



# ASSET ALLOCATION STRATEGY

MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES

APRIL 2019

## CENTRAL BANKS ARE CALLING ALL THE SHOTS

► Equity and bond markets have staged an impressive rebound since January; what is equally impressive is that this has been accomplished with practically no shift in fundamentals and fund flows. The fourth-quarter sell-off was caused by central bank action and so was the rapid recovery seen in recent weeks.



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Central banks have indisputably changed gear. The Fed will soon stop contracting its balance sheet and no longer expects to raise rates this year although there is still a question mark over a final hike in 2020. Like the Fed, the ECB has ruled out any tightening this year and will unveil its new TLTRO for banks from September in an effort to stimulate growth. The TLTRO's conditions, which will probably be stricter than previously, will be announced by June. The bank is also considering measures to limit the damage done to banks by negative rates. Central banks are clearly sending a much more favourable signal to investors so as to reduce tension and therefore volatility.

Even so,

► they have not returned to their previous accommodating stance even if they are now more complacent, suggesting the rally they have orchestrated can only go so far. After all, US investors can still earn 2.6% on 3-month certificates of deposit, an attractive yield which offers a fallback solution should uncertainty rise.

- Economic data are still volatile. Even in the US where visibility remains good, some statistics have recently seen sharp falls.
- Inversion at the short end of the US yield curve and downward pressure on company margins are the first end-of-cycle indications that might concern investors.
- Market liquidity is only average and there are once again substantial short positions on VIX volatility contracts.

As this could mean the beginning of a more hesitant mood on markets, we believe it makes sense to reduce portfolio risk a little. We have accordingly reduced equity exposure and are now slightly underweight. That said, this is a short term view and we consider that the longer time outlook is still upbeat. We expect to see a gradual recovery in China that will underpin European economies and allay what in our view is now an excessively pessimistic view. But between the end of the rally orchestrated by central banks and the beginning of a synchronised revival in global growth, tactical caution is required.



### KEY POINTS

Tactical caution  
is required

Portfolio risk cut

Now underweight  
equities



## NEXT HEADLINE EVENTS

Next ECB meeting: April 10

Next BoJ meeting: April 24 & 25

Next Fed meeting: April 30 & May 1<sup>st</sup>

	OUR CONVICTIONS FOR APRIL*	CHANGES COMPARED TO THE PREVIOUS MONTH
<b>EQUITIES</b>	=/-	↓
US	=/-	↓
Europe	=/-	↓
Euro	=/-	↓
United Kingdom	=/-	↓
Japan	=/-	↓
Emerging countries	=/-	↓
<b>FIXED INCOME</b>	-	→
US	=	→
Euro	-	→
Investment Grade	-	→
High Yield	=	→
Emerging markets	=/+	→
<b>DIVERSIFICATION</b>		
Convertible bonds	=	→
Dollar	=/-	→
<b>MONEY MARKET</b>	+	→

\*Range of investment committee ratings on the asset class/geographical zone (from -/- to +/+). Source: Edmond de Rothschild Asset Management (France). Ratings at 01/04/2019.

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