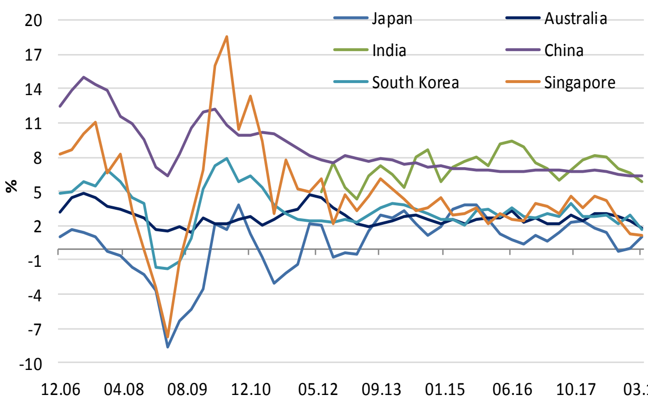
World Real GDP Growth



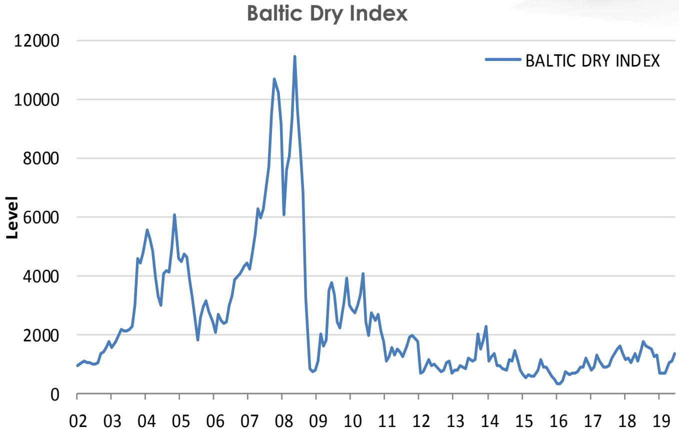
Balance sheet increase



GDP Growth rates in Asia



Baltic Dry Index



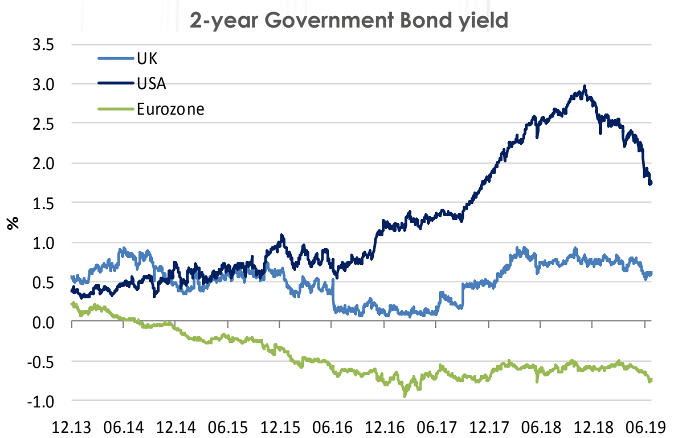
Graph sources: Bloomberg/BBGI Group

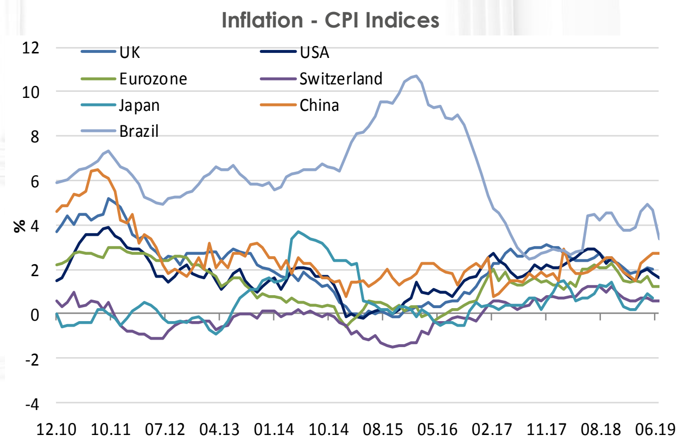
Prospects remain strong in Switzerland

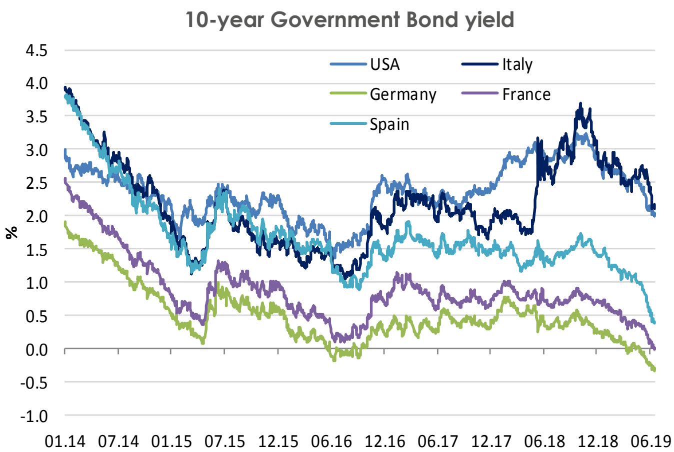
Our baseline scenario for the Swiss economy remains reasonably optimist, following the sharp economic upturn in Q1 2019. Global economic conditions surprised on the upside in Q1. The Eurozone and Germany rallied in the wake of GDP growth exceeding +3% in the US, and while many experts may prefer to remain cautious, lowering their global growth outlook for 2019 in light of the wrestling match that is dragging on between Donald Trump and the Chinese president, we are maintaining our economic forecast for the next few months.

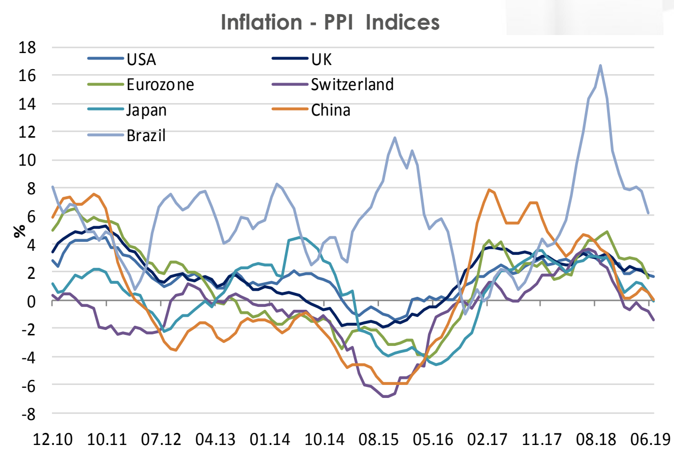
Over the past several months, our economy was able to rely on more sustained demand from other economic regions and on resilient domestic activity. The economic upturn in the euro area must nevertheless take firmer hold if the uncertainty stemming from the sudden drop in the German economy at the end of the year is to be dispelled. We believe that the outlook for Q2 2019 will improve, boosting demand for Swiss products and services. Nevertheless, uncertainty remains high in the absence of a trade agreement between China and the US. This issue now seems more problematic. Indeed, while it remains in everyone's interest not to let the current situation degenerate into a total, open trade war, we think it may be difficult to reach an agreement in the near future given recent mounting tensions. The current context is not particularly favourable to the Swiss franc, which is fairly unlikely to appreciate against the US dollar.

A relatively stable exchange rate should benefit Swiss foreign trade. In addition to exports, domestic demand will also likely continue to trend upward, and consumption will likely strengthen somewhat in 2019 and grow a little more dynamically. In this context, we maintain a GDP growth outlook for Switzerland of +1.5% for 2019.





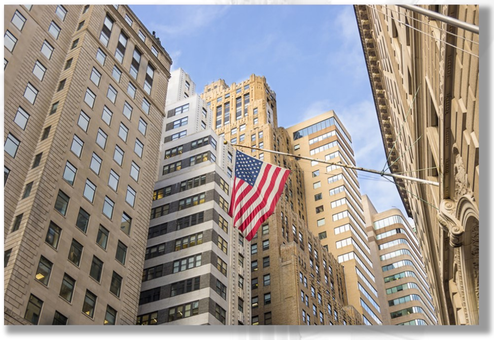




Graph sources: Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

United States



- G20 fails to provide solutions but truce could induce Fed to hold off
- What possible reactions should rates fail to be lowered on 31 July?
- What is the most likely scenario?
- Leading indicators on the threshold of growth
- Full employment, inflation and interest rates
- Reduce exposure to US equities

G20 fails to provide solutions but truce could induce Fed to hold off

The G20 summit in Osaka ended with a rather predictable status quo and no tangible progress on the issue of trade between China and the US. Some will feel reassured to know that at least the two protagonists of this saga, which has kept the whole world guessing for months, have met and have finally agreed to keep the door open for negotiations. Trump and Xi Jinping have effectively agreed to resume talks.

In the short term, no new tariffs are expected to be introduced and the Huawei affair could be reconsidered. Both presidents have undoubtedly tried to buy time and give a second chance to a negotiating process which had been severely threatened by the hardening of respective positions in May, an event that had caused equity markets to plunge temporarily.

In the short term, markets might appreciate the fact that the situation did not grow worse during the G20 summit, although this should not conceal the fact that no tangible progress was made and no clear agenda was discussed. China and the US would be well advised to avoid a total trade war.

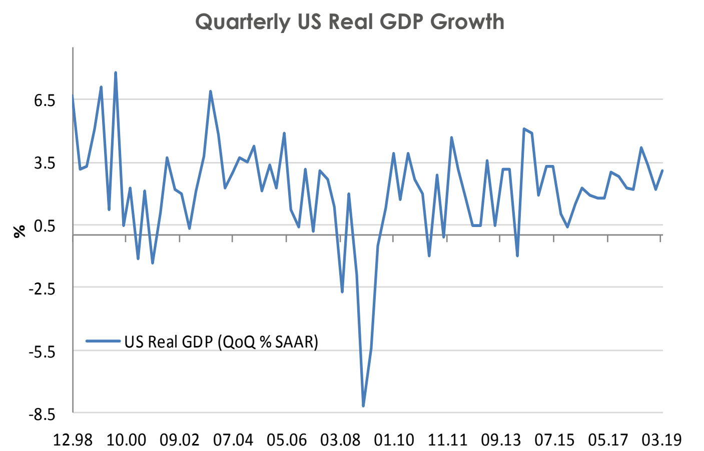
A truce is certainly welcome and rational before any real progress between the two countries may be expected. Although markets do not usually enjoy uncertainty, they might be satisfied with this press release. However, a solution will be needed in the long term if the deterioration of confidence and of leading indicators is to be prevented.

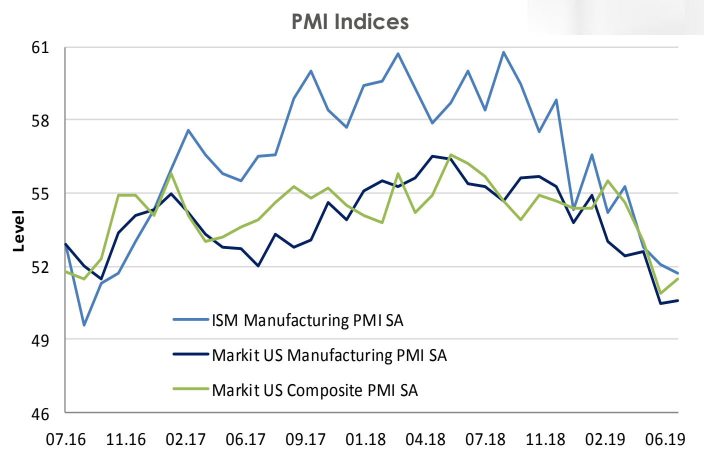
In this regard, time seems to be on the side of China rather than the US. President Xi Jinping is firmly ensconced and seems to be able to count on the political support of the Chinese population who is ready to boycott certain American products. The US President on the other hand is now campaigning for his re-election and might be tempted to broker a deal with China, which could give him political gain, before turning his attention towards Europe with the same objective.

In the meantime, the absence of a deal will weigh on the confidence of investors and voters. This underlying concern will likely last throughout the summer and might weaken economic prospects a little further in the next few months.

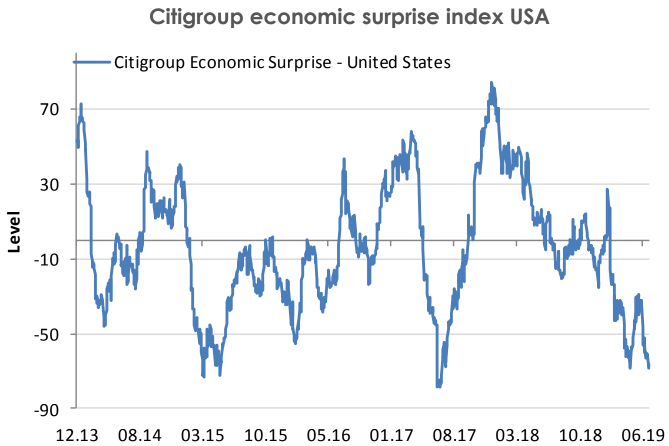
Donald Trump will thus be tempted to carry on his attacks on the Chair of the Federal Reserve to force him to ease monetary policy and thus try to compensate for the negative effects associated with the uncertainty inherent to the absence of visibility on the issue of trade despite the latest G20.

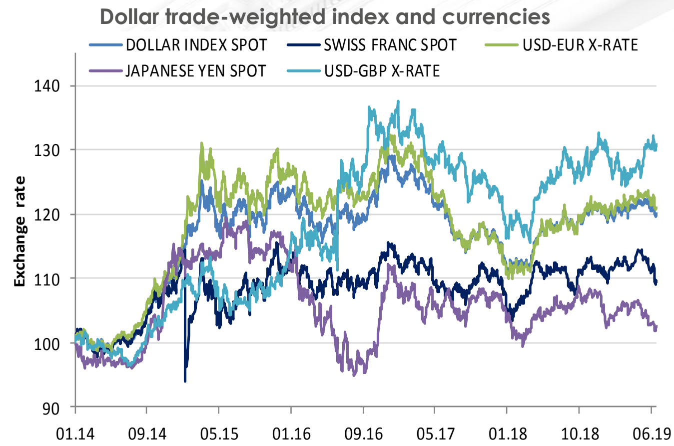
The next few weeks will be crucial, and we will see at the FOMC's meeting in July if the Fed will decide whether or not to ease its policy by lowering its key rates. For the moment, markets are quite clearly convinced that this will be the case. However, the Fed may choose another path ultimately, especially if it considers that the resumption of negotiations between China and the US may reduce the risks mentioned in its previous comments as risk factors that could support the decision to lower rates.





Graph sources: Bloomberg/BBGI Group





What possible reactions should rates fail to be lowered on 31 July?

Rate markets took forecasters by surprise by declining further in 2019 by more than 100 points below the consensus forecast for the end of 2019, based on the expectation of a significant deterioration of economic conditions in the US and throughout the world. Indeed, a few economic statistics corroborated a global downturn scenario, especially data from various manufacturing sectors in a growing number of countries. The publication on 26 July of US GDP figures for Q2 might or might not give body to these expectations. For the time being, the decline is visible in the manufacturing and services PMIs as well as in some consumer confidence measures for example. On the international level, in June, more than half of manufacturing PMIs published recorded declines.

Consequently, we could wonder how rates and equity markets might react if the Fed does not lower its rates as expected or decrease limited to 0.25% at the end of July .

This binary situation is actually not at all reassuring if we consider that the factor that supported the rebound in equity markets in June is precisely the anticipation of a drop-off in rates which was based on the prospect of much weaker economic activity. The Federal Reserve's upcoming decision will clearly be crucial for the short-term future of financial markets, which are relying on a reversal of the normalisation policy in favour of an economic support policy. Indeed, the current situation in the financial markets is very specific and particularly fragile.

Ten-year US yields fell by 120 base points between October 2018 (3.2%) and June 2019 (2%) based on the anticipation of a sharp economic downturn in the US and a decline in inflation.

In the same period, equity markets experienced high volatility marked by a first period of price correction of close to -20% followed by a sharp, six-month long increase during which the S&P500 returned to the peak levels it reached in September 2018, but in a political context that was just as uncertain (persisting trade tensions) and with declining economic prospects such that a rate cut in July seems like the main factor behind the price rebound observed in June.

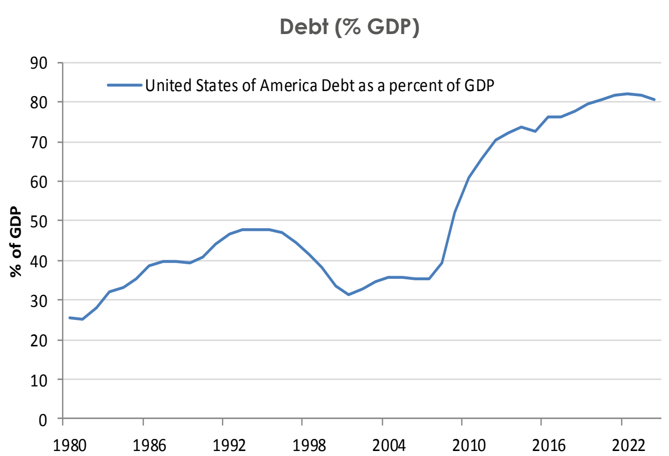
The monetary policy decision on July 31 in such a context will have a significant impact on financial markets, which will depend on the macroeconomic data available at that time.

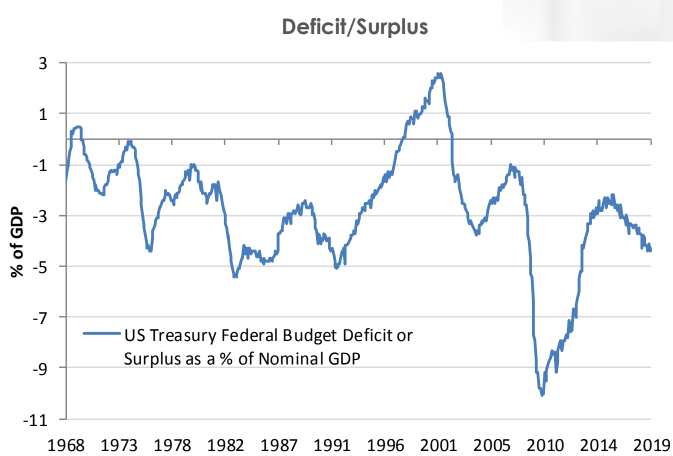
If the Fed's decision can be justified by an encouraging set of economic data, we will likely see an upward adjustment of long-term rates. It is far from certain, in this case, that equity markets will not also react negatively to this increase in long-term rates. We could then see a simultaneous correction in the bond and equity markets potentially favourable to gold prices. If, on the contrary, the Fed's decision is based on the necessity to wait until September to have a clearer view of the economy's evolution, rates might fall further but the correction in equity markets could then be as brutal as it was in December 2018.

What is the most likely scenario?

The decline in the manufacturing PMI leading indicators observed in Q4 2018 was only meant to be temporary since it was essentially linked to the uncertainty of the trade negotiations between China and the US after the truce announced on 1 December. Hopes of a concrete resolution before the deadline of March 2019 had then dominated equity markets without really convincing rate markets, which stabilised at a yield rate of 2.6% for ten-year government bonds.

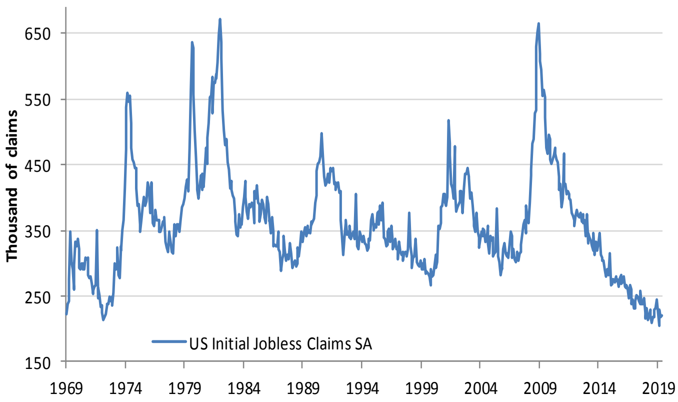
These hopes were brutally crushed by the toughening of the negotiators' stance in May, which triggered a drop in both rate and equity markets as well as in growth expectations, as shown by freefalling PMI indicators in May. June ended with a stabilisation of these leading indicators and long-term rates.



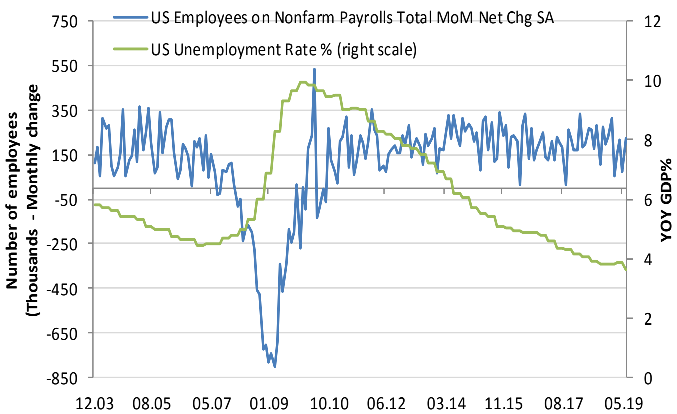


Graph sources: Bloomberg/BBGI Group

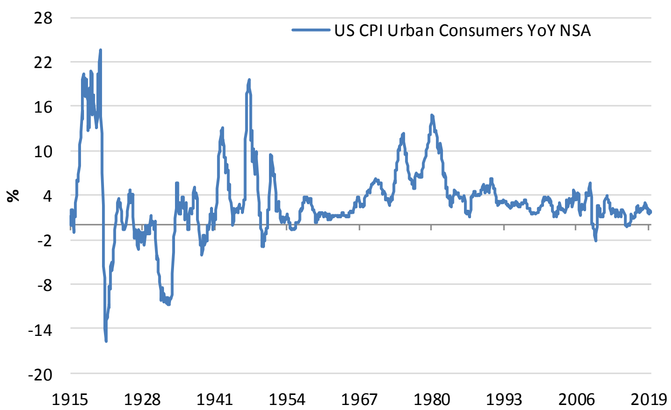
US Jobless Claims



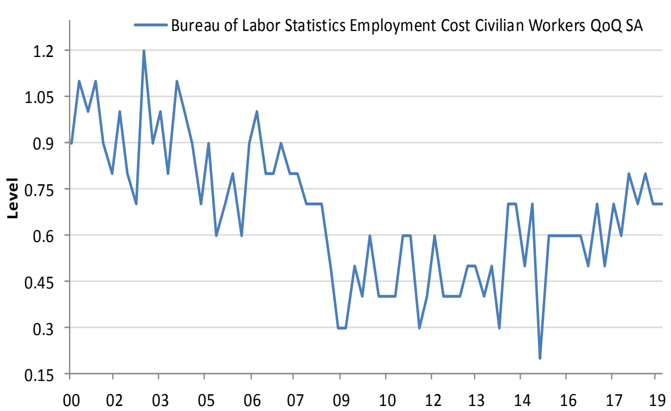
Non-farm Payrolls (MoM) and Unemployment rate



US Inflation (1914-2018)



Employment Cost Index



Graph sources: Bloomberg/BBGI Group

Will the air of relative calmness between the two super-powers at the end of the G20 summit be enough to improve the sentiment of economic agents and dismiss prospects of a global economic downturn in H2?

The American central bank could well decide to maintain its normalisation policy unchanged until September, especially if economic growth appeared sufficiently robust in Q2. The current dilemma for the Fed is indeed to get through these turbulent times by adopting the most appropriate policy for the long-term, and the truest to their convictions.

A rate cut in July could appear as a sign of weakness and dependence in terms of the political pressure exerted by the White House, especially if the Fed remains convinced that the underlying trend remains positive for the American economy as the very high economic sentiment and consumer confidence indicators could suggest. In this case, we would then see a rebound in long-term rates that would trigger a simultaneous correction in rate markets and stock indices during the summer.

In contrast, a cut could also be counter-productive as it could transform the scenario of an upcoming recession. It will indeed be clearly difficult for the Fed to lower its key rates in a “pre-emptive” manner without further supporting already negative macroeconomic expectations.

In its last press conference in June, the Fed maintained its GDP growth forecasts of +2.1% and lowered its expectations for the unemployment rate from 3.7% to 3.6%. The Fed declared itself ready to demonstrate great flexibility in managing its monetary policy in 2019, announcing that it would not rule out the possibility of lowering key rates if need be. After announcing that it would not rule out the possibility of a cut in key interest rates if it were necessary, it now leaves enough signs that it will act by making a preventive cut.

Leading indicators on the threshold of growth

May will have been particularly negative for purchasing managers' confidence. Indeed, the renewed tensions between Washington and Beijing greatly impacted their perception of economic risks and opportunities. Manufacturing PMIs fell once again from 52.5 in April to 50.5 in May, fast approaching the threshold of negative growth. The services PMIs, more resilient until March, also dropped from 55.3 to 50.9.

The negative evolution of the SMIs is still one of the factors that dominate the scenario of a cyclical slowdown despite the recovery in June at 51.5 for the composite index (50.6 manufacturing PMI and 51.5 PMI services).

Full employment, inflation and interest rates

The statistics for job creation were deeply disappointing in May. The published figures show an unexpected setback in job creation, with 75,000 new jobs instead of the estimated 175,000. Still, the unemployment rate has decreased to 3.6%, the US economy thus gradually closing in on full employment. Wage pressures are increasing and thanks to rising disposable income, consumption will likely remain high and push price indices up.

In the context of a relatively tight employment market, wage growth is logically continuing in the US, strengthening the outlook for private consumption, which remains the main driver of economic growth.

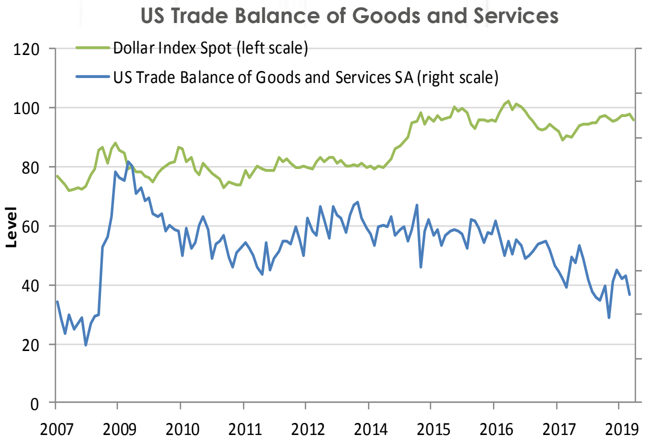
In this context, average hourly earnings in May decreased slightly to +3.1%, which remains high in statistical comparison to the last ten years. If household income growth is not interrupted by geopolitical issues and by the uncertainty associated with the trade war, economic growth will likely follow a sustained positive trend close to +2% in Q2 and H2.

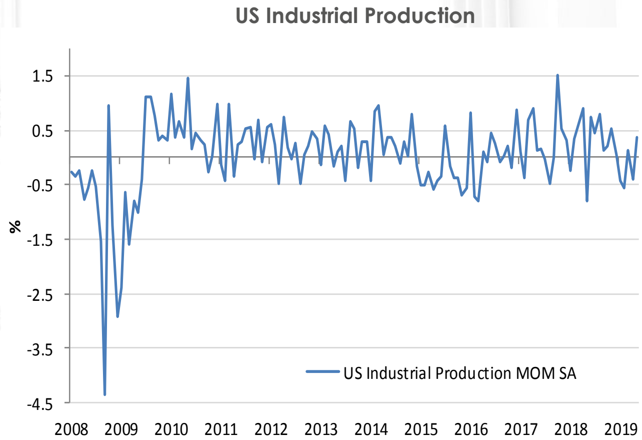
Inflation stabilised in May (+1.8%) just below the Fed's target (2%) despite high volatility observed in energy prices in Q2. For the moment, the dominant economic scenario in rate markets is still one of weakening growth, pending an improvement in leading indicators. Nevertheless, we believe it is likely that a rise in ten-year yields will go hand in hand with better economic statistics during the summer.

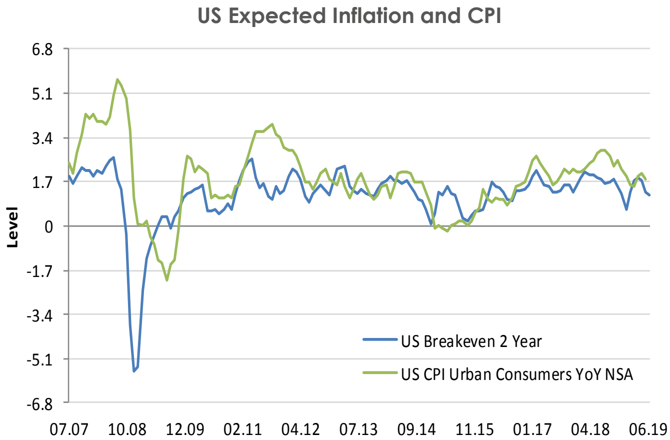
Reduce exposure to US equities

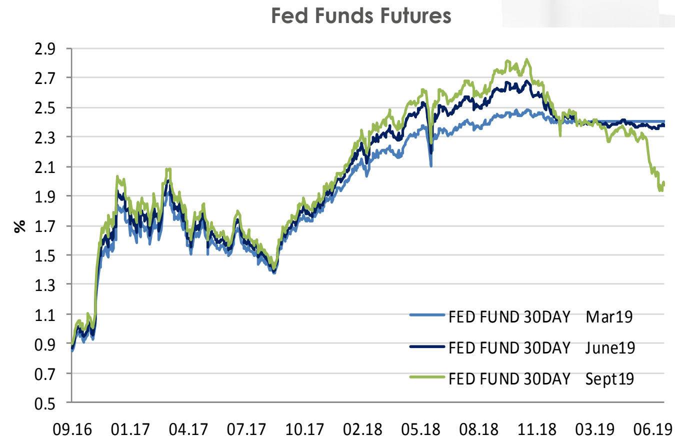
The rise in equity indices in June places the asset class back into a high-risk zone and increases the probability of an upcoming price correction in the two scenarios considered. If the slowdown turns out to be real, equity valuations will not be able to withstand the likelihood of profits collapsing, even if the Fed lowers its key rates in July.

Otherwise, if growth turns out to be robust and the outlook remains sound, expectations of a reduction in key rates will fade and make way for a rise in long-term rates. Equity markets will likely also be penalised by this phenomenon. We once again recommend reducing exposure to equities in this context, which is unlikely to trigger a new wave of price appreciation.



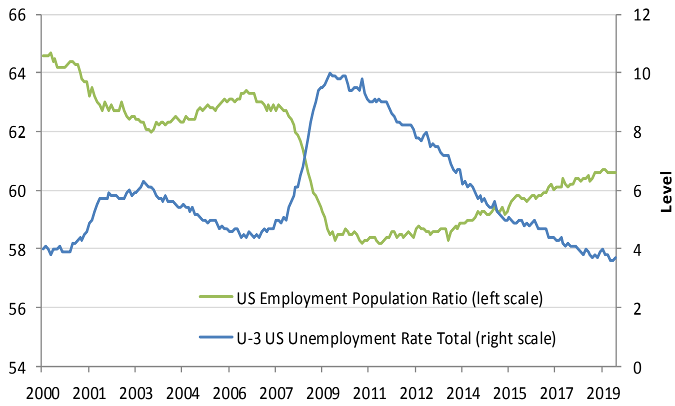




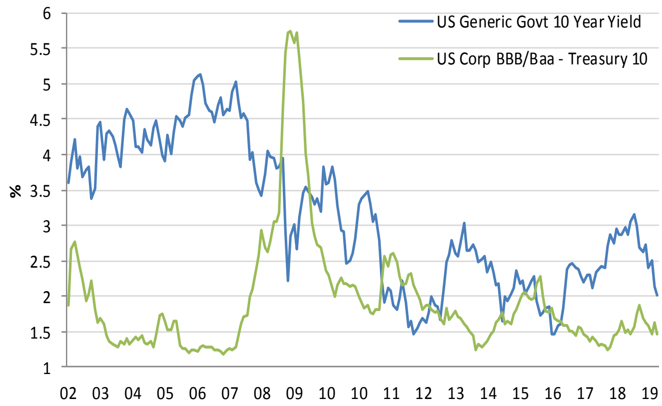


Graph sources: Bloomberg/BBGI Group

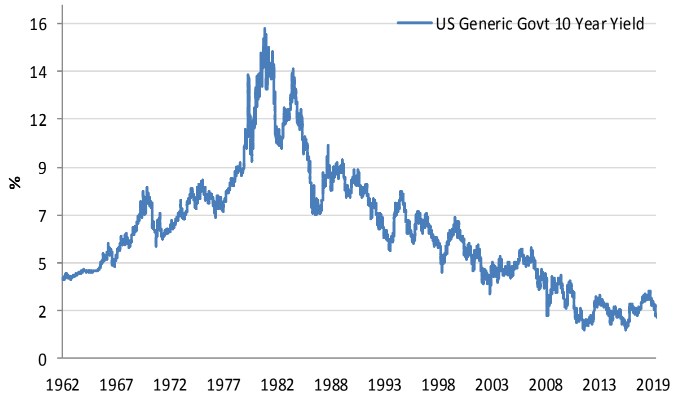
US Unemployment rate and Employment Population Ratio



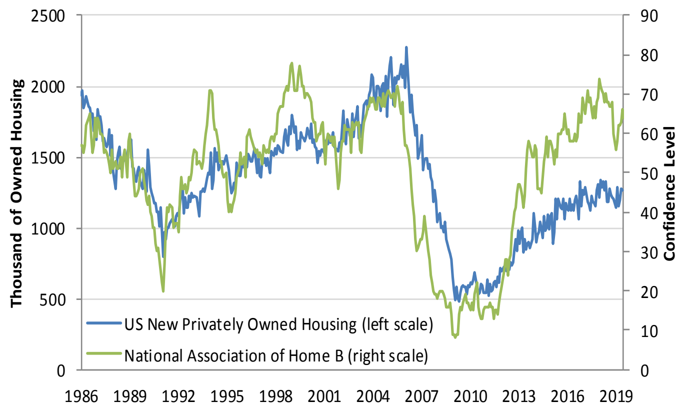
Yield spread Us Treasury - BBB 10 year



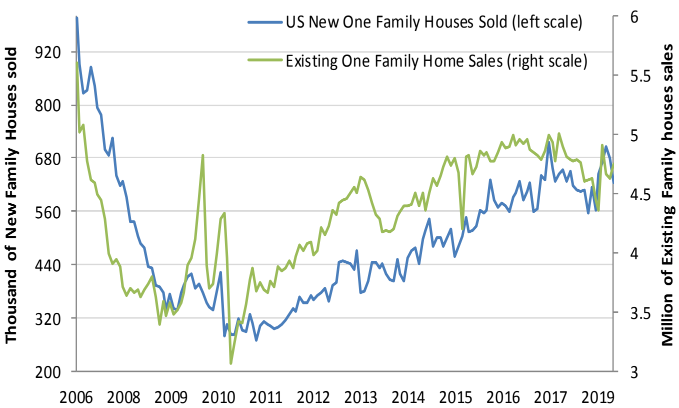
US Government Bonds 10 year yield



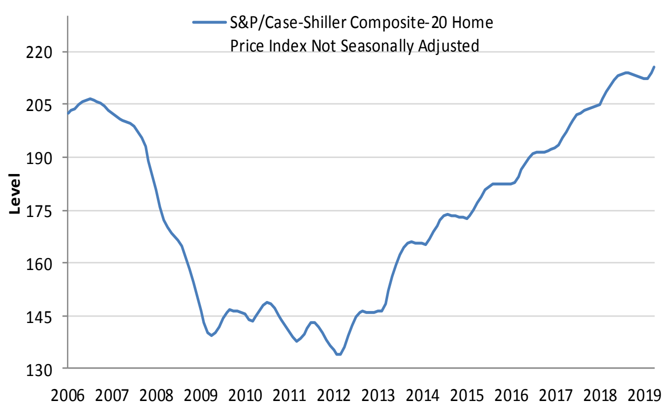
US New Privately Owned Housing and NAHB USA



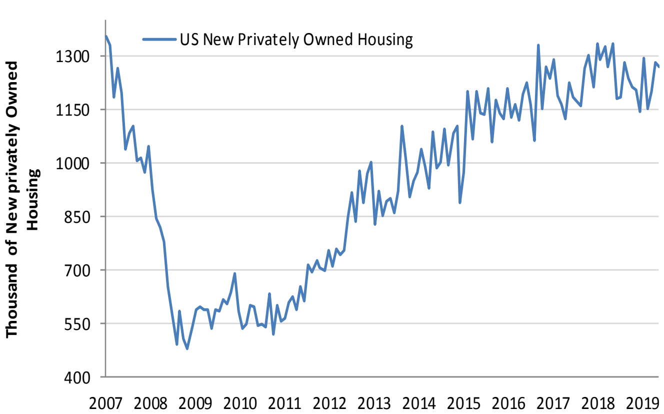
Sale of US New and Existing Family Houses



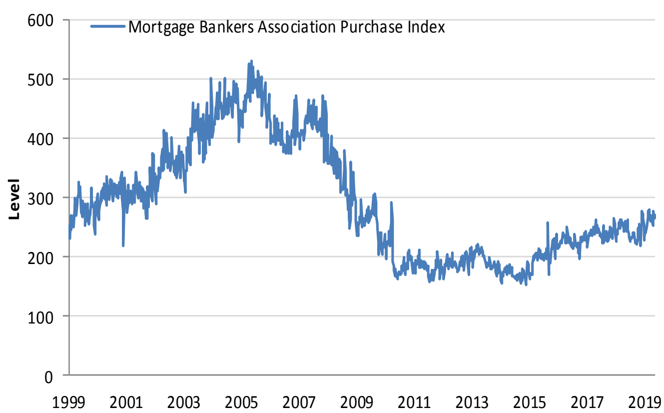
Real Estate Prices - S&P Case-Shiller Index



Housing Starts



New Mortgage Applications - MBA



Graph sources: Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

Switzerland

- Sharp increase in GDP in Q1 (+0.6%)
- Outlook still solid for Q2 2019
- Leading indicators no more optimistic in June than in April
- Low likelihood of Swiss franc appreciating significantly
- Euphoria in the Swiss equity market

Sharp increase in GDP in Q1 (+0.6%)

Despite an unpleasant surprise in Q3 2018 and following an upward revision of GDP growth from +0.2% to +0.3% in Q4, Q1 2019 growth figures published by the State Secretariat for Economic Affairs (SECO) provided further reassurance with an upturn at the beginning of the year that surprised many analysts. Indeed, the Swiss economy posted an excellent performance in Q1 with real growth of +0.6%, twice as high as the figure for Q4 2018. The consensus forecast had been for only +0.3% GDP growth. Q1 growth thus far exceeded economists' forecasts.

Recall in this regard that the quasi panic in the stock market in December was caused in particular by the clearly unfounded fears of a potential recession in the US in 2019 and of an ensuing global slowdown from which Switzerland would not have been spared. It is now once again obvious that these excessive fears, which had caused equity markets to fall sharply and interest rates to slide, were clearly unsubstantiated given current economic conditions, which are almost startlingly robust. Nominal GDP thus grew from 173.4 to 174.5 billion Swiss francs in Q1, reaching approximately CHF 698 billion on an annualised basis. Non-seasonally adjusted yoy GDP growth was +1.7%. The Swiss economy is thus faring much better than expected so far this year and is also benefitting from improved economic conditions in Europe and in Germany in particular, whose real GDP was up +0.4% in Q1, for nominal yoy growth of +2.7%.

The Federal Government Expert Group's economic forecast had been revised downward given a context deemed more uncertain at the beginning of 2019. The GDP growth forecast had been reduced from +1.5% to +1.1% due to concerns regarding a global economic downturn and its ensuing impact on Swiss exports. Thus, the slowdown in global and Swiss economic momentum that experts were expecting did not occur. Therefore, the economic health of our country is likely more robust in Q1, which enables us to reconfirm our own GDP growth estimate at +1.5% for 2019.

Domestic and foreign demand together are boosting economic momentum in Switzerland

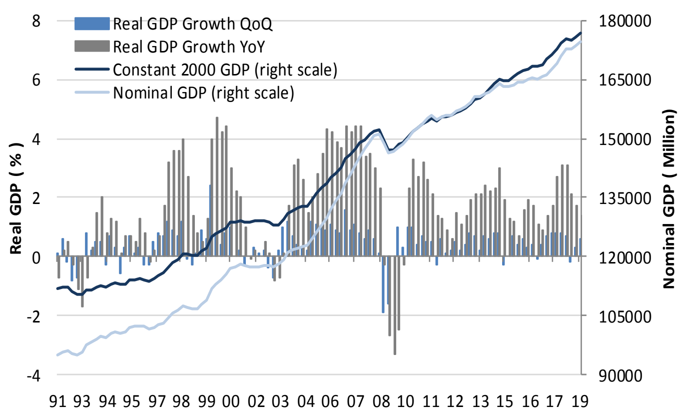
Swiss economic momentum has accelerated somewhat thanks to stronger growth in Q1 (+0.6% over three months and +1.7% yoy). Domestic demand was once again one of the main drivers of this acceleration, although exports also contributed positively. We are pleased to note that most industries and sectors saw some growth in their value added.

Momentum remained strong in the manufacturing sector, which grew another +1.5%. This positive trend was established over the past two quarters, bolstered by stronger foreign demand. The pharmaceutical sector, precision tools and watch-making performed well, benefitting from the increase in global demand for products 'made in Switzerland'. Exports of goods and services grew by +2.2% and +2%, respectively, over the quarter.

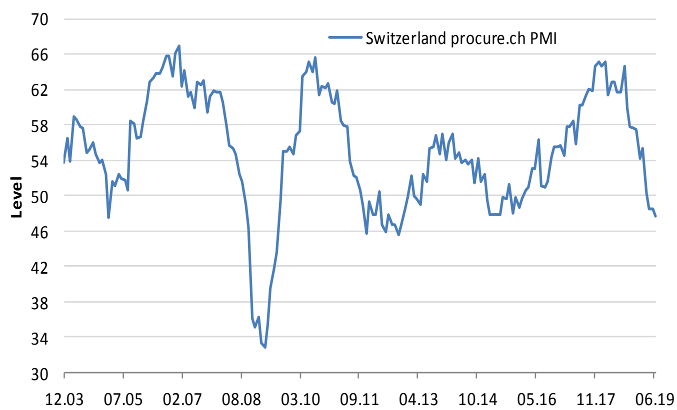
The consumption climate improved somewhat, contributing to the solid performance of private consumption, which finally experienced a slight upturn, posting slightly above average growth of +0.4% for the first time in eighteen months. Almost all consumption segments improved, with sharper upswings in healthcare and mobility.

Growth in the service sector was uneven in Q4. While value added grew in the healthcare (+0.9%) and business services (+0.4%) sectors, it decreased for the third quarter in a row in commerce (-0.6%), where the slight upturn in retail trade was unable to offset the downturn in wholesale trade. The financial sector continued to decline as well (-0.8%). Hampered by falling service exports (-2.6%) and still lacklustre final domestic demand (0.0%), growth in the service sector overall fell well short of its historical average.

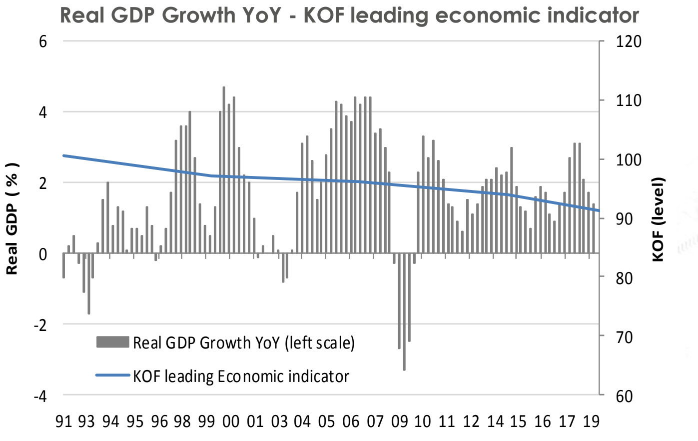
Nominal GDP - Nominal and Real GDP Growth rate

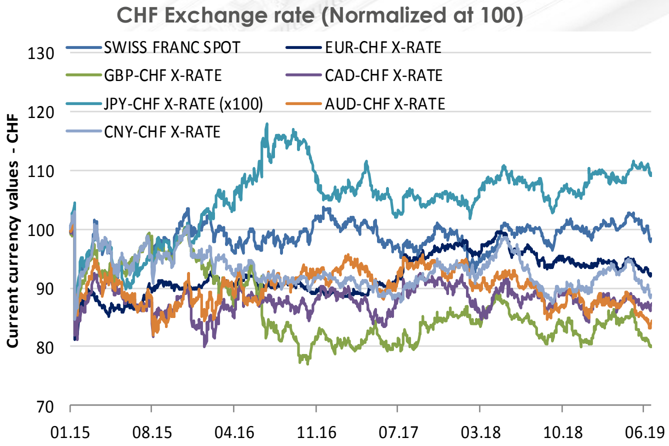


Swiss Purchasing Manager Index (PMI)



Graph sources: Bloomberg/BBGI Group





Investment in the construction sector finally rebounded (+0.5%) after slowing down at the end of the year (-0.4%). Value added in the sector grew by +1.9%, its sharpest upswing since the end of 2017.As for capital goods investment, it experienced a trend reversal with growth of +1.5% vs. -1.1% in the previous quarter. Service sector segments all progressed, including service exports, up +1.7%. As for the commerce segment, growth resumed for the first time in five quarters.

Switzerland's economic performance in Q1 was not affected by uncertainty tied to the difficult trade negotiations between the US and China. Consumer sentiment is not showing any particular sign of concern, and indicators remain relatively stable.

Outlook still solid for Q2 2019

Our baseline scenario for the Swiss economy remains reasonably optimist, following the sharp economic upturn in Q1 2019. Global economic conditions surprised on the upside in Q1. The Eurozone and Germany rallied in the wake of GDP growth exceeding +3% in the US, and while many experts may prefer to remain cautious, lowering their global growth outlook for 2019 in light of the wrestling match that is dragging on between Donald Trump and the Chinese president, we are maintaining our economic forecast for the next few months.

Over the past several months, our economy was able to rely on more sustained demand from other economic regions and on resilient domestic activity. The economic upturn in the euro area must nevertheless take firmer hold if the uncertainty stemming from the sudden drop in the German economy at the end of the year is to be dispelled.

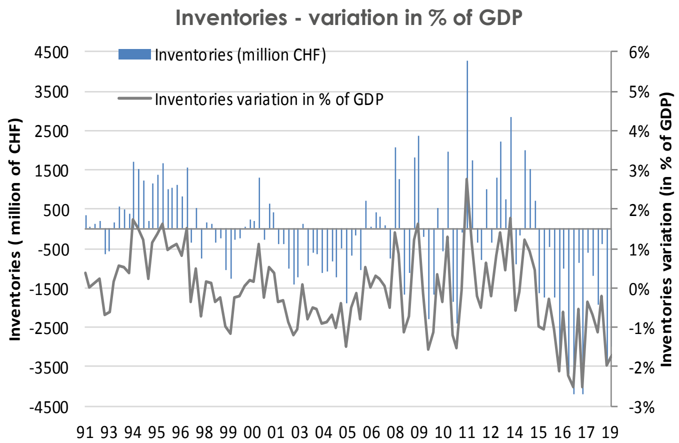
We believe that the outlook for Q2 2019 will improve, boosting demand for Swiss products and services. Nevertheless, uncertainty remains high in the absence of a trade agreement between China and the US. This issue now seems more problematic. Indeed, while it remains in everyone's interest not to let the current situation degenerate into a total, open trade war, we think it may be difficult to reach an agreement in the near future given recent mounting tensions.

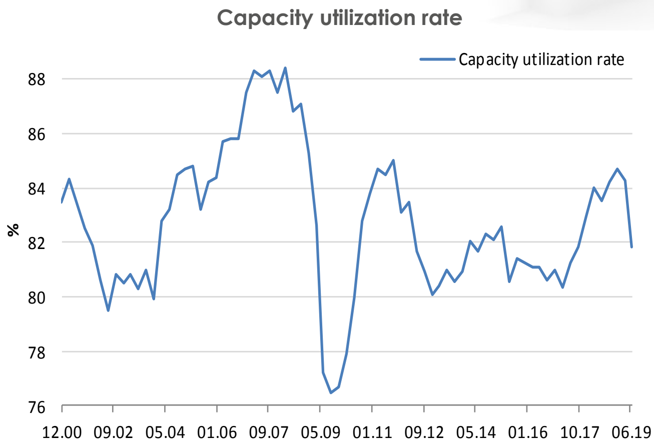
The current context is not particularly favourable to the Swiss franc, which is fairly unlikely to appreciate against the US dollar. A relatively stable exchange rate should benefit Swiss foreign trade. In addition to exports, domestic demand will also likely continue to trend upward, and consumption will likely strengthen somewhat in 2019 and grow a little more dynamically. In this context, we maintain a GDP growth outlook for Switzerland of +1.5% for 2019.

Leading indicators no more optimistic in June than in April

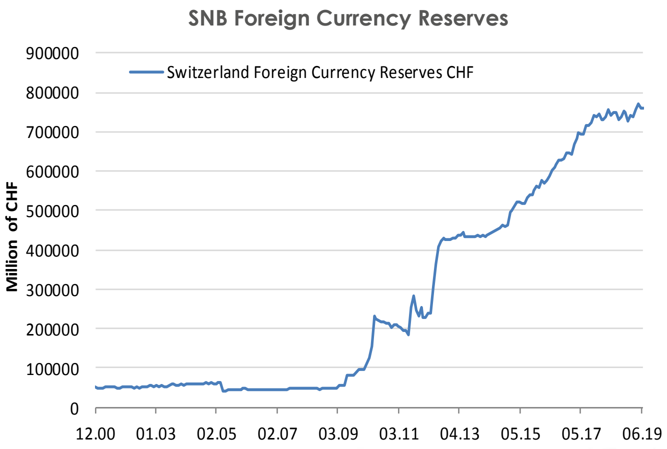
The KOF leading indicators continued to fall in April and May 2019, despite a promising upswing in June. The KOF economic indicator slid further in May from 96.2 to 94.4, dragged down by negative overall trends in most sub-indices, with the notable exception of the construction sector. This downturn has now lasted for over eighteen months, although the performance of the KOF indicator has not entirely correlated with that of Swiss GDP over the same period.

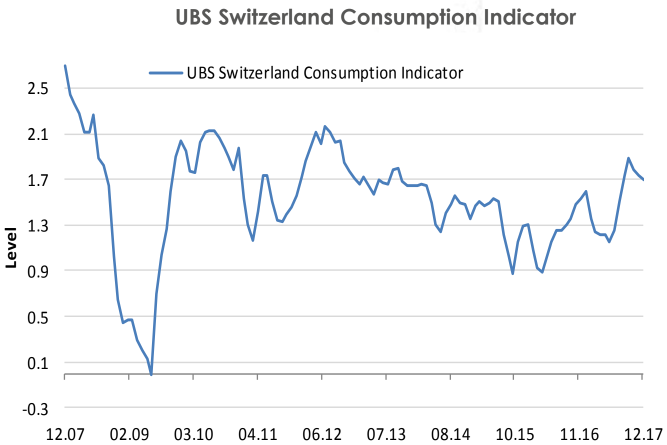
The manufacturing PMI slid under its growth threshold in April, dropping to 48.5 points. The month of June is even lower (47.7), which is well below the 64.6 level reached in August 2018, and now constitutes a significant source of concern in terms of Swiss manufacturing. Leading indicators, which have been trending downwards for the past few months, are for now running counter to actual economic results. Indeed, for several months they have been pointing to an economic slowdown, which has not been subtantiated by recent activity. Indeed, industrial output has resumed, posting growth of +3.7% in March.

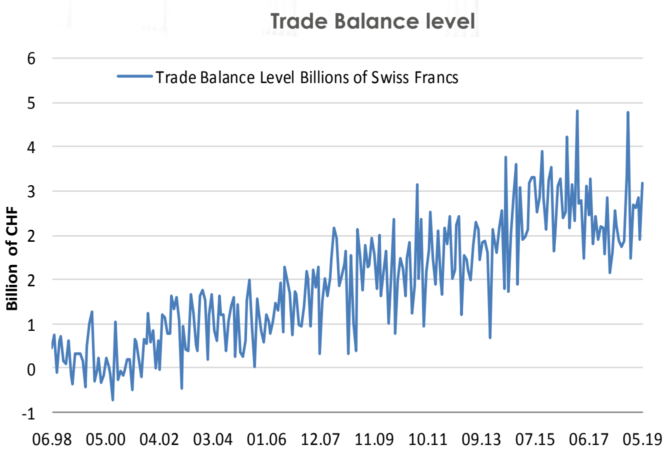


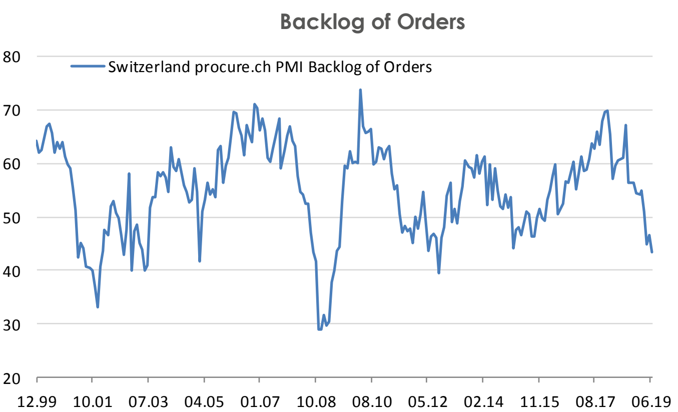


Graph sources: Bloomberg/BBGI Group









Graph sources: Bloomberg/BBGI Group

Low likelihood of Swiss franc appreciating significantly

The Swiss economy once again grew faster than the Eurozone's in Q1, expanding by +0.6% vs. the +0.4% progression posted by its close economic partners. This small difference in growth rates has not yet become an adjustment factor with regard to the exchange rate, even if it would tend to favour a stronger franc. Nevertheless, the economic upturn in the euro area is reassuring, although it remains particularly fragile in the absence of a clearer reversal in industrial output, down a further -0.6% in March.

The yield spread on 10-year German Bund and Swiss government rates narrowed abruptly between March and April, from 0.4% to 0.2% today, due to the sharper decrease in yields in the Eurozone. Nevertheless, this contraction did not affect the euro/franc exchange rate, which fluctuated around 1.13, in a narrow range between 1.116 and 1.145.

We continue to expect that any further weakening of the franc will depend on the relative economic performance and interest rate spread between the franc and the euro. We continue to think that the SNB will not raise rates as quickly as the ECB, which does not seem likely to happen in 2019. In the meantime, the exchange rate will likely stabilise between 1.12 and 1.17 against the euro. As for the US dollar, the rate spread and growth differential remain positive factors for the dollar. While this state of affairs is not new, it could be sufficient to further bolster trends favourable to the dollar.

Long-term interest rate trends still atypical

The rate markets manifestly do not want to be convinced that the global economy is not headed for a major slowdown. The generalised fall in yields, which continued in Q2 2019, is also affecting Switzerland, whose 10-year government yields fell from 0.1% in October 2018 to -0.6% in June. This situation seems to be calling into question the normalisation of long-term rates in Switzerland, which had started in the summer of 2016, even as growth is accelerating in our country. While the decline in inflation certainly drove the recent decrease in yields, we think the latter is not consistent with current favourable economic conditions.

Euphoria in the Swiss equity market

At the end of the year, following the sharp correction in the Swiss equity market, we noted that, barring a marked slowdown in global growth in 2019, the outlook for Swiss equities was favourable, in particular with regard to SPI stocks and to small and mid caps, which had been particularly impacted by the recent increase in volatility.

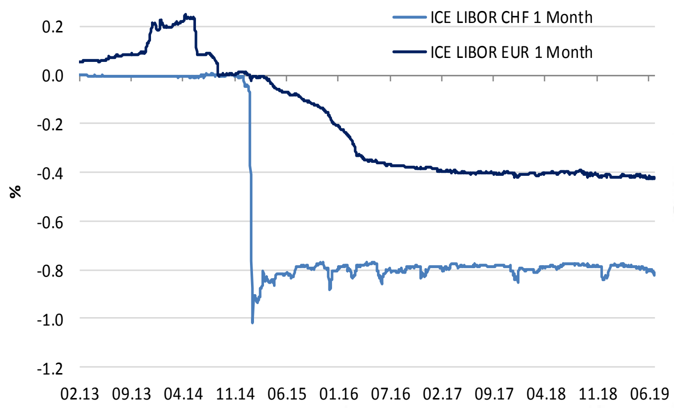
The beginning of 2019 will have been as extraordinary as the end of 2018 for equity markets overall and for the Swiss market in particular. The correction of close to -10% of the SPI rapidly gave way to a spectacular rally of +22% in four months. Panic thus gave way to euphoria.

The fall in international equities in May (-5.8%) did not impact the Swiss market (-1.7%), which reached new heights in June given the economic upturn as well as rather generous equity valuations. Negative yields in Swiss franc rate markets also contributed to this enthusiasm for equities, but we recommend adopting a more defensive strategy following the uninterrupted increase in share prices since the beginning of the year.

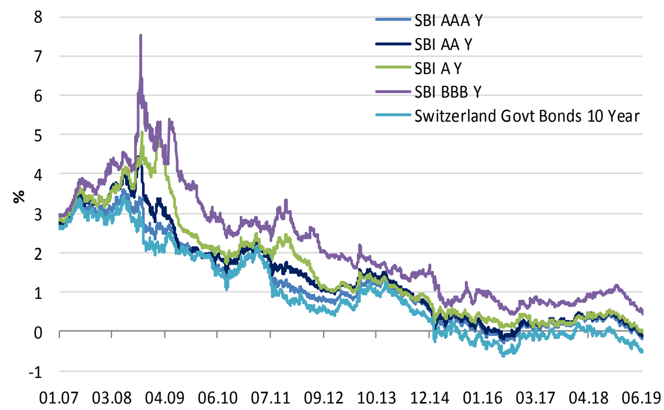
Temporary correction of securitised real estate

Securitised real estate remains an attractive alternative to Swiss franc fixed income investments, but recent momentum is likely to stall in the short term. As expected, prices are consolidating temporarily following the increase in premiums (approximately 28%) as the supply of new investment vehicles arriving in the market over the next few months will momentarily rise. We continue to recommend a temporary reduction in the allocation to Swiss real estate investment funds.

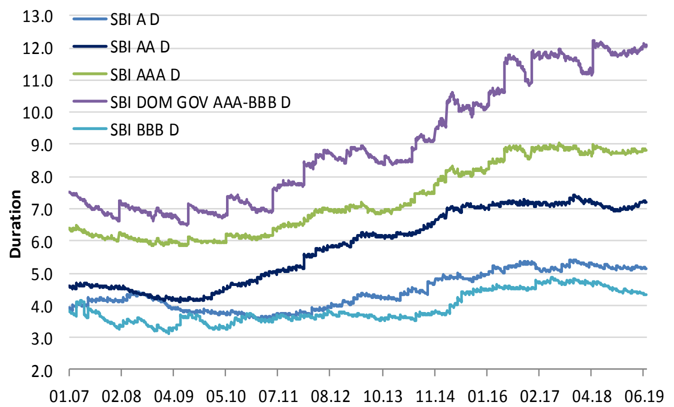
Libor spread rates 1 month



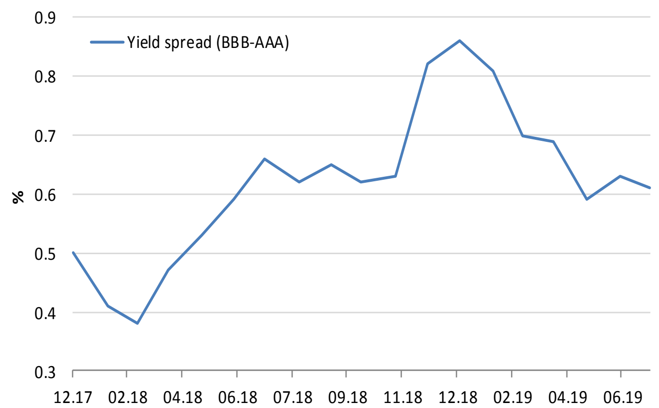
Yield (Government, AAA, AA, A, BBB)



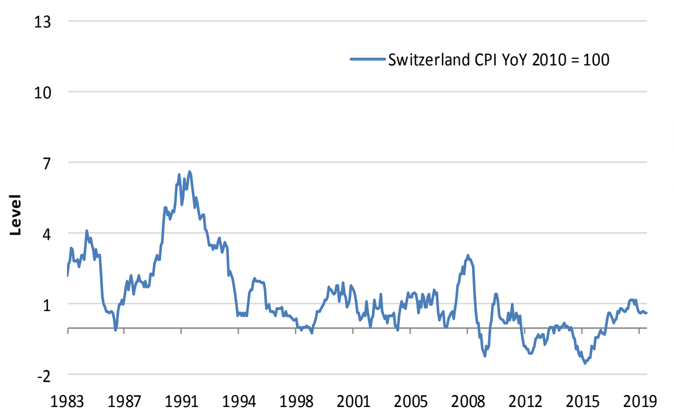
Duration of Swiss bonds



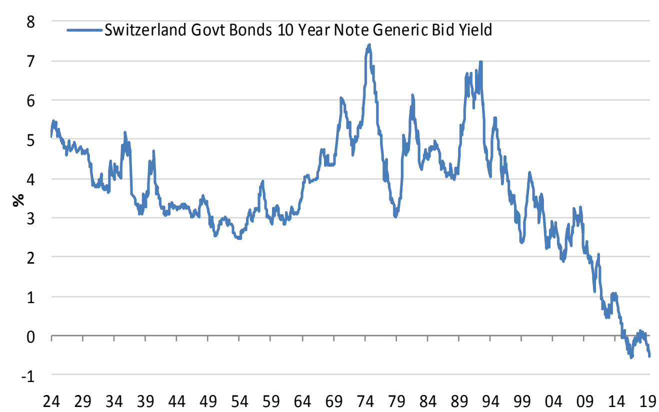
Yield spread



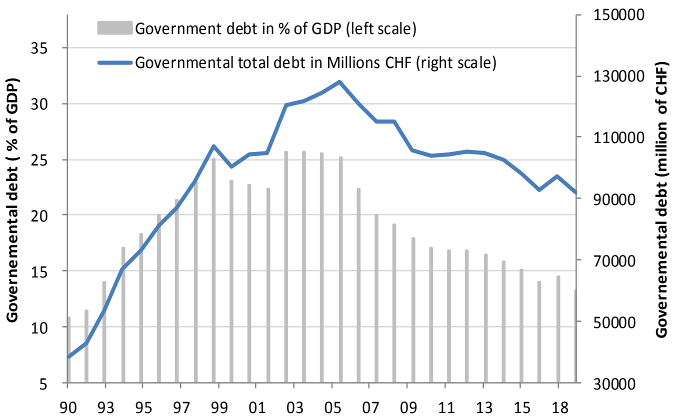
Inflation CPI



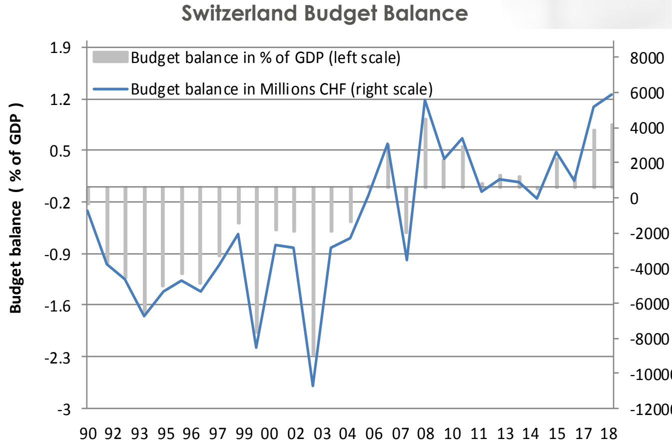
Government Bonds 10 year yield since 1924



Switzerland Government total debt



Switzerland Budget Balance



Graph sources: Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

Eurozone

- European growth stronger than expected so far this year
- Manufacturing still struggling
- Complicated transition at the ECB
- Avoid another recession at all costs
- Euro yields continue to fall

European growth stronger than expected so far this year

Euro area GDP surprised on the upside with +0.4% growth in Q1 and +1.2% yoy. Nevertheless, this positive surprise does not denote a clear trend reversal, as the annualised growth rate was the same in March as in December (+1.2%). All the same, it is a positive and rather reassuring sign, as the threat of recession in Germany was generating high levels of uncertainty with regard to economic momentum in Europe overall. Thankfully, GDP growth thus accelerated in the Eurozone at the beginning of the year, somewhat contrary to expectations.

Household consumption turned out to be much more resilient despite a challenging domestic and international environment, contributing to a large extent to the euro area's strong economic performance with an increase of +0.5% over the quarter (+1.1% yoy). Exports also rose by +0.6%, while public spending inched up a mere +0.1%. GDP growth for the European Union (+0.5%) was slightly better than for the Eurozone (+0.4%) due to the strong performance of countries such as Poland (+1.5%), Hungary (+1.5%), and Romania (+1.3%).

In the euro area, while all countries posted positive results, the upturn in Germany (+0.4%) was key in terms of the region's overall performance. Among the Eurozone's heavyweights, growth in France and Belgium was somewhat slower (+0.3%), while in Italy it was barely positive (+0.1%). Spain (+0.7%) and the Netherlands (+0.5%) pulled the overall average up. Growth thus thankfully strengthened at the beginning of the year, warding off the threat of recession. In spite of these encouraging quarterly results, the German economy, which for a long time had been the driver of European growth, must contend with falling global industrial demand.

Leading indicators may have turned a corner and seem to be improving

The leading indicator for the manufacturing sector ticked up very slightly over the past two months and is slightly higher in May (47.7) than it was in March (47.5). The stabilisation of this index is a first positive sign following fifteen months of steady deterioration. Nevertheless, uncertainty persists given that the indicator stabilised below the growth threshold of 50. The services PMI index performed better: following a slightly less lengthy period of decline (12 months), it rallied significantly in May (52.9) from its low in January (51.2). The composite PMI has thus also improved since the beginning of the year, rising from 51 to 51.8 between January and May.

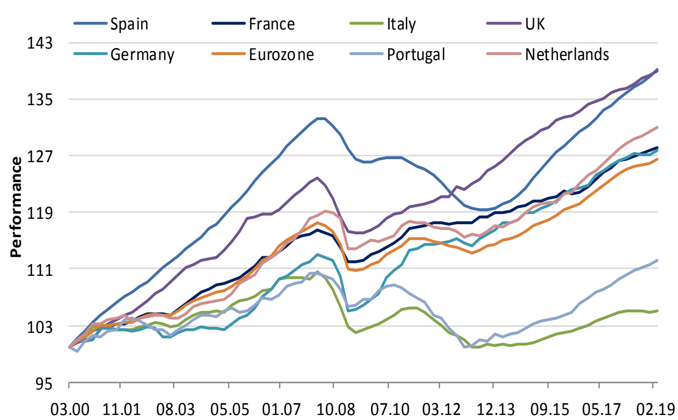
Manufacturing still struggling

Industrial output in the euro area slid a further -0.5% in April for the second month in a row (-0.3% in March), dragged down mainly by declining production in Germany. The performance of the manufacturing sector in France, Spain, and Ireland managed to partially offset the German decline. Moreover, economic conditions in the German industrial sector do not seem to be improving. Indeed, in April industrial output experienced its sharpest contraction in four years (-1.9%). This sector is thus causing no small amount of concern, driving the ECB to announce measures to stimulate growth, emphasising the risk that the downturn in manufacturing could spread to other sectors.

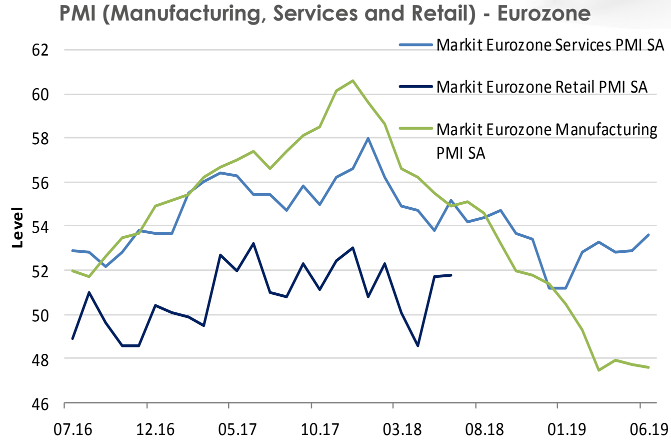
Slight improvement in confidence

Job market trends continued to improve in April and May. Unemployment in the Eurozone (7.6%) continued to decrease, dropping to levels last seen at the end of 2008, namely a 35% drop in unemployment from the high of 12% reached in 2013. Q1's strong economic performance was achieved in parallel with a rise in household confidence, which reached in May its highest level since the beginning of the year.

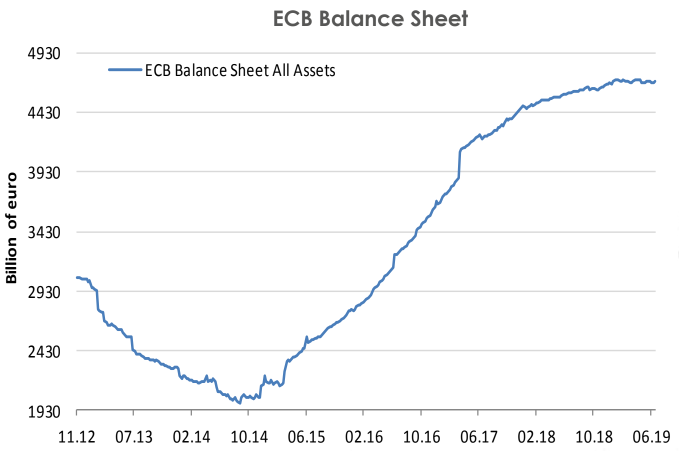
GDP Growth - Eurozone

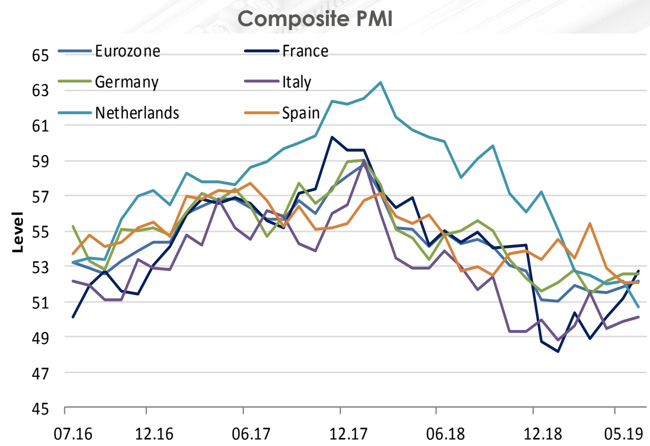


PMI (Manufacturing, Services and Retail) - Eurozone



Graph sources: Bloomberg/BBGI Group





The European Commission Economic Sentiment indicator ticked up for the first time in May after declining for sixteen months. At this stage, it is of course too early to speak of a trend reversal, but most other sentiment indicators paint a similar picture.

Euro relatively stable

The economic upturn has not lead to a revaluation of the euro over the past few months. The euro/USD exchange rate decreased slightly but remained relatively stable, fluctuating between 1.13 and 1.11 over the period. Indeed, the interest rate spread between the euro and the US dollar along with diverging economic results did not result in any significant movement. The current exchange rate of 1.13 USD to the euro likely already factors in the known risks of a slowdown in the Eurozone. The current stabilisation could lead to appreciation of the euro in 2019, if the growth outlook normalises, which seems difficult to predict for sure today in spite of several more positive signs in Q2. Otherwise, the euro is likely to weaken against the dollar given that there will be stronger downward pressure on long-term euro rates, while US dollar long-term rates are likely to stabilise.

Complicated transition at the ECB

While undoubtedly not everyone will agree with Christine Lagarde's appointment to take over from Mario Draghi as head of the ECB, she will be able to draw on her political experience as French Minister of the Economy, Industry and Finance during the financial crisis, then at the head of the IMF, and above all as part of a European Central Bank Governing Council team of experts. Only time will tell what style and what policy Ms Lagarde will choose, but although it does not set a tone for monetary policy, it does rule out the risk of the more restrictive monetary policy that a German ECB chief would certainly have implemented. As such, when its new chief takes over in November, the ECB should continue with policy similar to that of Mario Draghi. The low rates policy should continue and reassure markets. It is likely that key rates will fall in the wake of Fed action, and this could be followed by further measures to bolster growth in the Eurozone if necessary.

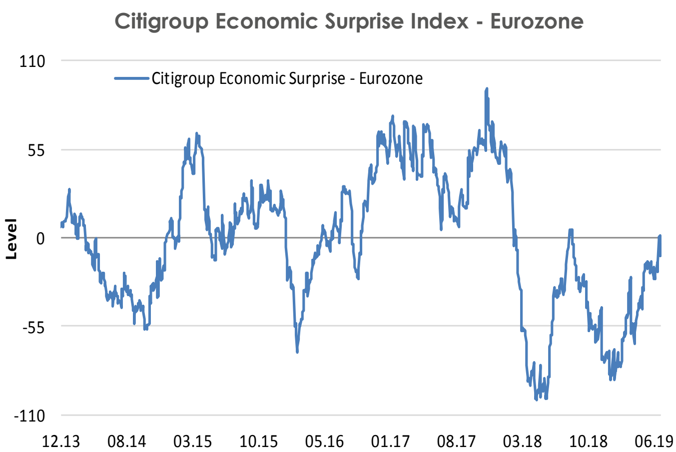
The ECB had already changed its perception of economic conditions in Europe in light of the manufacturing downturn and the poor performance of the German economy. The growth forecast had been lowered to only +1.1%, and given the risk of a slowdown, the ECB had announced that it would delay an initial interest rate hike to 2020 and resume loans to the banking sector.

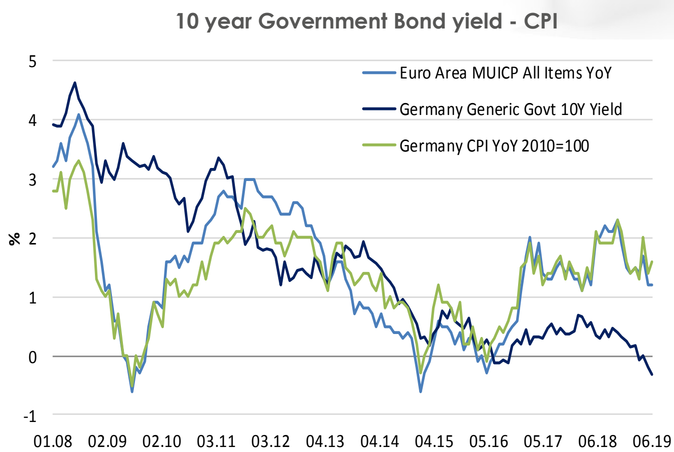
The ECB thus kept its rates steady and stated that they would remain unchanged at least through the first half of 2020, thus further delaying by six months the timeline mentioned during its previous meeting. More is now know about the programme to lend money to banks, which will launch in September for seven months. The chosen method aims to apply lower rates to banks who circulate a larger amount of credit out into the economy. The ECB also aimed to be reassuring with regard to its ongoing asset purchase programme, noting that it would reinvest for as long as necessary the maturing principal of the billions of euros in securities purchased since 2015.

Avoid another recession at all costs

Similarly to other central banks, the ECB noted the increasing risks of a global slowdown in 2019, while it had been hoping already to have reached its aim of sustainably boosting economic growth. The Bank, in turn, was about to normalise its monetary policy, but it must now remain focused and active to prevent the economy from going off the rails. Governments as well have witnessed the side effects of economic crisis on jobs, confidence, lending, the banking sector, and politics over the past ten years.

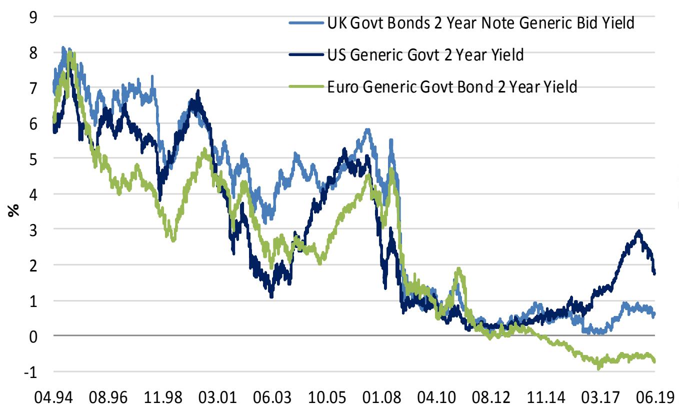
It was difficult to come up with solutions to the last crisis and so challenging to implement them that it has become almost inconceivable for current governments to risk another crisis. Another recession would have political and economic consequences that no central bank would underestimate. Thus, we expect that the ECB will also undertake everything in its power to avoid one.



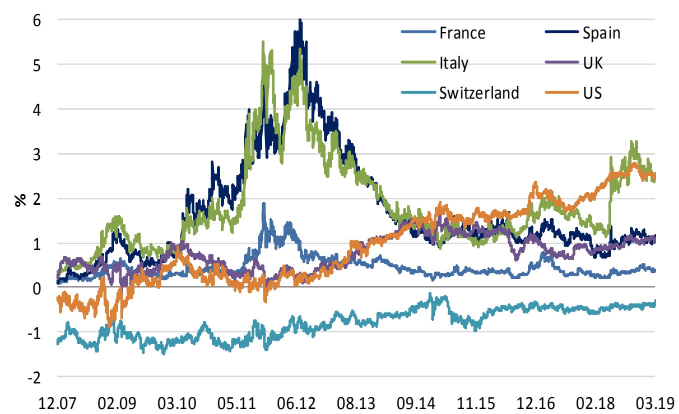


Graph sources: Bloomberg/BBGI Group

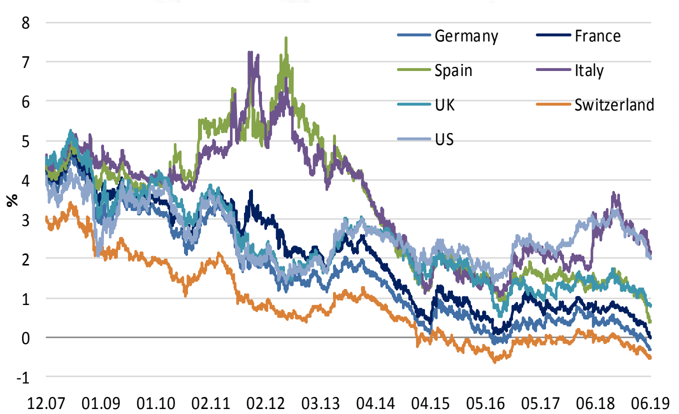
2-year Government Bond yield (US, Euro, UK)



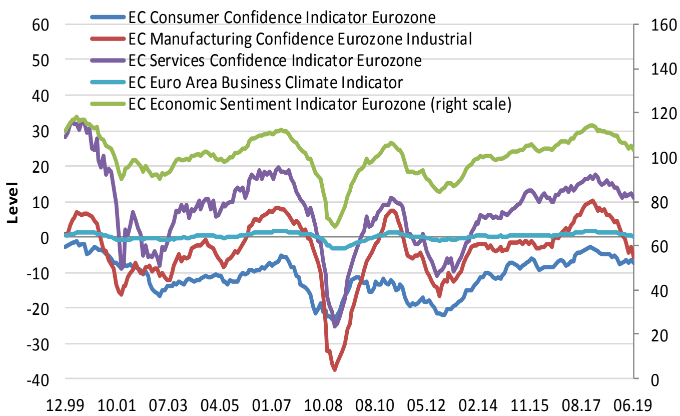
Risk premium - Government vs. Bund



10-year Government Bond yield



Economic Confidence Index



Graph sources: Bloomberg/BBGI Group

The normalisation of monetary policy projected to be implemented in 2019 has already been called into question, and rates will thus likely stay low for longer than expected and remain lower than the growth rate. Governments will likely be tempted to adopt expansionary fiscal policies in the event of a downturn. Nevertheless, the decline in yields over the past weeks seems excessive given the current macroeconomic context.

Euro yields continue to fall

The escalation of tensions between China and the US in May once again depressed bond yields. The drop in ten-year government yields in euros had already wiped out positive returns at the end of March in an environment that was already considered challenging for the European economy. The decline in yields from 0% to -0.26% in May thus indicates a stronger resurgence of anxiety among investors than in 2016, when long-term rates had reached a low of -0.2%.

Inflation has indeed slipped from a high of +2.2% in October 2018 to only +1.2% in May. In comparison, in 2016 when rates had reached record lows, inflation in the Eurozone was negative (-0.3%), and the fear of deflation seemed more present that it is currently. Real yields are thus unambiguously negative at -1.26%, against only -0.1% in 2016. Excluding food and energy, core CPI stood at +0.8% in May.

Uncertainly in the euro area has pushed yields to extreme levels, even considering the unlikelihood of a rate change by the ECB.

Give the macroeconomic context, the ECB's messaging can hardly be expected to be upbeat, but the Bank cannot convey pessimism either at the risk of having to explicitly announce swift rate cuts. In this environment, financial markets are pushing long-term rates ever lower and squeezing the risk premium on various maturities along the yield curve. The yield spread between two-year and ten-year German Bund bonds has contracted down to only 40 basis points.

We are thus seeing a flattening of the euro yield curve that is nothing short of extraordinary, with negative absolute and real yields on all maturities.

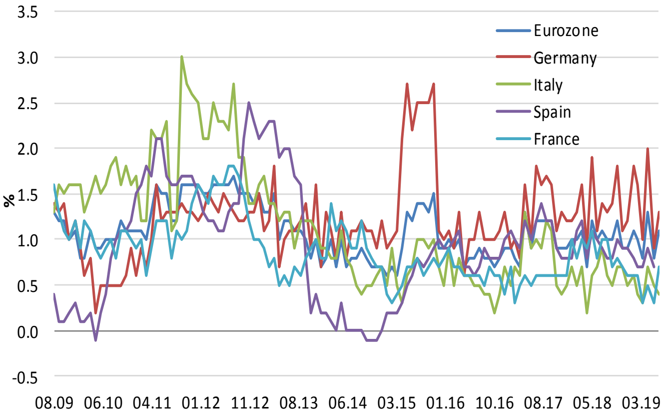
High risk premiums on European equities

The performance of European equities since the beginning of the year has been less impressive than that of the US or Swiss markets. The +11.9% increase is respectable, but below that of the S&P500 (+16.8%) and the SPI (+16.7%). Although the correlation of the European market remained high, the risk premium of close to 25% based on relative valuation levels has not really budged in spite of significant upward and downward shifts in various indices. Several months ago we noted that European equities would likely benefit at the beginning of 2019 from an expected decrease in global tensions and thus from favourable arbitrage on the part of investors due to their positive risk premium. However, this did not occur.

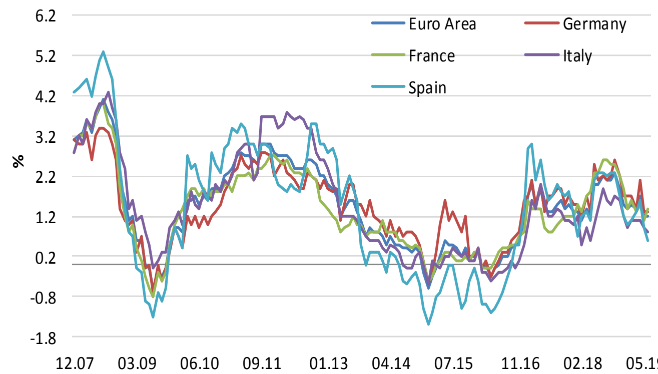
The European market's PE (13.6x) remains well below that of the US market (17.3x). The valuation gap remained steady at around 27%, a relatively significant risk premium that does not seem to have shifted over the past several quarters. European shares still maintain a valuation and yield advantage (3.6% vs. 1.9%), while the earnings outlook for 2019 is converging with that of the US market. This valuation gap may be explained for now by the perception that European shares are more sensitive to external shocks such as a slowdown in China or in emerging markets.

Investors are thus perhaps more convinced for now by the capacity of US vs. European businesses to weather such shocks. Improved economic conditions may thus represent to key to European equity outperformance.

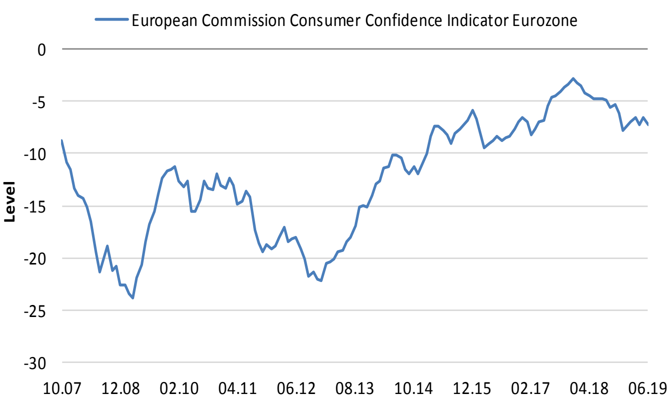
Eurostat CPI - Core Inflation (Eurozone, YoY)



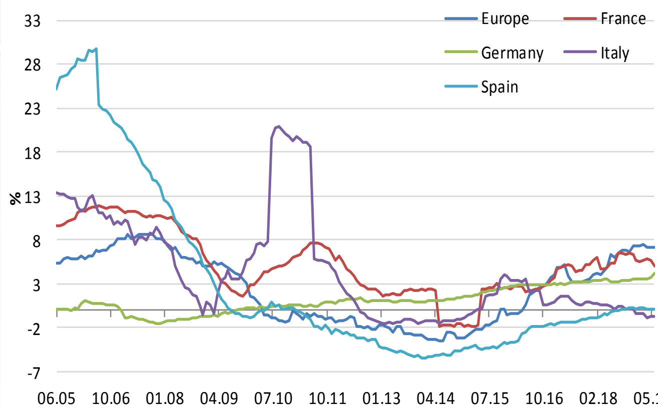
Eurostat CPI - all items (Eurozone, YoY)



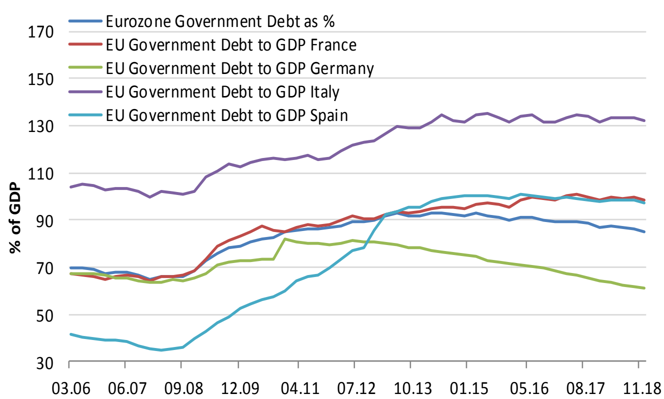
Consumer Confidence - Eurozone



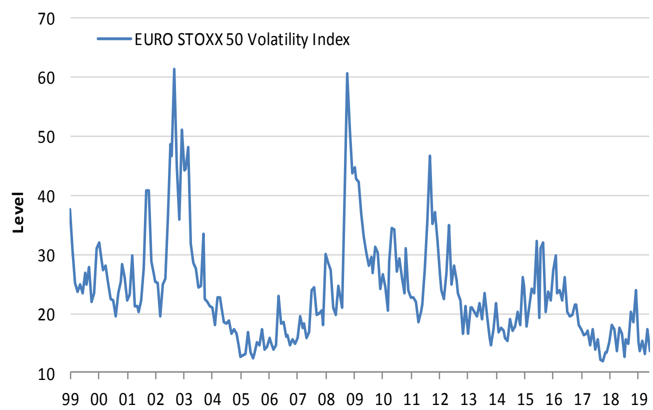
Loans to households (Eurozone - YoY)



EU Government Debt



Euro Stoxx 50 Volatility Index



Graph sources: Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

United Kingdom

- Who wants to replace Theresa May?
- Collapse of industrial output
- Economic contraction in Q2
- No longer any reason for the BOE to hike rates
- Too much risk in capital markets

Who wants to replace Theresa May?

Three years after the Brexit vote, Theresa May wrested from the EU a final extension of the withdrawal deadline until October 2019 before bowing out. Uncertainty persists in spite of May's departure, but it would seem that the Brexit issue has been sidelined to some extent as a consequence of the delay. The crucial question now is 'who wants to replace Theresa May?'.

The nomination process started with a vote among Conservative MPs, which designated seven candidates. At the end of the process, only two candidates will be put to the ballot of the 160,000 party members. The name of the winner should be known before the end of July. The frontrunner seems to be Boris Johnson, who has come out well ahead of Foreign Affairs Minister Jeremy Hunt, garnering three times as many votes as the latter. We will have to wait a few weeks to ascertain what approach will be adopted between Johnson's hard line, as he has clearly always been prepared to leave the EU with or without a deal, and the more pragmatic approach put forward by the former health secretary, who is advocating for a renegotiation of the withdrawal agreement and putting together a new negotiating team representing a wider political spectrum in order to avoid a no-deal withdrawal on 31 October.

Leading indicators deteriorated in June

The manufacturing PMI dropped rather abruptly from 49.4 to 48 in June, killing faith in the resilience of British manufacturing, which had held up comparatively well to the pressure weighing down on most industrialised countries. The PMI's dip below its growth threshold of 50 is thus one more sign of the likely downturn of the UK economy in Q2. Contrary to other countries, the UK's manufacturing sector seemed to bounce back after steadily declining in 2018, surging from 52 to 55.1 in March. With the recent correction, the sector has fallen back into line with global trends.

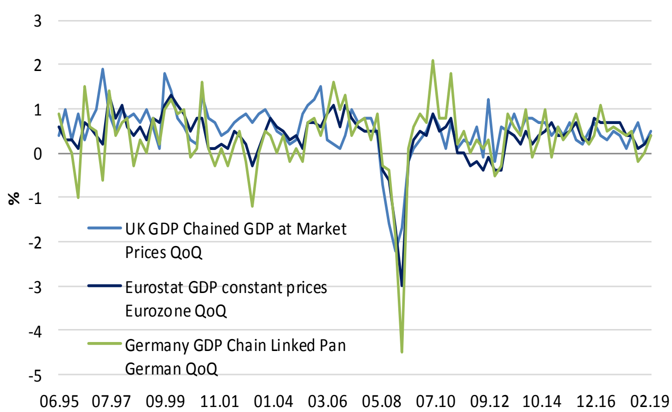
With regard to services, which were more resilient overall in other economies over the past several months, British PMI indicators had already slipped under their growth threshold in March (48.9). The upswing to 51 over the past two months suggests a slightly better outlook. In terms of the UK economy overall, months seem to be going by with no clear solution in sight to the political crisis, which is getting worse day by day, exacerbating the feeling of uncertainty among businesses and consumers. The movements of the two PMI indicators plunge the level of the composite index below 50 in June (49.7). In the construction sector, the leading indicators were also weaker, the construction PMI fell from 48.6 to 43.1 in June and fell well below the limit of 50 and recorded one of its worst scores of the last three years. The risks of recession are increasing.

Collapse of industrial output

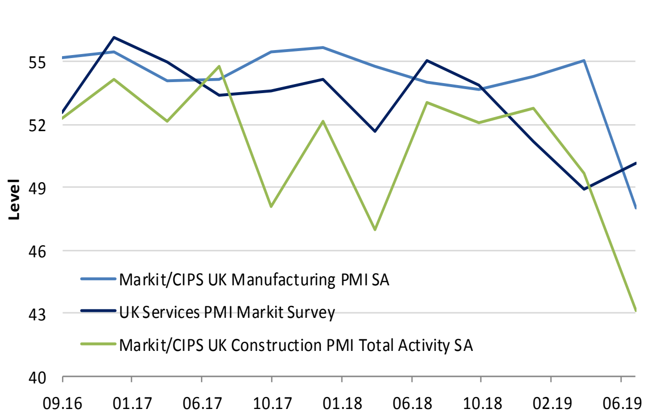
UK GDP increased by +0.5% in Q1. Growth accelerated after slowing by -0.2% at the end of 2018. Private consumption and public spending as well as gross fixed capital formation contributed positively to growth, while foreign trade contributed negatively. However, these trends are not solid and are essentially driven by rising inventories in preparation for potential supply disruptions in the wake of Brexit. Preliminary Q2 results already seem to confirm this analysis.

Industrial output in the UK fell by -2.7% in April, which is much worse than the consensus forecast (-1%), due to a collapse in factory activity (-3.9%) and in electricity and gas production (-3.2%). It is the biggest contraction in activity since 2012, which likely resulted in part from issues related to the Brexit delay as well as from the -24% drop in vehicle production due to temporary plant shutdowns. The decline in manufacturing output was thus the steepest in seventeen years. These data highlight the fragility of the UK economy, which remains heavily impacted by the Brexit issue, with no solution in sight for now. Construction also contracted by -0.4% in April, while the service sector remained stable.

Quarterly GDP Growth - UK

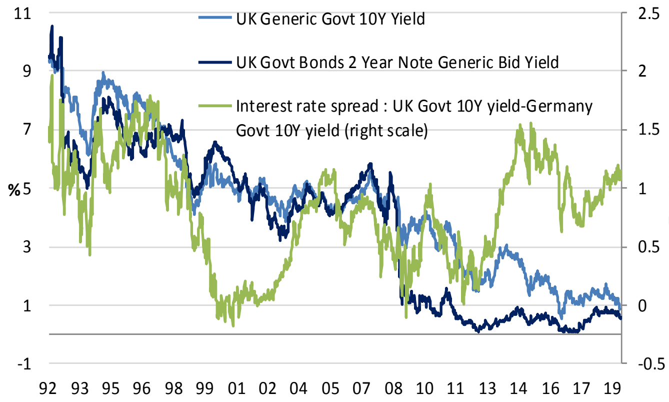


Manufacturing, Services and Construction PMI - UK

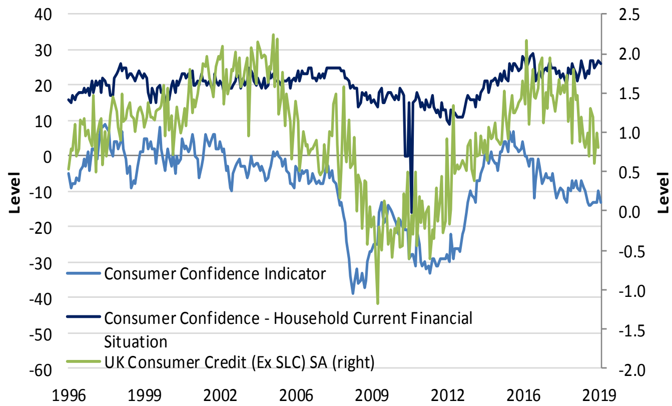


Graph sources: Bloomberg/BBGI Group

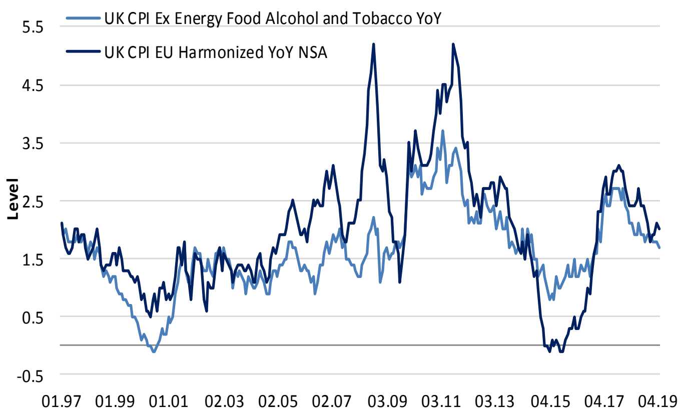
UK Government Bonds - 10 year and 2 year yield



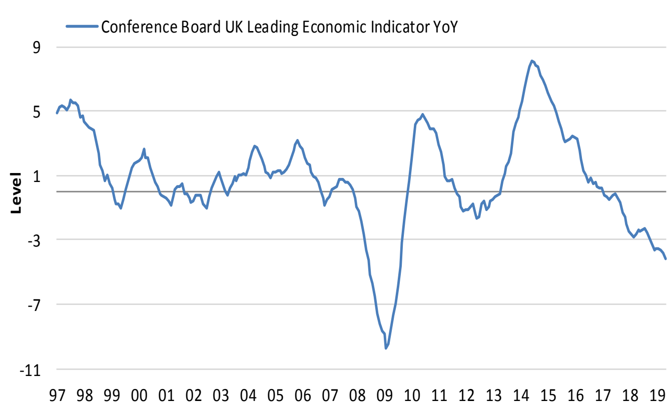
Consumer Confidence



Inflation CPI



UK Leading Economic Indicator



Graph sources: Bloomberg/BBGI Group

Economic contraction in Q2

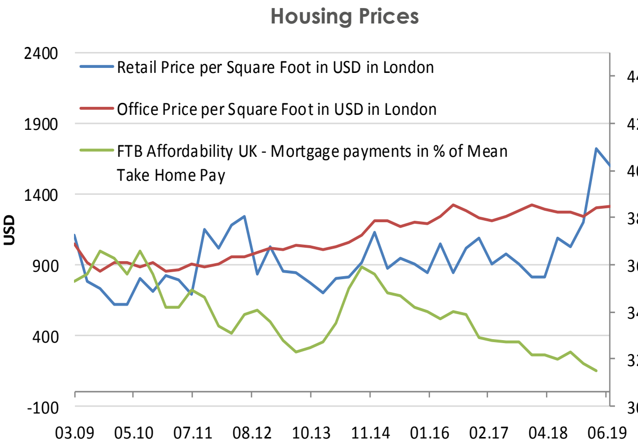
Leading indicators had been pointing to a contraction of GDP, and April data clearly indicates a downturn in economic activity following a relatively strong start to the year. The -0.4% contraction in GDP over the month follows a decrease of -0.1% in March, driven mainly by the decline in industrial output. The growth shock is much worse than consensus expectations (-0.1%), showing that Brexit had a much bigger impact than anticipated. Manufacturing firms had built up inventory in preparation for Brexit, which shored up GDP at the beginning of the year, but the extension of the deadline to October has had the opposite effect over the last few weeks. For the three months ending in April, GDP growth slowed but remained positive (+0.3%). Yoy GDP growth slowed from +1.9% in March to +1.3% in April. Annualised growth for the past three months stood at +1.1%. The UK's trade deficit decreased to 12.1 billion pounds following a fall in both imports and exports. By volume, exports fell by -10.9% in April, while imports fell by -14.4%. Given the current context, the outlook for Q2 is not very positive, but the growth outlook for the year as a whole remains close to +1.4%.

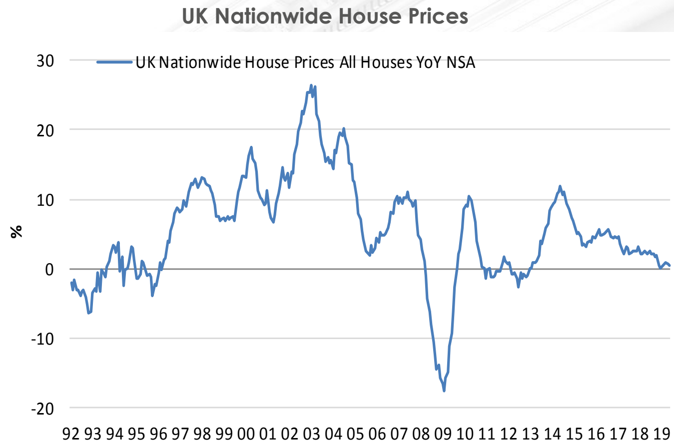
Consumer confidence improves

British consumers were more optimistic in May in spite of the political uncertainty. Households seem to have a more favourable outlook on their financial situation and are claiming to be less pessimistic with regards to the country's overall economic situation. British consumers, still active in Q1 with household consumption up +0.7%, remain the main driver of GDP growth. Since 2016, they have bolstered domestic demand, although without generating enough momentum to significantly boost consumption. The unemployment rate, now below 4%, is a positive factor that will boost wages and purchasing power, as inflation is actually rather moderate for now (+1.8%). Households' real disposable income has increased, but household debt also rose for the ninth quarter in a row.

No longer any reason for the BOE to hike rates

The Bank of England has a little more wiggle room now that inflation (+1.8%) has dropped back under the 2% threshold, although inflation remains sufficiently lively to continue to be factored into the assessment of threats and opportunities with regard to the BOE's monetary policy. As for production prices, they increased by +1.1% in April and +3.8% yoy. The BOE had had to raise rates twice in 2017 and had then abstained from any further action in a context where the pound was stabilising, inflation was cooling, and the economy was decelerating. The BOE will continue to pay close attention to Brexit-related political developments, likely hoping that a no-deal withdrawal in October can be avoided. However, its main concern currently is to prevent further deterioration in the economy. Initial figures indicate that GDP may have contracted by -0.2% in Q2, which will surely compel the BOE to keep its monetary policy steady and its benchmark rate at 0.75%. These developments will have a greater impact than that of the job market. Current economic weakness will prevent the BOE from raising rates as was still being considered just a few months ago. We continue to anticipate, as we did several months ago, that the BOE is unlikely to act swiftly and that it will keep its benchmark rate steady at 0.75% in 2019.





Stabilisation of the real estate market

Surprisingly, real estate prices rose by +0.5% in May, well exceeding analysts' price stabilisation expectations according to mortgage lender Halifax. Prices rose +5.2% yoy. Monthly data were somewhat volatile in 2019, but prices are clearly still trending upwards following on over a decade of growth. Concerns stemming from Brexit have been weighing on the UK market, which will likely continue to be impacted by worries regarding the looming threat. However, the imbalance in the real estate market remains favourable to a continuation of current trends, in particular if borrowing costs remain as low as they are currently and if the job market remains robust. The number of mortgage approvals increased, exceeding 66,000 mortgages approved in April, close to the highest levels seen over the past eighteen months.

In spite of the oppressive uncertainty surrounding Brexit, the unemployment rate in the UK continued to decline in April, dropping to a 10-year low of a mere 3.8%, well below the 2011 high of 8.5%. Wage increases as measured by total weekly earnings stalled slightly in April for the second time since June 2018, as the +3.1% increase was slightly lower than the +3.5% increase seen in February. However, the job market is solid, as indicated by the 32,000 new jobs created in April.

Too much risk in capital markets

The extension to October of the deadline for the UK's withdrawal from the EU offers investors a temporary reprieve, as they can set aside for a time the immediate threat of a no-deal exit, which would have potentially disastrous consequences in terms of the valuation of the pound, inflation, and growth. Brexit worries have been put on the backburner for now due to the UK economy's loss of momentum in Q2. It is now likely that the UK will enter into recession over the summer, just before the next deadline. Long-term interest rates had stabilised above 1.2% before the decision to delay Brexit, falling rapidly to 0.8% in reaction to the increase in the risk of economic contraction. These low levels are associated with a risk of sudden capital losses as well as a risk of currency devaluation.

We view this environment as relatively unattractive and do no recommend maintaining any exposure to the UK rate market. Inflation in the UK had reached 3.1% in 2017 with the depreciation of the pound before gradually declining to 1.8% in March. The risk that inflation will heat up following Brexit obviously depends on how the issue is resolved and will certainly be much higher in the event of a no-deal withdrawal.

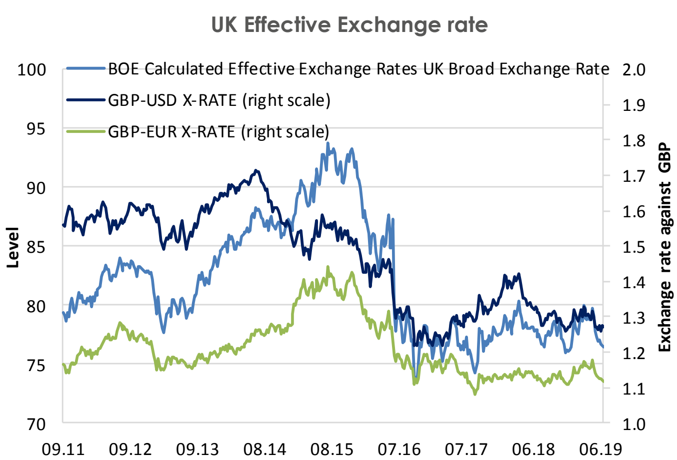
Risk of recession weighs on the pound

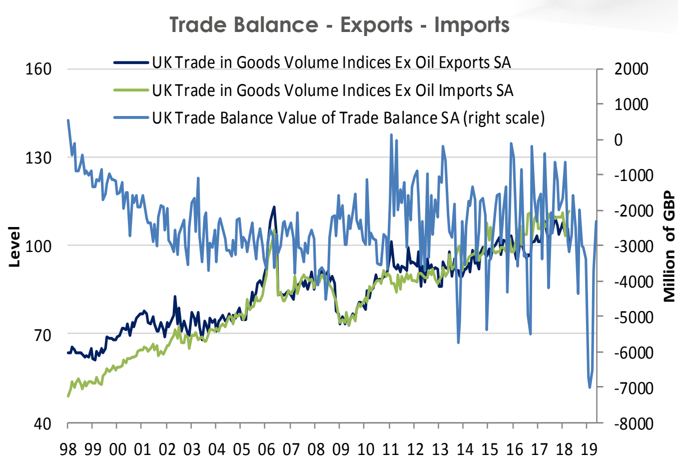
The pound is more than ever hostage to the complex political situation surrounding Brexit. The UK should have exited the EU on 29 March without an agreement.

The political impasse remains intractable despite the extension of the deadline to October. The British currency is now being affected by the slowing economy and increasing risk of recession. Given this context, we maintain our caution vis-à-vis the pound. We expect that the pound is likely to further depreciate below its December 2018 level of 1.25 against the dollar.

Caution on equities and real estate

Given the highly uncertain context surrounding the Brexit talks, the equity market's expected risk/return ratio does not seem attractive. The pound is now under pressure due to the economic downturn underway. We thus maintain our recommendation to stay cautious on UK equities, in spite of reasonable valuations and attractive dividend yields. With regard to securitised real estate, the uncertainty as to what Brexit will ultimately look like will put a damper on REITs. The risks of further deterioration of market conditions appear significant enough to recommend staying away from this market for now, as the BOE has mentioned that real estate prices may plummet by 25% in the pessimistic scenario of a no-deal Brexit.





Graph sources: Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

Japan

- More positive surprises in Q1 with +0.5% GDP growth
- Consumers remain worried
- Further decline in the trade balance
- The BOJ to maintain its expansionary policy
- Weaker yen remains necessary

More positive surprises in Q1 with +0.5% GDP growth

Q1 GDP growth of +0.5% in Q1 exceeded economists' forecasts and confirms the trend reversal that occurred in Q4 (+0.5%) following the -0.6% contraction in the previous quarter. Japan's quarterly economic performance, which was unstable all through 2018, thus seems to be stabilising at an annualised pace of +2%. Economic growth thus turned out to be more significant than expected for the second consecutive quarter, in spite of a challenging environment for the Japanese export sector. Japanese economic momentum is thus in synch with that of other industrialised nations, which have been posting better results than expected since the beginning of the year. The trade conflict between the US and China did not have any further impact on confidence in Q1, but the recent escalation of tensions and rising uncertainty could exert some effects going forward. These overall results are a welcome surprise given the negative forecasts of most economists, who were anticipating economic stagnation or even a -0.2% contraction in Japan.

Less impressive performance than it might seem

These results thus ward off the immediate threat of recession; however, they unfortunately do not make a solid case for a lasting return of growth in Japan, due to persisting structural weaknesses. Indeed, export levels remain very low, investment in equipment has stalled, and consumption continues to be impacted by less than optimistic household sentiment. In terms of household consumption, sentiment remains bleak, and the sector's contribution was thus slightly negative (-0.1%) in Q1 following a slight rise in momentum at the end of 2018. GDP was bolstered by public spending, up +6.2%, but the private sector hung back, as shown by the -1.2% decrease in capital investment. Equipment expenditure increased by +0.3%. significantly less than the previous increase of +2.7%. Nevertheless, we believe that, structurally, capex is trending upwards. Japan is feeling the effects of a labour shortage tied to population ageing and must compensate by continuing to invest. As imports fell more sharply (-4.6%) than exports (-2.4%), the net contribution to GDP was in fact favourable (+0.4%), amounting to most of the growth observed. The current account balance for April points to favourable conditions thanks to a higher-than-expected 1.7 trillion yen surplus. The persistent uncertainty with regard to trade relations between the US and China is weighing on confidence and affecting the Japanese economy as well. This uncertainty remains the foremost threat to GDP growth in Japan, in particular given that the yen will likely depreciate in the coming months. Indeed, the monetary factor is still key in terms of generating positive GDP growth. The Japanese economy should nevertheless remain on the upswing in 2019 and exceed the current forecast for full-year growth of +0.7%. Growth in Q2 may slow somewhat before picking up in the second half of the year, in particular once the support measures implemented by the Chinese government start to have a positive impact on the Japanese economy.

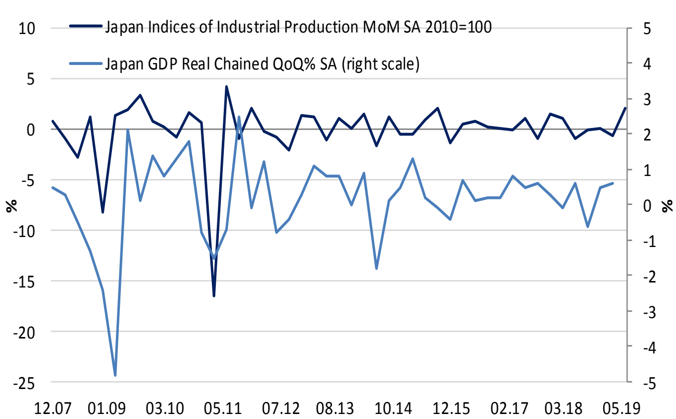
Consumers remain worried

The job market remains particularly tight, as unemployment fell further to 2.4% in April. The central bank is still hoping that the job market's special circumstances will result in wage increases and boost consumption and inflation, but these developments are failing to materialise. Japanese household spending increased slightly in April yoy (-1.3%), but real wages continued to decrease over the same period. Japanese consumers thus remain especially cautious. Indeed, consumer confidence has been steadily decreasing over the past eighteen months, reaching its lowest level since 2015. More will likely be necessary in order for a stronger and more lasting trend to take hold.

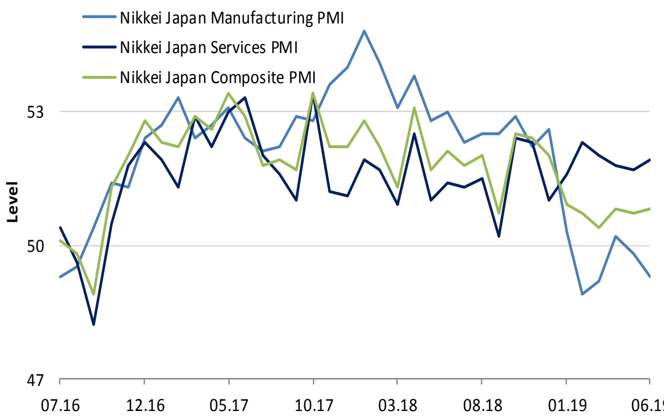
Leading indicators still weighed down by the manufacturing sector

Uncertainty continues to weigh on leading indicators, which nevertheless improved somewhat since the end of Q1. Japanese business sentiment did not really improve in May, while rising tensions between the US and China raised concerns once again among Japanese business leaders. The uncertainty affecting Japan's two largest trade partners is no doubt having an impact on purchasing managers' morale. Weak economic conditions in Asia have also affected Japanese exports, heightening producers' concerns. In this context, the manufacturing PMI, which had bounced back from its February low (48.9), rose above its theoretical growth threshold only briefly in April (50.2) before sliding back again in May (49.8).

GDP and Industrial Production

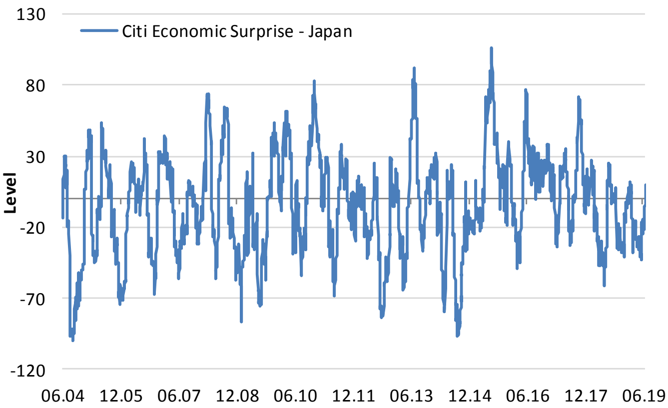


Composite, manufacturing and Services PMI - Japan

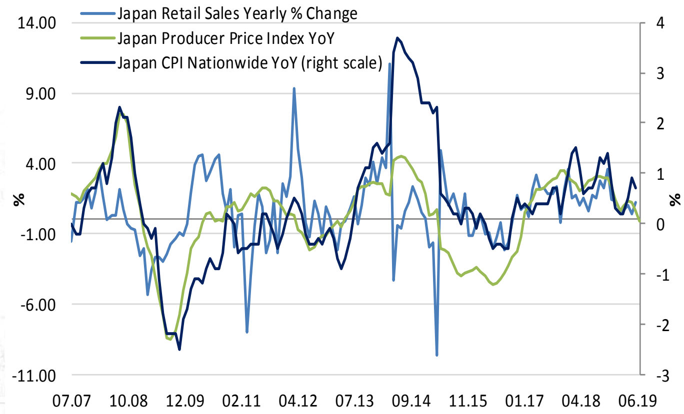


Graph sources: Bloomberg/BBGI Group

Economic Surprise Index



Inflation (CPI and PPI) and retail sales



Japan, which is also in Washington's crosshairs because of its trade surplus, thus saw its new orders indicator contract again for the sixth month in a row. The composite PMI index also remains hesitant and is still not showing clear signs of an upturn. Existing trends are persisting, with the manufacturing PMI stabilising slightly under 50 and the services PMI fluctuating around the 52 level.

Economic upswing in May

Industrial output progressed by +0.6% in April, at a faster pace than expected. However, this upswing only offset the equivalent contraction in March. Industrial output has thus been stable since February. Nevertheless, retail sales rebounded by +4.8% in May, after an already significant +2.5% increase in April. The sector is looking up after a sharp downturn in March. Machinery orders were also higher than expected in April. The +5.2% increase can be considered an indication that capex is continuing to grow in spite of the trade tensions.

Further decline in the trade balance

Japanese exports fell another -2.4% yoy in April, thus confirming the existing trend for the fifth consecutive month. The impact of the trade war and the slowdown of the global technological cycle continued to weigh on the Japanese economy. Exports to China contracted more sharply (-6.3%), with a -41% drop in semiconductor equipment exports. The situation is radically different with regard to the US, whose imports of Japanese goods rose by +9.6% over the period. Japan's trade surplus with the US thus increased by +18% yoy, which will no doubt strengthen the US president's resolve to pursue his goal of rebalancing trade between the two countries. This situation will likely curb Japanese investment expenditure in the short term. Overall, the trade balance decreased to 60.4 billion yen, well below expectations, mainly due to the significant increase in imports in April (+6.4%). Donald Trump's decision to suspend the introduction of 25% tariffs on vehicles imported from Japan is a temporary positive factor.

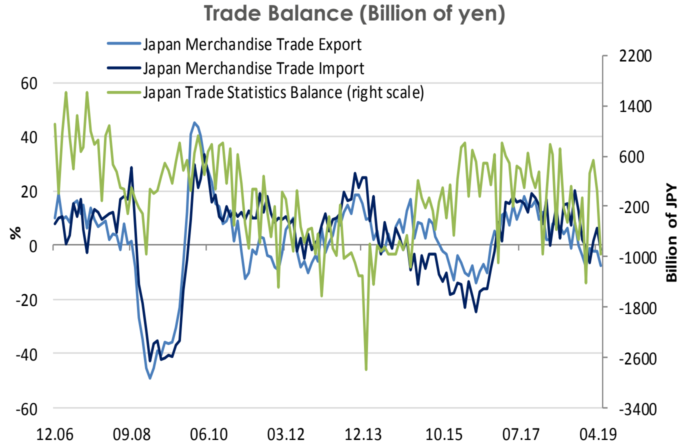
The BOJ to maintain its expansionary policy

The Bank of Japan will likely keep its monetary policy unchanged at its next meeting on 20 June. The country's economic conditions can be considered positive in light of various indicators such as the unemployment rate, GDP growth, and the upswing in industrial output. In fact, however, conditions remain precarious given that domestic demand is weak and foreign demand is still affected by the threat of a trade war. Nevertheless, the Bank's governor does not seem concerned, in particular with regard to foreign demand. He expects the global economy to bounce back during the second half of 2019 in spite of current trade tensions. With regard to monetary policy, while there will likely be no change in June, it seems more and more likely that rates will be cut in September from the current -0.1% to -0.3% to maintain pressure on the yen. The BOJ is still facing a complex situation on the inflation front, which nevertheless has improved somewhat over the past few months. After plunging from 1.4% to 0.2%, the CPI climbed back up to 0.9% at the end of April. Inflation thus accelerated slightly, although it is still far from the BOJ's 2% target, which remains a priority, while the current context is likely to hamper the hoped-for increase in price indices in Japan. The governor of the central bank had in fact expressed his views on the matter, mentioning how challenging it is for central banks to manage inflation in a globalised environment characterised by technological innovation. It thus seems necessary to introduce more flexibility with regard to determining the BOJ's inflation targets, particularly in terms of maintaining, or restoring, the institution's credibility.

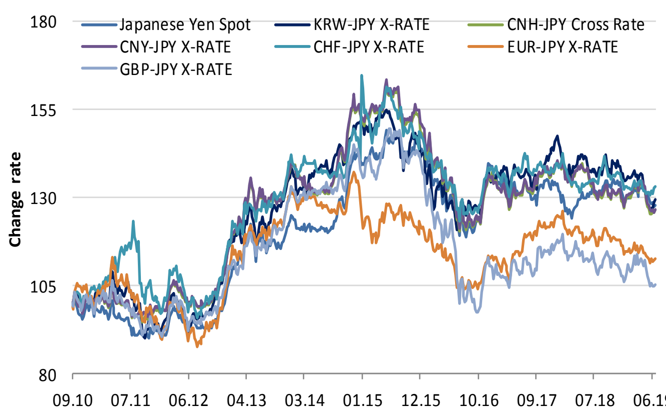
Weaker yen remains necessary

Our outlook for the yen remains unchanged and bearish for 2019. We had been mentioning for several quarters already that a weak yen is a necessary condition for growth and inflation to pick up in Japan. Higher inflation would breathe some life into the Japanese economy and enable it to resume a more sustained pace of growth. Monetary policy still aims to weaken the yen, but means available to the central bank remain limited. We continue to expect that investors will shun the yen given a totally unfavourable interest rate environment and rate spreads that are likely to continue to penalise the Japanese currency. The interest rate spread temporarily narrowed over the past few weeks, but it will likely widen again, favouring a depreciation of the yen against the dollar. We thus expect the relative stability of the Japanese currency between 108 and 112 yen to the dollar since the beginning of the year to be temporary. The yen will likely depreciate, reaching 115 against the US dollar before stabilising above this level.

Trade Balance (Billion of yen)



Exchange rate (Normalized at 100)



Graph sources: Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

China

- Economic growth slows but remains solid
- What more can the PBOC do?
- Any progress on the trade talks since the G20 summit?
- Leading indicators have not really taken off yet

Economic growth slows but remains solid

Chinese GDP grew by +6.2% in Q2 2019, slightly less than in Q1 (+6.4%). This weakening suggests that the tensions between Washington and Beijing are affecting the economy, even if the impact seems modest. Over the past three months, indicators do seem to have been pointing to some stabilisation of these effects. Manufacturing output and retail sales in particular (+9.8%) were better than expected.

The Chinese economy is likely to stabilise as expected at a growth rate still exceeding +6% thanks to the resilience of consumption and to the real estate sector. Investment results are also showing that the government's stimulus measures are having an impact. Private investment gained more momentum than public investment, highlighting that policy measures aiming to direct liquidity to the private sector were successul. The real estate sector is bouncing back (investment was up +10.9% in June), but the government will likely keep a close eye on prices.

What more can the PBOC do?

The Chinese government's two trillion yuan fiscal stimulus programme now seems to be having a positive impact on the economy, although it may not be enough to keep the latter growing at +6.2% over the next few quarters. However, the government is likely to further ease fiscal and monetary policy. The PBOC will thus probably take further action, in particular by reducing the required reserve ratio (RRR) for banks if, as is quite possible, trade tensions escalate and if the US introduces new tariffs despite the US president's promises. For now, the resumption of talks has averted the imposition of further tariffs, but the threat of such remains should the talks collapse.

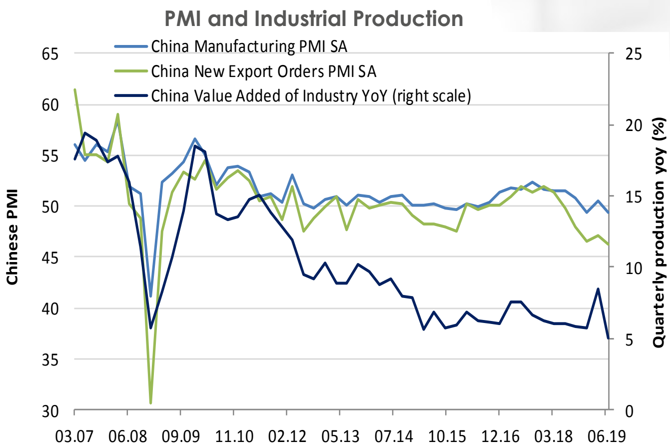
Worrisome stagnation of production prices

Production prices remained steady in June yoy but fell by over -0.3% month-on-month, their worst performance in three years. The downward trend was unexpected and seems to be reflecting weaker global demand. With regard to consumer price indices, the situation is relatively stable. As anticipated, prices rose by +2.7% yoy in June.

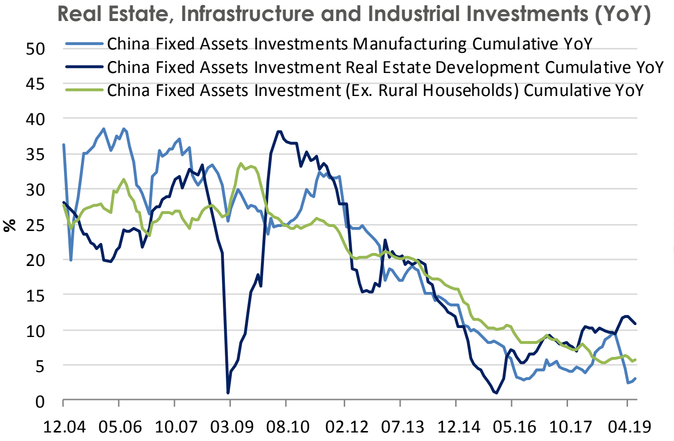
Core inflation grew by only +1.6%. These figures are also pointing to increasing risks of deflation in the manufacturing sector along with the potential ensuing impact on corporate margins. The PBOC will likely keep a close eye on this variable, as it could also impact export prices and GDP. The central bank will thus likely take action with regard to the RRR but will remain cautious in terms of intervening on interest rates.

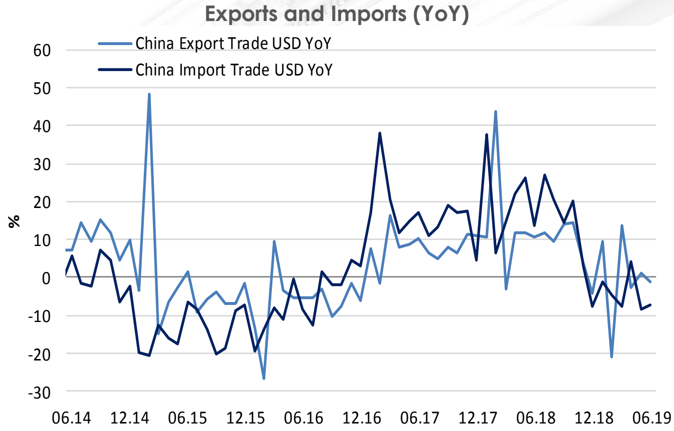
Leading indicators have not really taken off yet

Even though industrial output grew more than expected in June (+6.3%), leading indicators remain mixed. The composite PMI index (50.6) slipped, nearing its growth threshold (50), dragged down by its two components, the manufacturing and services indices. The manufacturing PMI is in its contraction zone (49.4), while the services PMI remains relatively positive but fell from 52.7 to 52.



Graph sources: Bloomberg/BBGI Group





Further rise in trade surplus

The Chinese trade surplus grew from 41.65 billion dollars in May to 50.98 billion dollars in June amidst the tense environment prevailing in Q2. Exports continued to fall (-1.3% in June) as expected given the context, but the intensity of the contraction weakened, while imports fell more sharply (-7.3%).

Exports to the US did decrease, and foreign demand has declined overall, but the correction on imports is even more massive. Indeed, imports from the US plunged by -31.4% yoy, which actually widened China's trade surplus with the country. Soy imports in particular plummeted by -37%, as did commodities imports. Given this context, Chinese is exporting somewhat less to the US (-7.8%) than to other regions, and in particular to Asia, to which exports are up +12.9% yoy.

Any progress on the trade talks since the G20 summit?

At the last G20 summit in Osaka, the US and Chinese presidents had agreed on basic terms, namely the resumption of talks and the suspension of threats to introduce further import tariffs on up to 300 billion dollars worth of Chinese exports to the US. Since then, the US has exempted 110 Chinese products from the 25% tariffs in response to complaints by US businesses with regard to medical equipment among others. China, in turn, also put in place a mechanism to address business demands as necessary.

The Chinese government called upon the US to stop penalising Chinese businesses, including Huawei, still on the US's blacklist. Talks must resume on fresh grounds if they are to succeed, as noted by the Chinese negotiators, who stated that they should restart on a basis of equality and mutual respect. There are certainly grounds for hope, although the US representatives along with their Chinese counterparts must still conjure up the solutions that would break the trade stalemate.

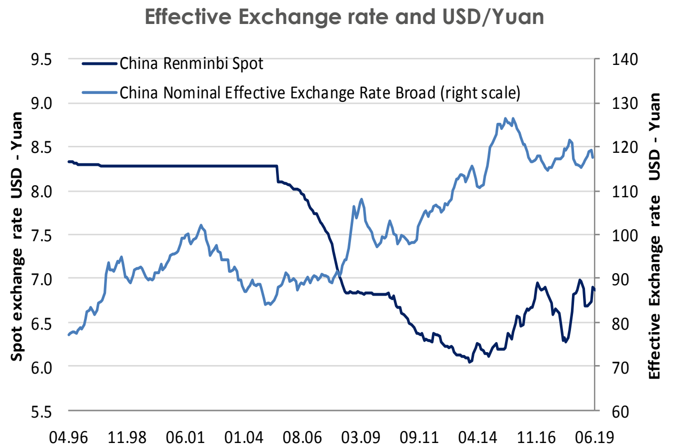
For now, nothing tangible has yet to surface that would provide reassurance with regard to the upcoming negotiations except for sheer goodwill and determination to reach a compromise, which both parties seem to be displaying.

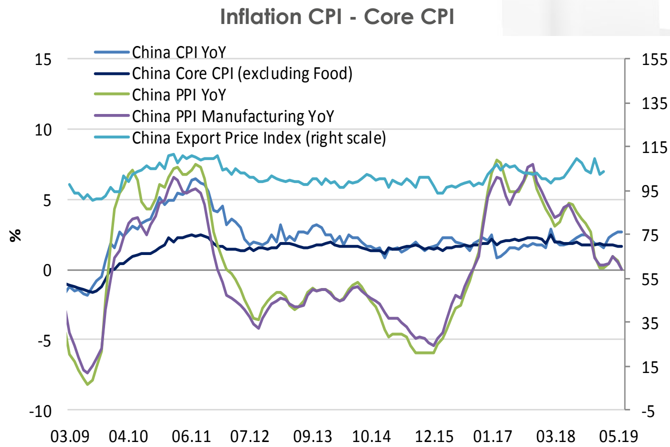
Appreciation of the yuan in the event of a trade agreement

Slight progression of foreign exchange reserves from 3.1 to 3.12 trillion dollars based on a weaker dollar and higher valuations of international assets.

The thaw in the relations between China and the US has enabled the yuan to appreciate somewhat after suffering from renewed tensions in May. Overall, the Chinese currency has stabilised in the last twelve months, fluctuating in the range of 6.7 and 7 yuan against the dollar. Hopes of a deal in Q1 triggered an appreciation of the Chinese currency before the interruption of negotiations had the opposite effect. The easing of tensions sought during the G20 summit enabled the yuan to regain the middle of this fluctuation band in the short term by returning to the average rate of 6.85.

In the medium term, a trade solution will likely help the yuan appreciate by +5 to +10% against the dollar.





Graph sources: Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

United Arab Emirates

- UAE Economic Highlights
- UAE Eases Rules on 100% Foreign Ownership to boost the economy
- Fed's dovish tone on interest rates is positive development
- Economic activity in Dubai picks up in H1 2019

UAE Economic Highlights

Growth appears to have moderated but remained healthy in the second quarter, as OPEC+ production cuts in effect since January dampened oil-sector growth. According to the latest estimates by the IMF, the UAE is forecasted to grow at 2.8 percent in its real GDP growth in 2019. Previously the IMF expected the UAE economic growth to reach 3.6%.

Next year, the IMF unveiled, the UAE could see a 3.3 per cent boost in its economic growth due to a forecasted 4 percent increase in non-oil growth. The IMF also stated that 'Expo 2020' related spending in Dubai and Abu Dhabi's fiscal stimulus are both expected to support near-term growth in the UAE.

The Emirates NBD United Arab Emirates PMI declined to 57.7 in June 2019 from a 4 and a half years high of 59.4 in the previous month. Output and new orders continued to grow on the back of further price discounting. Meanwhile, employment levels were broadly unchanged as businesses remain focused on keeping costs down, with backlogs of work increasing amid reports of delays in receiving payments from customers. Meantime, buying activity grew at a record pace for the second month running. Input prices rose only marginally, amid a slight rise in purchase costs, and flat salaries and wages. Looking ahead, sentiment eased from April's record high, but remained strongly optimistic, due to expectations of further new order growth and the upcoming 'Expo 2020' next year.

UAE Eases Rules on 100% Foreign Ownership to boost the economy

The UAE Cabinet has approved the sectors and economic activities eligible for up to 100 percent foreign ownership in a move to boost FDI in the country and make it more attractive for foreign investors to own onshore businesses within the UAE. This has been a longstanding demand of the business community which felt strongly about the fact that when they invested 100 per cent foreign equity and manage the entire business, they still had to follow the rule of 49:51 ownership.

In fact, previously, foreign investors could only hold up to 49 per cent of a company registered in the UAE, unless it was in a designated free trade zone and would have to partner with an Emirati investor who would hold the remaining 51 per cent.

A total of 122 economic activities across 13 sectors were specified to be eligible for up to 100 percent foreign ownership including renewable energy, space, agriculture and manufacturing industry.

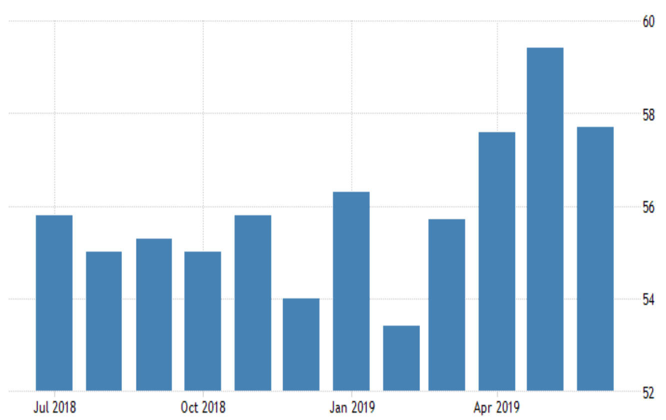
The Emirates news agency reported that the decision was made to provide both expatriates and international investors to acquire various shares in a number of economic activities which would include power transformers, hybrid power plants, green technology and solar panels. Areas of foreign ownership also include transport and storage, which allows investors to won projects in field of e-commerce, supply chain, logistics, transportation and pharmaceuticals.

The Cabinet's decision also includes hospitality and food services, information and communication services as well as professional, scientific and technical activities, thereby allowing up to 100 per cent ownership in laboratories for research and development in biotechnology, administrative services, support services, educational activities, healthcare, entertainment and construction.

These important and welcome measures, however, come with limitations since the federal government has giving each Emirate the ability to determine the ownership percentage of foreign investors in these activities. In addition, in certain emirates, some activities may still require an Emirati Shareholder, even under the updated increase in foreign ownership threshold by the federal government.

That being said, the Cabinets recent decision will without doubt contribute in strengthening the UAE competitive advantage at the global level. The UAE has in fact continued to go up on the World Bank's Ease of doing business ranking and today stands at number 11 among 190 economies.

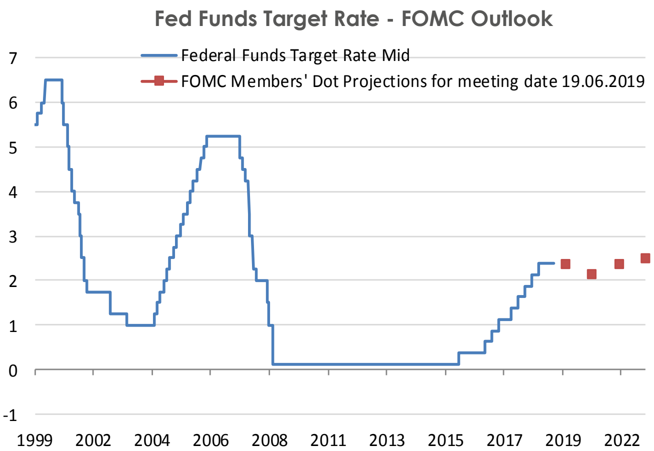
UAE Manufacturing PMI

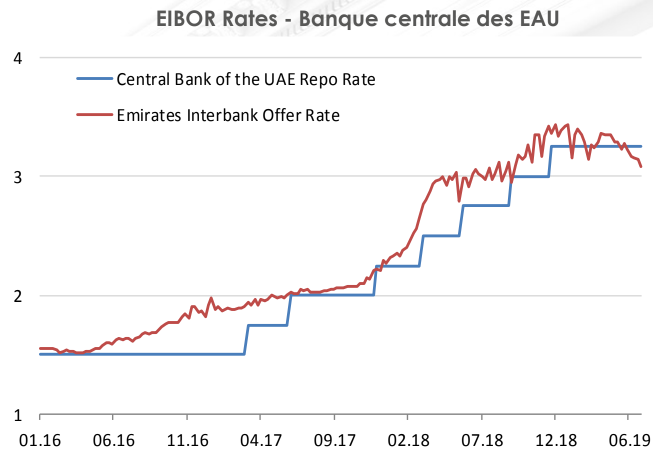


Graph sources: Bloomberg/BBGI Group/ Trading Economics, ENBD

UAE Cabinet Decisions: Approving Sectors Eligible for up to 100% ownership in the UAE

Source: UAE Government Communication Office





Fed's dovish tone on interest rates is positive development for the UAE's economy

The US Federal Reserve's decision to hold interest rates steady and abandon plans to make any increases this year seems to put an end to the institution's three year campaign to normalize the world's largest economy's monetary policy.

The US central bank indeed held its benchmark rate in a range of 2.25 per cent to 2.5 per cent and revised down its expectations for headline inflation an economic growth in the US this year as the global economic cycle continues to display signs of weakness.

The UAE dirham is pegged to the greenback, and the recent stance from the Fed on keeping its benchmark rate stable or even lowering it constitutes a positive development for the UAE's economy. In fact, the rate constitutes the benchmark on most adjustable-rate consumer debt, with perhaps the most critical one for the UAE being the mortgage rates.

The current scenario suggests that UAE consumers whom contracted a mortgage or willing to contract a new mortgage may no longer worry about further increases in interest rates this year thanks to the Fed's more dovish approach. Going forward, one can expect to see consumers becoming more confident about taking on variable rate loans to purchase their first property or to contract consumer loans, hence providing a welcome boost to the country's economy.

In addition, the Fed's current dovish tone on rates and its direct impact on the borrowing costs in the UAE also means that small and medium enterprises, for which borrowing costs make up a significant expense, can benefit from better than expected borrowing terms and cost of funding and contribute in reviving the UAE job market.

A more favorable scenario suggests even the possibility of a rate cut before the end 2019. This could result in a corresponding adjustment to the Emirates Interbank Offered Rate (EIBOR). Any decrease in prevailing EIBOR rate would obviously be welcomed by UAE consumers and households alike. It could also lead to lower mortgage rates that would directly stimulate demand for real estate by easing access to the property ladder in the UAE.

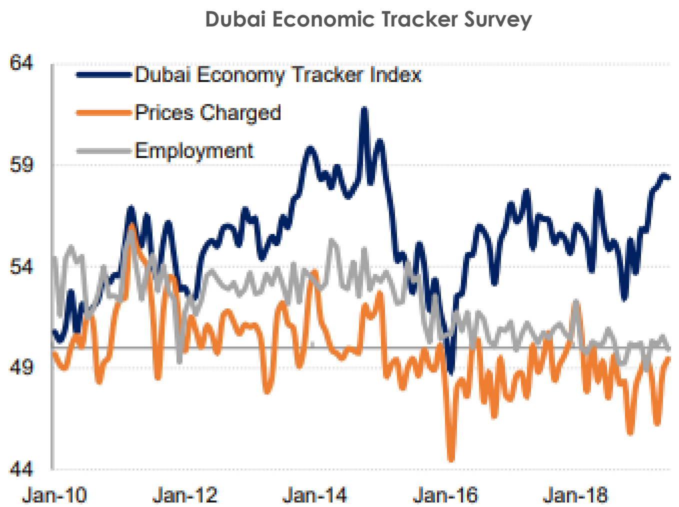
Economic activity in Dubai picks up in H1 2019

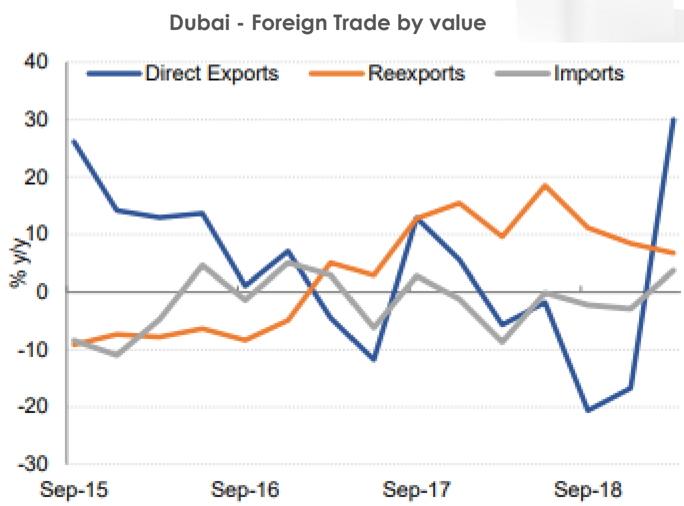
The Dubai Economy Tracker survey points to an acceleration in Dubai's economic growth in H1 2019, with the average Dubai Economic Tracker index rising to 57.3 compared with 55.8 in H1 2018.

Businesses surveyed reported faster growth in output and new work, but reported little or no change in employment in the first half of the year. The extent of price discounting in Dubai was also steeper than in the same period last year, indicating further squeezing of profit margins in the private sector.

The latest available data on non-oil foreign trade in Q1 2019 provide further evidence of a pick up in economic activity in Dubai this year. The Emirate's direct exports grew at the fastest rate since at least 2015, while imports increased year-on-year for the first time since Q3 2017.

Re-exports on the other hand grew 6.7% year-on-year in Q1 2019, the slowest growth rate since Q2 2017, which may reflect lower volumes of global trade and as direct result of growing global trade tensions.





Graph sources: Bloomberg/BBGI Group/HIS Markit, ENBD Research

MACROECONOMIC SCENARIO

Emerging Markets

- The trade war is weighing heavily on emerging economies
- More expansive monetary policies should benefit emerging markets
- Emerging equities trod water in the 2nd quarter (+0.69%)

Economic Situation by Country

Brazil – Global growth prospects have improved considerably, thanks in no small part to the change in monetary policy prospects in major economies. Nonetheless, risks remain in connection with a slowdown in global growth, which could hinder the future growth of the Brazilian economy. The inflation forecasts collected by the Focus survey for 2019, 2020 and 2021 stand at around 3.8%, 4.0% and 3.75% respectively.

Taking into account the baseline scenario, the balance of risks, and the broad array of information available, the Monetary Policy Committee unanimously decided to leave its key rate at 6.50% per annum. The Committee believes that this decision is consistent with inflation heading towards its target and the fact that current economic conditions require expansive monetary policy.

Copom underscores the fact that progress in the reform programme and the adjustments the Brazilian economy needs are essential to reduce its structural interest rate and ensure a lasting economic recovery. The Committee believes that tangible progress in this programme is key in order to support the inflation forecast scenario. Copom underlines the fact that the next monetary policy steps will continue to be dependent on various factors, especially how economic activity develops, the balance of risks, and inflation forecasts.

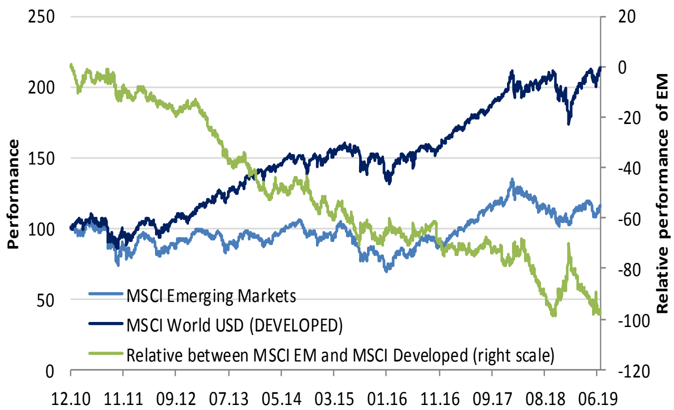
Russia – The year on year slowdown in inflation continues. The yearly growth rate of consumer prices fell to 5.1% in May (compared to 5.2% in April), and should drop to around 5% in June. The fall in consumer demand is hindering inflation. Temporary deflationary factors have also contributed to the slowdown in consumer price growth, in particular the increased strength of the rouble since the start of the year, as well as the fall in fuel prices in May. In these circumstances, and in line with their monetary policy, the Bank of Russia has revised its annual inflation forecast for the end of 2019 downwards from 4.7%-5.2% to 4.2%-4.7%. According to Bank of Russia forecasts, taking into account when the VAT rise will stop having an impact on prices, annual inflation should stick at around the 4% mark over the coming years.

Short-term inflationary risks have fallen compared to three months ago. The full impact of the VAT rise has already been felt, while the revision of interest rate trajectories in the first half of 2019 by the Fed and other central banks in developed economies has reduced the risk of persistent capital losses in emerging markets. However, there is still a risk of a slowdown in global economic growth, especially given the ratcheting up of restrictions to international trade. Geopolitical factors could cause increased volatility in commodities and financial markets, affecting exchange rates and inflation forecasts. The Bank of Russia has hardly changed its risk evaluations regarding salary movements, food product prices, and potential changes in consumer behaviour, considering that these risks remain modest.

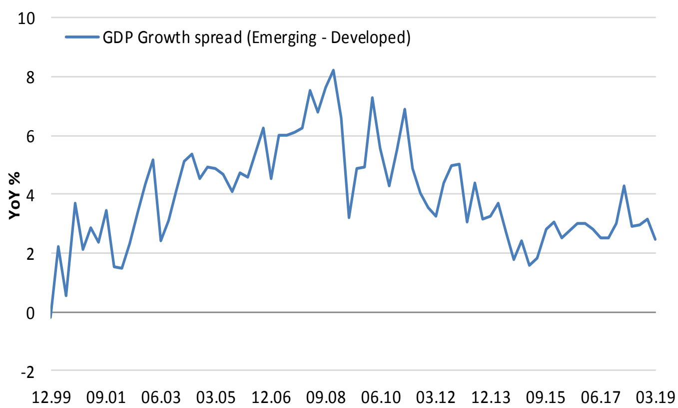
Economic growth came in under the Bank of Russia's expectations for the first half of 2019. Between January and April, annual industrial production growth remained close to the figures seen in the fourth quarter 2018, whereas export growth rates fell due to lower foreign demand. Retail sales growth has slowed since February due to the modest growth in household income. In summary, consumer demand and labour market conditions are not creating any inflationary pressure. As such, the Bank of Russia has dropped its GDP growth forecasts from 1.2%-1.7% to 1.0%-1.5% for 2019. The next few years could see higher economic growth rates as national projects are implemented.

Although the situation is developing in line with baseline forecasts, the Bank of Russia has not excluded the possibility of a further drop in the key rate at the upcoming meetings of the governing board, and a shift towards neutral monetary policy until mid-2020. The Bank of Russia will take into account the inflation trajectory as compared to its target, as well as economic developments over the next forecast period, risks linked to domestic and foreign conditions, and financial markets' reactions when making decisions about its key rates. On the 14th June 2019, the governing board of the Bank of Russia decided to drop its key rate by 25 basis points to 7.5% per annum.

Emerging and Developed Markets - Performance



GDP Growth spread



Graph sources: Bloomberg/BBGI Group

GDP (YoY) - Russia

GDP (YoY) - Brazil

India – The summer recovery in vegetable prices was better than expected, although this may then go hand in hand with a worse-than-expected trend reversal in autumn and winter. More recent information also suggests a widespread increase in the prices of various food products, driving a rise in food inflation in the short term. That said, a considerable deterioration in domestic and foreign demand conditions seems to have led to a sharp, widespread, 60 basis point drop in inflation excluding food products and fuel in April. This has dragged down the inflation trajectory for the rest of the year. In light of this and the impact of recent reductions in key rates, as well as forecasts of a normal monsoon in 2019, inflation forecasts have been revised to 3.0%-3.1% for the first half of 2019 and 3.4%-3.7% for the second half of the year.

Data for the fourth quarter 2018 point to a slowdown in domestic investment and global demand, hindered by the export slowdown in particular. The weakness of global demand due to escalating trade wars could also have an influence on Indian exports and investments. Furthermore, private consumption, particularly in rural areas, has slumped over the past few months. On a positive note, political stability, good use of capacity, the forecast rise in business activity in the second quarter, the strength of stock markets, and increased financial flows into the trade sector all bode well for developing investment activity. Taking into account all of these factors and the recent drops in key rates, GDP growth for 2019 has been revised downwards from 7.2% in April to 7.0% in June.

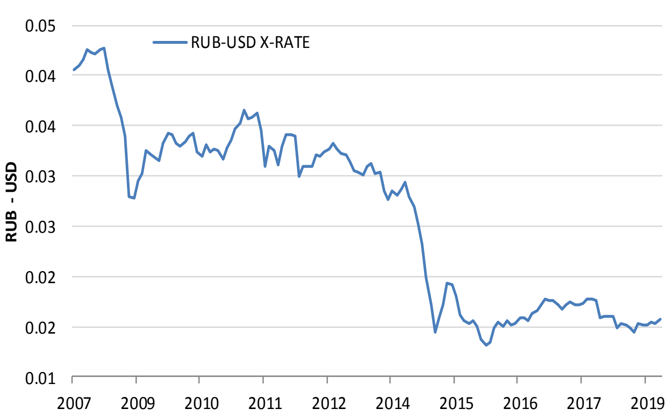
The Monetary Policy Committee has revealed that the momentum coming from growth has dropped off considerably, as can be seen from the widening production differential compared to the situation in April 2019. The clear slowdown in investment activity, as well as the still modest rate of private consumption growth are sources of concern. Inflation remains below the Central Bank's target, even taking into account the expected impact of the last two reductions in key rates. The Committee will aim to sustain efforts to stimulate global demand and revitalise private investment activity, whilst remaining consistent with its inflation target. In this context, MPC members unanimously decided to reduce the key rate by 25 basis points, shifting monetary policy from neutral to expansive.

South Africa – The latest monthly inflation figures have remained close to the mid-point of the inflation target range. Medium-term inflation prospects have tailed off slightly. The inflation forecast generated by the South African Central Bank's quarterly projection model has changed slightly since the last Monetary Policy Committee meeting. Global inflation should come in at 4.5% in 2019 (compared to 4.8% previously), and hit 5.1% in 2020 (previously 5.3%), before heading back to 4.6% in 2021 (previously 4.7%). The Monetary Policy Committee welcomed the continuing downward trend of recent inflation figures and the drop in inflation forecasts. This is a positive development as the Committee would like inflation to remain close to the mid-point of the target inflation range in the longer-term.

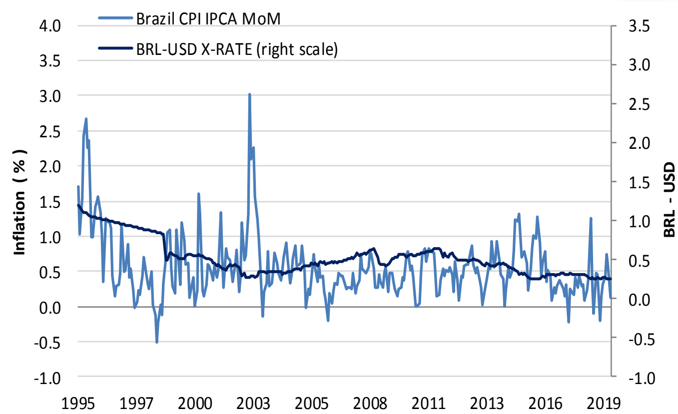
The rand has been benefiting from better investor confidence regarding the riskiest assets, but will continue to be affected by growth prospects on the domestic market as well as by the political context. Although the rand has appreciated 2.95% against the US dollar and 1.46% against the euro since March, the Committee believes that it is still slightly under-valued.

According to recent indicators and in light of the negative growth in the mining and manufacturing sectors, GDP should shrink in the first quarter 2019. The disappointing results for the South African economy are due specifically to restrictions in electricity supply and a lengthy strike at a large gold mine. Business and consumer confidence continues to affect short-term growth forecasts. The SARB (South African Reserve Bank) is now forecasting around +1.0% GDP growth in 2019, which is down compared to the +1.3% forecast in March. Forecasts for 2020 and 2021 stand unchanged at +1.8% and +2.0% respectively. Escalating trade tensions could have a significant impact on world trade, with negative repercussions for South Africa as a small, open economy. The Committee remains convinced that the challenges the economy is currently facing are mainly structural and cannot be solved by monetary policy alone. It is now of the utmost urgency to combine cautious macroeconomic policy with structural reforms to improve potential growth and reduce the economy's cost structure. In light of this, the Monetary Policy Committee decided to leave its key rate at 6.75% year on year, continuing with its expansionary monetary policy.

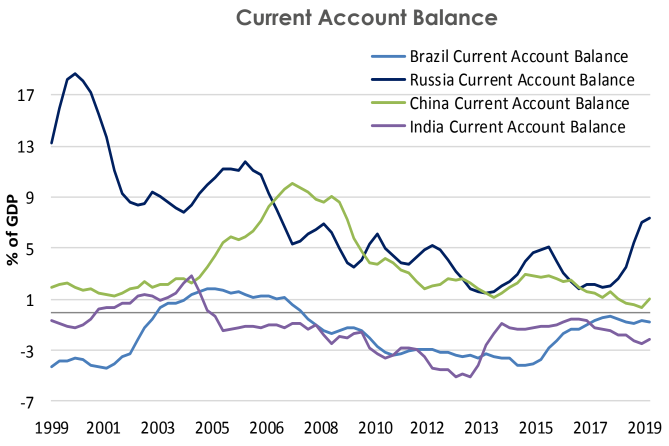
Ruble VS USD

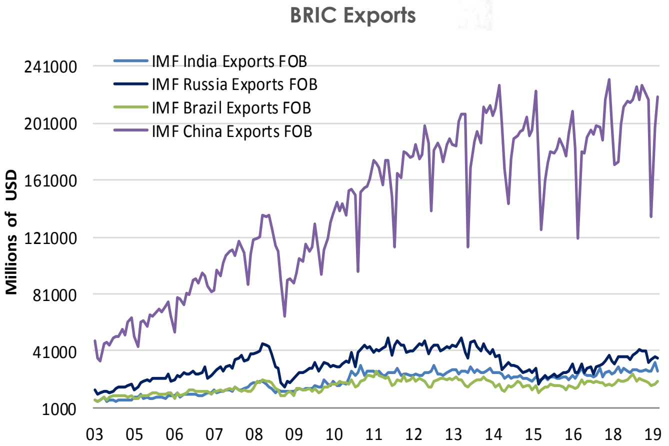


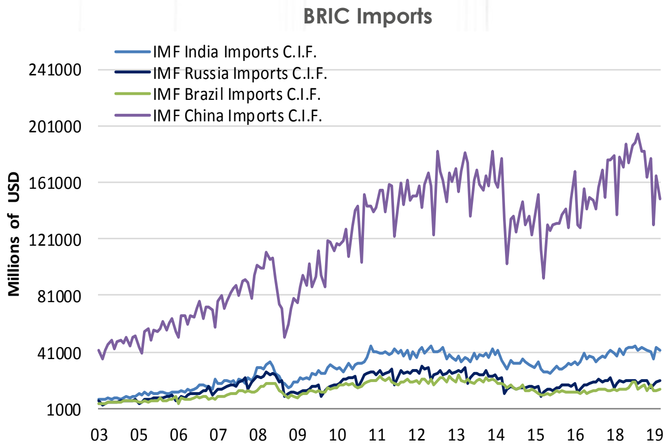
Inflation and Exchange rates



Graph sources: Bloomberg/BBGI Group







Colombia – Colombian inflation stood at 3.31% in May. A reduction in some areas of supply could increase inflation over the coming months, but it should come back to its target level in the longer-term. Although economic growth for the first quarter 2019 came in under expectations, new figures available suggest that the economy should be more dynamic in the second quarter. That said, global growth prospects continue to tail off, and the likelihood that the Fed will reduce US key rates has significantly increased.

In this context, after having evaluated the economic situation and the balance of risks, the Colombian Central Bank unanimously decided to leave its key interest rate at 4.25%.

Indonesia – The Indonesian Central Bank left its benchmark rate at 6%. Decision-makers said that this decision aimed to guarantee availability of liquidity on the money market. The Committee added that it would continue to watch financial market conditions and Indonesian economic stability on an international level to see whether a reduction in key rates would be needed or not.

Mexico – The Mexican Central Bank left its key interest rate at 8.25%, the highest level of the past decade. Inflation forecasts for the next few years stand very much higher than the 3% target, while the country's annual economic growth fell once again in the first quarter (+1.2%).

Taiwan – The Taiwanese Central Bank kept its key rate at 1.375%, as generally expected. It said that domestic demand continued to drive economic growth. Decision-makers have revised their Taiwanese GDP growth forecasts downwards from 2.13% to 2.06% for this year. The 2019 inflation forecast has also been revised downwards to 0.87% (compared to 0.91% in March).

Turkey – The Turkish Central Bank left its key rate at 24%, stating that restrictive monetary policy aided the disinflation process. Inflation has fallen to its lowest point over the last nine months, at 18.71%, after having hit 25.24% last October due to a monetary crisis which dragged the Turkish economy into recession.

Romania, Czech Republic, Poland, Hungary – The Romanian National Bank did not change its 2.5% key rate, in line with market expectations. This came after an unexpected rise in the inflation rate to 4.1%, its highest level in the last six months.

The Czech National Bank raised its key rate by 25 basis points to 2%, bringing it back to the level it was at in February 2008. Inflation moved up to 3% in March, compared to 2.7% in February. This was in line with the Central Bank's upward forecasts.

The Polish National Bank left its key rate at 1.5% after inflation hit 2.3% in May. This is its highest level since November 2017, but still slightly under the long-term 2.5% target.

The Hungarian National Bank left its key interest rate unchanged at 0.9% in June. Inflation (3.9%) came in at its highest level since December 2012, and stands very close to the upper bound of the 2%-4% target set by the Central Bank.

Graph sources: Bloomberg/BBGI Group

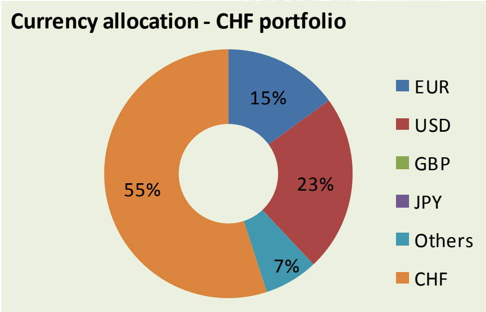
PROSPECTS AND STRATEGIES

Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

Currencies

- Low likelihood of Swiss franc appreciating significantly
- Euro relatively stable
- Weaker yen remains necessary
- Risk of recession weighs on the pound
- Chinese growth supports Australian dollar



Tactical Allocation

- Underweight CHF
- Favor USD
- Overweight EUR
- Avoid JPY

LIQUIDITY/ CURRENCY	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
EUR vs CHF	↗	↗							
USD vs CHF	↗	↗							
GBP vs CHF	↘	↘							
JPY vs CHF	↘	↘							
EUR vs USD	↗	↗							
USD vs JPY	↗	↗							
GBP vs USD	↘	↘							

Low likelihood of Swiss franc appreciating significantly

The Swiss economy once again grew faster than the Eurozone's in Q1, expanding by +0.6% vs. the +0.4% progression posted by its close economic partners. This small difference in growth rates has not yet become an adjustment factor with regard to the exchange rate, even if it would tend to favour a stronger franc. Nevertheless, the economic upturn in the euro area is reassuring, although it remains particularly fragile in the absence of a clearer reversal in industrial output, down a further -0.6% in March. The yield spread on 10-year German Bund and Swiss government rates narrowed abruptly between March and April, from 0.4% to 0.2% today, due to the sharper decrease in yields in the Eurozone. Nevertheless, this contraction did not affect the euro/franc exchange rate, which fluctuated around 1.13, in a narrow range between 1.116 and 1.145. We continue to expect that any further weakening of the franc will depend on the relative economic performance and interest rate spread between the franc and the euro. We continue to think that the SNB will not raise rates as quickly as the ECB, which does not seem likely to happen in 2019. In the meantime, the exchange rate will likely stabilise between 1.12 and 1.17 against the euro. As for the US dollar, the rate spread and growth differential remain positive factors for the dollar. While this state of affairs is not new, it could be sufficient to further bolster trends favourable to the dollar.

Euro relatively stable

The economic upturn has not lead to a revaluation of the euro over the past few months. The euro/USD exchange rate decreased slightly but remained relatively stable, fluctuating between 1.13 and 1.11 over the period. Indeed, the interest rate spread between the euro and the US dollar along with diverging economic results did not result in any significant movement. The current exchange rate of 1.13 USD to the euro likely already factors in the known risks of a slowdown in the Eurozone. The current stabilisation could lead to appreciation of the euro in 2019, if the growth outlook normalises, which seems difficult to predict for sure today in spite of several more positive signs in Q2. Otherwise, the euro is likely to weaken against the dollar given that there will be stronger downward pressure on long-term euro rates, while US dollar long-term rates are likely to stabilise.

Weaker yen remains necessary

Our outlook for the yen remains unchanged and bearish for 2019. We had been mentioning for several quarters already that a weak yen is a necessary condition for growth and inflation to pick up in Japan. Higher inflation would breathe some life into the Japanese economy and enable it to resume a more sustained pace of growth. Monetary policy still aims to weaken the yen, but means available to the central bank remain limited. We continue to expect that investors will shun the yen given a totally unfavourable interest rate environment and rate spreads that are likely to continue to penalise the Japanese currency. The interest rate spread temporarily narrowed over the past few weeks, but it will likely widen again, favouring a depreciation of the yen against the dollar. We thus expect the relative stability of the Japanese currency between 108 and 112 yen to the dollar since the beginning of the year to be temporary. The yen will likely depreciate, reaching 115 against the US dollar before stabilising above this level.

Fundamentals still favourable to US dollar despite Donald Trump

With regard to fundamentals, the US dollar is still benefitting from very favourable and attractive economic growth differentials and yield spreads. US growth remains above that of the euro area, Switzerland and Japan, and the yields offered by the US Treasury, even after the yield correction in the last two quarters, are still very enticing in comparison with other negative-rate markets.

Economic prospects for the next few months still favour the US and the dollar. However, Donald Trump could once again spring a negative surprise for the US currency as he has made no secret of his annoyance at the US dollar's relative strength. His criticism of the Fed is directly aimed at the strength of the dollar, which the US President would like to see weaken. The US president could well be tempted to use his position to drive the greenback down.

Graph sources: Bloomberg/BBGI Group

Risk of recession weighs on the pound

The pound is more than ever hostage to the complex political situation surrounding Brexit. The UK should have exited the EU on 29 March without an agreement.

The political impasse remains intractable despite the extension of the deadline to October. The British currency is now being affected by the slowing economy and increasing risk of recession. Given this context, we maintain our caution vis-à-vis the pound. We expect that the pound is likely to further depreciate below its December 2018 level of 1.25 against the dollar.

Chinese growth supports Australian dollar

The Australian dollar will likely benefit from the country's healthy economy, which is resisting quite well to the global economic slowdown. Chinese demand for raw materials is contributing to Australia's resilient economy, whose trade balance surged from 4.8 to 5.7 billion Australian dollars in May. The strength of the natural resources sector offset the flagging real estate sector and weak consumer spending. The Chinese government's support measures are helping Australian exports and demand for Australian dollars after a period of weakness. Overall, the Australian economy remains quite dependent on China, and an improvement of China's economic prospects would raise the outlook for the Australian economy and the demand for Australian dollars. The currency will benefit from these developments and appreciate back up to its average rate for the last three years of 0.76 AUD to the USD.

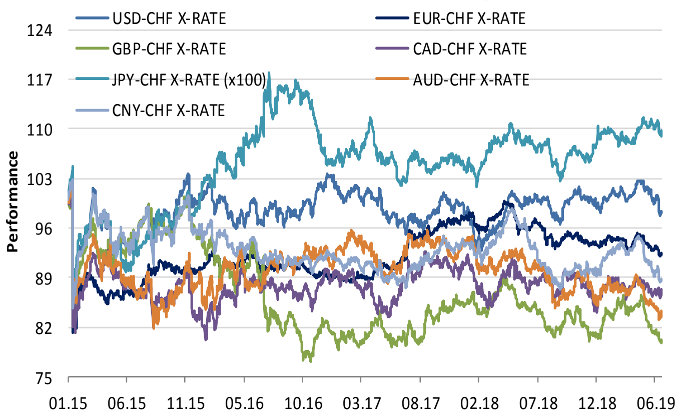
Appreciation of the yuan in the event of a trade agreement

Slight progression of foreign exchange reserves from 3.1 to 3.12 trillion dollars based on a weaker dollar and higher valuations of international assets.

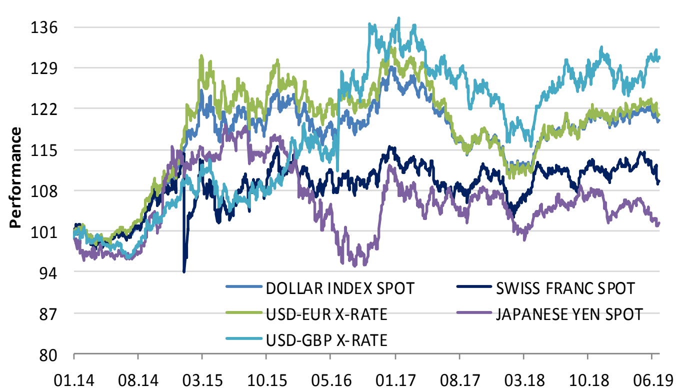
The thaw in the relations between China and the US has enabled the yuan to appreciate somewhat after suffering from renewed tensions in May. Overall, the Chinese currency has stabilised in the last twelve months, fluctuating in the range of 6.7 and 7 yuan against the dollar. Hopes of a deal in Q1 triggered an appreciation of the Chinese currency before the interruption of negotiations had the opposite effect. The easing of tensions sought during the G20 summit enabled the yuan to regain the middle of this fluctuation band in the short term by returning to the average rate of 6.85.

In the medium term, a trade solution will likely help the yuan appreciate by +5 to +10% against the dollar.

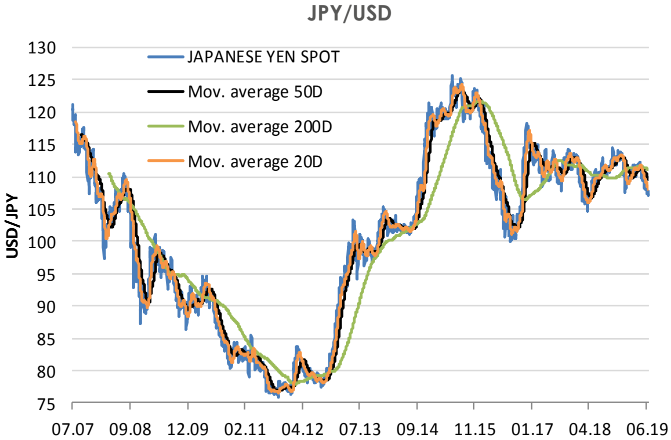
7 currencies against CHF (Normalized at 100)



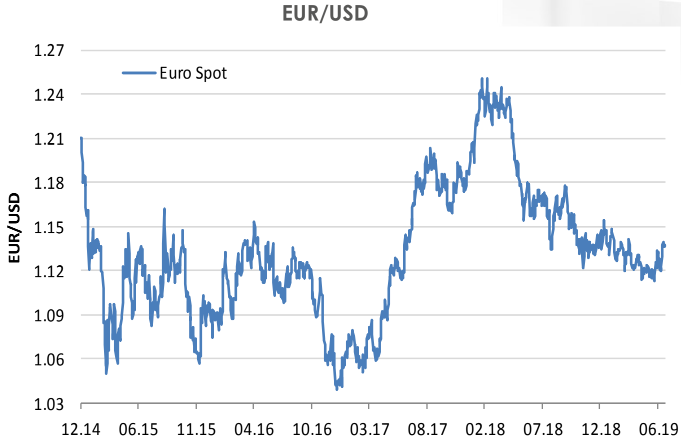
Dollar Trade-weighted index & cross rates (Normalized at 100)



JPY/USD



EUR/USD



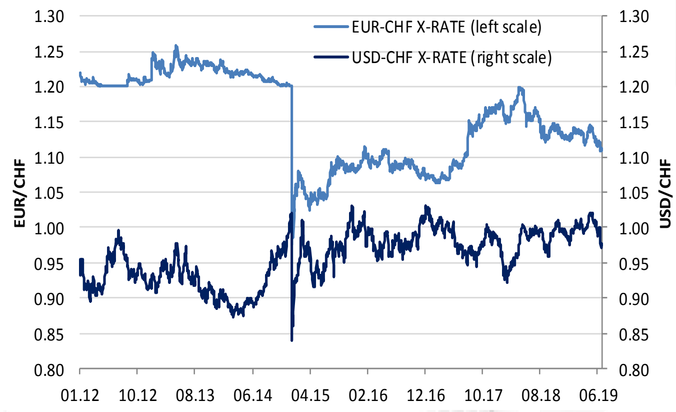
Graph sources: Bloomberg/BBGI Group

CURRENCIES

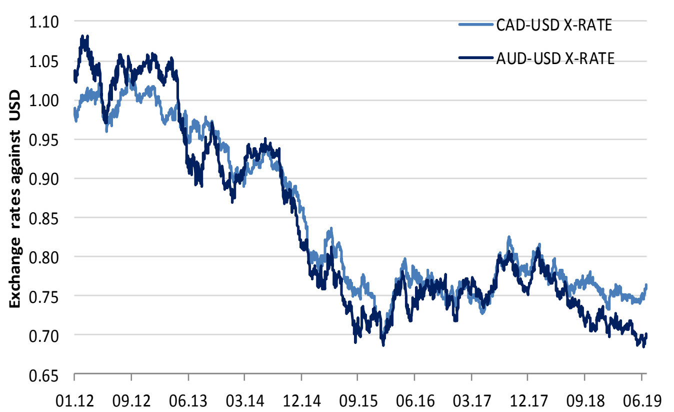
30.06.2019

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.1	0.0	1.8	1.4	-0.8	-0.8
CHF-USD X-RATE	1.0	0.0	2.5	2.3	0.6	0.6
GBP-USD X-RATE	1.3	-0.3	0.5	-3.1	-0.3	-0.5
JPY-USD X-RATE	0.0	-0.5	0.4	3.2	1.7	1.6
CAD-USD X-RATE	0.8	1.0	3.2	1.6	4.1	4.2
AUD-USD X-RATE	0.7	1.4	1.2	-1.3	-0.5	-0.4
RUB-USD X-RATE	0.0	-0.4	3.4	3.1	10.2	9.3
CNY-USD X-RATE	0.1	0.0	0.6	-2.3	0.2	0.2
INR-USD X-RATE	0.0	0.9	0.9	0.4	1.1	1.0
BRL-USD X-RATE	0.3	-0.7	1.9	0.1	0.9	0.9
AGAINST SWISS FRANC						
USD-CHF X-RATE	1.0	0.0	-2.4	-2.2	-0.5	-0.6
EUR-CHF X-RATE	1.1	0.0	-0.7	-0.8	-1.4	-1.3
GBP-CHF X-RATE	1.2	-0.4	-1.9	-5.3	-0.9	-1.0
JPY-CHF X-RATE (x100)	0.9	-0.5	-2.1	0.9	1.1	1.0
CAD-CHF X-RATE	0.7	1.1	0.7	-0.7	3.6	3.5
AUD-CHF X-RATE	0.7	1.3	-1.3	-3.5	-1.0	-1.3
RUB-CHF X-RATE	0.0	-0.4	0.9	0.8	9.6	8.7
CNY-CHF X-RATE	0.1	0.1	-1.9	-4.4	-0.4	-0.4
INR-CHF X-RATE	0.0	1.4	-1.4	-1.4	0.7	0.7
BRL-CHF X-RATE	0.3	-0.8	-0.4	-1.9	0.4	0.4

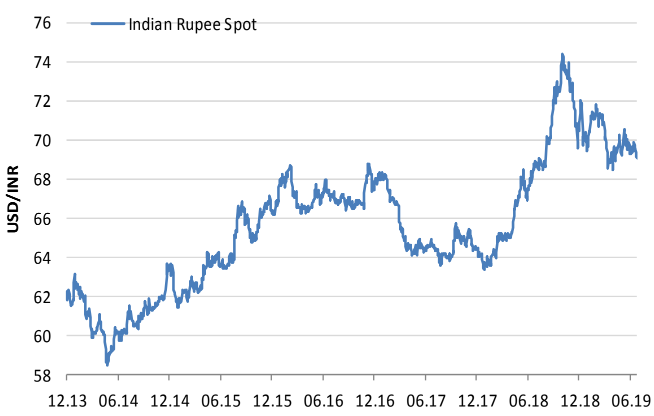
EUR/CHF - USD/CHF



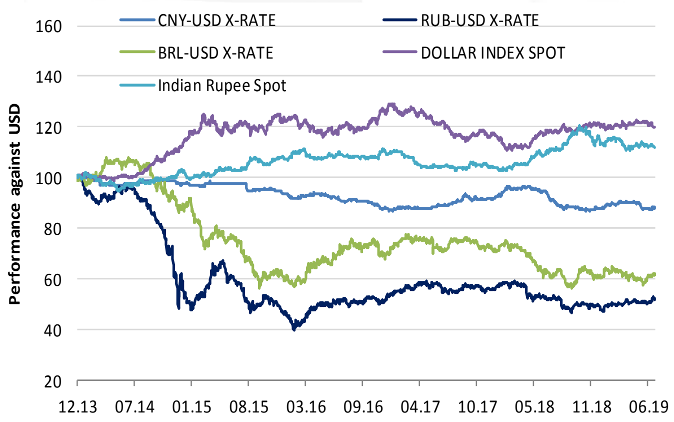
CAD/USD - AUD/USD



Indian Rupee



Emerging Currencies VS USD (base 100)



Graph sources: Bloomberg/BBGI Group

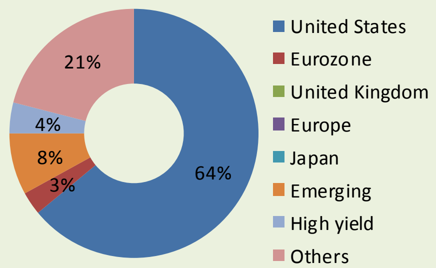
PROSPECTS AND STRATEGIES

International Bonds

- Rate markets remain pessimistic in the US
- Will the Fed dare to oppose financial markets?
- Continuing fall in euro yields
- Overweight US, Australia and Canada

BONDS (Areas/currency)	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↘	↘↘							
United States	↘	↘							
Eurozone	↘	↘↘							
UK	↘	↘							
Europe	↘	↘↘							
Japan	↘	↘							
Emerging	↘	↘							
Other (AUD, CAD, NOK...)	→	→							

International Bonds allocation



Tactical Allocation

- Reduce exposure to Eurozone
- Overweight US bonds
- Diversify risks through an exposure to CAD, AUD and emerging debt
- Reduce exposure to high yield

Rate markets remain pessimistic in the US

Rate markets took forecasters by surprise by declining further in 2019 by more than 100 points below the consensus forecast for the end of 2019, based on the expectation of a significant deterioration of economic conditions in the US and throughout the world. Indeed, a few economic statistics corroborated a global downturn scenario, especially data from various manufacturing sectors in a growing number of countries. The publication on 26 July of US GDP figures for Q2 might or might not give body to these expectations. For the time being, the decline is visible in the manufacturing and services PMIs as well as in some consumer confidence measures for example. On the international level, in June, more than half of manufacturing PMIs published recorded declines.

Consequently, we could wonder how rates and equity markets might react if the Fed does not lower its rates as expected at the end of July.

This binary situation is actually not at all reassuring if we consider that the factor that supported the rebound in equity markets in June is precisely the anticipation of a drop-off in rates which was based on the prospect of much weaker economic activity. The Federal Reserve's upcoming decision will clearly be crucial for the short-term future of financial markets, which are relying on a reversal of the normalisation policy in favour of an economic support policy. Indeed, the current situation in the financial markets is very specific and particularly fragile. Ten-year US yields fell by 120 base points between October 2018 (3.2%) and June 2019 (2%) based on the anticipation of a sharp economic downturn in the US and a decline in inflation. In the same period, equity markets experienced high volatility marked by a first period of price correction of close to -20% followed by a sharp, six-month long increase during which the S&P500 returned to the peak levels it reached in September 2018, but in a political context that was just as uncertain (persisting trade tensions) and with declining economic prospects such that a rate cut in July seems like the main factor behind the price rebound observed in June.

The absence of a rate cut on 31 July in such a context will have a significant impact on financial markets, which will depend on the macroeconomic data available at that time.

If the Fed's decision can be justified by an encouraging set of economic data, we will likely see an upward adjustment of long-term rates. It is far from certain, in this case, that equity markets will not also react negatively to this increase in long-term rates. We could then see a simultaneous correction in the bond and equity markets potentially favourable to gold prices.

If, on the contrary, the Fed's decision is based on the necessity to wait until September to have a clearer view of the economy's evolution, rates might fall further below 2%.

Will the Fed dare to oppose financial markets?

The decline in the manufacturing PMI leading indicators in Q4 2018 was supposed to be temporary since it was mainly linked to the uncertainty around the trade negotiations between China and the US after the truce announced on 1 December. Hopes for a practical resolution before the deadline in March 2019 had then dominated equity markets without really convincing rate markets, where ten-year government yields stabilised at 2.6% . These hopes were brutally swept aside with the negotiators' toughening stance in May, which triggered a further decline in long-term rates as well as falling growth expectations, as shown by the PMI indicators in May. Thankfully, June ended with a stabilisation of the leading indicators and long-term rates, pending the planned meeting between Donald Trump and Xi Jinping at the G20 summit in Osaka. The relative easing of tensions between the two superpowers at the end of the G20 summit had no immediate impact due to the absence of concrete decisions on the trade issue. Consequently, we might wonder whether resuming the dialogue and freezing further tariff increases will be enough to improve economic sentiment and avoid a global economic downturn in Q2.

BOND INDICES (local currency)

30.06.2019 — Total Return Performance

	Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %
SWISS BONDS	SBI AAA-BBB	140.9	CHF	0.3	0.4	1.5	3.2	3.2
UE BONDS	Barclays EuroAgg	263.2	EUR	0.4	1.9	3.1	5.4	5.4
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	144.5	EUR	0.0	0.3	0.2	0.4	0.4
US BONDS	JPM U.S. Aggregate Bond Index	672.6	USD	0.4	1.3	3.6	6.4	6.4
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USDA1	8.5	USD	0.2	0.8	1.4	3.2	3.2
EMERGING BONDS	JPMorgan Emerging Markets Bond	585.9	USD	0.1	3.6	4.1	12.0	12.0
INTERNATIONAL BONDS (DIVERSIFIED) - USD	JPM Global Aggregate Bond Index	597.2	USD	0.5	2.2	3.8	5.9	5.9
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	JPM Global Aggregate Bond Index	688.6	EUR	-0.1	0.0	2.3	6.3	6.3
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	151.3	CHF	0.1	-0.4	1.8	7.1	7.1
CONVERTIBLE BONDS (UE)	Exane Europe Convertible Bond	7910.6	EUR	-0.1	1.3	1.1	7.6	7.6
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	151.2	USD	0.2	3.1	2.3	8.7	8.7
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	14.9	USD	0.0	1.7	2.0	7.4	7.4

1) Short & Medium-term (1-5 years)
2) Emerging Bonds (Corporate)
3) Emerging Bonds - Eastern Europe

Graph sources: Bloomberg/BBGI Group

The American central bank could well decide to maintain its normalisation policy unchanged until September, especially if economic growth appeared sufficiently robust in Q2. The current dilemma for the Fed is indeed to get through these turbulent times by adopting the most appropriate policy for the long term, and the truest to its convictions.

A rate cut in July could be seen as a sign of weakness and dependence in terms of the political pressure exerted by the White House, especially if the Fed remains convinced that the underlying trend remains positive for the American economy as the very strong economic sentiment and consumer confidence indicators could suggest.

In this event, we would then see a rebound in long-term rates that would trigger a simultaneous correction in rate markets and stock indices during the summer. In contrast, a cut could also be counter-productive as it could strengthen the scenario of an upcoming recession or convince some that prospects have improved. It might prove difficult for the Fed to lower its key rates in a "pre-emptive" manner without further supporting already negative macroeconomic expectations. In its latest press conference in June, the Fed maintained its GDP growth forecast of +2.1% and lowered its expectations for the unemployment rate from 3.7% to 3.6%.

The Fed declared itself ready to demonstrate great flexibility in managing its monetary policy in 2019, announcing that it would not rule out the possibility of lowering key rates if need be. Nevertheless, we believe that the probability of rates being lowered in July, amounting to approximately 85% in June, which did not seem rational especially after the G20 summit, the current stabilisation of PMI indicators and the strong performance of consumption, will drive the Fed to act. In the context of a relatively tight employment market, wage growth is logically continuing in the US, strengthening the outlook for private consumption, which remains the main driver of economic growth. In this context, average hourly earnings in May decreased slightly to +3.1%, which remains high in statistical comparison to the last ten years.

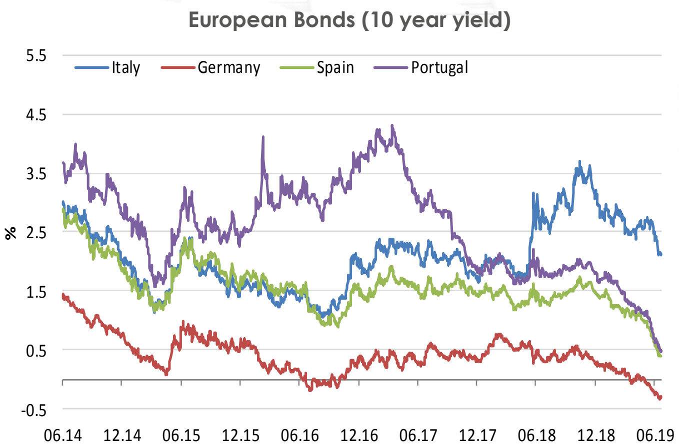
If household income growth is not interrupted by geopolitical issues and by the uncertainty associated with the trade war, economic growth will likely follow a sustained positive trend close to +2% in Q2 and H2. Inflation stabilised in May (+1.8%) just below the Fed's target (2%) despite high volatility observed in energy prices in Q2. For the moment, the dominant economic scenario in rate markets is still one of weakening growth, pending an improvement in leading indicators. Nevertheless, we believe it is likely that a rise in ten-year yields will go hand in hand with better economic data during the summer.

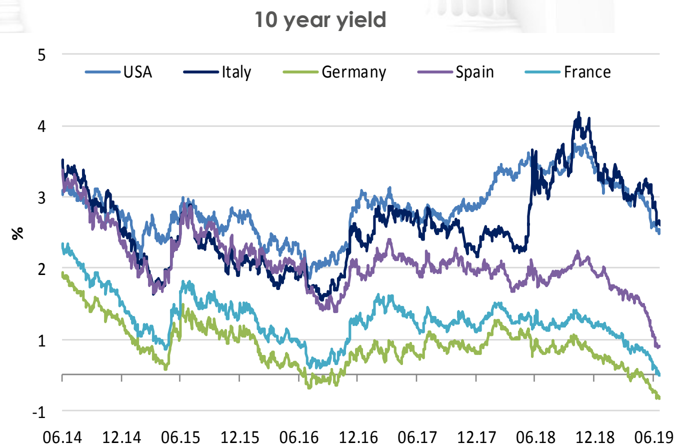
Continuing fall in euro yields

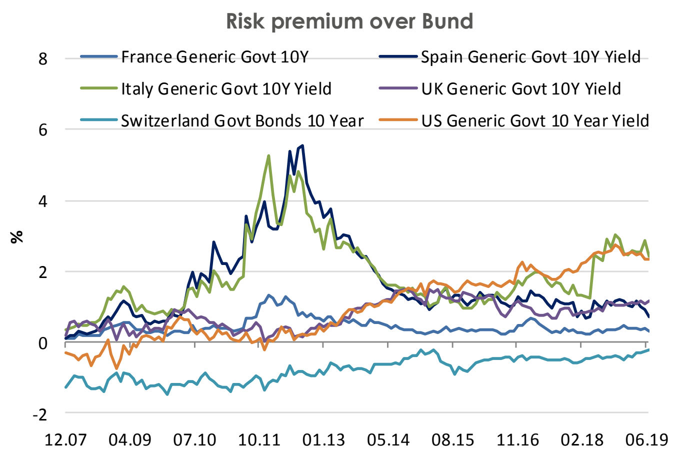
The escalation of tensions between China and the US in May once again depressed bond yields. The drop in
ten-year government yields in euros had already wiped out positive returns at the end of March in an environment that was already considered challenging for the European economy. The decline in yields from 0% to -0.32% in June thus indicates a stronger resurgence of anxiety among investors than in 2016, when long-term rates had reached a low of -0.2%.

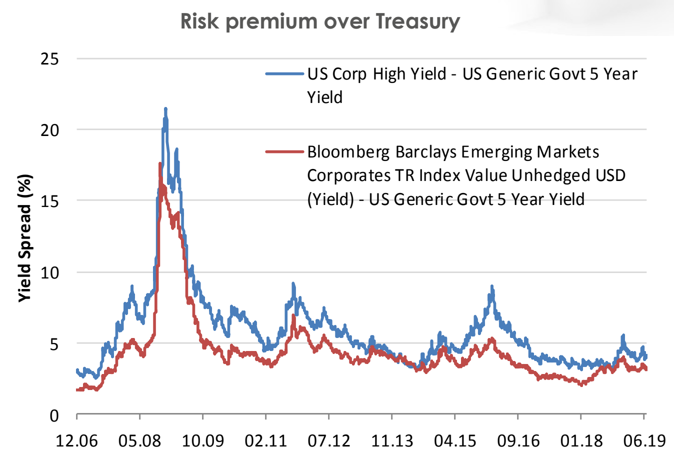
Inflation has indeed slipped from a high of +2.2% in October 2018 to only +1.2% in June. In comparison, in 2016 when rates had reached record lows, inflation in the Eurozone was negative (-0.3%), and the fear of deflation seemed more present than it is currently. Real yields are thus unambiguously negative at -1.52%, against only -0.1% in 2016. Excluding food and energy, core CPI stood at +1.1% in June.

Uncertainly in the euro area has pushed yields to extreme levels, even considering the unlikelihood of a rate change by the ECB. Give the macroeconomic context, the ECB's messaging can hardly be expected to be upbeat, but the Bank cannot convey pessimism either at the risk of having to explicitly announce swift rate cuts. In this environment, financial markets are pushing long-term rates ever lower and squeezing the risk premium on various maturities along the yield curve. The yield spread between two-year and ten-year German Bund bonds has contracted down to only 40 basis points. We are thus seeing a flattening of the euro yield curve that is nothing short of extraordinary, with negative absolute and real yields on all maturities.









Graph sources: Bloomberg/BBGI Group

Risky situation in the UK

The extension to October of the deadline for the UK's withdrawal from the EU offers investors a temporary reprieve, as they can set aside for a time the immediate threat of a no-deal exit, which would have potentially disastrous consequences in terms of the valuation of the pound, inflation, and growth. Brexit worries have been put on the backburner for now due to the UK economy's loss of momentum in Q2. It is now likely that the UK will enter into recession over the summer, just before the next deadline. Long-term interest rates had stabilised above 1.2% before the decision to delay Brexit, falling rapidly to 0.8% in reaction to the increase in the risk of economic contraction and the massive decline in industrial production (-2.7% in May). These low levels are associated with a risk of sudden capital losses as well as a risk of currency devaluation.

We view this environment as relatively unattractive and do no recommend maintaining any exposure to the UK rate market. Inflation in the UK had reached 3.1% in 2017 with the depreciation of the pound before gradually declining to 1.8% in March. The risk that inflation will heat up following Brexit obviously depends on how the issue is resolved and will certainly be much higher in the event of a no-deal withdrawal.

No prospects for Japanese bonds

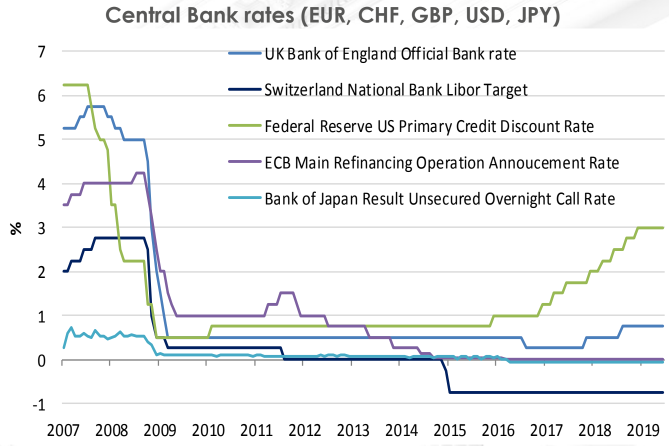
Inflation does not currently represent a significant threat with regard to the Japanese bond market, in spite of an increase of the CPI to 0.9%. Production prices decreased by -0.1% in May (+0.7% yoy), while imported inflation fell by -1.4% yoy. An upswing in prices was conditioned upon a depreciation of the yen, but inflation is still far from the BOJ's target (2%). In keeping with global trends, 10-year government yields are once again negative (-0.13%). The current context is clearly not favourable to the bond market, which still fails to offer attractive prospects to foreign investors in terms of yields, while the risk of incurring capital losses over the long run is significant and that the Japanese currency should weaken against the US dollar.

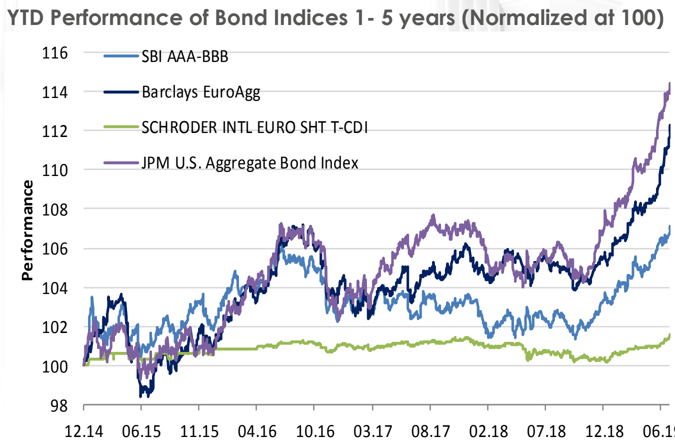
High-yield bonds and emerging debt

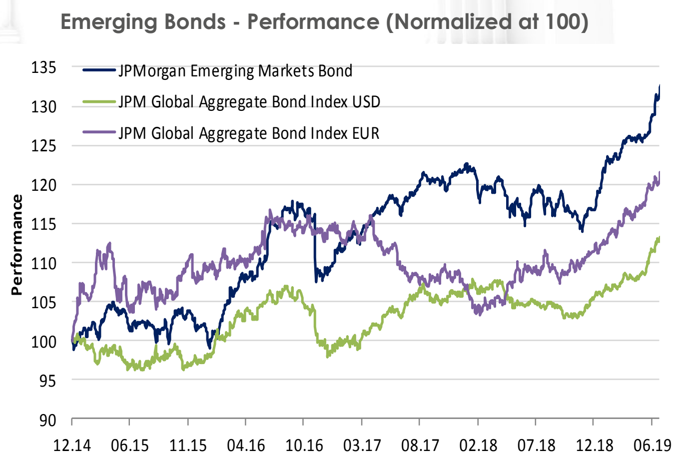
Non-investment grade bond markets (+2.97%) and emerging markets (+3.75%) have once again benefitted from the generally positive environment for rate markets in Q2. Emerging bonds even posted the best performance in traditional bond segments, clearly outperforming the global bond index (+3.29%). Indeed, these markets benefitted from several positive short-term factors which drove significant recoveries since the low points in December 2018. Risk premiums for these investments decreased a little further, but the two market segments still offer superior and attractive returns from a relative standpoint, and will remain sought after by investors looking for yield pick-up, despite the compression of the risk premiums. If economic expectations remains unchanged, this appeal will likely persist. If on the contrary, economic prospects improve, the rise in yields on investment grade issuers could start to compete with these segments. This situation will have a negative impact on these markets, which nevertheless benefit from a positive yield differential that may partly mitigate yield adjustments.

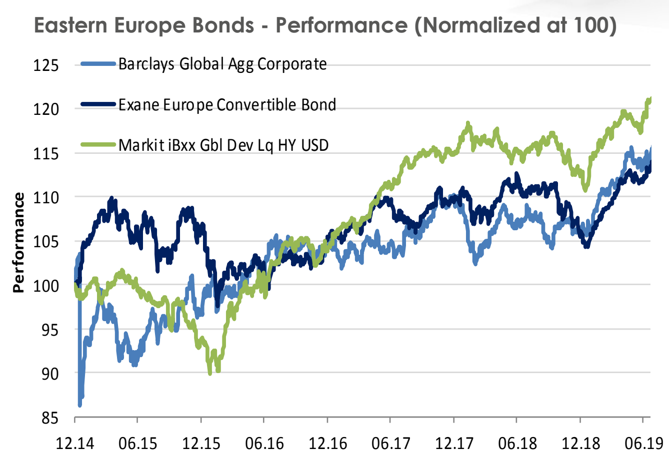
Overweight US, Australia and Canada

The latest 0.5% drop in ten-year rates seems completely excessive in the current economic context. Improving PMIs, leading indicators and economic statistics in the next few months will likely trigger a shift in perception and an adjustment of interest rates in the US especially. We will undoubtedly see yield curves steepening once again in most countries. In our international bond allocation, we favour rate markets that produce sufficient yield to mitigate, at least partially, the impacts of these adjustments. In the investment grade segment for developed countries, we are overweight the US, Australia, Canada and short durations.









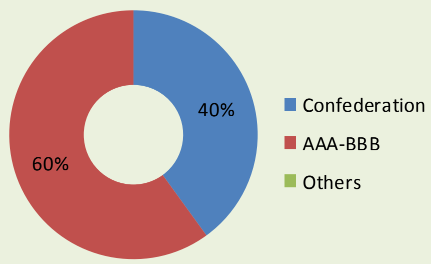
Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

Swiss Bonds

- Swiss capital markets tracking global trend
- SNB's rate policy still tied to the ECB's
- Only a recession can justify the current ten-year yields
- Real negative yields will further boost growth

Swiss Bonds allocation



Tactical Allocation

- Underweight Swiss Government Bonds
- Overweight the "IG" segment
- Short duration

BONDS Type of Debtor	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Governement	↘	↘							
Corporate (IG)	↘	↘							
Others	↘	↘							

Swiss capital markets tracking global trend

The rate markets manifestly do not want to be convinced that the global economy is not headed for a major slowdown. The generalised fall in yields, which continued in Q2 2019, is also affecting Switzerland, whose 10-year government yields fell from 0.1% in October 2018 to -0.5% in May. This situation seems to be calling into question the normalisation of long-term rates in Switzerland, which had started in the summer of 2016, even as growth is accelerating in our country. While the decline in inflation certainly drove the recent decrease in yields, we think the latter is not consistent with current favourable economic conditions. Switzerland's economy is indeed doing better than expected in Q1, posting a real growth rate of +0.6%, well above expectations, which is unlikely to falter in Q2. The vitality of our economy is welcome, despite an exchange rate against the euro that has appreciated somewhat. GDP growth is still expected to come in at +1.5% for the year as a whole, benefitting from higher demand for Swiss products and services as well as strong household consumption, driven by a robust employment market. Swiss long-term rates have thus fallen together with international yields, driven by fears of a slowdown or even a recession. Swiss bonds rose by +3.22% in the first six months, a little less than international bonds (+5.57%), but a clear increase despite solid economic growth that does not justify such behaviour.

SNB's rate policy still tied to the ECB's

Long-term rates have dropped in Switzerland following a generalised international trend. Short-term rates are nevertheless still set at -0.75% by the SNB, which has reasserted that its monetary policy will remain particularly accommodative. The SNB has quite some room to manoeuvre, enabling it to influence the exchange market as well as key rates. Although the SNB recently reviewed its inflation forecast upwards for 2019, it is unlikely to hesitate to lower its key rates further still if necessary. A rate cut by the Fed on 31 July and similar action by the ECB could probably push the SNB to cut rates. The likelihood of further cuts in interest rates in the Eurozone is increasing but a reduction of the deposit rate is unlikely to occur before September. A decrease in the ECB's policy rate by 0.1% might not be enough to spur the SNB into action. It might wait for a more significant move to act.

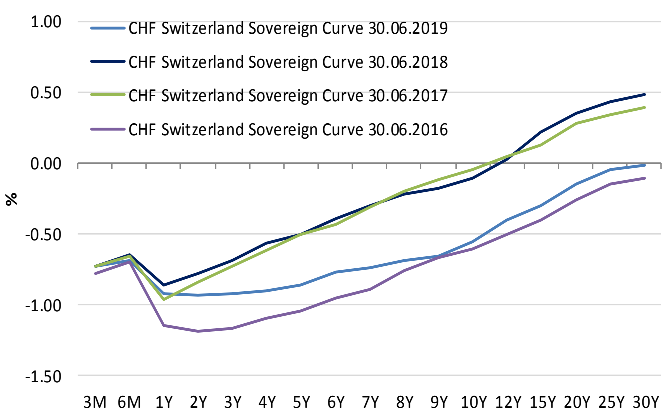
Only a recession can justify the current ten-year yields

The decrease in the Swiss government ten-year rate from +0.1% to -0.65% is not built upon a fundamental basis. By once again reaching the level of -0.65% in the beginning of July 2019, which they last reached in 2016, long-term rates reflect the widely shared pessimistic sentiment of capital markets. We actually believe that a recession is currently quite unlikely and that the Swiss economy is more likely to grow at a pace closer to 1.5% this year. Thus, our baseline scenario remains an upturn in long-term rates.

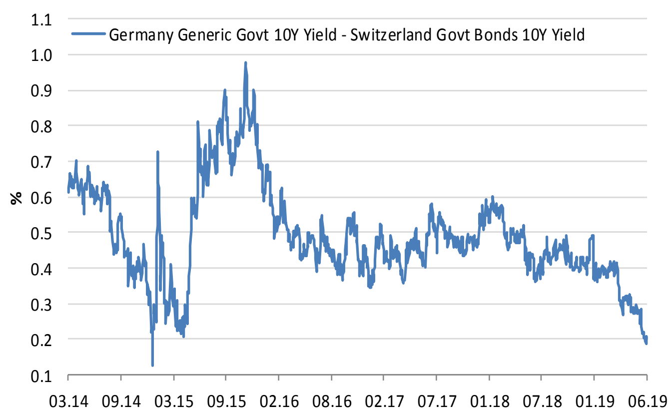
Real negative yields will further boost growth

The fall in nominal yields proved to be higher than the decline in inflation during the quarter. Real yields have now sunk deeper into the red zone, going from -1.1% at the end of March to -1.25% at the end of June. Real yields are thus still very much negative.

Switzerland Sovereign Yield Curve

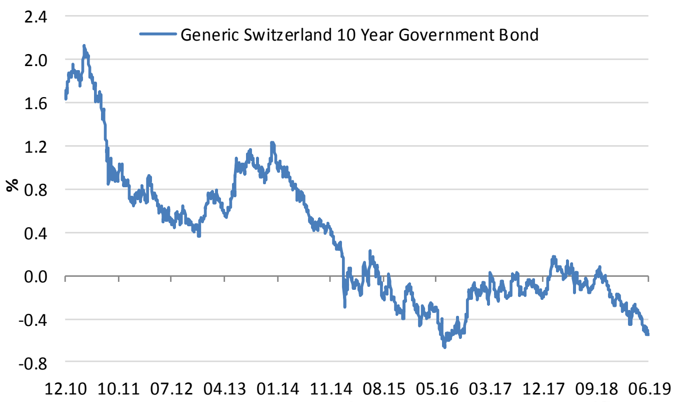


Long rates Yield Spread (German Bund - Swiss Confederation)

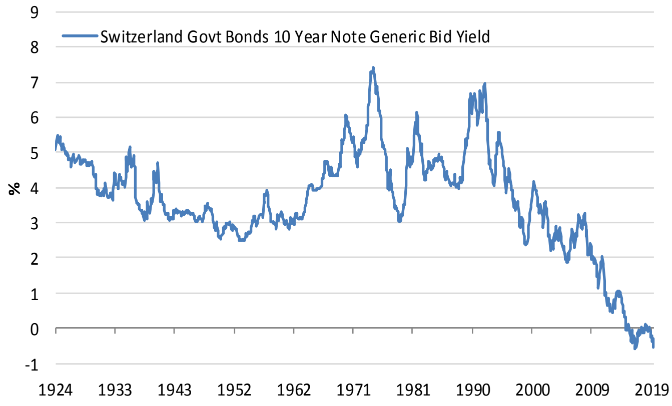


Graph sources: Bloomberg/BBGI Group

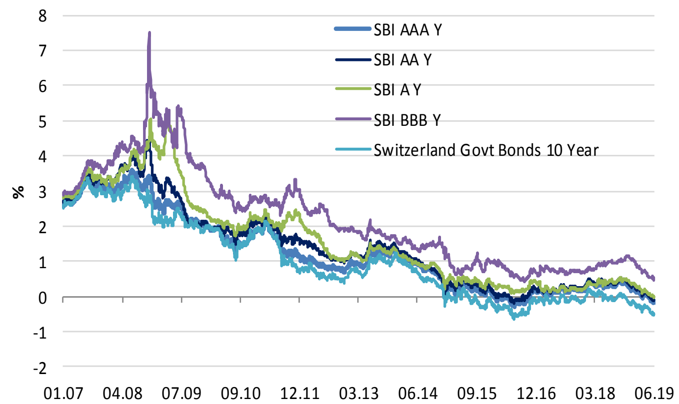
Switzerland Government Bond yield (10 year)



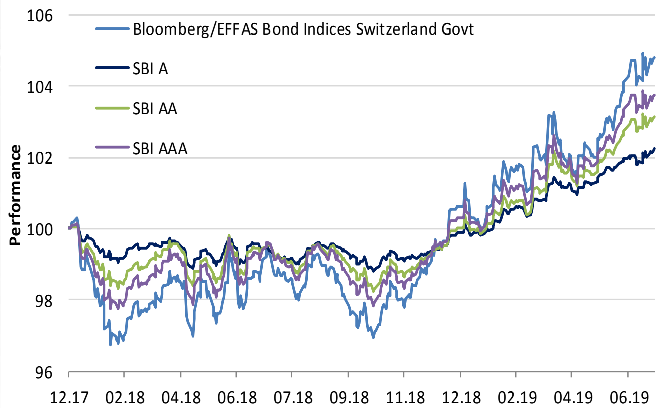
Switzerland Government Bond yield (10 year) since 1924



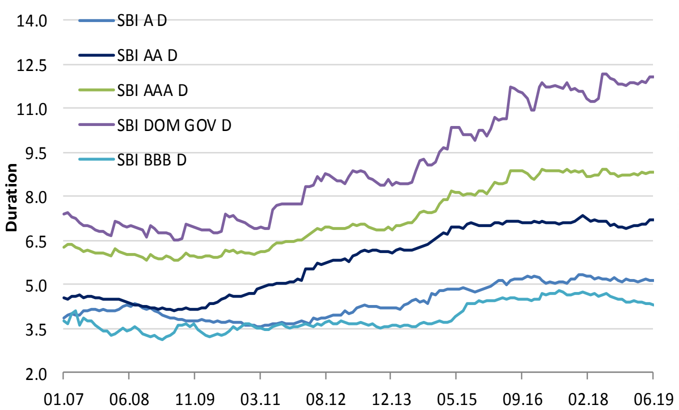
Yield by debtor type



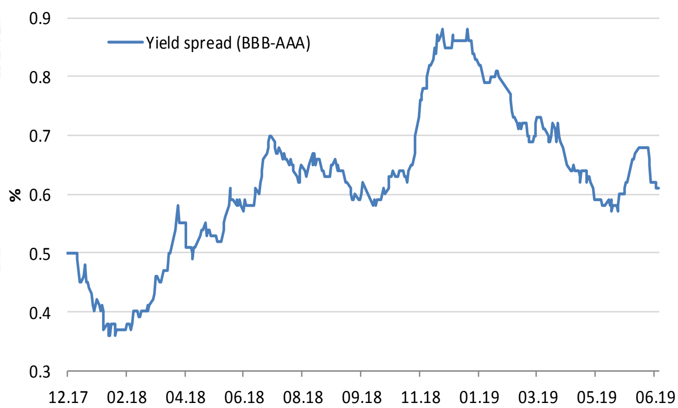
Performance of Swiss Bonds (Normalized at 100)



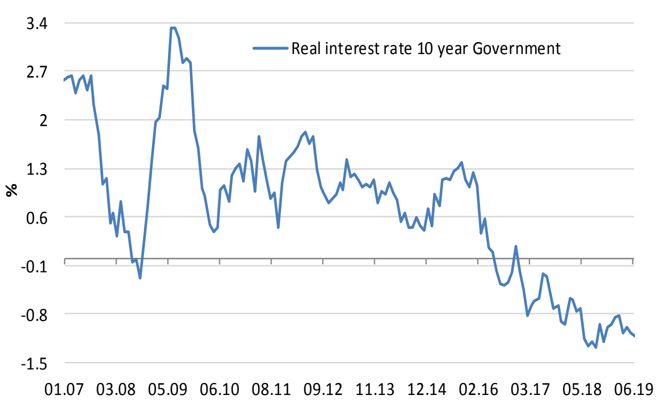
Duration of Bond Indices



Yield spread



Real Interest Rates



SWISS BOND INDICES (CHF)

30.06.2019

	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
			Total Return Performance				
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	273.9	CHF	0.5	0.6	2.4	4.1	4.8
SBI A-BBB	139.5	CHF	0.2	0.3	1.2	2.8	2.4
SBI AA-BBB	138.5	CHF	0.3	0.4	1.3	3.0	2.8
SBI AAA-AA	140.8	CHF	0.3	0.4	1.6	3.4	3.6
SBI BBB	151.8	CHF	0.3	0.4	1.4	3.3	2.8
SBI AAA-BBB	140.9	CHF	0.3	0.4	1.5	3.2	3.3
SBI DOM GOV AAA-BBB 1-3P	68.0	CHF	0.0	-0.1	-0.5	-1.2	-4.0
SBI DOM GOV AAA-BBB 3-7P	87.7	CHF	0.1	0.0	0.1	-0.2	-2.0
SBI DOM GOV AAA-BBB 7+ P	134.7	CHF	0.6	0.8	3.0	5.2	4.5

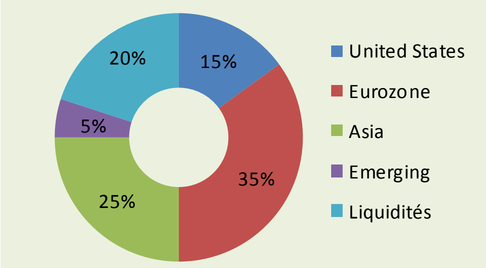
Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

International Real Estate

- A particularly positive half for securitised real estate
- Direct real estate prices remain solid
- Economic upturn likely in H2
- Declining capitalisation rate
- Monetary policies boost real estate

International Real Estate allocation



Tactical Allocation

- Overweight Europe and Asia
- Profit-taking and 15% liquidity

REAL ESTATE Areas	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↗	↗							
United States	↗	↗							
Eurozone	↗	↗↗							
United Kingdom	↘	↘							
Asia	↗	↗↗							
Emergents	↗	↗↗							
Liquidity									

A particularly positive half for securitised real estate

The increase in securitised real estate investment prices has been exceptional in the last six months, although most of it took place in Q1 following the extraordinary situation at the end of 2018, which we had qualified as a perfect opportunity for rational investors. Securitised real estate surged by almost +15% in Q1 before slowing down quite abruptly when the global economic scenario darkened in May. The growing risks of recession related to the breakdown in trade negotiations slowed the increase in real estate investments, whose performance in Q2 fell to almost zero (+0.1%). Regional markets followed this horizontal trend except for the Eurozone which suffered more sell-offs and profit-taking in June but quickly recovered in the first days of July.

In terms of asset allocation, we nevertheless believe that securitised real estate investment yields are more and more attractive compared with bond market yields. Hence, international securitised real estate remains an interesting form of diversification for investors. Performances for the next quarters are expected to fall below those achieved at the beginning of the year, but we anticipate far superior yields compared with bonds in most regional markets as well as additional capital gains. Risk premiums will be sufficient to support overweighting this asset class.

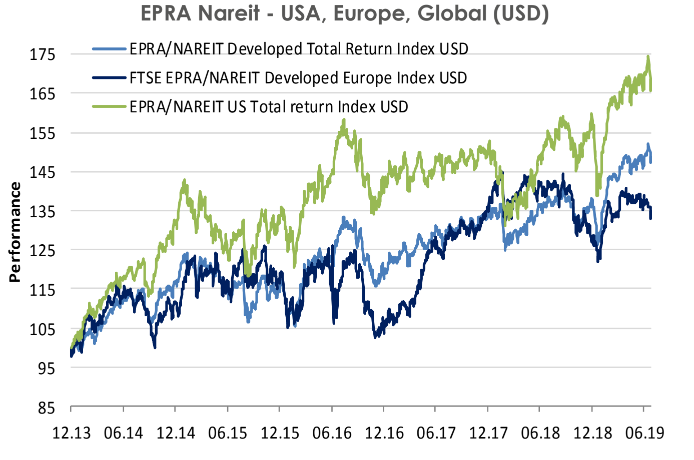
Direct real estate prices remain solid

In the US, sentiment is improving with indications that lower mortgage rates will likely stimulate demand. The demand for family housing has grown together with the sentiment of constructors, which is at its highest since 2018. Construction costs are rising significantly, however, due to the increase in the price of construction materials and labour costs. Construction starts have nevertheless dropped by -0.9% in June, but single-family housing starts rose by +3.5%, partly mitigating the decline in the month of May. The price increase will likely continue in H2.

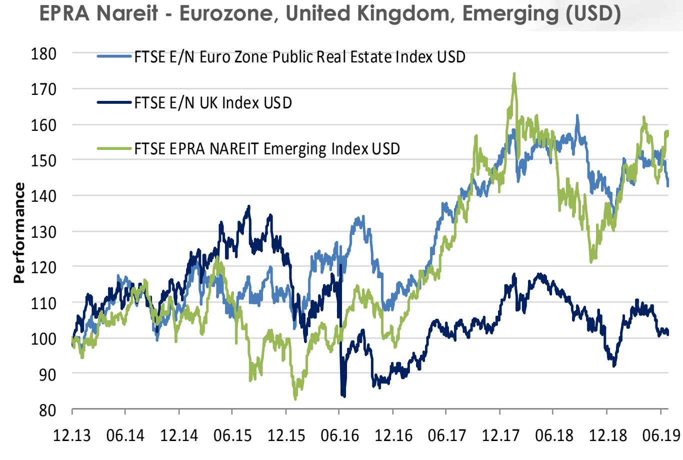
In France, demand has remained high, and the scarcity of the supply is naturally causing prices to rise. The price per square metre for commercial space surged by +7% in Q2 in Paris. Foreign investors continue to invest, as evidenced by the +5% increase in volume in H1 2019.

The deterioration of the stock market climate has not affected direct investments, whose transaction volume is likely to exceed EUR 20 billion in Ile-de-France.

EPRA Nareit - USA, Europe, Global (USD)



EPRA Nareit - Eurozone, United Kingdom, Emerging (USD)



Graph sources: Bloomberg/BBGI Group

In the still uncertain context of the Brexit negotiations, a few months away only from the new deadline granted by the European Union, the expected risk/return ratio for the real estate market still does not look attractive to our eyes. Indeed, the British housing market cannot throw off the uncertainty surrounding the unresolved issue of the form the Brexit will take. We believe that risks of a new deterioration in market conditions are sufficient to recommend staying away from this asset class for the moment, at a time when the Bank of England is still talking about a potential drop in the British pound and a 25% correction of real estate prices in the pessimistic scenario of a no-deal Brexit.

In China, real estate prices progressed by +0.66% in June. Over one year, the price increase for new houses has reached +10.8%. Investments in real estate increased by 10.9% yoy in H1, i.e. a little below the progression in Q1 (+11.8%). The Chinese housing market is closely monitored by the government, which amends the rules according to its needs to help prices progress in a more orderly manner. The aim is clear: the government is seeking stability and is hoping to avoid either a sharp increase or a drop in prices. Nevertheless, the economic slowdown could lead the government to soften its stance and authorise an increase in prices driven by a drop in interest rates.

The Japanese commercial real estate market posted its 65th monthly price increase in June. Very low rates are still driving REIT performance, up by +13% since the beginning of the year. Japan's REIT index is at its highest since 2008, driven by the ever-increasing investments of Japanese insurers. The fundamentals of the commercial sector still seem good in Tokyo. Vacancy rates remain low at 2%, but supply will likely grow by 1 million square metres in 2020. Rent increases will likely remain low in this context, for a stable rate of return of between 3% and 3.8%. The residential segment has benefitted more significantly from the rise with a price increase of almost +20% in 2019 and more than +40% since 2015.

The return on residential real estate is closer to 3%. At these price levels, prospects are limited for Japanese real estate assets.

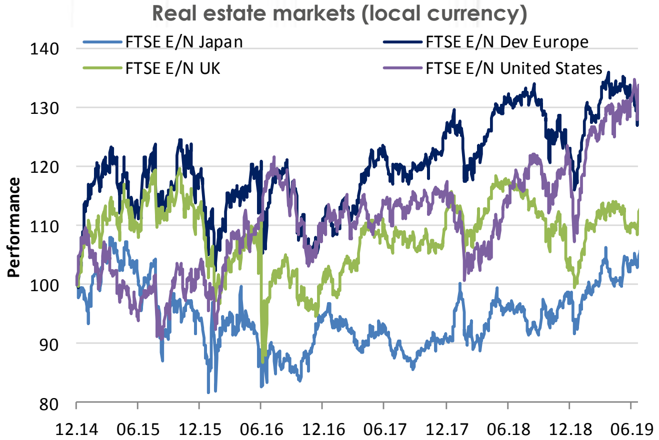
Economic upturn likely in H2

The economic growth outlook remains one of the main fundamental factors for domestic real estate markets. Changes in the outlook in the last quarters have clearly highlighted the influence of growth expectations on the valuation of securitised real estate in particular, which is obviously more reactive to such changes.

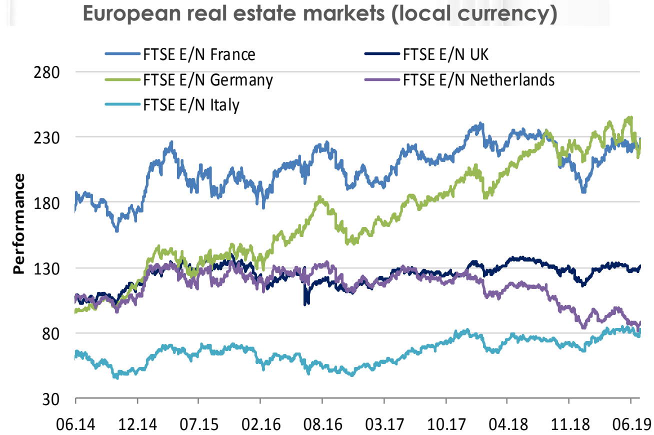
Fears of a recession in our mind have been largely overblown since Q4 2018 and are unlikely to materialise. They had however clearly penalised real estate indices at the end of the year before the latter recovered and posted new increases. In this beginning of H2, our growth scenario remains positive and is in fact significantly reinforced by the changes in monetary policy that will soon be implemented. Indeed, key rate cuts and accommodative monetary policy that should stimulate growth will likely contribute to an acceleration of economic momentum at the end of the year which could rekindle inflation beyond the central banks' objectives.

Real estate markets will likely benefit from these improved market conditions. Yet we will remain attentive to securitised real estate valuations in this context, which is nevertheless favourable to direct real estate.

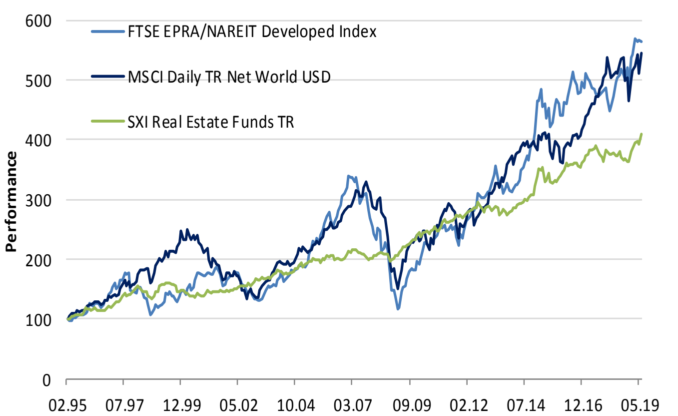
Real estate markets (local currency)



European real estate markets (local currency)



Long-term Performance : international real estate, swiss real estate and international equities (local currency)



INTERNATIONAL REAL ESTATE INDICES (local currency)

30.06.2019				Total Return Performance				
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	2929.5	USD	-1.1	2.4	-0.1	15.4	15.4
DEVELOPED	EPRA/NAREIT Dev TR USD	5465.2	USD	-1.3	1.7	-0.1	15.1	15.1
DEVELOPED EUROPE	FTSE E/N Dev Europe	2121.7	EUR	-1.1	-2.8	-4.7	9.2	9.2
EUROZONE	FTSE E/N Euro Zone	2460.3	EUR	-1.4	-5.1	-5.2	7.8	7.8
USA	FTSE E/N United States	3097.2	USD	-2.2	1.1	0.6	16.7	16.7
DEVELOPED ASIA	FTSE E/N Dev Asia	1722.5	EUR	-0.8	2.0	-1.2	15.8	15.8

Graph sources: Bloomberg/BBGI Group

Declining capitalisation rate

The general decrease in long-term rates in Q1 2019 will clearly have been a favourable factor for the real estate sector, even if it was not always warranted by ultimately strong fundamentals, especially in the US. In the Eurozone, the downturn has been sharper indeed and a change of monetary policy as well as an adjustment of long-term rates is more warranted than in the US. The drop in ten-year yields by approximately 0.5% in most regions further mitigates the risks that could have threatened real estate valuations in the context of the rising long-term rates that prevailed until now. We believe that this drop in long-term rates is excessive, however, in view of rather resilient global economic conditions. If the Fed were to lower rates from 0.25% to 0.5% as expected by the market, prospects of economic recovery for H2 would certainly be revised upward this time. Consequently, the current downturn in long-term rates is unlikely to last. Nevertheless, even if we believe it is possible that long-term rates will reach the levels they achieved in September 2018 at about 3% by the end of the year, real estate markets will likely benefit more broadly from the economic recovery without being too affected by the increase in capitalisation rates. The increase in household income and low interest rates will boost demand from individual buyers, while ever-higher returns achieved by investors in residential and commercial real estate markets, in comparison with capital markets, will drive continued asset reallocation in favour of real estate.

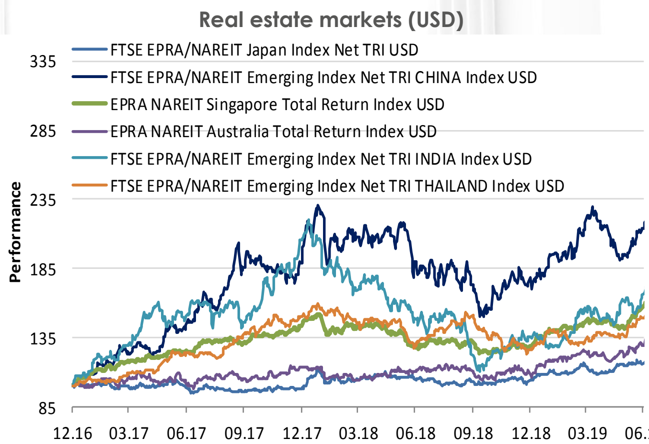
Monetary policies boost real estate

In Europe, the appointment of Christine Lagarde as successor to Mario Draghi as President of the ECB is unlikely to suit everyone. However, even if she is indeed not an economist, she will be able to count on her political experience as Minister of Economic Affairs, Finance and Employment during the financial crisis in France and as Head of the IMF, as well as on a team of experts and the Committee of Governors of the Central Banks of the Member States of the European Economic Community. The future will tell which style and policy Lagarde will adopt, but her election, even if it does not set the tone for future policies, does nevertheless prevent risks of a more restrictive policy, which a German ECB President would undoubtedly have pursued. The ECB is thus likely to maintain a similar policy to that pursued by Mario Draghi with its new President in November. The low-rate policy is bound to be maintained and reassure markets. A cut in key rates following similar action by the Fed is likely and could be followed by other measures to support growth in the Eurozone if necessary. Housing markets will probably appreciate this positive situation for real estate and its particularly attractive yields in comparison with yields achieved in capital markets.

In the US, the normalisation of monetary policy clearly came to an end in December with the 0.25% rate hike to 2.5%. The status quo since then is about to change because of the rate cut expected on 31 July at the next FOMC meeting. The Chair of the Fed will likely announce a change in monetary policy in the form of a rate cut of 0.25% or 0.5%. This decision is widely expected and is likely to have a favourable impact on economic growth prospects and the US real estate market, which will once again benefit from better financing conditions as well as from rent increases conducive to real estate price growth. H2 2019 is likely to be a little more favourable still for US real estate, as mortgage financing will become more attractive too.

Tactical allocation still favourable to Eurozone and Asia

Regional securitised real estate indices, posted modest performances that were strongly correlated in the last three months. Performance gaps have indeed been particularly small between most of these indices, which posted progressions of between +0.1% and +0.7%, except for the European (-4.75%) and the British markets (-1.95%). In terms of investment policy, we still favour greater exposure to the European and Asian markets and underweight the US in our regional allocation chart.



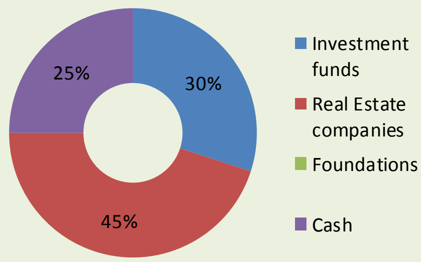
Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

Swiss Real Estate

- New heights after a short-lived consolidation
- Dividend yields from real estate companies still high
- Beware rising investment fund premiums

Swiss Real Estate allocation



REAL ESTATE Switzerland	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Investment funds	↘↘	↗							
Real Estate companies	↘	↗↗							
Foundations	→	→							
Cash									

Tactical Allocation

- Underweight investment funds
- Overweight listed real estate companies
- Profit-taking and 25% liquidity

New heights after a short-lived consolidation

Swiss securitised real estate remains particularly sought after by investors in search of alternatives to depressed, or even negative bond yields. After only ten weeks of modest consolidation and with no real increase in volatility between April and mid-June, Switzerland's investment fund indices and Swiss real estate companies indices have resumed trending upward at the end of the quarter. Similarly to Swiss equities, the consolidation in May was limited to a decrease of approximately -3.5% before the negative rate environment and a hint of investor optimism rekindled an increase that enabled both indirect forms of investment to reach new heights. Obviously, the progression of investment funds (+4%) and real estate companies (+4.5%) in Q2 is not as impressive as in the beginning of the year, but it has driven the segment's positive contribution to +13% over six months despite the new issuances that have fuelled the market.

Dividend yields from real estate companies still high

The decrease in bond yields from 0.1% to -0.65% has obviously contributed to investors' renewed interest in the asset class. The already comfortable yield differential in favour of securitised real estate has thus grown significantly, easily justifying transferring risk from one segment to the other. Despite these gratifying developments for investors, the increase in prices has not dramatically affected the average yield of Swiss real estate funds, which remains very attractive with an average rate of 2.85%. Real estate companies have fared even better, posting similar capital gains, while maintaining a high dividend yield of 3.71%.

Beware rising investment fund premiums

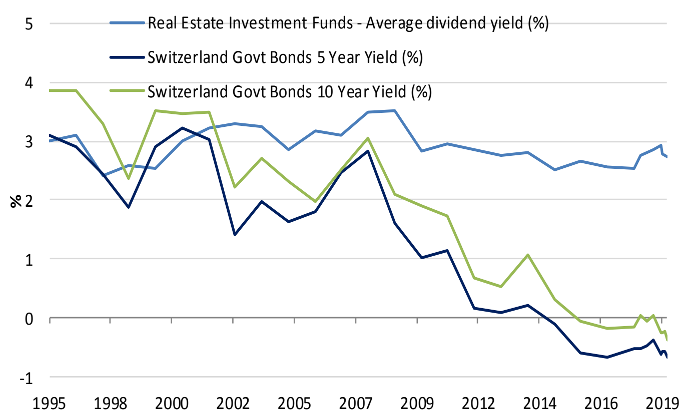
With regards to valuations, the average investment fund premium increased from 24.4% to 26.86% over the period, drawing ever closer to the highs achieved in 2015 and 2016 (approximately 30%), and is now at the higher end of its fluctuation band of the last 25 years. With regards to the average premium of real estate companies, the valuation has remained relatively stable at 21.41%, close to its historic average over 15 years. The yield for these two types of investments remains particularly attractive and justifies investors' interest in this asset class in H2 2019. Rising premiums are clearly likely to be a risk factor to be monitored closely in terms analysing the risks inherent to the real estate investment fund market. They will probably hamper price growth in the short term. Real estate companies are less risky in this context, offering a higher yield and more reasonable premiums by historical comparison and in relation to the average premiums of investment funds.

SWISS REAL ESTATE

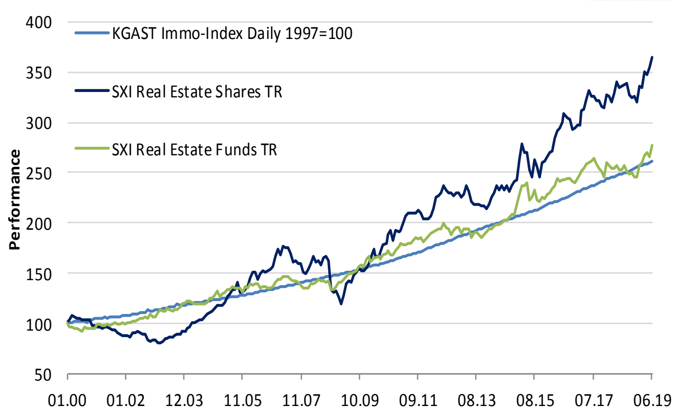
30.06.2019 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	408.4	2.2	4.5	4.0	13.0	13.0
SXI Real Estate Idx TR	2722.1	1.0	2.8	4.0	13.9	13.9
KGAST Immo-Index	291.7				2.1	2.1

Government and Real Estate Yield



Performance of Swiss Real Estate

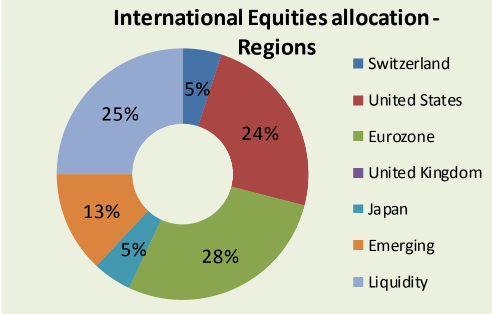


Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

International Equities - Regions

- Reduce international equity exposure
- What upside potential for US equities?
- High equity risk premium in Europe
- Nikkei impacted by the trade war
- Emerging markets to benefit from improved scenario



EQUITIES REGIONS	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Switzerland	↘	→							
United States	↘	→							
Eurozone	↘	→							
United Kingdom	↘	→							
Japan	↘	→							
Emerging	↘	→							
Liquidity									

Tactical Allocation

- Overweight Europe and emergent
- Underweight United Kingdom and Japan
- Neutral United States
- Profit-taking and 20% liquidity

Reduce international equity exposure

The perception of risks and opportunities shifted very quickly in equity markets in June. Indeed, prospects of a key rate cut triggered a powerful upswing in prices, although this will only have a limited macroeconomic effect if the recession scenario prevails. Market volatility over the past two months strongly impacted the level of risk associated with the equities asset class during this period. In April we noted that the latest stock market developments indicated an increase in the risk of a correction in the share price of risky assets in May.

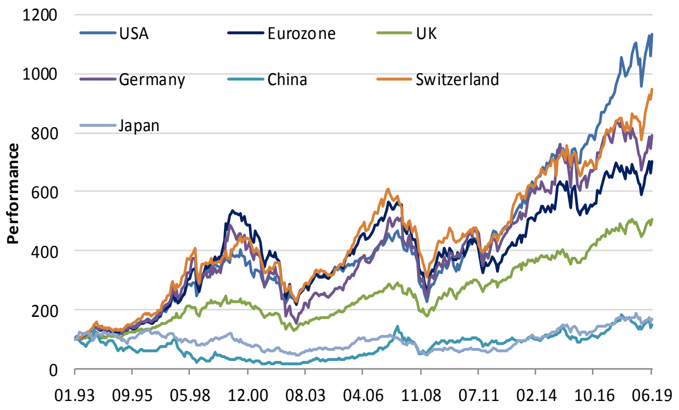
At the end of May, we then noted that the correction occurred as expected and reduced the level of risk associated with equity markets, thus supporting a return to neutral exposures of Swiss and international equities. A month later, the rapid upswing in share prices, driven primarily by expectations that the Fed will cut rates in July, has pushed equity markets back into the danger zone. Uncertainty continues to dominate this summer, only a few weeks before US Q2 GDP is announced and the Fed makes its next monetary policy decision, which will be made public on 31 July. Rate markets are beset by fears of a recession and believe monetary policy must be eased immediately. As for equity markets, their outlook is somewhat schizophrenic, as they refuse to factor in the risk of lower earnings tied to the risk of a recession while welcoming a possible rate cut warranted by this same risk. Following the increase in international equities of close to +17%, risk levels are once again elevated.

The Fed's decision will likely be critical and could lead to a sharp increase in volatility in August. The increase in equity indices in June thus places the asset class back into a high-risk area and increases the probability of an upcoming correction of prices in the two scenarios considered. If the slowdown turns out to be genuine, equity valuation levels will not resist the likelihood of a breakdown in profits even if the Fed cuts rates in July. Otherwise, if growth proves resilient and prospects remain strong, expectations of a reduction in key rates will fade to be replaced by an upswing in long-term rates. Equity markets will likely also be penalised by this phenomenon. Once again, we recommend a reduction in exposure to equities in a context somewhat unlikely to trigger a new increase in prices.

What upside potential for US equities?

The last two months have been marked by one of the strongest historical contradictions between equity and rate markets. While rate markets followed economic statistics that pointed to a sharp slowdown in economic activity, the S&P500 was rebounding and testing new heights. Both markets rose, hoping for a rate cut by the Fed, which could indeed occur despite the rather positive economic conditions in the US. A rate cut would undoubtedly stimulate growth and could well serve the interests of the Fed ultimately by increasing the probability of an upswing in inflation well above the 2% target, knowing that the latest inflation report ex food and energy was once again at +2.1%. At this point in the financial cycle, the key question is to know what new increase in equities can still accompany the Fed's current preventive rate cut scenario?

Long-term Performance (Normalized at 100)



Chinese Equities - A and B (Normalized at 100)

Graph sources: Bloomberg/BBGI Group

Let us remember that the path that could be taken in July could actually prove excessive, or even useless with regards to actual market conditions, which could ultimately trigger necessary adjustments, another reversal of monetary policy and further rate hikes.

This situation could catch equity markets on the wrong foot, especially since the average exposure to equities, which is estimated by JPM at 43.6%, is actually overweight in relation to the historical average. However, this overweight position is lower than the position prior to the correction in September 2018. Moreover, a correction of the US bond market will likely have a negative impact on equity indices, but the main risks today are threefold.

First of all, an insufficient and disappointing reaction from the Fed could lead to disappointment and an equity sell-off.

Secondly, an unexpected and more robust economic recovery in Q2 would prevent the Fed's action and would occur just as S&P500 futures positions as a % of open interest are at their highest since 2012 in asset managers' and hedge fund portfolios.

Finally, the publication of US corporate results, which is starting, could also be a significantly disruptive element, especially if corporate forward guidance proves to be more pessimistic and cautious while stock market indices have been boosted by prospects of a rate cut in July.

Results in Q2 will thus have to be good to confirm expectations related to the recent increase in stock prices in order to maintain the current upward trend. Businesses will have to beat expectations to avoid triggering profit-taking. They will also have to put out more positive forecasts to comfort investors' current optimism and will have to be reassuring about the potential effects of the ongoing trade war between China and the US.

Yet, recent forecasts have been rather weak by historical comparison over three years. Although earnings growth expectations are indeed low and can be exceeded, increases in production costs and pressure on margins are still present, which we believe limits the upside potential of the US market.

High equity risk premium in Europe

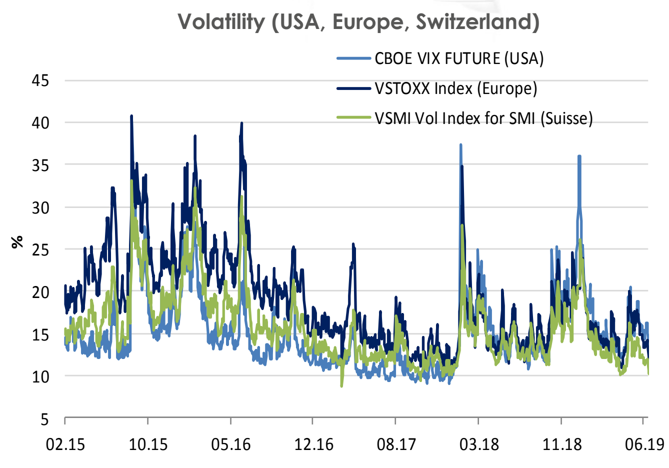
The performance of European equities year-to-date as of 30 June (+19.22%) closed in on that of the US (+18.54%) and Swiss markets (+21.84%), thanks in particular to a 2nd quarter that was finally a little more favourable to European markets. The correlation of the European market remained high however, and despite a slightly better relative performance at long last, the risk premium of close to 25% based on relative valuation levels has not really budged in spite of significant upward and downward shifts in various indices.

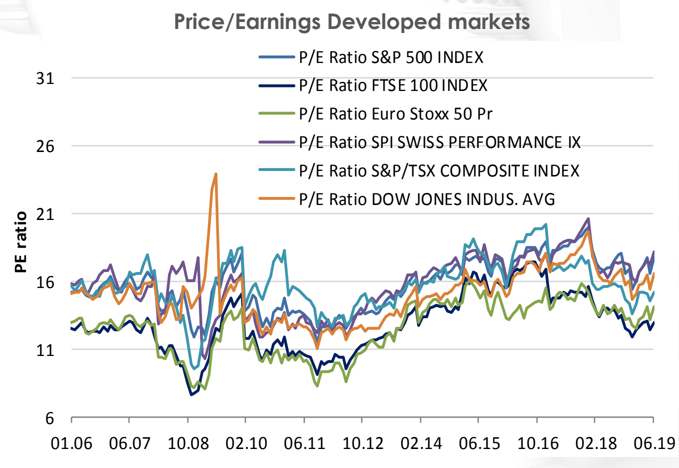
We noted a few months ago that European equities would likely benefit in early 2019 from an expected decrease in global tensions and thus from favourable arbitrage on the part of investors due to their positive risk premium. However, this has not occurred yet.

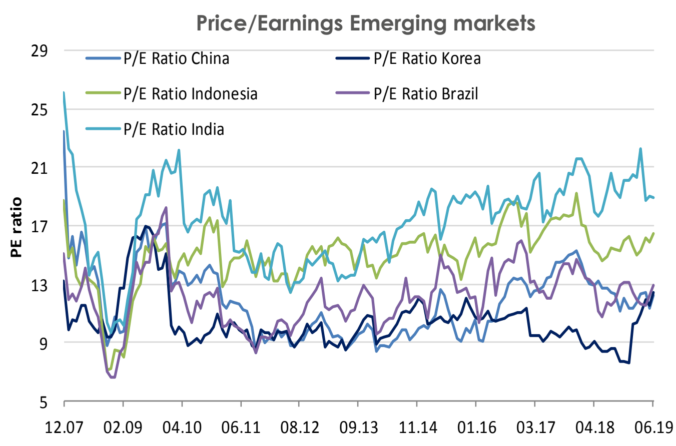
The European market's PE (14.2x) remains well below that of the US market (17.93x). The valuation gap remained steady at around 26%, a relatively significant risk premium that does not seem to have shifted over the past several quarters.

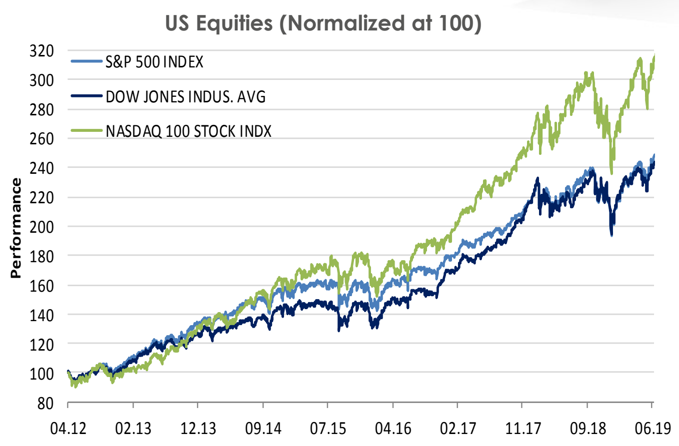
European shares still maintain a valuation and yield advantage (3.6% vs. 1.9%), while the earnings outlook for 2019 is converging with that of the US market. This valuation gap may be explained for now by the perception that European shares are more sensitive to external shocks such as a slowdown in China or in emerging markets.

Investors are thus perhaps more convinced for now by the capacity of US vs. European businesses to weather such shocks. Improved economic conditions may thus represent to key to European equity outperformance.









Graph sources: Bloomberg/BBGI Group

However, in the riskier context for equity markets mentioned above, European equities will likely also be penalised by the adjustment of the financial scenario and suffer profit-taking on a similar level to that expected in the US. European equities' current valuation advantage, which is still significant, is unlikely to help them outperform US indices should equity market expectations change.

Nikkei impacted by the trade war

The Nikkei remains affected for now by Japan's specific economic circumstances in the overall context of the trade war between China and the US. While the consequences of this uncertainty are real, the risks are likely overestimated. Japanese market fundamentals have in fact improved. Margins in particular are higher, and valuations are reasonable.

The worst may already be over for Japanese businesses, which could once again benefit from a shift in risk perceptions, as investors' earnings expectations for 2019 are low and can be exceeded.

Further depreciation of the yen will likely drive another upswing of the Nikkei, provided as well that the investment climate turns more positive and the risks currently weighing on the global growth outlook subside. The outlook is positive for 2019, but we maintain a relatively neutral strategy with regard to Japanese equities.

Caution on British equities

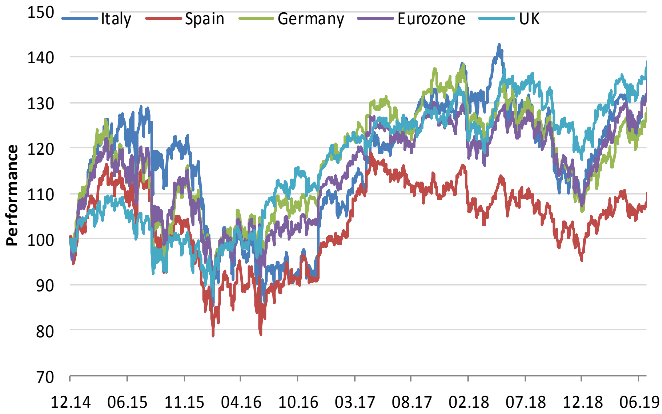
In the current context which is ever more uncertain on a political level in the UK with growing risks of a no-deal Brexit, the expected return/risk ratio in the equity market still does not look attractive. The pound remains under pressure due to the protracted economic slowdown. Thus, we are maintaining our cautionary recommendation with respect to British equities, despite reasonable valuations and an attractive dividend yield.

Emerging markets to benefit from improved scenario

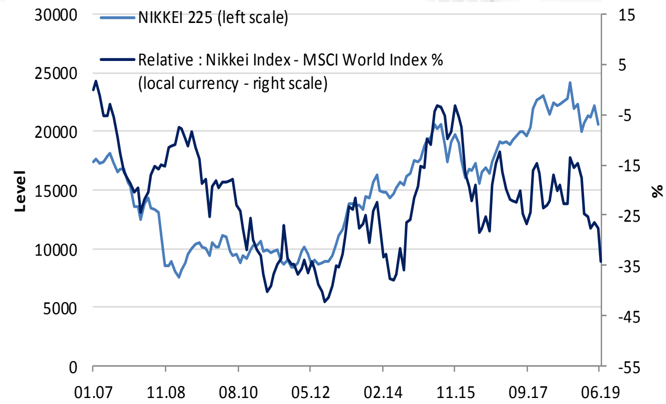
Emerging markets have not been investor favourites in H1. Indeed, the +10.6% performance over six months is far below that of developed markets and of the MSCI World Index (+17%).

The absence of progress in trade negotiations continues to weigh on the performance of emerging markets, which depend on international trade. Fears of an international economic downturn have widely curtailed growth in emerging markets. Still, the latter will likely revert to more positive relative performances and benefit from an improved outlook once the consensus scenario is less uncertain.

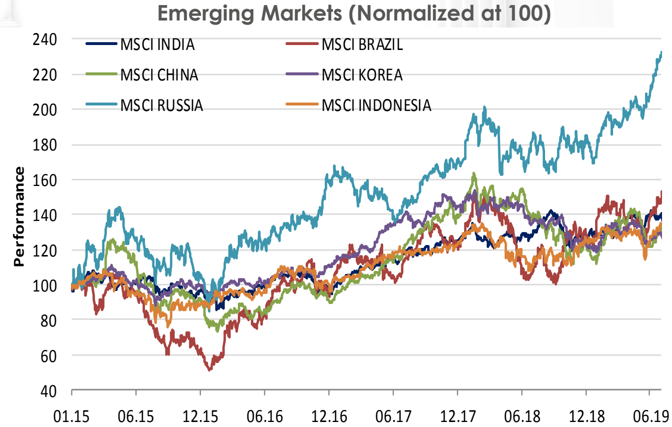
Performance of Stock markets (Normalized at 100)



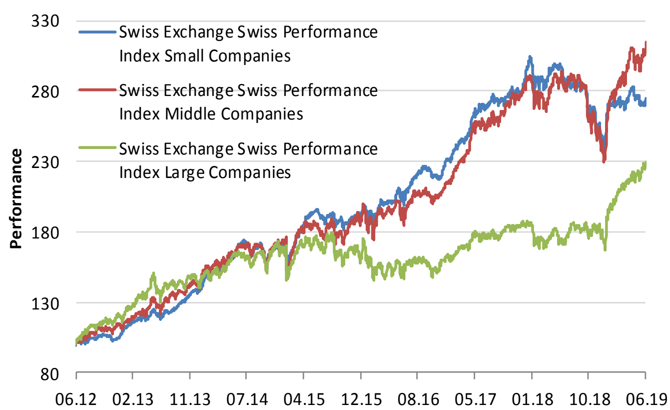
Japanese Equities VS MSCI World



Emerging Markets (Normalized at 100)



Swiss Equities (large - middle - small caps/Normalized at 100)



EQUITIES - BY REGION (local currency)

30.06.2019				Total Return Performance				
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	11977.4	CHF	0.0	3.7	5.8	21.8	21.8
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	4270.3	CHF	1.1	4.2	4.8	20.0	20.0
EUROPE	STXE 600 € Pr	384.9	EUR	0.1	4.5	2.2	17.2	17.2
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	410.1	EUR	0.4	2.9	-0.1	15.7	15.7
UK	FTSE All-Share Index	4056.9	GBP	0.4	3.7	2.7	12.9	12.9
USA	S&P 500 Index	2941.8	USD	-0.3	7.0	3.1	18.5	18.5
USA SMALL-MID CAPS	RUSSELL 2500	635.6	USD	0.9	7.1	1.7	19.2	19.2
JAPAN	NIKKEI 225	21275.9	JPY	0.2	3.4	-1.0	7.5	7.5
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	797.7	JPY	0.5	2.3	-5.9	2.6	2.6
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	527.8	USD	0.8	6.4	-0.2	12.5	12.5
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	933.3	USD	0.5	3.2	-2.7	6.9	7.0
EMERGING	MSCI EM	1054.9	USD	0.4	6.3	-0.4	10.7	10.7
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	6331.1	USD	0.0	6.6	2.8	17.0	17.0

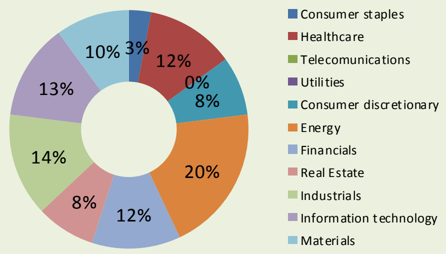
Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

International Equities - Sectors

- Re-centre relative allocations
- Reduce exposure to digital and technological stock again
- Reduce the allocation of discretionary spending
- Over-weight energy and materials

International Equities allocation - sectors



Tactical Allocation

- Underweight digital stocks and technology
- Overweight energy and materials

EQUITIES Sectors	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	↘	↗							
Healthcare	→	↗							
Telecommunications	→	↗							
Utilities	↘	↗							
Consumer discretionary	↘	↗							
Energy	→	↗							
Financials	↘	↗							
Real Estate	→	↗							
Industrials	↘	↗							
Information technology	↘	↗							
Materials	→	↗							

EQUITIES - BY SECTOR

30.06.2019 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	261.3	USD	0.3	7.8	4.1	18.5	18.5
CONSUMER STAPLES	MSCI WORLD/CON STPL	237.5	USD	-0.6	4.3	3.2	15.5	15.5
ENERGY	MSCI WORLD/ENERGY	202.5	USD	0.1	7.1	-2.5	13.2	13.2
FINANCIALS	MSCI WORLD/FINANCE	116.5	USD	1.2	6.1	4.3	15.6	15.6
HEALTHCARE	MSCI WORLD/HLTH CARE	250.1	USD	-0.5	6.8	1.3	10.1	10.1
INDUSTRIALS	MSCI WORLD/INDUSTRL	260.8	USD	0.5	7.4	3.2	20.3	20.3
MATERIALS	MSCI WORLD/MATERIAL	261.8	USD	1.5	10.7	3.0	17.8	17.8
REAL ESTATE	MSCI WORLD/REAL ESTATE	222.1	USD	-1.7	2.0	0.5	17.1	17.1
TECHNOLOGY	MSCI WORLD/INF TECH	268.0	USD	-0.1	8.7	4.5	26.9	26.9
TELECOMMUNICATION	MSCI WORLD/TEL SVC	71.3	USD	-0.6	4.0	3.3	16.7	16.7
UTILITIES	MSCI WORLD/UTILITY	139.9	USD	-1.7	3.8	3.3	13.5	13.5

Analysis of relative sectoral performance over the first six months of the year puts the technology sector in pole position with a +26.1% rise, and the pharmaceutical sector in last place (+7.1%). All sectors have posted double figure growth, with the exception of the pharmaceutical sector.

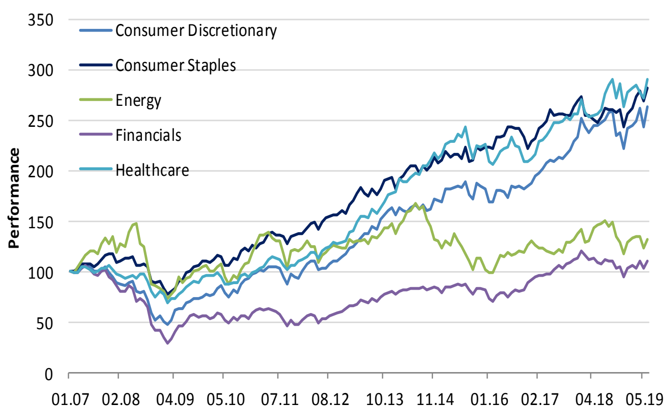
Discretionary spending (+20.9%), industry (+20.2%) and real estate (+18.4%) are among the sectors with the strongest performance. The energy sector's result (+11.1%) came in under expectations, mainly due to its counter-trend performance over the last three months in the wake of the latest temporary correction to crude oil prices. In contrast, the US financial sector posted the best performance of any sector over the quarter.

Key interest rates will likely be reduced in July, and this has largely already been taken on board by financial markets. In light of this, as in September 2018, we are suggesting reducing the allocation of technology shares following on from the already considerable price rise of over +25%.

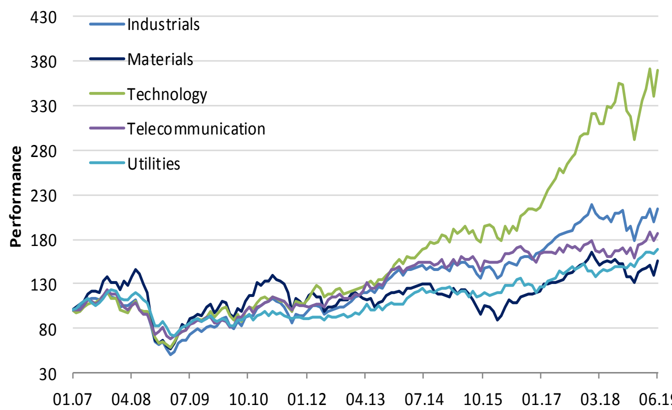
The energy sector should remain over-weighted given the prospect of the increase in crude oil prices continuing. Base materials, and especially gold mines, still stand to gain from the change in perception on gold prices and should remain over-weighted. Exposure to the discretionary sector is also shrinking. The recent performances which have pushed the US market to new heights were driven by hopes of a rate drop. We now believe that the risk of disappointment outweighs any potential positive surprise regarding business profits and forecast prospects.

In this context, we intend to adjust relative allocations to bring them closer to those of stock market indices, particularly favouring small and medium capitalisations. From a sector point of view, we suggest reducing exposure to those sectors which have already seen a significant hike in their prices and valuations.

Sectors - MSCI World (Normalized at 100)



Sectors - MSCI World (Normalized at 100)

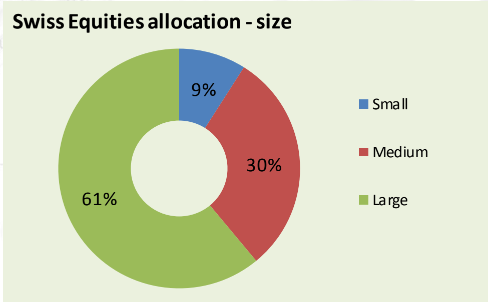


Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

Swiss Equities

- Temporary euphoria on Swiss equity markets
- SMI hits its bottom-up target for 2019
- Arbitrage favours small caps



Tactical Allocation

- Strengthening mid-sized capitalizations
- Decrease exposure to « ultra blue chips »

EQUITIES capitalization	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Small	↘	↗↗							
Medium	↘	↗↗							
Large	↘	↗							

Temporary euphoria on Swiss equity markets

At the end of the year, following the sharp correction in the Swiss equity market, we noted that, barring a marked slowdown in global growth in 2019, the outlook for Swiss equities was favourable, in particular with regard to SPI stocks and to small and mid caps, which had been particularly impacted by the recent increase in volatility. The beginning of 2019 will have been as extraordinary as the end of 2018 for equity markets overall and for the Swiss market in particular.

The correction of close to -10% of the SPI rapidly gave way to a spectacular rally of +22% in four months. Panic thus gave way to euphoria. The fall in international equities in May (-5.8%) did not affect the Swiss market. It reached new heights in June, in a context of economic recovery and hopes of a decrease in interest rates in the United States, and more generous equity valuations.

Interest rates in Swiss francs continued to shrink in the 2nd quarter, which also propped up equity price growth in Switzerland.

Rises in ultra blue chips, such as Nestlé (+30%) and Novartis (+24%), have carried and propped up the growth in global indices, which have risen +20% in six months. In May, we advised scaling back exposure to Swiss assets, believing that growth prospects for ultra blue chips had become limited, which should have had a knock-on effect on index levels. Nestlé's valuation at around 24x expected profits for 2019 is clearly higher than its historical average, and with barely 2.4% yield it is no incentive to over-weight the biggest blue chip on the Swiss stock market. The price/profit ratio for the SMI now stands at 20x forecast profits, which we believe to be rather generous in the current climate.

At these valuation levels for the Swiss market as a whole, we would recommend adopting a more defensive strategy after the nonstop price rises since the start of the year.

SMI hits its bottom-up target for 2019

In 2019, the major SMI blue chips have benefited from being defensive stock. It is a clear asset in the particularly uncertain climate at the start of the year following on from the considerable price correction in the 4th quarter 2018. The rise in uncertainty in May, linked to the failure of trade negotiations between the United States and China, only made a modest impact on the Swiss equity market.

Switzerland was benefitting from both positive domestic macro-economic data and investors' perception that the country would be less affected by any economic downturn than other markets. As such, the price correction in May was modest in Switzerland compared to other countries, despite the fact that the strength of the Swiss franc against the US dollar (almost +5% appreciation) and the euro (+3.3%) over the period could have had a negative impact on Swiss multinationals' profit forecasts. This did not happen, but the exchange rate could still be taken into account in the second half of the year.

A price growth forecast based on a bottom up approach predicted a price rise up to 10,000 points for SMI companies in 2019. This level on the SMI index corresponds to a valuation of 20x profits for 2019. This target was hit in June, as the pace of prices rises quickened, propped up by a stock market climate driven by hopes of a rate reduction in the United States. 3% dividend yield is still attractive when compared internationally and of course compared to the yields on the capital market in Swiss francs.

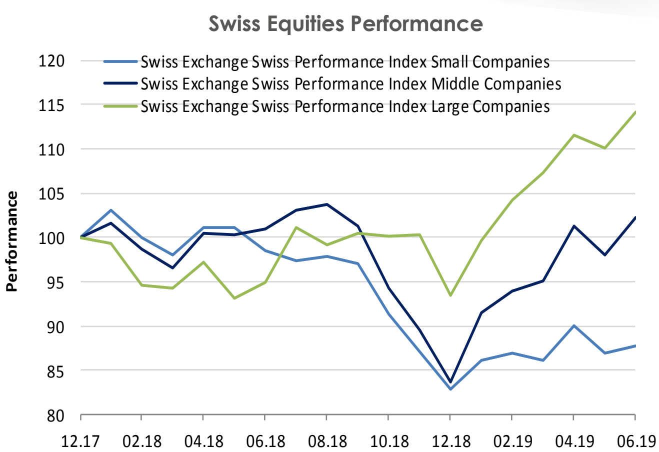
Arbitrage favours small caps

The Swiss market has benefited from its defensive nature and from particularly good dividend yield given the uncertain context over the past few months. It hit a valuation level of 20x 2019 profits at the end of the 1st half of the year. Based on that, we believe that growth prospects for the SMI are modest; we see more opportunities on the SPI in small and mid stock market caps.

SWISS EQUITIES - Capitalization

30.06.2019 — Total Return Performance

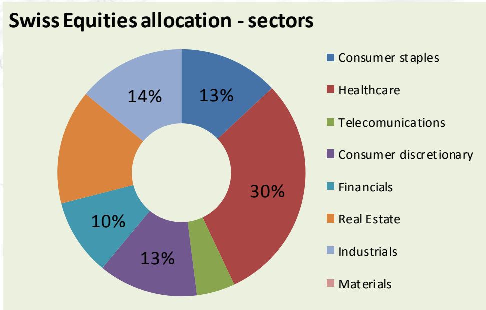
Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	11977.4	0.0	3.7	5.8	21.8	21.8
SPI SMALL COMPANIES INDX	24279.0	0.8	0.9	1.0	5.8	5.8
SPI MIDDLE COMPANIES IDX	16936.3	0.9	4.4	5.9	22.2	22.2
SPI LARGE COMPANIES INDX	11409.0	-0.3	3.7	5.9	22.2	22.2



Graph sources: Bloomberg/BBGI Group

Swiss Equities - Sectors

SWISS EQUITIES Sectors	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	↘	↗							
Healthcare	→	↗							
Telecommunications	→	↗							
Consumer discretionary	↘	↗							
Financials	↘	↗							
Real Estate	→	↗							
Industrials	↘	↗							
Materials	→	↗							



Tactical Allocation

- Underweight consumer staples and Healthcare sectors
- Overweight consumer discretionary sector

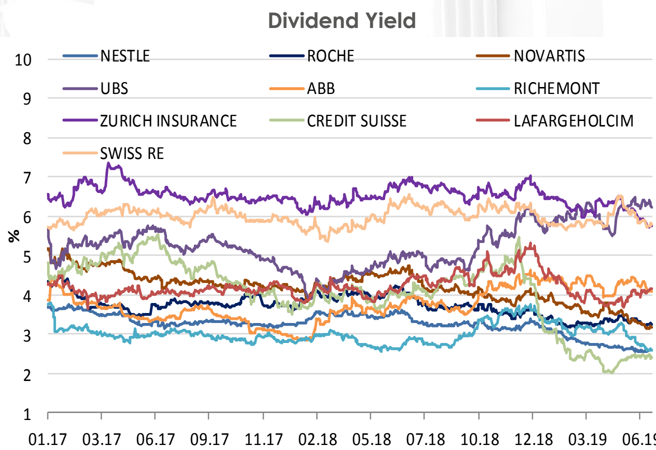
The SMI has already hit its growth targets

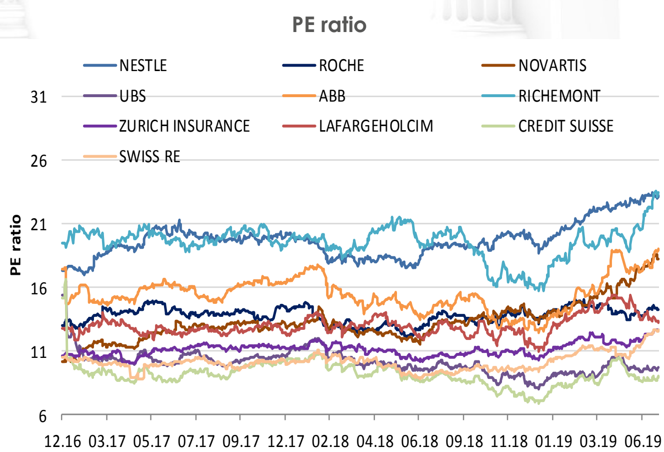
The ultra blue chips had rather impressed investors in the Swiss stock market's first phase of recovery in the 1st quarter, posting performances of between +16.3% and +18.9%. They were only to be beaten by Lonza (+21.2%) and Lafarge (+21.4%). The change in sentiment benefited large SMI stock first of all, as a less risky way to take advantage of the price correction at the end of 2018. In our April strategy, we considered that their growth potential was low at that time given profit forecasts and valuation levels; we suggested it would be worthwhile diversifying away from these large stocks.

This quarter the overall +6.5% performance of the SMI has indeed been driven by other stocks, compensating for health stocks, such as Novartis (+5.3%), Alcon (+3.8%), and especially Roche, which posted the weakest performance of the quarter (+0.1%). As we enter the second half of the year, we feel that most SMI stocks have hit their growth targets for 2019, and more than half have surpassed them. The two banking stocks are an exception to this picture, and still have considerable growth potential. Overall, the growth in SMI stocks has pushed the index over the 10,000 point target for this year.

Small Swiss stocks still on the back foot

The SPI index (+21.8%), which is made up of the two hundred stocks on the broader Swiss stock market, posted a similar performance to that of the SMI (+21.2%), but this result is misleading and hides an entirely different reality. Small Swiss stocks are still very much trailing behind the growth in equity indices. A quarter of SPI stocks, which is to say 50, posted negative performances in the first quarter, 53 outperformed the SPI index and nearly 50% underperformed. The trend is changing, but there seem to be many more opportunities on the SPI than the SMI.

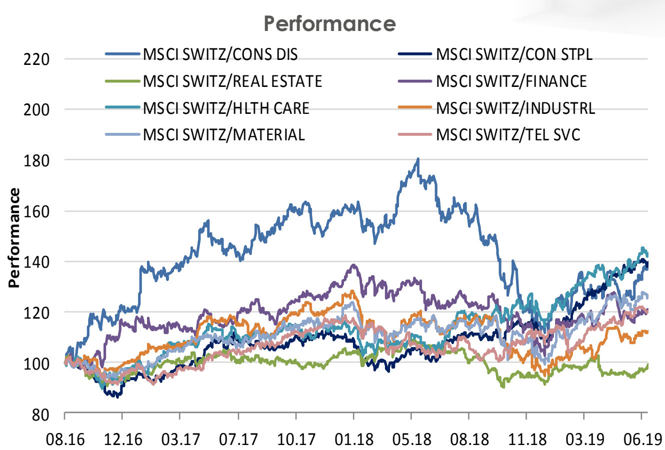




SWISS EQUITIES - BY SECTOR

30.06.2019 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	298.0	0.9	11.2	7.0	20.5	20.5
MSCI SWITZ/CON STPL	332.0	-0.4	1.7	9.3	29.0	29.0
MSCI SWITZ/FINANCE	54.8	0.9	4.0	3.2	13.9	13.9
MSCI SWITZ/HLTH CARE	171.8	-0.6	4.0	3.3	21.9	21.9
MSCI SWITZ/INDUSTRL	171.9	0.0	4.6	7.2	15.7	15.7
MSCI SWITZ/MATERIAL	311.0	-0.5	4.8	6.7	24.7	24.7
MSCI SWITZ/REAL ESTATE	992.3	2.2	4.5	-3.3	7.2	7.2
MSCI SWITZ/TEL SVC	92.6	-0.6	2.2	4.9	9.3	9.3



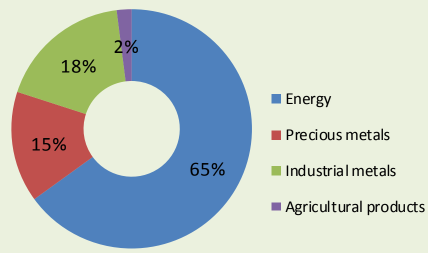
Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

Commodities

- The break in trade negotiations temporarily hits energy and industrial metal prices
- Rise in demand for crude oil in the 2nd half of the year
- Precious metals benefit from the situation

Commodities allocation



COMMODITIES	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Energy	↗	↗↗							
Precious metals	↗	↗↗							
Industrial metals	↗	↗↗							
Agricultural products	↗	↗							

Tactical Allocation

- Overweight energy
- Overweight precious metals

The break in trade negotiations temporarily hits energy and industrial metal prices

At the start of the year, commodity markets benefited from investors coming to their senses again and from a more rational economic scenario, which looked forward with confidence to the beginning of trade negotiations between China and the United States. The 2nd quarter started rather well following the upward trend of the 1st quarter, but when negotiations were broken off it radically changed prospects and quickly reversed forecasts.

Since then, commodity prices have been affected by risks of an economic slowdown and by increased political uncertainty. Crude oil and commodity prices fell, hastening the correction on indices in May, prior to a recovery in June in the wake of the recovery on equity markets. In the end, the quarter closed with a slightly negative performance for indices of around -1%. Only nine out of the twenty-four commodities that make up the S&P Goldman Sachs Commodities Index posted growth, while most slid into negative ground. Agricultural products such as corn (+17.88%), wheat (+15.35%), coffee (+14.55%), and cocoa (+7.46%) posted the best scores. Gold was the only non-agricultural product able to squeeze in among them thanks to one of its highest quarters of growth (+9.33%) since March 2016.

Naturally, industrial metals and energy struggled in this more pessimistic scenario for international trade and economic growth. Our core scenario for the US economy and global growth still rules out the risk of a recession in the near future, or a considerable economic slowdown. The upcoming drop in Fed rates will undoubtedly come in a more positive macroeconomic context than the consensus believes. As such, we remain of the opinion that, despite no agreement, the Chinese economy is resilient and the US economy not in danger.

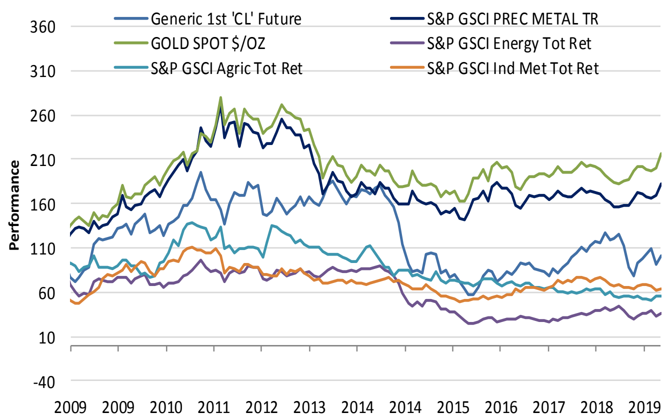
Most commodities should therefore enjoy positive fundamentals, even if there is a slowdown due to global supply still being limited by the fall in capex over the last few years. If there is no major shock to the world economy, demand should rise, however. Chinese growth will remain sufficiently high and well-supported by government measures to maintain such demand for industrial metals and oil products as to prop up a price recovery in the second half of 2019. Commodity prices, and especially crude oil and industrial and precious metal prices, should therefore rise over the coming months.

Rise in demand for crude oil in the 2nd half of the year

Crude oil prices have fluctuated again over the past few months, in line with forecasts of growth, or of a global economic slowdown. It is therefore not surprising that the +45% rise in crude oil prices between January and April was followed by a swift, -22% correction in May when economic uncertainty rose sharply after trade negotiations between China and the United States were called off. However, in June crude oil prices bounced back to above US $60 per barrel since the central banks in the United States and Europe once again relaxed their monetary policy.

Stocks fell in June and OPEC renewed its commitment to curb its production by 1.2 mbd until March 2020 in order to balance the market, both of which have helped improve prospects for crude oil prices. OPEC production should stay under 30 mbd. Estimates from OPEC, the IEA and the EIA for Chinese crude oil demand are rather varied, but they do still point rather clearly to a further rise in the 2nd half of the year. This would mean a 1 mbd increase in Chinese demand on 31st December 2019 as compared to the previous year.

Commodities



Graph sources: Bloomberg/BBGI Group

COMMODITIES (USD)

30.06.2019 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
	MSCI Daily TR Net World USD	6331.08	USD	0.05	6.59	2.82	16.98	16.98
GLOBAL	S&P GSCI Tot Return Indx	2497.4	USD	1.0	4.4	-2.7	13.3	13.3
WTI CRUDE	Generic 1st 'CL' Future	58.5	USD	1.8	9.3	-5.1	28.8	28.8
BRENT OIL	Generic 1st 'CO' Future	66.6	USD	2.1	3.2	-3.6	23.7	23.7
NATURAL GAS	Generic 1st 'NG' Future	2.3	USD	5.6	-5.9	-14.8	-21.5	-21.5
OR	GOLD SPOT $/OZ	1409.5	USD	0.7	8.0	9.5	10.4	9.9
ARGENT	Silver Spot $/Oz	15.3	USD	-0.2	4.9	1.4	-1.3	-1.2
AGRICULTURE	S&P GSCI Agric Indx Spot	298.2	USD	-1.5	1.9	8.1	5.1	5.1
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	320.5	USD	1.5	1.9	-7.0	0.4	0.4

These efforts to rebalance supply and demand have been checked, however, by the increase in US production and exports, which do not seem to be slowing down. Shale oil production has risen by 0.5 mbd since the end of 2018. The IEA believes that the increase in US production should not go beyond 1 mbd, which is much lower than the 2 mbd that OPEC and the EIA are predicting. In the United States, the average profit threshold for shale oil producers stands at US $50- US $60 per barrel, so current prices of nearly US $60 are pushing the upper limit of this range. Consequently, crude oil supply should remain rather abundant, despite the efforts of OPEC countries to rein in their production. Given this situation, developments in crude oil prices should be affected to a greater extent by the demand side than the global supply side.

Over the next two quarters, the crude oil market should be influenced by a recovery in refinery activity, which could increase demand by 2 mbd after a weak 2nd quarter due to maintenance and low margins. Final demand should also increase by more than 1 mbd thanks to macroeconomic prospects remaining positive, based on relatively sustained global growth. The truce announced at the G20 and a fresh round of trade negotiations should support a change in perception in crude oil's favour. We believe that the next two quarters should be characterised by excessive global crude oil demand, a fall in inventories and a further rise in prices, which could head towards US $75 per barrel by the end of the year.

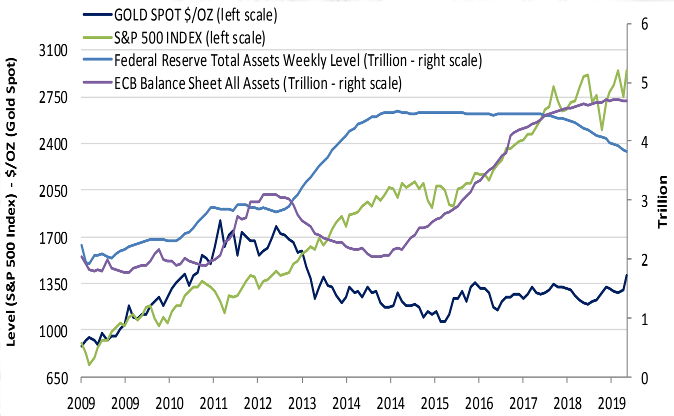
Precious metals benefit from the situation

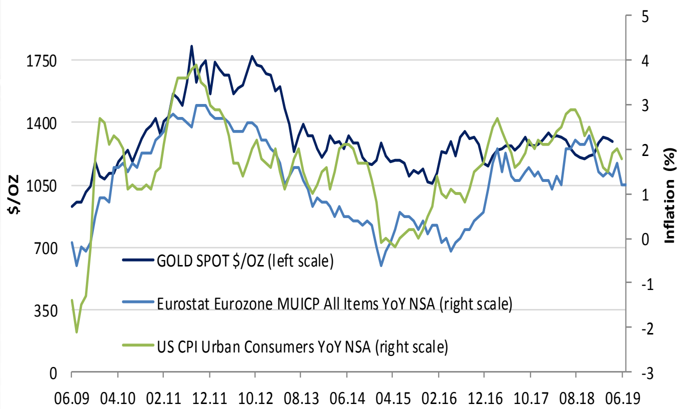
Several factors have worked in parallel to help gold prices grow this quarter, with gold rising from US $1,305 to US $1,409 in June. This +7.97% increase in one month is the greatest monthly rise since June 2016 (+8.79%), and that was only a rally in a bear market. This time, the rise was driven by forecasts of a drop in key rates in the United States, by geopolitical uncertainty and ongoing trade tensions, as well as by US inflation excluding food and energy once again surpassing the 2% Fed target in June (+2.1%).

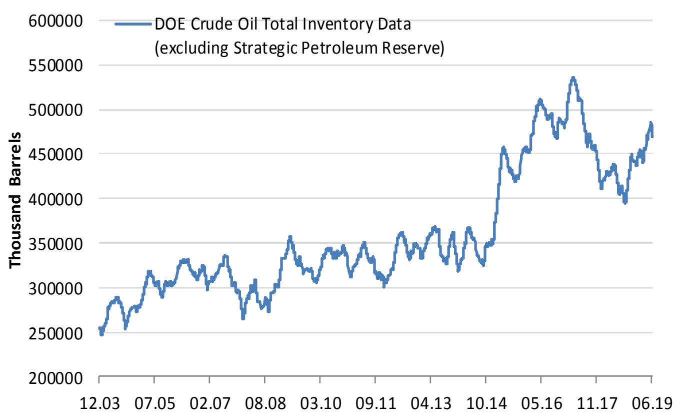
The barely 2% consolidation in the trade weighted dollar can also be considered positive, but, as we have already highlighted several times in our analyses, investment demand is still one of the key factors for an upward trend in gold prices. This has been shown once again this quarter by the +2.8% growth in gold held in ETFs. These funds now hold 74.33 million ounces of physical gold, compared to a total of 71.05 million ounces on 31st December 2018. Job statistics in the United States are robust and salary growth should enable price indices to rise up slightly above the 2% target again and create favourable conditions for gold prices to appreciate again. We should not forget that according to the World Gold Council demand for physical gold already grew +7% in the 1st quarter and the upward trend continues.

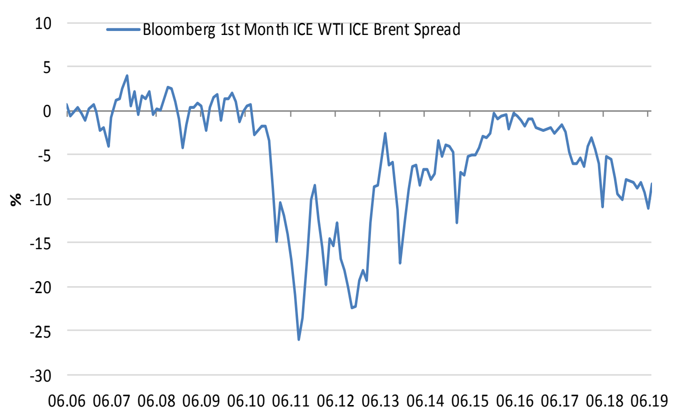
More importantly still, the behaviour of gold is even more closely linked to real rates than to nominal rates. The prospect of a drop in key rates must be considered within the context of rising inflation in 2019, which directly causes real rates to fall below zero. Statistically, the historical monthly performance of gold stands at +0.6% (1971-2019), but in times of negative real rates this doubles (+1.2%). As such, the upcoming drop in key rates could create conditions for negative yields if inflation is a bit more robust.

In the second half of the year, gold prices should still enjoy these positive factors and head towards US $1,500 per ounce. Gold's positive trajectory should also sustain investor interest in silver. We believe prospects for precious metals remain positive.









Graph sources: Bloomberg/BBGI Group

BBGI GROUP Global Investments

PROSPECTS AND STRATEGIES

Hedge Funds

- A second positive quarter for hedge funds

Second quarter up for hedge funds

Between March and June, the global hedge fund index (+1.2%) continued on the upward trend that began in the previous quarter (+2.60%), which was its best quarterly result since Q1 2013.

Different investment strategies posted contrasting performances this quarter. Thus, the equity hedge strategy lost some ground over the period (-0.6%), unlike relative value arbitrage and event-driven strategies, which progressed by +1.4% and +1.5%, respectively. The macro/CTA strategy posted the highest quarterly growth rate with +3.3%, thanks especially to a favourable month of June (+2.6%).

Private Equity

- Close to +30% after H1

Almost +30% after the first semester

Despite an unfavourable month of May for private equity, which also affected almost all asset classes, the segment closed Q2 2019 on a positive note (+7.1%). Much like equity markets, which benefitted from the expectation of a rate cut by the Fed at the end of July, private equity posted outstanding monthly results in June (+6.0%).

On a geographical level, the US posted the best performance (+6.8%), followed closely by Europe (+5.7%). In contrast, the UK progressed more slowly (+1.6%).

HEDGE FUND INDICES (USD)

30.06.2019

	Name	Last price	Curr.	Total Return Performance 7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1240.1	USD	0.1	1.6	1.2	4.2	4.2
EQUITY HEDGE	HFRX Equity Hedge Index	1219.9	USD	-0.1	1.4	-0.6	6.0	6.0
EVENT DRIVEN	HFRX Event Driven Index	1508.0	USD	0.3	1.7	1.5	2.5	2.5
MACRO/CTA	HFRX Macro/CTA Index	1155.1	USD	-0.1	2.6	3.3	2.6	2.6
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1220.0	USD	0.2	1.1	1.4	4.2	4.2
LATIN AMERICA*	HFRX Latin America Index	2252.9	USD	-	0.0	1.6	8.7	8.7
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2258.1	USD	-	0.0	-2.6	4.1	4.1
NORTHERN EUROPE*	HFRX Northern Europe Index	2057.5	USD	-	0.0	0.9	3.7	3.7
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2393.6	USD	-	0.0	-4.8	6.0	6.0
MULTI-REGION	HFRX Multi-Region Index	1353.9	USD	0.0	1.4	1.6	5.4	5.4

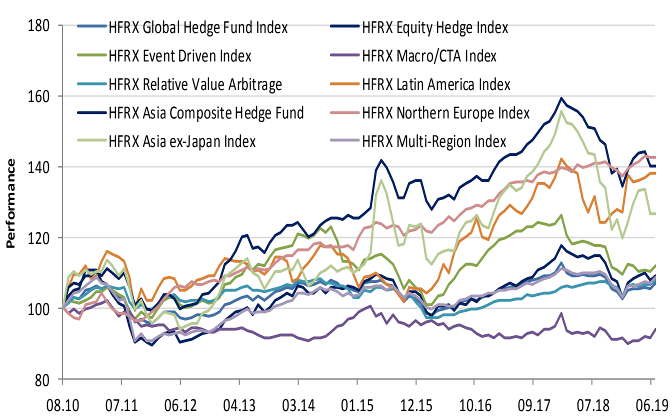
* Subject to one-month lag

PRIVATE EQUITY INDICES (EUR)

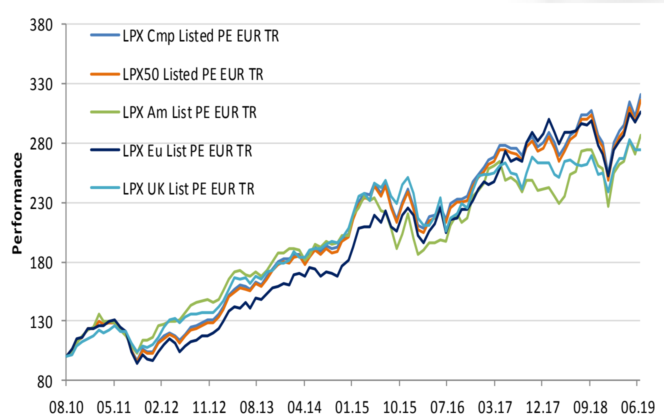
30.06.2019

	Name	Last price	Curr.	Total Return Performance 7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	266.6	EUR	0.6	6.0	7.1	26.6	26.6
MAJOR COMPANIES	LPX50 Listed PE EUR TR	2507.3	EUR	0.7	6.2	7.3	27.0	27.0
USA	LPX Am List PE EUR TR	380.9	EUR	-0.3	5.9	6.8	26.1	26.1
EUROPE	LPX Eu List PE EUR TR	980.6	EUR	1.0	3.1	5.7	21.6	21.6
UK	LPX UK List PE EUR TR	307.4	EUR	0.5	0.1	1.6	15.0	15.0

Hedge funds



Private Equity



Graph sources: Bloomberg/BBGI Group

GLOBAL STRATEGY & ASSET ALLOCATION

Graph sources: Bloomberg/BBGI Group

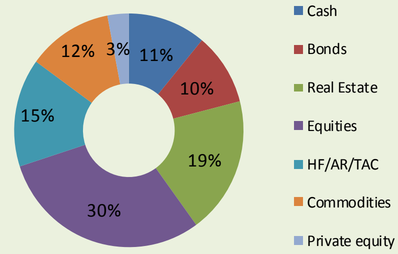
GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - CHF

- Prioritise bonds in USD and short maturities
- Real estate yield remains competitive
- Underweight equities
- Overweight commodities

ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	↘	↘							
Bonds	↘	↘							
Real Estate	→	↗							
Equities	↘	→							
Hedge funds	↘	→							
Commodities	↗	↗							
Private equity	↘	↗							

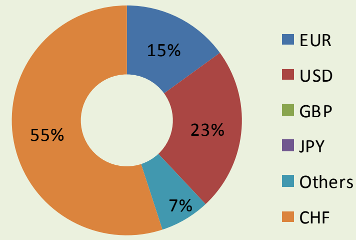
Asset allocation - CHF portfolio



Tactical Allocation

- Profit-taking on « risky » assets
- Underweight equities and favor liquidity

Currency allocation - CHF portfolio



Asset allocation

The core of our investment strategy is made up of traditional liquid assets (liquidities, bonds, equities and real estate), complemented by other diversified, tradable assets (commodities, hedge funds, private equity).

Bonds

The fall in bond yields, which continued until June, seems excessive given the lack of any real risk of recession and the more positive situation of a likely economic recovery in the 2nd half of the year. Relatively speaking, in the United States, the interest rate curve is still offering good opportunities in the fixed income investment segment, especially in comparison with the bond markets in euro, yen, Swiss francs, and pounds sterling. It is likely that long rates will bounce back across most markets due to the tensions on the various jobs markets; this may have an impact on inflation and revitalise energy prices. We believe that yields in US dollars are sufficiently attractive to set aside high yield investments, the risk premia of which are now too low to justify any significant allocation. We are proposing a cautious bond strategy, with reduced overall exposure, favouring investments in US dollars and short maturities.

Equities

The market volatility seen over the last two months has strongly influenced risk levels for equities over the period. In April, we had stated that the latest stock market developments suggested an increased risk of a price correction for risky assets in May. At the end of May, we highlighted that this correction did take place as expected and that it reduced the level of risk, and therefore suggested returning to neutral exposure points for swiss and international equities. A month later, prices have bounced back quickly, mainly due to the prospect of a drop of Federal Reserve key rates in July. This now puts equity markets back in risky territory and is grounds for reduced allocation.

Commodities

Despite no agreement, the Chinese economy is resilient, and the American economy is in no danger. Most commodities should therefore enjoy positive fundamentals, even if there is a slowdown due to global supply being limited by the fall in capex over the past few years. If there is no major shock to the world economy, demand should increase, however. Commodity prices, particularly for crude oil and industrial and precious metals should therefore rise over the coming months.

Real estate

Real estate remains the main alternative to rate markets. Yields are attractive and the risk of a correction to prices caused by a rate hike still seems low given the context of often negative real-terms yields. Our strategy focuses on Swiss real estate and, internationally, Europe and Asia are favored.

Currencies

Monetary policy changes should not produce any radical change in the current balance between currencies providing that rates follow a similar path to that of the United States. The dollar has indeed entered a stabilization phase, while the euro remained almost unchanged. The franc should weaken against these two currencies.

Market performances - Q2 2019

		Q2 2019 local	Q2 2019 CHF	YTD local	YTD CHF
Exchange rates					
USD/CHF		-1.9%		-0.6%	
EUR/CHF		-0.5%		-1.3%	
GBP/CHF		-4.4%		-1.0%	
JPY/CHF		0.8%		1.0%	
Equity markets					
World	MSCI World USD	4.0%	2.0%	17.0%	16.3%
Europe	DJ Stoxx 600	3.0%	2.5%	16.5%	14.9%
Eurozone	DJ Eurostoxx 50	3.6%	3.1%	15.7%	14.2%
	MSCI Europe S.C.	0.0%	-0.6%	13.8%	12.3%
Germany	Dax 30	7.6%	7.0%	17.4%	15.8%
France	Cac 40	3.5%	3.0%	17.1%	15.5%
United Kingdom	FTSE 100	2.0%	-2.5%	10.4%	9.2%
Switzerland	SPI	6.5%	6.5%	21.8%	21.8%
	SMI	4.4%	4.4%	17.4%	17.4%
	MSCI Swiss S.C.	6.2%	6.2%	16.6%	16.6%
North America	SP500	3.8%	1.8%	17.3%	16.7%
	Nasdaq	3.6%	1.6%	20.7%	19.9%
	Tse 300	1.7%	1.8%	14.4%	18.4%
	SP600 Small C.	1.5%	-0.4%	12.8%	12.2%
Japan	Nikkei 225	0.3%	1.1%	6.3%	7.4%
Emerging	MSCI EMF USD	-0.3%	-2.2%	9.2%	8.6%

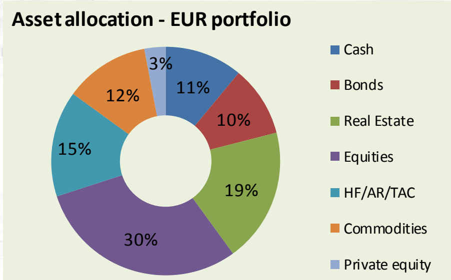
		Q2 2019 local	Q2 2019 CHF	YTD local	YTD CHF
Interest rates (3 months)		*(level)*			
CHF		-0.73%			
EUR		-0.39%			
USD		2.32%			
JPY		-0.07%			
Bonds markets					
World	Citi Gr Global Govt.USD	3.6%	1.6%	5.4%	4.8%
Europe	Euro Ser-E Gov > 1	3.4%	2.8%	6.0%	4.6%
United Kingdom	UK Ser-E Gov > 1	1.4%	-3.1%	5.0%	3.9%
Switzerland	SBI Général AAA-BBB	1.4%	1.4%	3.2%	3.2%
	SBI Govt.	2.1%	2.1%	4.2%	4.2%
USA	US Ser-E Gov > 1	3.0%	1.1%	5.2%	4.6%
Japan	Japan Ser-E Gov > 1	0.9%	1.7%	2.4%	3.5%
Emerging	J.P. Morgan EMBI Global	3.8%	1.8%	10.6%	9.9%
Miscellaneaous					
	LPP 25 Index	2.1%	2.1%	7.0%	7.0%
	LPP 40 Index	2.4%	2.4%	9.1%	9.1%
	LPP 60 Index	2.7%	2.7%	11.9%	11.9%
Real Estate CH	DB RB Swiss Real Est Fd	4.6%	4.6%	14.6%	14.6%
Hedge Funds	Hedge Fund Research USD	1.2%	-0.7%	2.2%	1.6%
Commodities	GS Commodity USD	-1.4%	-3.3%	13.3%	12.7%

Graph sources: Bloomberg/BBGI Group

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - EUR

- Reducing risk in the euro zone
- Real estate yield remains competitive
- Reduce overweighting in equities
- Overweight commodities



Tactical Allocation

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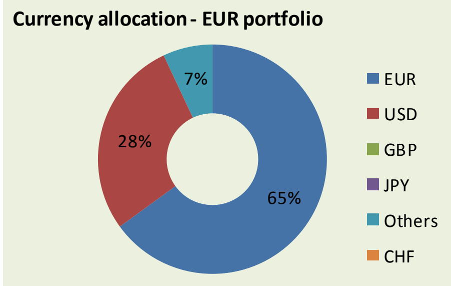
- Underweight equities and favor liquidity



ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (EUR Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	↘	↘							
Bonds	↘	↘							
Real Estate	→	↗							
Equities	↘	→							
Hedge funds	↘	→							
Commodities	↗	↗							
Private equity	↘	↗							

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Commodities

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Graph sources: Bloomberg/BBGI Group

Real estate

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Currencies

Monetary policy changes should not produce any radical change in the current balance between currencies providing that rates follow a similar path to that of the United States. The US dollar has entered a phase of stabilisation against the euro.

Market performances - Q2 2019

		Q2 2019 local	Q2 2019 EUR	YTD local	YTD EUR
Exchange rates					
USD/EUR		-1.4%		0.8%	
CHF/EUR		0.6%		1.5%	
GBP/EUR		-3.9%		0.4%	
JPY/EUR		1.4%		2.5%	
Equity markets					
World	MSCI World USD	4.0%	2.6%	17.0%	17.9%
Europe	DJ Stoxx 600	3.0%	3.0%	16.5%	16.5%
Eurozone	DJ Eurostoxx 50	3.6%	3.6%	15.7%	15.7%
	MSCI Europe S.C.	0.0%	0.0%	13.8%	13.8%
Germany	Dax 30	7.6%	7.6%	17.4%	17.4%
France	Cac 40	3.5%	3.5%	17.1%	17.1%
United Kingdom	FTSE 100	2.0%	-2.0%	10.4%	10.8%
Switzerland	SPI	6.5%	7.1%	21.8%	23.7%
	SMI	4.4%	5.0%	17.4%	19.2%
	MSCI Swiss S.C.	6.2%	4.8%	16.6%	17.5%
North America	SP500	3.8%	2.4%	17.3%	18.3%
	Nasdaq	3.6%	2.2%	20.7%	21.6%
	Tse 300	1.7%	2.3%	14.4%	20.1%
	SP600 Small C.	1.5%	0.1%	12.8%	13.7%
Japan	Nikkei 225	0.3%	1.7%	6.3%	9.0%
Emerging	MSCI EMF USD	-0.3%	-1.7%	9.2%	10.1%

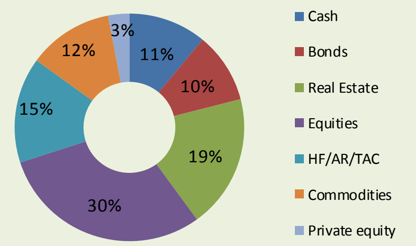
		Q2 2019 local	Q2 2019 EUR	YTD local	YTD EUR
Interest rates (3 months)		*(level)*			
CHF		-0.73%			
EUR		-0.39%			
USD		2.32%			
JPY		-0.07%			
Bonds markets					
World	Citi Gr Global Govt.USD	3.6%	4.1%	5.4%	7.0%
Europe	Euro Ser-E Gov > 1	3.4%	3.4%	6.0%	6.0%
United Kingdom	UK Ser-E Gov > 1	1.4%	-2.5%	5.0%	5.4%
Switzerland	SBI Général AAA-BBB	1.4%	1.9%	3.2%	4.8%
	SBI Govt.	2.1%	2.7%	4.2%	5.7%
USA	US Ser-E Gov > 1	3.0%	1.6%	5.2%	6.0%
Japan	Japan Ser-E Gov > 1	0.9%	2.3%	2.4%	5.0%
Emerging	J.P. Morgan EMBI Global	3.8%	2.4%	10.6%	11.5%
Miscellaneaous					
	LPP 25 Index	2.1%	3.6%	7.0%	8.6%
	LPP 40 Index	2.4%	3.9%	9.1%	10.8%
	LPP 60 Index	2.7%	4.2%	11.9%	13.6%
Real Estate CH	DB RB Swiss Real Est Fd	4.6%	4.6%	14.6%	16.3%
Hedge Funds	Hedge Fund Research USD	1.2%	-0.2%	2.2%	3.0%
Commodities	GS Commodity USD	-1.4%	-2.8%	13.3%	14.3%

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - USD

- Attractive yields in the United States
- Real estate yield remains competitive
- Reduce overweighting in equities
- Overweight commodities

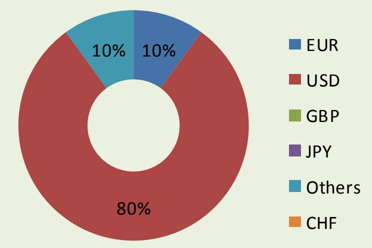
Asset allocation - USD portfolio



Tactical Allocation

- Profit-taking on « risky » assets
- Underweight equities and favor liquidity

Currency allocation - USD portfolio



ASSETS	Expected Return		ALLOCATION (USD Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Cash	↘	↘							
Bonds	↘	↘							
Real Estate	→	↗							
Equities	↘	→							
Hedge funds	↘	→							
Commodities	↗	↗							
Private equity	↘	↗							

Asset allocation

The core of our investment strategy is made up of traditional liquid assets (liquidities, bonds, equities and real estate), complemented by other diversified, tradable assets (commodities, hedge funds, private equity).

Bonds

The fall in bond yields, which continued until June, seems excessive given the lack of any real risk of recession and the more positive situation of a likely economic recovery in the 2nd half of the year. Relatively speaking, in the United States, the interest rate curve is still offering good opportunities in the fixed income investment segment, especially in comparison with the bond markets in euro, yen, Swiss francs, and pounds sterling. It is likely that long rates will bounce back across most markets due to the tensions on the various jobs markets; this may have an impact on inflation and revitalise energy prices. We believe that yields in US dollars are sufficiently attractive to set aside high yield investments, the risk premia of which are now too low to justify any significant allocation. We are proposing a cautious bond strategy, with reduced overall exposure, favouring investments in US dollars and short maturities.

Equities

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North America	SP500	3.8%	3.8%	17.3%	17.3%
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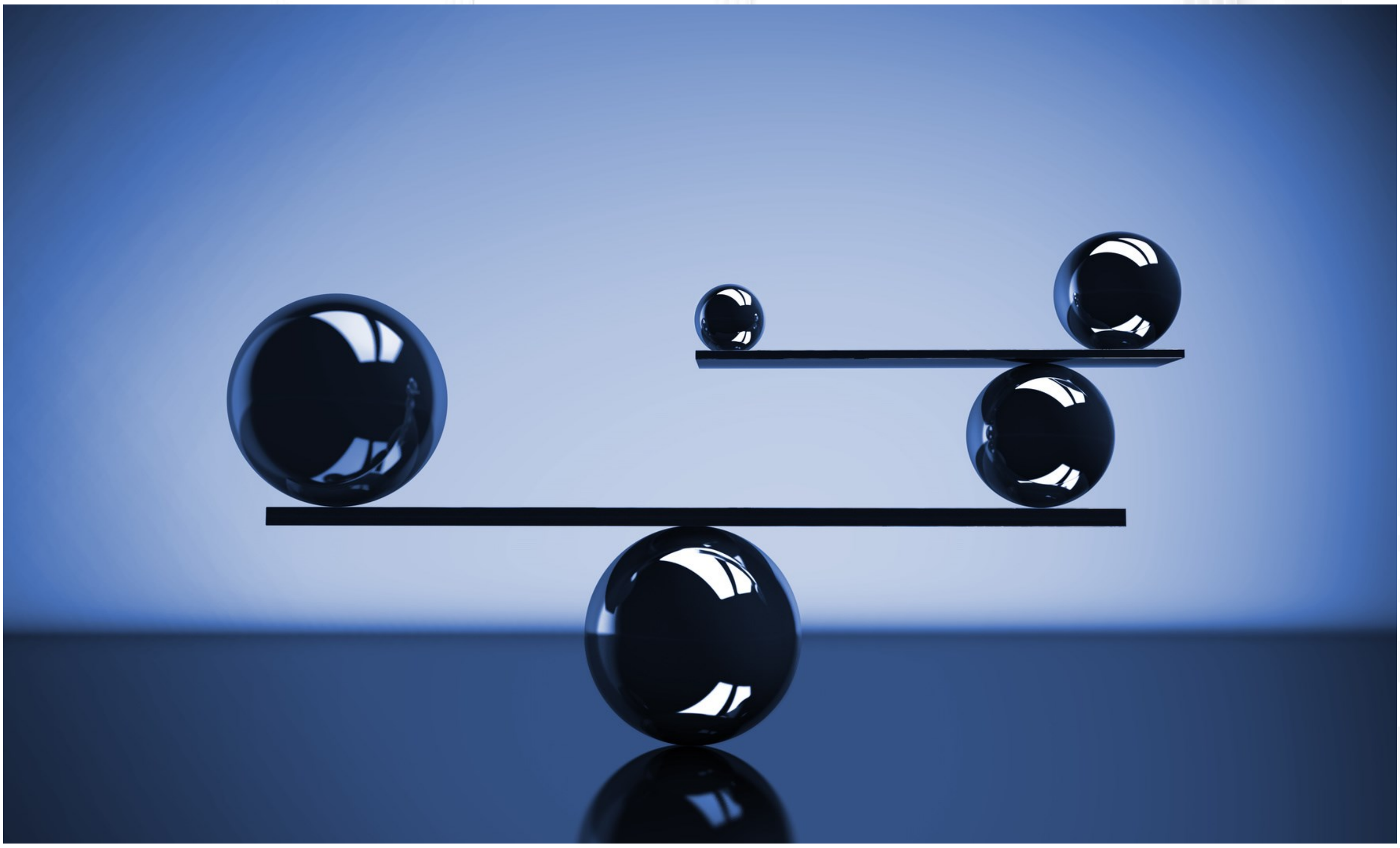
INVESTMENT THEME FOCUS



Graph sources: Bloomberg/BBGI Group

INVESTMENT THEME

Focus on Impact Investing

- Impact investing is increasingly prized by institutional investors
- The BBGI ESG Swiss Equities Smart Beta approach outperforms the SPI
- The BBGI ESG International Equities Smart Beta model also produces positive results
- The two low carbon international equity strategies outperform the traditional MSCI World index
- BBGI Clean Energy outperforms the fossil fuel sector by investing in renewable energy and sustainable infrastructure

Impact investing is increasingly prized by institutional investors

Impact investing and ESG investments have the wind in their sails, both in Switzerland and abroad. Demand is mainly sustained by institutional investors who represent nearly 85% of demand for this type of investment. In Switzerland, the latest market studies show a drop in the prevalence of exclusionary approaches and +90% increase in approaches incorporating ESG criteria.

In terms of distribution across asset classes, sustainable investments in equities make up around 30% of all sustainable investments. The climate is also becoming an increasingly important issue for investors. The Paris Climate Change Agreements and the Sustainable Development Goals (SDGs) are undoubtedly starting to influence product supply. A growing number of investors feel concerned about climate change.

Around 80% of investors say that they are interested in environmentally friendly investment solutions as well as investments that take carbon balance into account. Experts still consider the range of products offered by private banks limited and not very effective; a number of opportunists seem to have noticed this trend and are trying to hastily tweak their range of products accordingly. However, there are also highly effective approaches available, as shown by our commitment in this field spanning more than 20 years.

The BBGI ESG Swiss Equities Smart Beta approach outperforms the SPI

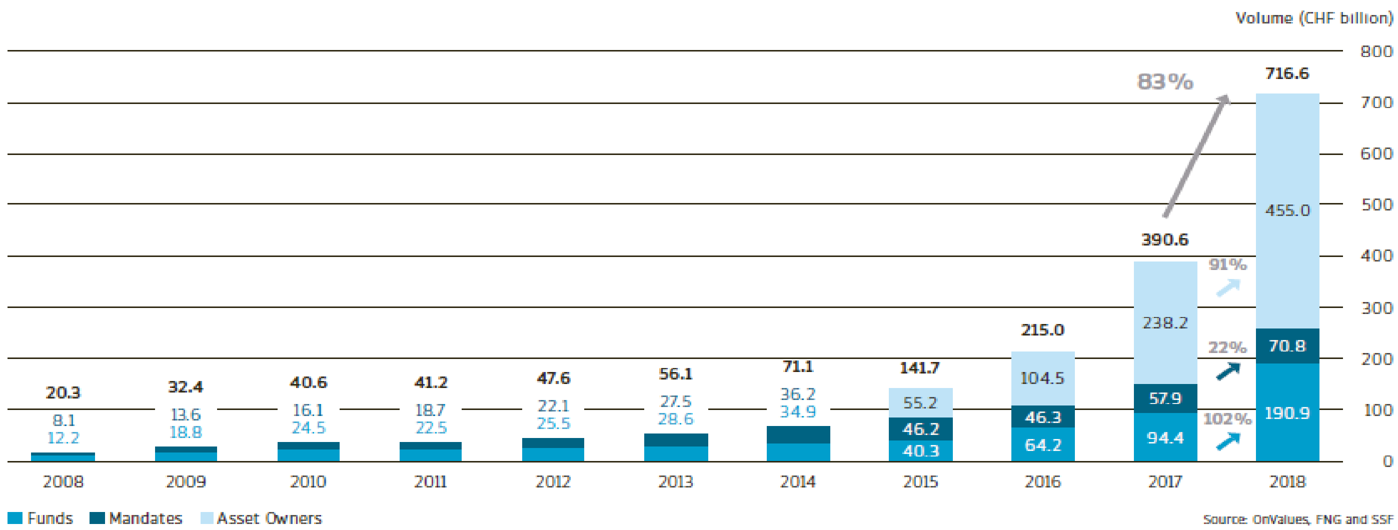
In the Swiss equities segment, we created the first management concepts and ESG indices offering Smart Beta strategies and specialised benchmark indices adapted to the various needs of investors (core, mid, and broad indices).

Since 1999, these strategies' results (+5.81%/year, +7.63%/year, +7.54%/year) have clearly surpassed the SPI index (+4.74%/year), reassuring investors who have chosen ESG investment solutions.

Incorporating ESG criteria in traditional financial analysis gives results which outperform the traditional Swiss market indices in the long-term, with similar levels of volatility.

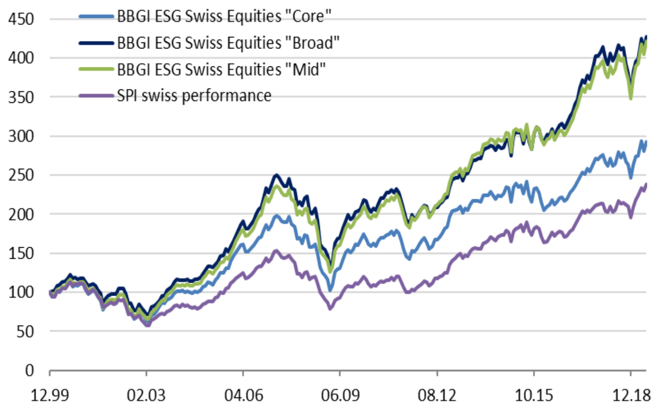
This demanding, highly effective formula also enables investors to invest in the Swiss economy in a way which values businesses that lead the way from an environmental, social or governance point of view. This solution bolsters the competitiveness of our economy in a world shaped by greater requirements in terms of governance, transparency and sustainability.

DEVELOPMENT OF SUSTAINABLE INVESTMENTS IN SWITZERLAND (IN CHF BILLION)



Graph sources: Bloomberg/BBGI Group

Indices BBGI ESG Swiss Equities vs SPI



The BBGI ESG International Equities Smart Beta model also produces positive results

The BBGI ESG Smart Beta model, which was developed for Swiss equities, was adapted to international equities in 2016, with very positive results since then. This approach's cumulative performance (+37.3%) surpasses that of the MSCI World index over the same period (+32.7%).

When applied on an international scale to a very broad range of assets, impact investing uses an inclusive approach, which has the advantage of not reducing or restricting yield expectations for the portfolio. Environmental, social, and governance aspects are incorporated into the portfolio building process by analysing criteria applied to all of the assets in the universe from which they are being selected. Companies can stand out by improving their overall ESG score, or by getting similar scores to other companies in the same sector. In order to be able to compare data across different industries, ESG scores are weighted by overall ESG scores and ESG Industry scores.

This rigorous approach enables us to effectively invest in the global economy, while valuing companies which lead the way from an environmental, social or governance standpoint. This is achieved through an investment concept which favours pragmatic impact investing, while still taking into account the issue institutional investors have regarding the yardstick for relative performance as compared to international equity indices, which include all sectors of the global stock market indiscriminately.

It is also possible to make targeted investments by favouring international equities with low carbon emissions

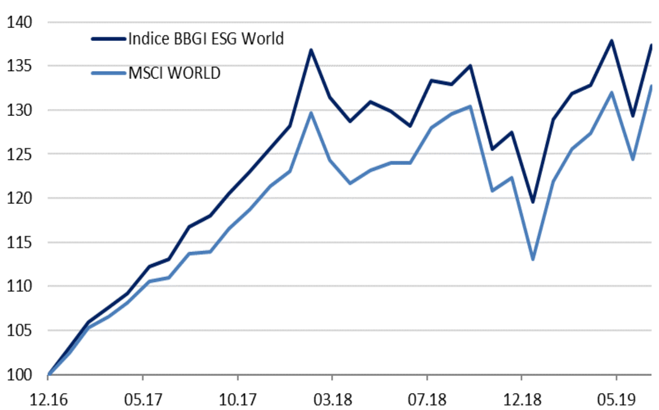
In partnership with Oekom, a European company specialising in the analysis of companies' carbon footprints, we have developed an investment approach using the best current practices in terms of energy consumption.

This approach to selecting international equities to create a responsible portfolio offers investors the opportunity to play an active role by choosing their investments so as to prioritise companies which are aware of the energy transformation that climate change demands, particularly those with a small carbon footprint. These companies will also undoubtedly be best placed to avoid the operational and regulatory risks that might affect their business and its results.

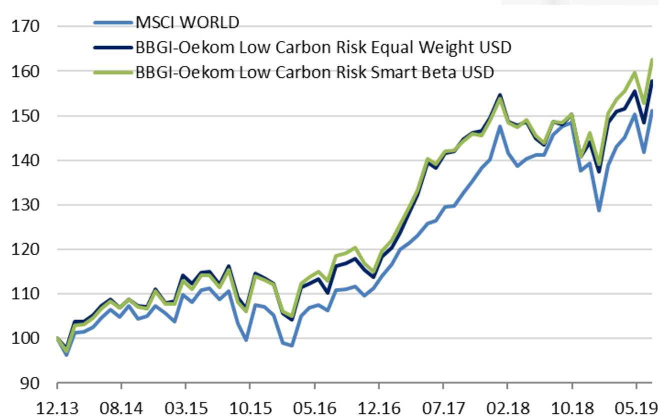
The results of this innovative approach are published in two BBGI-Oekom low carbon indices, which are the first indices to incorporate climate concerns in how they are built, by selecting international businesses based on their carbon dioxide emissions.

The investment strategies that BBGI offers allow our clients to take part in how stock market listed companies change, by prioritising those companies at the cutting edge of their sector, thereby effectively fighting climate change. Assets are selected so as to ensure international and sectoral diversification. Investors wishing to use this methodology to invest receive a geographically and sectorally diversified strategy from within our 100 largest international stock market capitalisations with the smallest carbon footprint.

Indice BBGI ESG World vs MSCI World



Indices BBGI-oekom Low Carbon Risk vs MSCI World



Graph sources: Bloomberg/BBGI Group /SSF

The two low carbon international equities strategies outperform the traditional MSCI World index

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The performance of our two BBGI-Oekom Low Carbon approaches (Smart Beta and Equal Weight Indices) also compares very favourably with international equity indices. Since 2013, the year on year performance of the Equal Weight Index (8.65%) and of the Smart Beta Index (9.23%) has outstripped the MSCI World Index (7.81%).

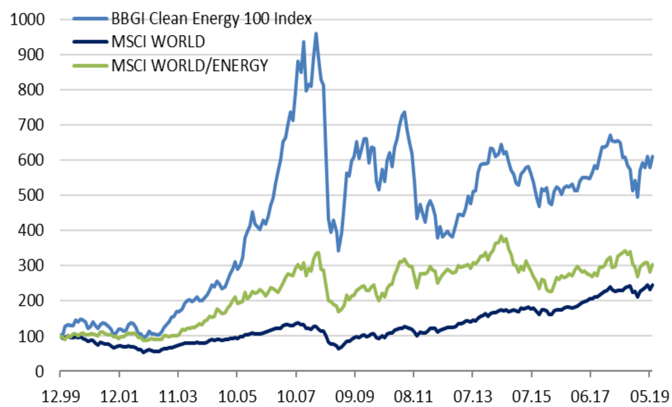
BBGI Clean Energy outperforms the fossil fuel sector by investing in renewable energy and sustainable infrastructure

The energy sector accounts for almost 5.5% of global stock market capitalisations in 2019, and therefore has considerable weighting in the international equity indices that institutional investors track to measure their performance, as well as in their broad investment universe. Institutional investors could rule out any type of investment in this sector, but they could also decide to invest in this sector in a more responsible, better targeted way by adopting a more active and resolute approach which prioritises or only invests in alternative energy. In this respect, the future of the renewable energy sector is very promising, as it will receive significant investment over the coming years. Development prospects will offer unique opportunities, both in the solar energy sector and the wind energy segment, not to mention in companies working in energy efficiency. Our belief in the future and prospects of new energy sources as an alternative to traditional fossil fuels also led us to create the first investible international index for broadly diversified renewable energies many years ago. This approach's track record is very respectable, given that our BBGI Clean Energy 100 strategy has posted year on year performance of +7.5% since 1999, which is well above the MSCI World index (+4.07%) and the MSCI World Energy index (+4.6%). Nearly 20 years of relative performances are reassuring investors who want to take part in the energy transition needed for responsible global economic development, but who require appropriate solutions and high-performance alternatives to an energy sector that has traditionally been constituted by oil multinationals. Our Clean Energy strategy has posted +17.5% growth since the start of the year. It has clearly outperformed international equities (+9.75%) and the energy sector (+5.33%) in 2019.

Impact investing performances are here to stay

High-performance solutions adapted to the diverse needs of institutional investors do exist, as demonstrated by the range of concepts that BBGI has developed. These concepts are not exclusively for institutional investors; they are already available to private investors who want to ensure their investment strategy is consistent with their personal convictions and investment philosophy. Although experts consider the solutions available today to be ineffective and insufficient, we are convinced that the range of products will soon expand and there will be an improvement in the concepts offered by new finance players, who are perhaps more inclined to innovate and provide the solutions for which the market is so clearly waiting.

BBGI Clean Energy 100 vs MSCI World & MSCI World Energy



Graph sources: Bloomberg/BBGI Group

TIMELESS PLEASURE
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PARK GSTAAD

THE LEADING HOTELS OF THE WORLD

QUALITY Our Passion

SWISS DELUXE HOTELS

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