EDMOND DE ROTHSCHILD

ASSET ALLOCATION STRATEGY

MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES

OCTOBER 2019

THE PERSISTENCE OF A CAUTIOUS STANCE

BENJAMIN MELMAN
Global Chief Investment Officer, Asset Management

KEY POINTS

Recession is unlikely in the foreseeable future

European political risks held at bay for now

Slight overweight on Government bonds

The economic and political climate is glum, and things continue to worsen. Although we do not predict a recession in the foreseeable future, we nevertheless cannot identify any factor likely to reverse the cycle.

Looking at historical economic data for the US, we see that the slowdown began in the Spring 2018, before the "trade war" began ramping up, probably under the effect of downwards pressure on margins. However, it goes without saying that the trade war has drastically amplified the corporate investment slowdown due to the rising uncertainty, dragging the manufacturing sector towards a recession. To tell the truth, this cautious outlook is somewhat consensual and can also be seen among investors. Faced with this slowdown, the biggest news is that the authorities this time wasted no time on launching their counter-attack. The Federal Reserve and European Central Bank were very quick to lighten their monetary policy and the possibility of a stimulus plan has already been discussed on both sides of the Atlantic, which is a good news, but not yet concrete enough to prompt a reverse in the forecasts.

The build-up of political risks across Europe prompted us to reduce our equity weighting at the beginning of August. Since then, the collapse of the Italian Government supported by the Northern League and the mounting failures by Boris Johnson have postponed the risk of a difficult European autumn and we have adjusted our position to one with lesser exposure. That said, we remain rather cautious overall.

On the bond markets, we benefited from tension over long rates in September to slightly increase our exposure to Government bonds. Although Government bonds have unusually low yields, the worsening economic environment tells us to remain present in this asset class. More generally, we continue to focus on searching for yields and to favour financial subordinated bonds, with relatively good yields and improving fundamentals thanks to the rise in tier one core equity ratios. Emerging market bonds (hard currency) are in our opinion able to benefit from new inflows coming from Europe due to the higher yields after the return of quantitative easing.

	OUR CONVICTIONS FOR OCTOBER*	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 16/09/2019.

NEXT HEADLINE EVENTS

Next ECB meeting: October 24

Next FED meeting: October 29 & 30

US and Chinese officials meeting in Washington: October 10 & 11

Written on 16/09/2019. This document is for information only.

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)
47, rue du Faubourg Saint-Honoré, 75401 Paris Cedex 08
Société anonyme governed by an executive board
and a supervisory board with capital of €11,033,769
AMF registration No. GP 04000015 – 332.652.536 R.C.S Paris

www.edram.fr