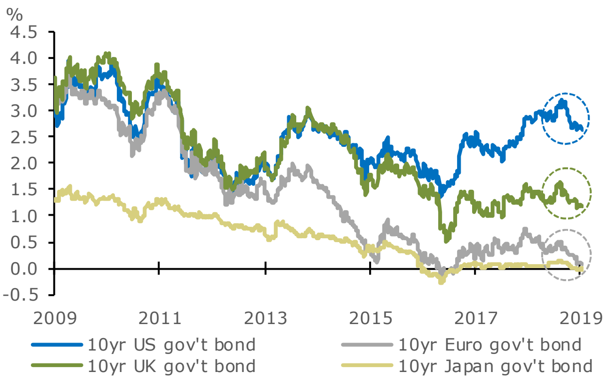
Quarterly Investment Letter – Q2 2019

Interest rates – lower for longer

The **US Fed and the European Central Bank** kick the can further down the road and **keep interest rates lower for longer**. Proactive central banks in combination with healthy household balance sheets, strong employment conditions, lower oil prices and China's fiscal and monetary easing, should **extend the economic expansion**.

Chart 1: 10-year government bond yields have peaked for now



Source: Bloomberg Finance L.P., Alpinum Investment Management

United States

US gross domestic product (GDP) growth hit a **cyclical peak of 4.2% in Q2 2018** and has been moderating since then. For **Q1 2019, the Atlanta Fed model estimates GDP growth to reach 1.3%.** The reason for the slowdown has been mainly the weakening growth in fixed investment, with the government shutdown over Christmas adding to the weakness. The **two highly regarded leading indicators,** the US ISM manufacturing index (54.2 points) and the US ISM new orders index (55.5 points), have been in a downtrend since August 2018. **The question is whether we will see a reversal of the downtrend** before both indices fall through the critical 50 points level, indicating a more deepening economic contraction and earnings recession. S&P 500 earnings expectations for 2019 are still demanding, while valuation measures such

Summary Points

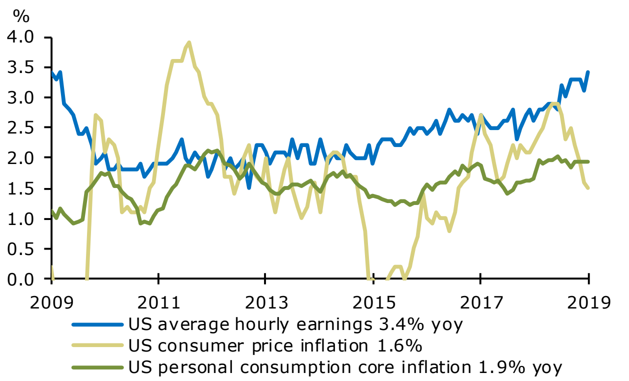
- The US Fed and the European Central Bank kick the can further down the road and keep interest rates lower for longer.
- US GDP growth continues to slow but a sudden recession is not on the cards. That said, the economic slowdown will lead corporate default rates to slowly move higher.
- Europe has largely been shunned by investors. Some of the disruptions may start to dissipate in Q2 2019 and European equities may have a window to partly close the valuation gap to the US.
- China's economy is stabilizing as the government's fiscal and monetary easing policies start to feed through to the economy.
- US-China trade tensions are both short-term (i.e. trade imbalances) and long-term in nature (technology transfers). Politics are still worlds apart on certain topics.
- **Conclusion:** We increased market exposures again in January and remain constructive for the time being. That said, we do not delude ourselves and are very well aware that we live on borrowed time.

Content

as the price-to-book and price-to-sales ratio are at elevated levels. **The margin of error for US equities to correct again is small**, should the earnings outlook deteriorate.

The growth slowdown and the decline in oil and gasoline prices have led consumer price inflation to decrease to 1.6%, while wage growth is up 3.4% year-over-year (chart 2). In other words, **consumer real disposable income has increased**. Domestic consumption is the backbone of the US economy and a strong consumer should keep US growth in positive territory despite the generally weaker growth trend. Further **economic support comes from the US central bank**, which decided to pause their steady campaign to raise interest rates. Fed Funds futures probability for an interest rate cut has even increased lately after the drop in 10yr US treasury bonds yields. **To summarize:** A strong consumer, an extended pause in rate hikes and progress on China-US trade negotiations should help shore up business and consumer sentiment. Hence, **the probability of a sudden recession in the US is low**. At the same time **lower economic growth will lead corporate default rates to slowly move higher**.

Chart 2: Higher real disposable income supports consumption



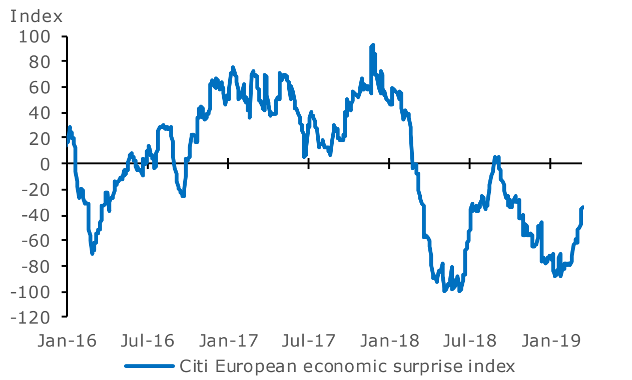
Source: Bloomberg Finance L.P., Alpinum Investment Management

Europe

The European Commission (EC) recently downgraded its **2019 GDP growth forecast for Europe from 1.9% to 1.3%**. Part of the reason for Europe's weakening is its relatively high export intensity and slowdown in German machinery exports and auto production. Euro area **exports equal 15.6% of GDP (USA 12.1%, China 19.6%)**. In France, service businesses were hit by the "gillets jaunes" protests. That said, the protests have lost momentum and domestic business conditions have been normalizing again. **Italy is a case in itself** and will remain a key risk for Europe for the foreseeable future. **The country entered a technical recession** (two consecutive quarters of negative GDP growth) in the second half of 2018 and the EC's GDP growth forecast for 2019 is a mere 0.2%. Italy will most likely miss its fiscal targets. The **Brexit drama is in full swing**. If Parliament approves Theresa May's deal, Brexit will happen with a deal on 22 May 2019. If it does not, the government will have to come up with alternative options by 12 April 2019. There has been so much talk about **Brexit**, that it is **unlikely to be the source of the next European crisis.**

Europe has largely been shunned by investors because of all the political troubles that are hampering economic growth. That said, some of the disruptions in Germany and France may start to dissipate in Q2 2019 and **the valuation gap to US equities may narrow**. If Donald Trump agrees to some form of extended trade truce with China and the EU, an important external drag would dissipate. Not to forget is the **European Central Bank** (ECB), which announced that it will **keep interest rates unchanged** in 2019. In addition, it will revive its LTRO programme to encourage banks to provide credit to businesses and consumers. **To make a long story short:** Although Europe is unlikely to decouple from the US, it could outperform in the short-term on valuation reasons. The ECB's stimulus measures are positive but on the margin, their effectiveness is declining.

Chart 3: European economic surprise index recovering from low



Source: Bloomberg Finance L.P., Alpinum Investment Management

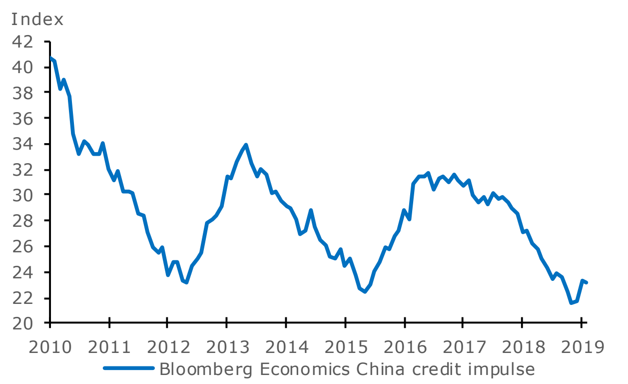
Japan

Unlike the other large economic blocs, Japan's growth is more stable but range bound at a low level. For 2019, Japan's GDP growth is expected to reach 0.8%. The same as in 2018. **The country's major challenges** include US protectionism, less overseas demand and the planned consumption tax hike in October 2019. A slowdown in exports will be the main drag on growth, meaning that external demand will become a less reliable growth factor. As a consequence, **domestic demand will increase in importance**. That is also the reason why the government plans to raise expenditures. That said, debt/GDP amounts to 230% and the government's higher spending today will require deeper cuts in the future to control debt. In this sense, Japan is in good company with other governments postponing the inevitable. In addition, the Bank of Japan keeps stimulus measures flowing and investors should **not expect a change in monetary policy anytime soon**. Judging from the equity market, **investors are reluctant to buy into Japanese stocks**. Year-to-date the Nikkei 225 has been underperforming the MSCI World.

China

China's deleveraging campaign, which started in 2016, **has faded** and bank lending and credit issuance has bounced back (chart 4). The deleveraging was not without impact and **GDP growth is expected to decline to 6.2% in 2019** from 6.6% last year. China has a large debt overhang and to counter an economic slowdown, the government is limited to simply reverting back to old habits by pushing more credit into the system. The government's strategy has shifted to stimulate the economy by **focusing on domestic demand through fiscal measures**, such as tax cuts and subsidies. At China's annual policy summit this March, Xi Jinping unveiled cut taxes of around USD 300 bn. This and other fiscal measures will increase the budget deficit from 2.2% in 2018 to 4% in 2019. However, investors should not delude themselves. **Credit remains an important pillar** as the **drivers of the Chinese economy** largely remain infrastructure, property and exports. While infrastructure is rebounding, the property sector is flat and exports remain weak. In the short-term, **a big challenge for China** will be how to manage trade tensions with the United States. There are both short-term (i.e. trade imbalances, market access) and long-term issues (China 2025, forced technology transfers). Politics are still worlds apart on certain topics. Market consensus is that **China's economy is likely to stabilize in Q2/Q3 2019** as the government's fiscal and monetary easing policies start to feed through the economy. A sudden and unexpected boost to the market would be if the US were to reverse existing tariffs. Very unlikely but it cannot be ruled out.

Chart 4: China bank lending and credit issuance bounced



Source: Bloomberg Finance L.P., Alpinum Investment Management

Investment conclusions

Central banks' monetary policy has turned more **pro-growth again** and positive economic numbers should temporarily slowly follow through in Q2/Q3 2019. With decreasing market risk, **we became more constructive again in January** and remain so for the time being. That said, we do not delude ourselves and are very well aware that **we live on borrowed time**. Central banks' stimulus measures will, on the margin, have a decreasing impact, in particular in Europe and Japan.

In **fixed income,** global negative yielding debt has increased to over USD 10 tr again and the search for yield is more current than ever. Year-to-date credit markets have seen an impressive rally, which will not repeat itself in the coming quarter. **We expect corporate default rates to slowly move higher** and **prefer European credit over US credit**. China's stimulus measures have paved the way to allocate to **Asian investment grade and high yield bonds**. We remain exposed for the time being. US duration exposure continues to serve as a valuable diversifier and portfolio hedge.

In **equities**, non-US assets may outperform in the short-term, should US equities trade range bound. In Q2 2019, we consider risk/return to be better in European and Asian equities. Tailwinds are a weakening US Dollar, asset shifts from the US, the valuation gap to narrow and low expectations. On sector level we prefer **cyclical sectors**, such as consumer discretionary, industrials and information technology. They are likely to benefit more from better short-term economic data.

Market Consensus Forecasts

GDP growth (%)	2017	2018	2019e	2020e
World	3.8	3.7	3.4	3.3
United States	2.2	2.9	2.4	1.9
Eurozone	2.4	1.8	1.2	1.4
Germany	2.2	1.4	1.0	1.5
France	2.2	1.5	1.3	1.4
Italy	1.6	0.9	0.1	0.7
United Kingdom	1.8	1.4	1.3	1.5
Switzerland	1.6	n.a.	1.3	1.6
Japan	1.9	0.8	0.7	0.5
Emerging economies	4.9	5.1	4.9	4.9
Asia Ex-Japan	6.2	6.0	5.7	5.6
Latin America	1.9	2.1	2.0	2.7
EMEA region	3.6	3.0	2.2	2.6
China	6.8	6.6	6.2	6.0
India	7.1	7.2	7.2	7.3
Brazil	1.1	1.1	2.2	2.5
Russia	1.6	2.3	1.5	1.7

Inflation (%)	2017	2018	2019e	2020e
World	3.2	3.8	3.1	3.1
United States	2.1	2.5	1.8	2.2
Eurozone	1.5	1.8	1.4	1.5
Germany	1.7	1.9	1.5	1.7
France	1.2	2.1	1.3	1.6
Italy	1.3	1.3	1.1	1.3
United Kingdom	2.7	2.5	2.0	2.0
Switzerland	0.5	1.0	0.7	1.0
Japan	0.5	1.0	0.9	1.2
Emerging economies	3.4	3.6	3.6	3.4
Asia Ex-Japan	1.9	2.3	2.3	2.5
Latin America	6.4	7.1	n.a.	n.a.
EMEA region	5.8	5.7	6.2	5.6
China	1.6	2.1	2.1	2.3
India	3.3	4.0	3.5	4.1
Brazil	3.5	3.7	3.8	4.0
Russia	3.7	2.9	5.0	4.0

Central bank rates (%)	2017	2018	2019e	2020e
US Fed Funds	1.50	2.50	2.75	2.65
ECB Main Refinancing	0.00	0.00	0.00	0.10
China 1yr Best Lending	4.35	4.35	4.30	4.25
Bank of Japan Overnight	-0.06	-0.06	0.00	0.10
UK Base Rate	0.50	0.75	0.95	1.30
Swiss 3mth CHF Libor	-0.75	-0.75	-0.75	-0.55

Commodities	2017	2018	2019e	2020e
NYMEX WTI oil USD/barrel	57	47	59	58
ICE Brent oil USD/barrel	62	54	66	64
Iron Ore USD/metric ton	72	71	80	72
Copper USD/metric ton	7247	5965	6314	6335
Gold USD/troy oz	1303	1277	1323	1352
Silver USD/troy oz	16.9	15.5	15.6	16.0

Major interest rates (%)	2017	2018	2019e	2020e
USA 3mth rate	1.7	2.8	2.9	2.8
USA 10yr Gov't Bonds	2.4	2.7	3.0	3.0
Eurozone 3mth rate	-0.3	-0.3	-0.3	-0.2
Eurozone 10yr Gov't Bond	0.4	0.2	0.5	0.7
China 3mth rate	n.a.	n.a.	2.7	3.0
China 10yr Gov't Bond	3.9	3.3	3.1	3.2
UK 3mth rate	0.5	0.9	1.1	1.4
UK 10y Gov't Bond	1.2	1.3	1.7	1.9
Swiss 3mth rate	-0.7	-0.7	-0.7	-0.4
Swiss 10y Gov't Bond	-0.1	-0.3	0.0	0.1

Exchange rates	2017	2018	2019e	2020e
EURUSD	1.20	1.15	1.17	1.22
EURCHF	1.17	1.13	1.15	1.18
USDCHF	0.97	0.98	0.99	0.97
EURJPY	135.28	125.81	126.00	128.00
EURGBP	0.89	0.90	0.85	0.86
USDJPY	112.62	109.70	109.00	105.00
GBPUSD	1.35	1.27	1.36	1.43
USDCNY	6.51	6.88	6.70	6.70
USDBRL	3.31	3.88	3.80	3.70
USDRUB	57.98	69.72	67.00	67.30

Performance Table

		Performance		
Global equity markets	Price	2018	Q1	Div.yld
MSCI World (USD)	2108	-10.4%	11.9%	2.6
MSCI World (USD) hedged	989	-6.6%	12.9%	n.a.
HFRX Global Hedge Fund	1223	-6.7%	2.8%	n.a.
S&P 500	2834	-6.2%	13.1%	2.0
Russell 1000	1570	-6.6%	13.4%	2.0
Nasdaq 100	7379	-1.0%	16.6%	1.1
Stoxx Europe 600	379	-13.2%	12.3%	3.8
MSCI Emerging Markets	1058	-16.6%	9.6%	3.0
Nikkei 225	21206	-12.1%	6.0%	2.1
China CSI 300	3872	-25.3%	28.6%	2.5

	Forward		EPS growth	
Equity market valuations	PE	PB	2019e	2020e
MSCI World (USD)	15.7	2.3	11%	10%
MSCI World (USD) hedged	n.a.	n.a.	n.a.	n.a.
HFRX Global Hedge Fund	n.a.	n.a.	n.a.	n.a.
S&P 500	17.1	3.1	9%	11%
Russell 1000	17.3	3.1	11%	12%
Nasdaq 100	20.5	5.5	14%	14%
Stoxx Europe 600	14.2	1.7	24%	9%
MSCI Emerging Markets	12.6	1.5	2%	14%
Nikkei 225	15.7	1.6	1%	8%
China CSI 300	12.6	1.7	19%	13%

		Performance		
Global gov't bonds	Yield	2018	Q1	YtW
10yr US Treasury	2.41	0.9%	2.9%	n.a.
10yr Euro gov't bond	-0.07	1.3%	3.1%	n.a.
10yr German gov't bond	-0.07	2.7%	2.6%	n.a.
10yr Italian gov't bond	2.49	-2.2%	2.5%	n.a.

		Performance		
Global bond indices	Price	2018	Q1	YtW
Barclays Global Corporate IG	260	-3.6%	4.2%	2.9
Barclays US Corporate IG	2975	-2.5%	5.1%	3.6
Barclays Euro Corporate IG	252	-1.3%	3.2%	0.8
Barclays Emerging Market USD	1127	-2.5%	5.4%	5.3
Barclays US Corporate HY	2048	-2.1%	7.3%	6.4
Barclays Pan-European HY	389	-3.6%	5.7%	4.3

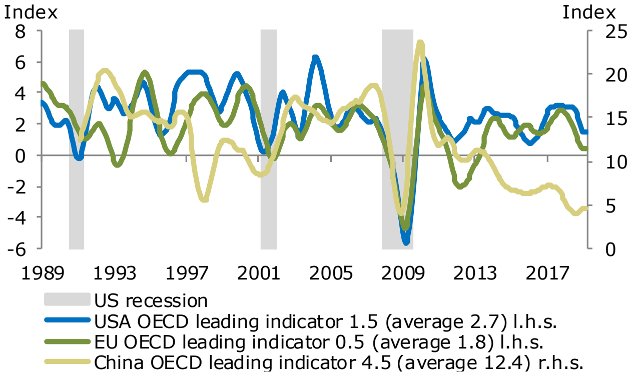
		Performance	
Commodities and currencies	Price	2018	Q1
Brent oil	68	-19.5%	27.1%
US Energy Services	95	-46.1%	17.5%
Copper	6489	-17.4%	8.9%
Gold	1292	-1.6%	0.8%
EURUSD	1.12	-4.5%	-2.2%
GBPUSD	1.30	-5.6%	2.2%

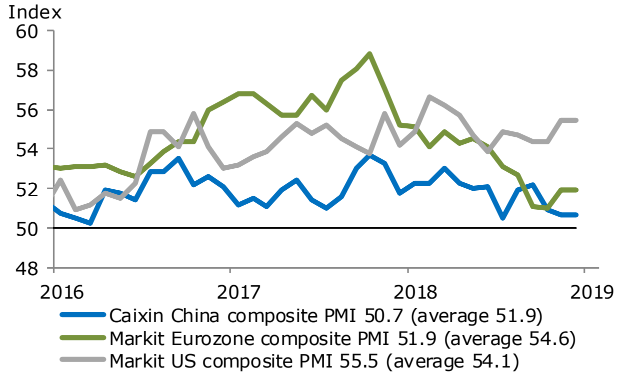
Source: Bloomberg Finance L.P., Alpinum Investment Management
Note: Q1 = market data as of March 31, 2019 / PE=price-earnings / PB=price-book / EPS=earnings / YtW=yield-to-worst

Key Charts

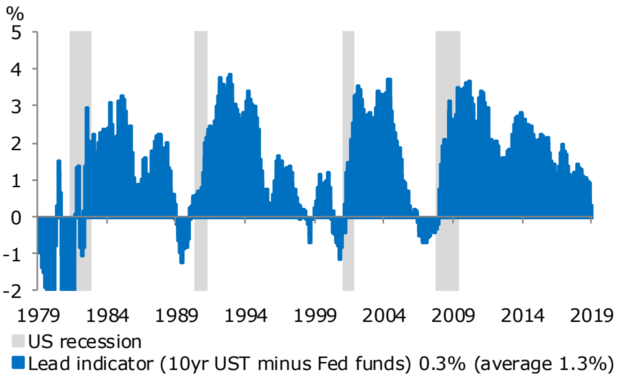
Leading indicators and manufacturing

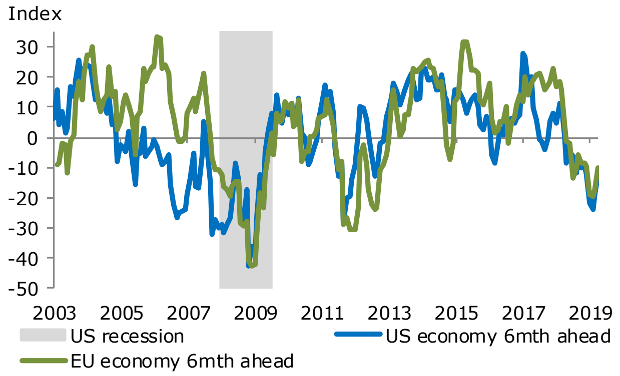
Source: Bloomberg Finance L.P., Alpinum Investment Management



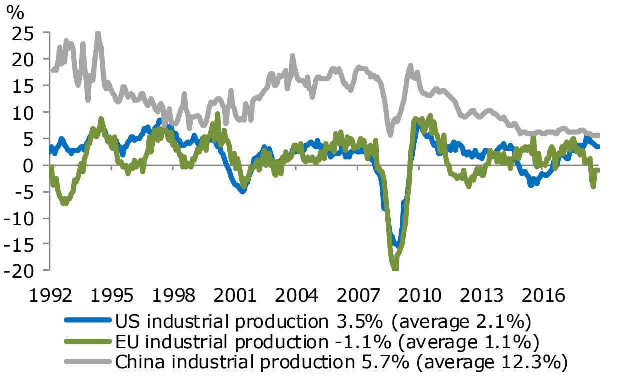


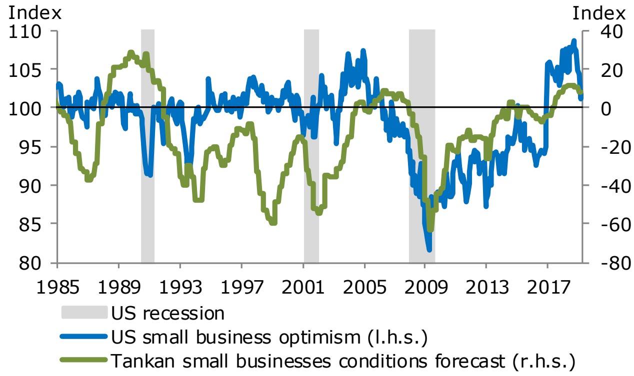
Recession indicator



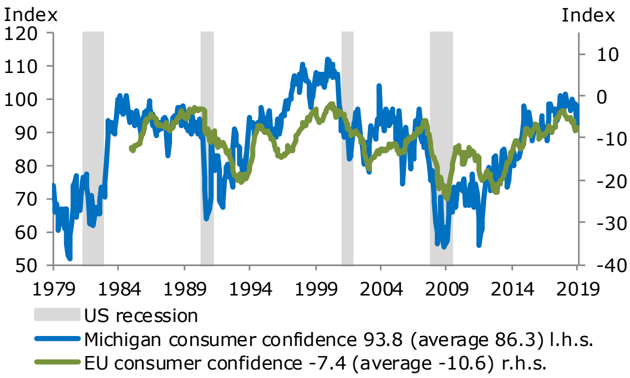


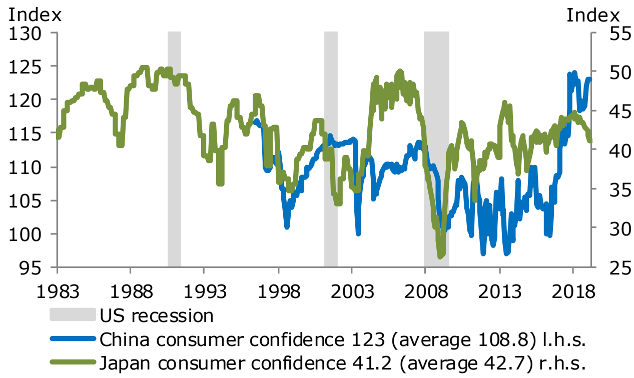
Industrial production and small businesses





Consumer confidence





Scenario Overview 6 months

Base case 75%

- **US:** GDP grows around ~2% p.a. and the recession risk remains low for the next 6 months. Government spending is still up and supportive. Private consumption is supported by a robust labour and an intact housing market. Corporates still benefit from low tax rates. That said, capex tends to be capped due to the uncertainties around the U.S./China trade conflict and the moderate growth prospects.
- **Eurozone** GDP growth is weakening towards 1% and selective EU countries such as Italy fight with a 0% growth outlook. The ECB remains a strong supporter for the markets throughout 2019. Politics remain a drag and slow the economic dynamics and dampen investor sentiment.
- **China** struggles with US trade policies but stimulus will help GDP growth to hold the ~6% level.
- **Oil:** Brent remains volatile and the prices are capped on the upside due to OPEC cuts and the ramp up of US shale oil production.

Investment conclusions

- **Equities:** In anticipation of a low growth economy and based on the market rally in Q1 equity multiples seem fairly priced. Nevertheless, given the dovish central banks, equities still find support for more upside as investment alternatives remain scarce. That said, as we operate in a late cycle economy, the potential for considerable higher valuations is very limited. We overweight selective emerging market equity exposure.
- **Interest rates:** Neutral on rates, but yields are not attractive. US duration exposure serves as a diversifier and tail hedge.
- **Credit:** Credit spreads are fairly valued. Only minimal further spread tightening expected. Low interest rates keep corporate default rates low, while still rising. We like EUR syndicated loans and Asian fixed income exposure.
- **Commodities/FX:** Prices remain volatile with an upward bias. USD is mildly weakening.

Bull case 10%

- **US:** Economic activity levels off towards 2.5-3% based on strong consumption and that a deal is found in the U.S./China trade conflict. Wage growth, low interest rates, growth prospects and strong consumer sentiment leads to more corporate capex and extends the business cycle.
- **Europe** profits from economic momentum in the US and there is no hard Brexit. The ECB stays put despite stronger economic growth. GDP ~1.5%.
- **China/EM:** President Trump tones down his rhetoric against China and a deal is found. Export-led economies benefit the most from an acceleration of global growth. Chinese GDP growth > 6%.

Investment conclusions

- **Equities:** Global equities benefit from "lower for longer rates" and an extension of the business cycle. The tide raises all boats and markets that lagged the most benefit the strongest.
- **Interest rates:** Rates will go back in acceleration mode. Avoid duration risk in the US and Europe.
- **Credit:** Corporate default rates remain below historic averages and give support to loans and high yield especially in Asia.
- **Commodities/FX:** Support for commodity price, the EUR accelerates and emerging market currencies stabilize.

Bear case 15%

- **US:** Softer GDP growth of <1.5% or even a mild recession towards the end of 2019. Global trade conflict feeds through the economy. Corporate earnings growth and profit margins disappoint. US real wage growth is a worry and leads to higher inflation. The US Fed is forced to remain dovish, while stagflation risks start to emerge.
- **Europe:** Politics around Brexit and Italy remain a mess. Investors lose faith and Italian long-term yields rise far above GDP growth (EU confidence crisis 2.0).
- **China/EM:** China weakens the RMB and its stimulus programme fails. GDP grows < 6% p.a.

Investment conclusions

- **Equities:** Negative for equities, whereby higher priced US equities would lead the correction.
- **Interest rates:** Rates will go lower, but inflation serves as a floor. Support for high quality assets (US Treasuries, A and AA corporate bonds or agency bonds).
- **Credit:** Widening credit spreads cause negative returns for credit sensitive assets, such as high yield bonds and loans. Default rates increase to a level of ~5% p.a.
- **Commodities/FX:** Negative for commodities. The USD remains robust.

Tail risks

- An Italian sovereign debt crisis leading to major upheavals in the Eurozone.
- US/China military conflict in the South China Sea.
- Iran closing the Strait of Hormuz, leading to an oil price shock.
- Emerging market meltdown similar to 1998.

Asset Class Assessment

Equities

- We are neutral on equities with an upward bias. Equities get support from a moderate growth outlook with inflation not becoming an issue in the short term. Moreover, equities get natural support due to a scarcity of investment alternatives.
- Overall, we believe equity multiples will stay where they are in the U.S. (i.e. a P/E ratio of around 16) and stock market returns will be primarily linked to the corporate earnings growth rate.
- Should markets face a downturn, we tend to buy opportunistically, but we will remain disciplined.
- Tactically, non-US equities have the potential to outperform. This is especially the case if the USD starts to weaken. Hence, we hold some overweight positions in specific emerging markets.

Comment

- US equities incorporate advanced valuations compared to other regions. However, the economic expansion is also more favourable. Hence, a valuation premium is justified.
- With dovish central banks, equity multiples do not look as expensive. For example, the U.S. P/E ratio of 16 results in an earnings yield of 6.3% and compares with a yield of 2.4% for 10 year government bonds. In Europe, this comparison leads to an earnings yield of 7.7% (P/E ratio 13) compared to even lower government bond yields.
- If global trade war risks fade, export-led stock markets will benefit most in the short term. However, general equity re-pricing is capped by the fact that we operate in a late cycle economy.

Credit/Fixed Income

- **Rates**: The near term outlook for interest rate duration is positive. However, on a structural basis, we still consider duration risk as unattractive, especially in Europe and hold minimal exposure. We rather consider duration exposure as a valuable portfolio diversifier, whereas we favour US Treasuries and Australian government bonds.
- **IG**: We only hold minimal US investment grade bonds and avoid European IG bonds. Asian IG bonds trade at attractive valuations.
- **High Yield:** US loans and high yield bonds have re-priced and look fully priced. However, the yield is still attractive compared to other investment alternatives. We favour selective non-cyclical US short-term bonds and European loans.
- **Emerging Debt:** Emerging market bonds offer a relative value advantage, whereas we favour hard currency bonds. Be very selective in local currency bonds (i.e. Indian government bonds).

Comment

- Given the economic softness and the dovish stance of all major central banks, there will hardly be another US interest rate hike in 2019.
- The ECB is also committed to keep rates low for longer as the economic growth rate in Europe is too weak.
- Credit spreads in general have repriced and further tightening potential can be primarily identified in very selective and niche markets. Nevertheless, the general market remains benign for credit as corporate default rates will only marginally increase.
- We like the structured credit market and hold for example exposure in US non-agency RMBS or European CLOs.
- Consider harvesting the illiquidity premium from direct loans (i.e. corporate or real estate backed loans).

Alternatives

- Credit long-short strategies identify plenty of relative value trades, both long and short.
- Equity long-short strategies should benefit from the increasing performance dispersion and the increased volatility.

Comment

- Due to the volatility experienced since Q4 2018, price dispersion has occurred among single securities as well as asset classes. This leads to more relative value opportunities for credit and equity long-short managers.
- Global macro managers benefit from the recent sharp market movements in either direction.

Real Assets

- Gold benefits when real interest rates fall and hence, the current environment with falling yields is beneficial for the gold price. A potentially slightly weaker USD is also supportive for gold.

Comment

- Slow economic growth rates and a tame inflation do generally not support higher commodity prices. On the contrary, a potentially weaker USD is beneficial for commodity prices.

Asset Class Conviction Levels

Equities	Conviction Level over 6 Months				
	Underweight	←	Neutral	→	Overweight
North America	☐	☐	☑	☐	☐
Europe	☐	☐	→ ☑	☐	☐
China	☐	☐	☐	→ ☑	☐
Japan	☐	☐	☑	☐	☐
Asia - Emerging Markets	☐	☐	☑	☐	☐
Others - Emerging Markets	☐	☐	☑	☐	☐

Fixed Income	Conviction Level over 6 Months				
	Underweight	←	Neutral	→	Overweight
US - Treasury Bonds	☐	☐	☑	☐	☐
Euro - Government Bonds	☑	☐	☐	☐	☐
US - Investment Grade Bonds	☐	☐	→ ☑	☐	☐
Europe - Investment Grade Bonds	☑	☐	☐	☐	☐
US High Yield	☐	☐	☑	☐	☐
US Short Term High Yield	☐	☐	☐	☑	☐
US Loans	☐	☐	☑	☐	☐
US Municipal Bonds	☐	☐	→ ☑	☐	☐
European High Yield	☐	☑	☐	☐	☐
European Short Term High Yield	☐	☐	→ ☑	☐	☐
European Loans	☐	☐	☐	☐	→ ☑
US/EUR Preferred Securities	☐	☐	☐	☑	☐
US/EUR Asset Backed Securities	☐	☐	☐	☑	☐
Emerging Market Local Currency	☐	☐	☑	☐	☐
Emerging Market Hard Currency	☐	☐	☑	☐	☐
Emerging Market High Yield	☐	☐	☐	→ ☑	☐

Commodities	Conviction Level over 6 Months				
	Underweight	←	Neutral	→	Overweight
Gold	☐	☐	☑	☐	☐
Oil (Brent)	☐	☐	☑	☐	☐

Hedge Fund: Strategies	Conviction Level over 6 Months				
	Underweight	←	Neutral	→	Overweight
Equity Long-Short	☐	☐	☑	☐	☐
Credit Long-Short	☐	☐	☐	☑	☐
Event-Driven - Corporate Actions	☐	☐	☑	☐	☐
Global Macro	☐	☐	☐	☑	☐

Hedge Fund: Regional Focus	Conviction Level over 6 Months				
	Underweight	←	Neutral	→	Overweight
Hedge Fund: North America	☐	☐	☑	☐	☐
Hedge Fund: Europe	☐	☐	☐	→ ☑	☐
Hedge Fund: China / Japan	☐	☐	☑	☐	☐
Hedge Fund: Emerging-Markets	☐	☐	☑	☐	☐

Note: The above conviction table reflects on the one hand our view of the relative expected return of an asset class versus well-recognized benchmarks such as BarCap Global aggregate (for bonds) and MSCI World (equities), but does on the other hand also partly incorporate our view of the absolute expected return versus "cash".

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