ALPINUM INVESTMENT MANAGEMENT

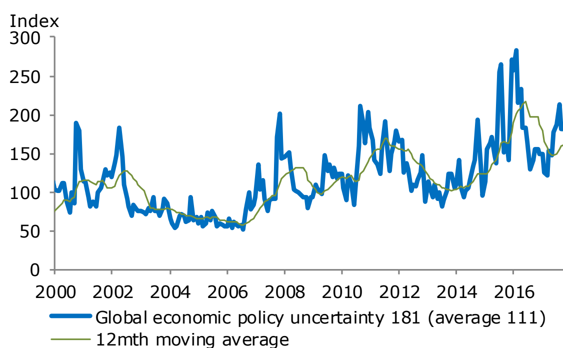
# Quarterly Investment Letter – Q4

**Q4/2018**

## Politics will not derail the global economy

Politics in the Western world will be front stage this autumn. First, we are entering the key phase of the US midterm elections. Second, Italy is trying to push the boundaries for its fiscal deficit. Third, the UK needs to find a compromise with the EU, if it does not want to risk a hard Brexit. **The three events are all taking place in Q4 and have the potential to negatively surprise market participants.** The question is whether one of these events could possibly hamper or even derail recent market economic trends? We do not think so. In 2018 several political events led to short-term market turbulences but none of them had a long lasting negative impact. **Although global growth is peaking, it remains strong.**

**Chart 1: Global economic policy uncertainty**




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

## United States

The economic cycle in the US is in its tenth year and selectively displaying late-cycle characteristics such as elevated equity valuations, tight credit spreads across most bond segments and elevated debt levels (chart 2). Interestingly, domestic sectors, primarily those centred around personal consumption, continue to spur economic growth. **Red flags such as significant wage pressures and elevated interest rates are not yet present.**

## Summary Points


- Within the next 6 to 9 months we do not expect a recession in the US nor Europe. Growth in the US is primarily driven by personal consumption and European growth rates have become more synchronized.
- Chinese growth is softening and the government is preparing measures to stimulate domestic consumption and investment.
- Higher US interest rates will keep the US Dollar strong. However, most of the appreciation seems already discounted.
- Emerging markets remain under pressure as long as US interest rates trend higher. The key to any rebound is China and India.
- Major risks to the global economy are an escalating trade war between the US and China, a hard Brexit and Italian politics leading to another European financial crisis.
- **Conclusion:** US equity markets remain at an advantage to the rest of the world. In fixed income we keep duration exposure to a minimum and favour European and US loans.


**Content**


Regional macro-economic backdrop Page 1

Market consensus forecast/performance table Page 4

Key economic charts Page 5

Scenario overview 6-months Page 6

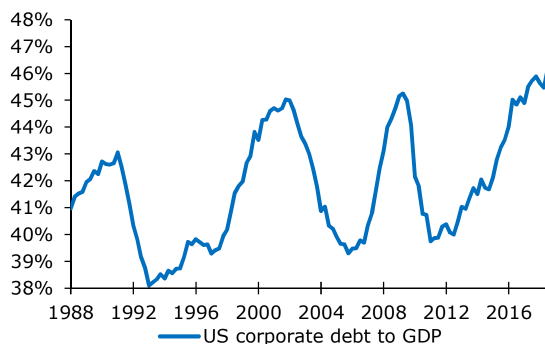
Asset class assessment Page 7

Asset class conviction levels Page 8

The same is true for inflation, which is still in check, despite Brent oil price trading above USD 80. Real GDP growth, spurred on by tax cuts, is expected to reach 2.9% for the end of 2018. The Fed is likely to consider the tax induced growth acceleration as transitory and will refrain from over-tightening. However, inflation pressure continues to build up (2.5% 2018e) and will urge the Fed to hike rates. **Fed fund futures imply a probability of more than 90% for one more rate hike in December 2018 to 2.50% by the end of 2018.** The rate and yield advantage justify a firm USD and market consensus forecasts a EUR/USD at 1.16 (2018e).

A key risk to global economic growth is if the US-China trade war escalates further. The two countries have now imposed tariffs on more than USD 300 bn of goods. President Trump's focus remains firmly on protectionism which so far has boosted his approval ratings. Another risk is the US mid-term elections on November 6, 2018. Republicans currently hold the majority in both chambers of Congress and the Democrats need around 20 seats to control the lower chamber (House of Representatives). If they succeed, President Trump's domestic agenda will come to a screeching halt. The platform "Five Thirty Eight" gives Democrats a 70% chance to win the lower chamber. **A congressional gridlock would be negative for the economy and equity markets.** This is still largely underestimated by investors.

**Chart 2: US corporate debt to GDP**




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

## Europe

Growth rates have become more synchronized across the euro area, spare capacity is almost exhausted, wage growth is picking up, inflation indicators are beginning to firm and the unemployment rate has fallen to multi-year lows (chart 3). Domestic demand remains solid and GDP growth is expected to reach 2.0% in 2018. It's against this backdrop that the European Central Bank (ECB) plans to wind down asset purchases to EUR 15 bn in Q4 2018 with no bond-buying planned for 2019. For asset purchases to be extended there would need to be a material deterioration in the economic outlook. The Governing Council forecasts interest rates to remain unchanged until mid-2019 with the main refinancing rate at 0% and the deposit rate at -0.40%. Hence, monetary policy is still very loose at this stage of the economic cycle. Headline inflation is still tame and expected to reach 1.7% end of 2018. The core inflation rate remains at a low 1%.

**There are two dominant risks in Europe** which could negatively impact market sentiment. The first risk is and remains a hard Brexit. The deadline for a deal is the EU's special summit in November 2018. The likely outcome is a softer version of Prime Minister May's "Chequers plans". The deadline for the UK to officially leave the EU is March 29, 2019. The second risk is the new ruling coalition of populists in Italy with anti-EU rhetoric and plans for higher fiscal spending. Any uncontrolled spending will result in higher borrowing cost (widening Italian spreads over German Bunds) and in the worst case ignite the next European financial crisis.

**Chart 3: Eurozone unemployment rate**

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

## Japan

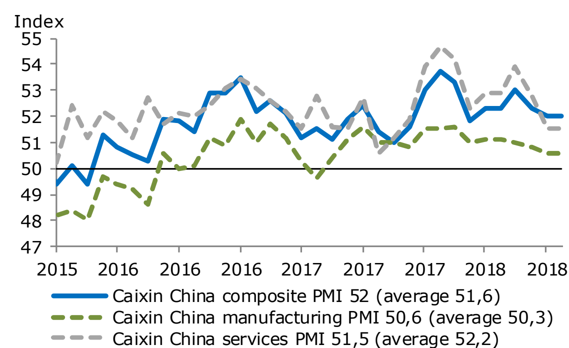
Japan's economy has been strong for three years, supported by extreme monetary easing. Low interest rates and a weak yen have been spurring capital expenditure and exports. For 2018 GDP growth is expected to reach 1.1%. **The tightest job market since the 1970s** is putting pressure on wages, but not enough to lift inflation beyond 1%. The Bank of Japan's (BOJ) inflation target is 2% and the central bank is likely to keep up the stimulus measures to

maximize the boost to the economy. BOJ monetary policy is also Prime Minister Shinzo Abe's main force to spur GDP growth. The monetary policy divergence between the US and Japan is expected to remain in 2019 and to keep the JPY weak at USD/JPY 112 (2018e) and USD/JPY 106 (2019e). Prime Minister Shinzo Abe won a ruling party leadership vote in September 2018 and is set for another three years. This bodes well for future structural reforms, which are needed for positive long-term growth. A big risk to Japan's outlook is the threat of US external trade policies.

## China

The home-made, reform-induced slowdown has started with **GDP growth expected to decline** from 6.9% in 2017 to 6.6% end of 2018. Inflation remains benign and is expected to reach 2.1%. The government's focus remains on deleveraging the shadow banking sector, local governments and oversupply industries. What has changed over the recent months is that the government is willing to postpone its deleveraging ambitions to counter the negative effects of the ongoing trade war with the US. As such **it is preparing measures (tax cuts and infrastructure spending) to boost domestic consumption and investment** to offset the negative external impact, which is estimated to reach up to 0.5% of GDP.

**Chart 4: Caixin manufacturing and service index**




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

The central bank stands side-by-side with the Chinese government and has shifted to a cautiously supportive stance by cutting the reserve requirement ratio and lowering its repo rate. From a risk perspective, such policy shifts will make it harder to control leverage. Leverage will, in fact, increase again, which is also shown by the latest numbers from the Bank for International Settlements.

## Emerging markets

The cyclical divergence between developed economies and structurally weak emerging markets such as Turkey, Brazil, South Africa and Argentina is becoming more pronounced. The strong US dollar and rising US interest rates have created stress for emerging markets that exhibit elevated risk factors, such as high levels of USD-denominated foreign debt and financing issues due to current account deficits. **Contagion risks across emerging markets are limited** thanks to robust global growth and strong end demand elsewhere. However, the structural changes needed to regain cyclical strength in weak emerging markets require more time. Key to any rebound is China and India, two economies where the outlook has recently deteriorated for different reasons. The correlation between emerging market currencies and the oil price has broken down, meaning that selected emerging market currencies have become attractive again. This has not yet been recognized by the broader market.

## Investment conclusions

In **global equity markets return disparities have further increased**, which will sooner or later reverse again. On a regional/country basis, US equities have beaten most other markets by a wide margin thanks to the three sector, namely IT, consumer discretionary and health care. Over the next six months, the **US remains at an advantage over other equity markets** as it is difficult to see how Europe or China could become the next global leader on a risk/return adjusted basis, despite their more attractive valuations. In the US, the economy, the stock market and business momentum are simply still too strong.

Fixed income markets will be shaped by the ECB's path to interest rate normalization, which will be slow and cautious, and the US interest rate cycle, which is much more advanced. Both economic blocs grow at a healthy rate and, hence, **default rates should stay below historical averages**. Overall, we continue to keep duration exposure to a minimum and still **favour Libor based loans in Europe and the US, followed by US short-term high yield bonds. In emerging markets, hard-currency corporate bond managers look attractive again**, especially relative to US high yield as the credit spread differential for EM and US issuers with a BB rating has moved well above their historical average. We recognize this increasing value gap and **stand ready to increase exposures again.**

# Market Consensus Forecasts

| GDP growth (%) | 2016 | 2017 | 2018e | 2019e |
|---|---|---|---|---|
| World | 3.2 | 3.7 | 3.8 | 3.6 |
| United States | 1.6 | 2.2 | 2.9 | 2.5 |
| Eurozone | 1.9 | 2.4 | 2.0 | 1.8 |
| Germany | 2.2 | 2.2 | 1.9 | 1.8 |
| France | 1.2 | 2.2 | 1.7 | 1.7 |
| Italy | 1.1 | 1.6 | 1.2 | 1.1 |
| United Kingdom | 1.8 | 1.7 | 1.3 | 1.5 |
| Switzerland | 1.6 | 1.6 | 2.4 | 1.7 |
| Japan | 1.0 | 1.8 | 1.1 | 1.1 |
| Emerging economies | 4.4 | 5.0 | 5.0 | 5.0 |
| Asia Ex-Japan | 6.1 | 6.2 | 6.1 | 5.9 |
| Latin America | -1.1 | 1.9 | 1.6 | 2.5 |
| EMEA region | 2.0 | 3.6 | 2.9 | 2.4 |
| China | 6.7 | 6.9 | 6.6 | 6.3 |
| India | 8.2 | 7.1 | 7.5 | 7.4 |
| Brazil | -3.5 | 1.0 | 1.5 | 2.4 |
| Russia | -0.2 | 1.5 | 1.8 | 1.5 |

| Inflation (%) | 2016 | 2017 | 2018e | 2019e |
|---|---|---|---|---|
| World | 2.8 | 3.0 | 3.3 | 3.2 |
| United States | 1.3 | 2.1 | 2.5 | 2.3 |
| Eurozone | 0.2 | 1.5 | 1.7 | 1.7 |
| Germany | 0.4 | 1.7 | 1.8 | 1.8 |
| France | 0.3 | 1.2 | 2.1 | 1.7 |
| Italy | -0.1 | 1.3 | 1.3 | 1.4 |
| United Kingdom | 0.7 | 2.7 | 2.4 | 2.1 |
| Switzerland | -0.4 | 0.5 | 1.0 | 1.0 |
| Japan | -0.1 | 0.5 | 0.9 | 1.1 |
| Emerging economies | 4.5 | 2.9 | 53.1 | 33.7 |
| Asia Ex-Japan | 2.3 | 1.9 | 2.5 | 2.6 |
| Latin America | 11.8 | 3.3 | 679.4 | 428.9 |
| EMEA region | 5.8 | 5.8 | 5.9 | 6.8 |
| China | 2.0 | 1.6 | 2.1 | 2.3 |
| India | 5.0 | 3.3 | 4.8 | 4.6 |
| Brazil | 8.8 | 3.5 | 3.7 | 4.2 |
| Russia | 7.1 | 3.7 | 2.9 | 4.5 |

| Central bank rates (%) | 2016 | 2017 | 2018e | 2019e |
|---|---|---|---|---|
| US Fed Funds | 0.75 | 1.50 | 2.50 | 3.10 |
| ECB Main Refinancing | 0.00 | 0.00 | 0.00 | 0.15 |
| China 1yr Best Lending | 4.35 | 4.35 | 4.35 | 4.30 |
| Bank of Japan Overnight | -0.06 | -0.06 | -0.10 | 0.00 |
| UK Base Rate | 0.25 | 0.50 | 0.75 | 1.15 |
| Swiss 3mth CHF Libor | -0.75 | -0.75 | -0.75 | -0.55 |

| Commodities | 2016 | 2017 | 2018e | 2019e |
|---|---|---|---|---|
| NYMEX WTI oil USD/barrel | 56 | 58 | 69 | 73 |
| ICE Brent oil USD/barrel | 58 | 64 | 77 | 81 |
| Iron Ore USD/metric ton | 78 | 72 | 69 | 67 |
| Copper USD/metric ton | 5536 | 7247 | 6501 | 6173 |
| Gold USD/troy oz | 1152 | 1303 | 1258 | 1227 |
| Silver USD/troy oz | 15.9 | 16.9 | 15.6 | 14.9 |

| Major interest rates (%) | 2016 | 2017 | 2018e | 2019e |
|---|---|---|---|---|
| USA 3mth rate | 1.0 | 1.7 | 2.6 | 3.1 |
| USA 10yr Gov't Bonds | 2.4 | 2.4 | 3.1 | 3.3 |
| Eurozone 3mth rate | -0.3 | -0.3 | -0.3 | -0.1 |
| Eurozone 10yr Gov't Bond | 0.2 | 0.4 | 0.6 | 1.0 |
| China 3mth rate | n.a. | n.a. | 2.9 | 2.7 |
| China 10yr Gov't Bond | 3.1 | 3.9 | 3.5 | 3.4 |
| UK 3mth rate | 0.4 | 0.5 | 0.8 | 1.2 |
| UK 10y Gov't Bond | 1.2 | 1.2 | 1.6 | 2.1 |
| Swiss 3mth rate | -0.7 | -0.7 | -0.7 | -0.5 |
| Swiss 10y Gov't Bond | -0.2 | -0.1 | 0.2 | 0.5 |

| Exchange rates | 2016 | 2017 | 2018e | 2019e |
|---|---|---|---|---|
| EURUSD | 1.05 | 1.20 | 1.16 | 1.23 |
| EURCHF | 1.07 | 1.17 | 1.14 | 1.19 |
| USDCHF | 1.02 | 0.97 | 0.98 | 0.97 |
| EURJPY | 123.00 | 135.28 | 130.00 | 134.00 |
| EURGBP | 0.85 | 0.89 | 0.89 | 0.89 |
| USDJPY | 117.00 | 112.62 | 112.00 | 106.00 |
| GBPUSD | 1.24 | 1.35 | 1.30 | 1.37 |
| USDCNY | 6.95 | 6.51 | 6.90 | 6.70 |
| USDBRL | 3.26 | 3.31 | 4.00 | 3.73 |
| USDRUB | 61.60 | 57.98 | 67.07 | 65.00 |

# Performance table

| | | Performance | | |
|---|---|---|---|---|
| Equity market returns | Price | Q3 | Ytd Q3 | Div.yld |
| MSCI World (USD) | 2151 | 4.5% | 3.8% | 2.4 |
| MSCI World (USD) hedged | 993 | 5.5% | 7.3% | n.a. |
| HFRX Global Hedge Fund | 1257 | -0.4% | -1.2% | n.a. |
| S&P 500 | 2863 | 7.2% | 9.0% | 1.9 |
| Russell 1000 | 1583 | 6.9% | 9.0% | 1.8 |
| Nasdaq 100 | 7288 | 8.3% | 19.2% | 1.1 |
| Stoxx Europe 600 | 372 | 0.9% | -1.5% | 3.7 |
| MSCI Emerging Markets | 1001 | -2.0% | -9.5% | 3.0 |
| Nikkei 225 | 23784 | 8.1% | 6.0% | 1.9 |
| China CSI 300 | 3291 | -2.1% | -14.7% | 2.8 |

| | Forward | | EPS growth | |
|---|---|---|---|---|
| Equity market valuations | PE | PB | 2018e | 2019e |
| MSCI World (USD) | 16.2 | 2.4 | 27% | 9% |
| 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 | 17.6 | 3.3 | 32% | 10% |
| Russell 1000 | 17.9 | 3.2 | 34% | 11% |
| Nasdaq 100 | 20.4 | 5.7 | 42% | 12% |
| Stoxx Europe 600 | 14.2 | 1.7 | 14% | 10% |
| MSCI Emerging Markets | 11.5 | 1.5 | 14% | 11% |
| Nikkei 225 | 16.7 | 1.8 | 4% | 12% |
| China CSI 300 | 11.3 | 1.5 | 7% | 15% |

| | | Performance | | |
|---|---|---|---|---|
| Global sovereign bonds | Yield | Q3 | Ytd Q3 | YtW |
| 10yr US Treasury | 3.23 | -0.8% | -2.7% | n.a. |
| 10yr Euro Gov't Bond | 0.53 | -1.1% | -0.5% | n.a. |
| 10yr German Gov't Bond | 0.53 | -0.9% | 0.7% | n.a. |
| 10yr Italian Gov't Bond | 3.56 | -2.1% | -6.0% | n.a. |

| | | Performance | | |
|---|---|---|---|---|
| Global bond indices | Price | Q3 | Ytd Q3 | YtW |
| Barclays Global Corp. IG | 249 | 0.4% | -2.8% | 3.3 |
| Barclays US Corporate IG | 2804 | 1.0% | -2.3% | 4.2 |
| Barclays Euro Corporate IG | 245 | 0.0% | -0.6% | 1.1 |
| Barclays Emerg.Market USD | 1062 | 1.6% | -2.3% | 5.9 |
| Barclays US Corporate HY | 1991 | 2.4% | 2.6% | 6.4 |
| Barclays Pan-European HY | 382 | 1.6% | 0.1% | 4.1 |

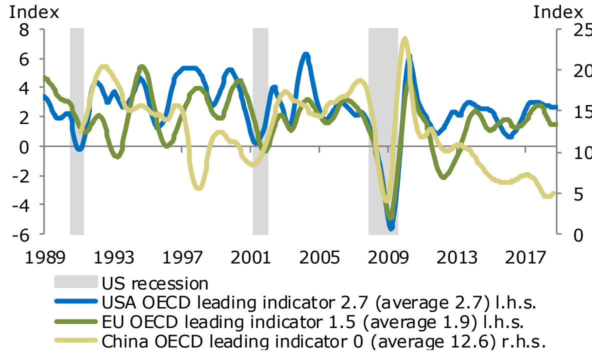
| | | Performance | |
|---|---|---|---|
| Commodities/currencies | Price | Q3 | Ytd Q3 |
| Brent oil | 83.45 | 4.1% | 23.7% |
| US Energy Services | 151.37 | -3.5% | 0.0% |
| Copper | 6171.00 | -5.7% | -13.3% |
| Gold | 1185.98 | -4.8% | -8.5% |
| EURUSD | 1.15 | -0.7% | -3.3% |
| GBPUSD | 1.31 | -1.4% | -3.6% |

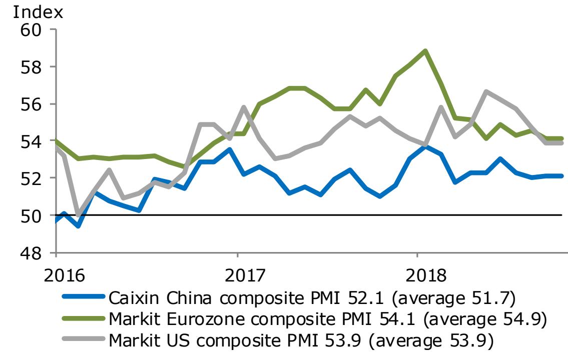
Source: Bloomberg Finance L.P., Alpinum Investment Management
Note: PE=price-earnings / PB=price-book / EPS=earnings / YtW=yield-to-worst

# Key Charts

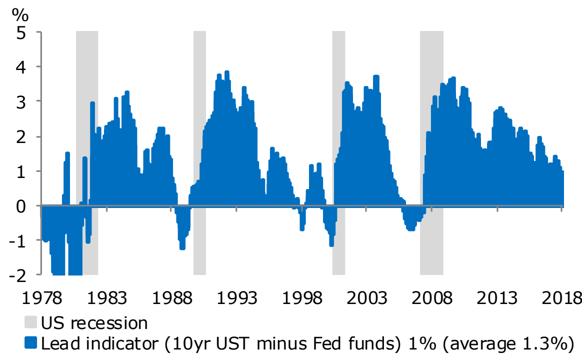
## Leading indicators and manufacturing

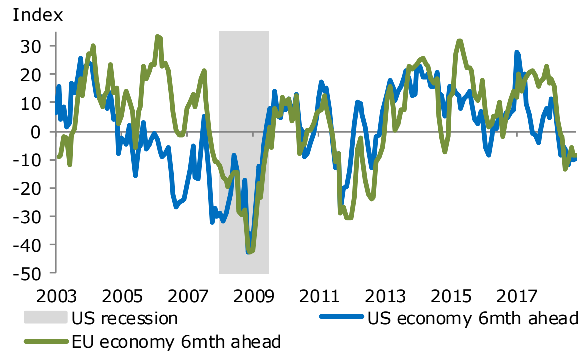
Source: Bloomberg Finance L.P., Alpinum Investment Management



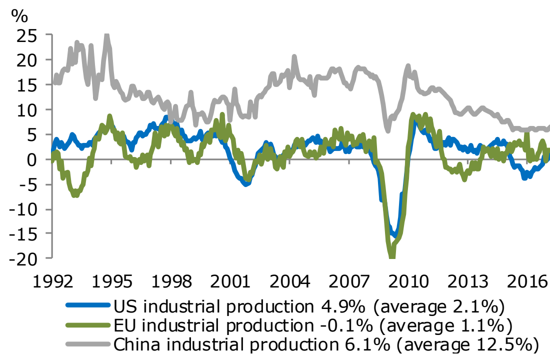



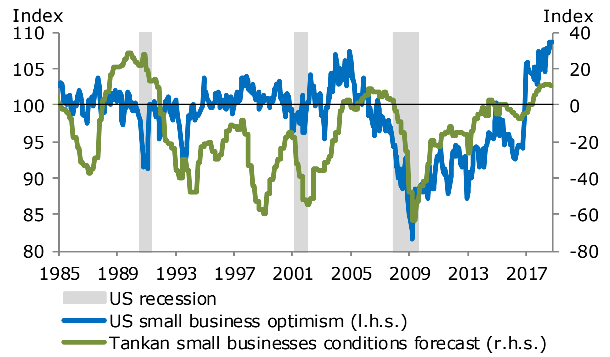

## Recession indicator



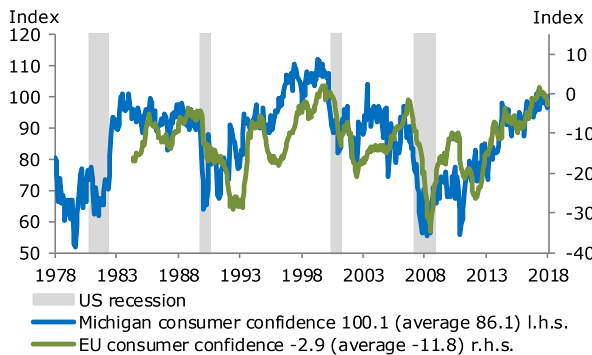



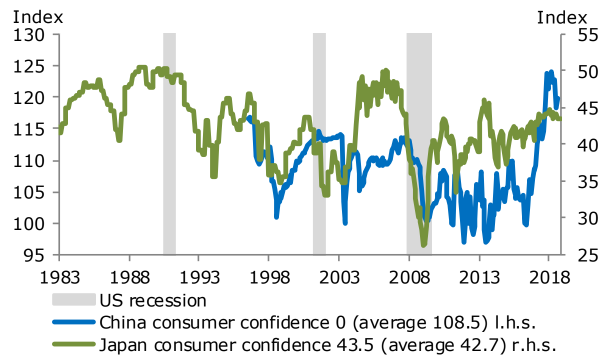

## Industrial production and small businesses




## Consumer confidence



# Scenario Overview 6 months

## Base case 75%

- **US:** GDP grows within market expectations (~3% p.a.) and no recession risk for the next 6-9 months. Government spending is up and strong. Private consumption is strong as well and supported by a very robust labour market and rising house prices. Corporates benefit from fiscal stimulus and capex remains elevated.
- **Eurozone** GDP growth slightly weaker but still close to 2%. The ECB makes no changes in H1 2019. Politics to slow economic dynamics and dampen investor sentiment.
- **China** struggles with US trade policies but GDP growth remains on track with 6% to 6.5%.
- **Oil:** Brent remains at current trading ranges as US shale oil production is ramped up and OPEC increases production as well.

### Investment conclusions

- **Equities:** Equities remain the asset class of choice, but elevated equity multiples limit the upside from current levels. The main focus still lies with US equities, despite cheaper valuations elsewhere. EU and emerging market equity exposure is built up on an opportunistic basis.
- **Interest rates:** US rates continue to rise and give support to the USD. Keep duration short.
- **Credit:** Favour European and US corporate loans and selective short term high yield bonds. A stronger USD makes emerging debt assets less appealing.
- **Commodities:** Prices get support from slightly rising inflation.

## Bull case 15%

- **US:** Economic activity accelerates and "animal spirits" in the US economy are unleashed with US GDP growth above 3%. Wage growth, euphoric consumer sentiment and increased consumption leads to more capex. The US Fed falls further behind the curve.
- **Europe** profits from economic momentum in the US and there is no hard Brexit in March 2019. The ECB stays put despite stronger economic growth.
- **China/EM:** President Trump wins the mid-term elections and tones down his rhetoric against China. Investors are taken by surprise, which leads to a rebound in the Middle Kingdom and emerging markets.

### Investment conclusions

- **Equities:** Global equities get a lift. The tide raises all boats but lagging higher beta markets, such as emerging and frontier markets should do particularly well. Animal spirits are unleashed and nothing else will beat equities.
- **Interest rates:** Rates in the US will rise more than anticipated. Fed rate expectations go beyond the 3% level. Avoid duration risk in the US and Europe.
- **Credit:** Default rates remain low and give further support to loans and high yield as corporate rate default rates remain below historic averages.
- **Commodities/FX:** Support for commodity bloc, EUR accelerates and EM currencies stabilize.

## Bear case 10%

- **US:** Softer GDP growth rate of <2%, but no recession. US real wage growth gains momentum and inflation surprises on the upside. The US Fed becomes more hawkish and hikes rates faster than expected. At the same time US earnings growth drops due to higher rates/higher USD and lower profit margins. President Trump loses one chamber and the effectiveness of his policies fade.
- **Europe:** Politics remains a mess with Brexit and Italy. Investors lose faith and Italian long-term yields rise far above GDP growth (EU confidence crisis 2.0).
- **China/EM:** China allows the RMB to weaken and refrains from large stimulus programmes. GDP grows < 6% p.a.

### Investment conclusions

- **Equities:** Negative for equities, whereby highly priced US equities would lead the correction.
- **Interest rates:** Gradual Fed rate increases come to a halt, which supports the economy and "risky" as well as high quality assets (US Treasuries, A and AA corporate bonds or agency bonds).
- **Credit:** Widening credit spreads cause slightly negative returns for credit sensitive assets, such as high yield bonds. Default rates increases to 3% to 4% p.a.
- **Commodities/FX:** Negative for commodity bloc, but USD remains relatively 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 | Comment |
| --- | --- |
| ▪ US equities incorporate advanced valuations compared to other regions, but earnings growth and tax cuts should still lead to slightly higher markets. However, we take an overall neutral stance towards equities. Should markets correct, we tend to buy opportunistically and would favour markets that have corrected the most (i.e. EM/Asia).<br>▪ During rising inflation, commodities tend to be a "late cycle" beneficiary. Therefore, we keep our exposure in U.S. energy-related MLPs, which benefit also from a high cash flow yield giving support to the investment case. | ▪ Equities trade with relatively high valuations, especially in the U.S. However, U.S. cyclical growth leads to strong earnings increases and still gives support to the current equity PE multiples. As we do not expect multiples to expand, equity performance is linked to further earnings growth.<br>▪ European equities still have some valuation gap versus the US. Corporations are supported by accelerating top line growth and profit margins. Nevertheless, we hold a neutral stance. |

| Credit/Fixed Income | Comment |
| --- | --- |
| ▪ Avoid government bonds unless yields on 10-year Treasuries reach levels between 3.25% to 3.5%. Buy US investment grade bonds, if yields increase and credit spreads widen.<br>▪ Focus the allocation mainly on US and European loans. European high yield bonds are rich. Favour US short-term maturities and add longer-term bonds on weakness only. Within IG, we prefer Asian bonds at higher spreads relative to the US and Europe.<br>▪ Emerging market bonds offer pockets of opportunities after the recent sell-off. Be very selective in local currency bonds. In hard currency bonds favor Asia over the rest of emerging markets. | ▪ US interest rates should continue to trend higher, whereas we expect the short end to increase slightly more than the long end.<br>▪ Pro-growth policies in the US continue to support high yield bonds/loans, as these companies will be able to grow their revenues, while default rates remain low. Loans offer better value vs high yield bonds. European credit markets still enjoy strong tailwinds, thanks to low rates and the ECB's bond buying programme. However, this effect is fading in Q4 2018.<br>▪ Consider harvesting the illiquidity premium from corporate and personal direct loans. |

| Alternatives | Comment |
| --- | --- |
| ▪ Credit long-short strategies identify plenty of relative value trades, both long and short. Fixed-income arbitrage offers more opportunities, as central banks are normalizing their policies and interest rates move. Equity long-short strategies should benefit from the increasing performance dispersion, as well as continuing friendly equity markets. | ▪ With the Fed normalizing rates, fixed-income arbitrage and credit long-short managers will experience increasing price dispersion between different interest rate securities. This leads to more relative value and short opportunities in credit.<br>▪ Global macro managers should find more opportunities due to diverging global monetary and fiscal policies between countries. |

| Real Assets | Comment |
| --- | --- |
| ▪ Gold will be caught between a slightly higher USD and rising US interest rates and inflation. | ▪ Should inflation continue accelerating, we expect the gold price and other industrial commodities to go up. However, this will be a rocky path against higher US rates and a stronger US Dollar. |

# Asset Class Conviction Levels

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

| Fixed Income | Underweight | ← | Conviction Level over 6 Months<br>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 | Underweight | ← | Conviction Level over 6 Months<br>Neutral | → | Overweight |
|---|---|---|---|---|---|
| Gold | ☐ | ☐ | ☑ | ☐ | ☐ |
| Oil (Brent) | ☐ | ☐ | ☑ | ☐ | ☐ |

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

| Hedge Fund: Regional Focus | Underweight | ← | Conviction Level over 6 Months<br>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”.

## Disclaimer

This document does not constitute an offer to anyone, or a solicitation by anyone, to make any investments in securities. Such offer will only be made by means of a personal, confidential memorandum. This document is for the intended recipient only and may not be transmitted or distributed to third parties

Past performance is not a guide to future performance and may not be repeated. You should remember that the value of investments can go down as well as up and is not guaranteed. The actual performance realized by any given investor depends on, amongst other things, the currency fluctuations, the investment strategy invested into and the classes of interests subscribed for the period during which such interests are held. Emerging markets refer to the markets in countries that possess one or more characteristics such as certain degrees of political instability, relative unpredictability in financial markets and economic growth patterns, a financial market that is still at the development stage, or a weak economy. Respective investments may carry enhanced risks and should only be considered by sophisticated investors.

Nothing contained in this document constitutes financial, legal, tax, investment or other advice, nor should any investment or any other decisions be made solely based on this document. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness and no liability is accepted for any direct or indirect damages resulting from or arising out of the use of this information. All information as well as any prices indicated is subject to change without notice. Any information on asset classes, asset allocations and investment instruments is only indicative. Before entering into any transaction, investors should consider the suitability of the transaction to their own individual circumstances and objectives. We strongly suggest that you consult your independent advisors in relation to any legal, tax, accounting and regulatory issues before making any investments.

This publication may contain information obtained from third parties, including but not limited to rating agencies such as Standard & Poor's, Moody's and Fitch. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third party. Alpinum Investment Management AG and the third-party providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and will not be responsible for any errors or omissions (negligent or otherwise), or for the results obtained from the use of such content. Third-party data are owned by the applicable third parties and are provided for your internal use only. Such data may not be reproduced or re-disseminated and may not be used to create any financial instruments or products, or any indices. Such data are provided without any warranties of any kind.

If you have any enquiries concerning the document please contact your Alpinum Investment Management AG contact for further information. The document is not directed to any person in any jurisdiction which is prohibited by law to access such information. All information is subject to copyright with all rights reserved. Any communication with Alpinum Investment Management AG may be recorded.

Alpinum Investment Management AG is incorporated in Switzerland and is FINMA licensed and regulated.

Contact Information:
Alpinum Investment Management AG
Talstrasse 82
CH-8001 Zurich
Tel: +41 43 888 79 33
Fax: +41 43 888 79 31
alpinumim.com