



ASSET ALLOCATION STRATEGY

MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES

DECEMBER 2019

LIQUIDITY IS UNDERPINNING MARKETS



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► Equity markets continued to push higher and credit spreads tightened in November as economic data stabilised or improved. Sentiment was also boosted by a crop of political comments suggesting the US and China would soon sign a Phase 1 agreement in their ongoing trade talks, even if a few last minute tensions emerged.

Following the market dip in early December prompted by comments from Donald Trump, we decided to tactically increase equity weightings:

- investors have generally been cautious this year due to the sell-off in the fourth quarter of 2018 and can therefore put a little more money back to work. This leaves a small space for fund flows to maintain short term momentum.
- advanced indicators have not all clearly deteriorated and there are even signs of improvement, even if they still need to be confirmed. At the same time, we should not underestimate government determination to underpin growth, even if central banks have already done their bit. Japan, for example, surprised everyone by rolling out a stimulus plan and the new leadership of the SPD party could lead to a change in Germany's fiscal policy.
- global liquidity has kept on improving. Fresh quantitative easing from the ECB and the Fed's decision to let its balance sheet expand will result in ample liquidity returning. Liquidity was a critical factor in 2018 and will now provide support for markets.

Against this backdrop, our overall risk exposure has become temporarily more balanced. With the US yield curve steepening, we have also upped exposure to short and medium-dated US Treasuries. Markets have practically given up any expectations of further rate cuts from the Fed. And in the event of an adverse scenario, we believe US bonds have the rebound potential to protect portfolios.



KEY POINTS

Equity weightings
increased

US Treasuries offer
rebound protection

	OUR CONVICTIONS FOR DECEMBER*	CHANGES COMPARED TO THE PREVIOUS MONTH
EQUITIES	=	↑
US	=	↑
Europe	=	→
Euro	=	→
United Kingdom	=	→
Japan	=	↑
Emerging countries	=	↑
Thematics	=/+	↓
FIXED INCOME	=/-	→
US	=	→
Euro	=/-	→
Investment Grade	-	→
US	-	→
Euro	=	→
High Yield	=	→
US	=/-	→
Euro	=/+	→
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 09/12/2019.



NEXT HEADLINE EVENTS

Next Fed meeting: December 10 & 11

UK Parliamentary Elections: December 12

Next ECB meeting: December 12

Written on 09/12/2019. This document is for information only.

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Société anonyme governed by an executive board
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