



ASSET ALLOCATION STRATEGY

MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES

JUNE 2019

MARKETS HAVE
MOVED LOWER
BUT CAUTION
IS STILL THE
WATCHWORD

► Any drop in risk assets like the recent retreat in May is always an invitation to review the situation with a view to reassuming risk. This is particularly tempting today as the rally earlier this year might have more mileage.



BENJAMIN MELMAN

*CIO Asset Allocation
and Sovereign Debt*

At this stage we prefer to remain relatively cautious.

After all,

- The market fall was relatively mild and the reasons behind our prudent stance last month are still valid. Over the **short term**, there is a threat of a trade war and the market has become riskier because of massive VIX shorts while over the **medium term** there will be mounting end-of-cycle signs. Market valuations are not excessive but they are not particularly attractive especially as the cycle is now in a mature phase.
- Markets have partially factored in the increased risk of a trade war, but at least some protectionist rhetoric is likely to survive up to the next US presidential elections as Donald Trump thinks it is a vote winner. As concerns China, Democrats have also ended up embracing Donald Trump's trade strategy. Once an agreement, however minimal, is signed with China, the subsequent truce will leave Donald Trump free to focus on autos and Europe. Bear in mind that US auto imports are already significant and that if the NAFTA 2.0 agreement were to be approved, US auto manufacturers would be even less competitive due to higher production costs.
- The latest PMI and IFO readings have slightly dampened investor hopes that China and Europe might enjoy a recovery in the second half.

True, the big difference with the ends of previous cycles is that central banks are this time underpinning the cycle and might once again ease monetary policy. But the Fed's support is not limitless. Its current stance is neutral with no bias so the 25bp cut by end 2019 that markets have priced in is purely an investor bet with no input from the Fed. The environment would have to deteriorate more markedly for the Fed to intervene. As a result, it is highly likely that the Fed's support for markets is already fully discounted; only a market correction could offer the promise of more intervention.

In the circumstances, our portfolio positioning is still relatively cautious. And, as a result of increased political pressure over issues like international trade, Brexit and Iran, we have slightly raised US dollar weightings.



KEY POINTS

Political risk
rising again

We remain cautiously
invested

We assume a neutral
stance on the US dollar

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

*Range of investment committee ratings on the asset class/geographical zone (from -/- to +/+). Source: Edmond de Rothschild Asset Management (France). Ratings at 28/05/2019.



NEXT HEADLINE EVENTS

Next ECB meeting: June 6

Next FED meeting: June 19

Next G20 summit: June 28 & 29

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