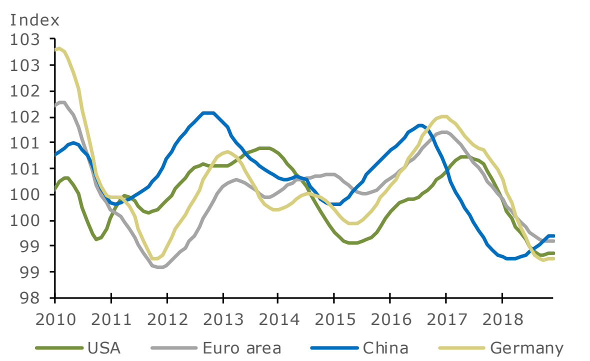
Quarterly Investment Letter – Q1 2020

World economy just got a shot in the arm

The economic **cycle is in its 11th year,** displaying late-cycle characteristics in bond spreads and equity valuations but not in inflation or interest rates. To lift OECD leading indicators (chart 1), the global economy just got a **shot in the arm** with the **US/China Phase-1 Deal** and **political risks receding**. In addition, the cycle continues to be supported by **central banks**. The most prominent this year has been the US Fed, followed by eight central banks in emerging markets. In such an environment **riskier bonds should do fine despite rising default rates.** Richly valued **equities** will have to continue to **climb a wall of worry**.

Chart 1: Bottoming OECD leading indicators



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

United States

For 2020 the market consensus expects US **GDP growth to slow to 1.8%** (2.3% in 2019). **A near-term recession is not insight** despite weak manufacturing numbers. The **key driver for US growth remains consumer spending.** If personal income growth remains well above headline inflation (chart 2), consumers will continue to drive the expansion. Market estimates are that consumer spending (3.4% yoy) would have to slow towards 2% or less for the overall growth to decelerate to a level whereby the unemployment rate would move

Summary Points

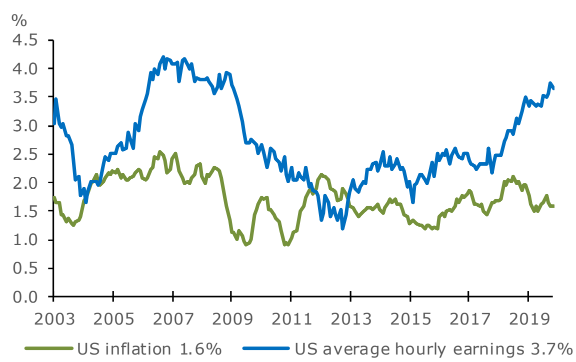
- Global manufacturing is likely to see a moderate rebound over the next 3-6 months. Hence, a near-term recession is highly unlikely.
- US GDP growth decelerates in 2020. However, consumer spending, driven by low inflation, low interest rates and full employment continues to drive the cycle.
- Europe grows below trend, but finally some political risks are receding and should support its manufacturing base. Europe could even surprise if external and domestic conditions align.
- China's GDP growth is expected to slow slightly below 6%. Compared to previous slowdowns, the Chinese government has not allowed a major reacceleration in credit growth. Instead, fiscal policy has been loosened significantly.
- The two wildcards in 2020 are, first, the US presidential election and, second, progress on the US/China Phase-2 trade negotiations.
- **Conclusion:** There is no near-term recession in sight and higher risk bonds should do fine despite rising default rates. Richly valued equities will have to continue to climb a wall of worry. We prefer European loans and selective emerging market hard and local currency bonds. European and emerging market equities could outperform their US counterparts in the short-term. Beware of a possible liquidity shock.

Content

higher. The economic cycle in the US has become **the longest one since 1854** and can be prolonged if there is no negative shock to, first, low **inflation** (2020e 2.1%), second, low **interest rates** (2020e 10-year US treasury 1.9%) and, third, **full employment**. The unemployment rate (2020e 3.3%) is at its **lowest level since 1952** and a key driver to lift future inflation. If hiring continues to surpass the growth rate of the labour force (around 120'000 per month), **wage price pressure will continue** to build and lead to higher inflation.

The US Fed **cut interest rates three times for a total of 0.75%** since August this year and rates are likely to **remain on hold**, which is nothing unusual during a presidential election year. Speaking of the presidential election in November 2020, investors can expect **Donald Trump to time more fiscal measures** to please the electorate. For the time being, the market has been ignoring the **large US fiscal deficit**, which is about **to rise to 4.8% of GDP in 2020**. This is another shot in the arm, which is not sustainable. Factoring in a potential recession down the road, this number could double. **To summarize:** US economic momentum is fine over the next 3-6 months. There is **no near-term recession in sight**.

Chart 2: US core inflation versus hourly earnings



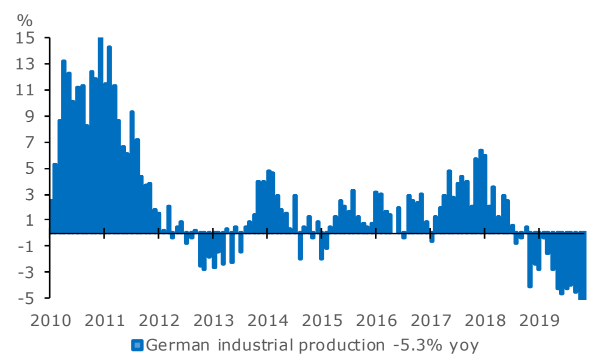
Source: Bloomberg Finance L.P., Alpinum Investment Management

Europe

Euro-area **GDP growth is well below trend** and expected to **reach 1% in 2020** (2019e 1.1%). But finally, **some risks are receding** and should support Europe's manufacturing base over the next 3-6-months. First, there is the US/China Phase-1 Deal, second, the European Central Bank keeps interest rates in ultra-low territory and has resumed asset purchases and, third, Germany's economic slowdown and depressed industrial production (chart 3) has triggered a call for **more fiscal spending**. Germany's debt interest cost is extremely low (10-year Bund yield -0.30%) and the country has abundant fiscal space and low debt levels (debt/GDP 62%) to fight a recession if needed. Estimates are that Germany could spend an extra 2% of GDP in 2020 without breaking the EU's budget rules. This could potentially add 0.4% to the Eurozone GDP. The risk is that German politics stay committed to a balanced budget and that Europe's weakness in the manufacturing sector (PMI 45.9 points) starts to spread into the services sector (PMI 52.4 points).

Finally, Brexit is done with Boris Johnson in charge and the Conservatives having an overwhelming majority in Parliament. The deadline to reach a deal on the post-Brexit relationship is December 31, 2020. With the departure of the British, the EU is losing its second-largest economy or the size of the smallest nineteen. What many investors are not aware of is that northern Europe loses the blocking minority, with which southern Europe will determine the future direction of the EU.

Chart 3: German industrial production



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

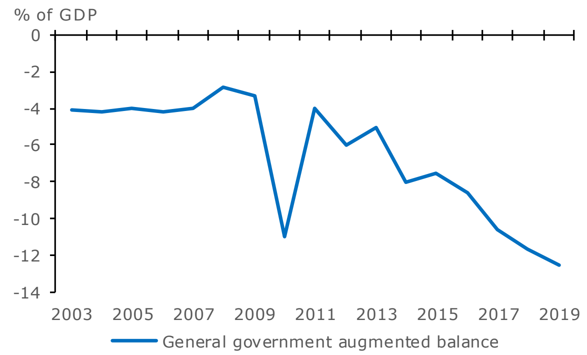
Japan

Japan has been **hit hard by the global manufacturing slowdown**. To make things worse, the Japanese government raised sales taxes to 10% to help balance the budget deficit of 3% in 2020. Factoring in the knock-on effects on domestic demand, **GDP growth for 2020** is expected to slow to a **meagre 0.3%** (2019e 0.9%). There was a time when Japan was the world's second largest economy and on track to bypass the US. Today, Japan is the world's third largest economy, less than one fourth of the size of the US, barely growing and **mired in debt (debt/GDP 240%)**. Japan has many problems but the biggest of all is demographics. Just 2% of its population is foreign-born (compared i.e. Britain 13% and Canada 22%). Over the past 20 years Japan's **working-age population has declined** by more than 10 million workers or about 14%. Having fewer workers means lower growth and less need for investment. Hence, Japan will remain **largely dependent on growth elsewhere**. As Japan is a very pro-cyclical economy, it may well benefit from a bottom in global manufacturing activity. That said, domestic headwinds will not allow a true reacceleration. Over the next 3-6 months Japanese equities are between a rock and a hard place. Hands-off Japanese bonds.

China

The critical factor for China over the longer term is to raise productivity and to encourage private companies to boost investment. For 2020 China's **GDP growth is expected to decline to 5.9%** (2019e 6.1%) as challenges from the trade war and weak business sentiment are only slowly dissipating. The **Phase-1 trade deal is certainly a big relief to China's export industry** and will help industrial profits (-9.9% yoy) and sentiment to recover. Under the agreement, the US will not hike tariffs on USD 160 bn of Chinese imports and halve tariffs from 15% to 7.5% on USD 120 bn. However, US tariffs of 25% on USD 250 bn will remain unchanged, providing the US negotiating leverage next year. What is different this time is that to fight the economic slowdown, the Chinese government has not allowed a major reacceleration in credit growth. Instead, **fiscal policy has been loosened significantly**. The general government deficit has increased from around 3% of GDP in 2018 to 6.5% in 2019e. Including local government financing vehicles and other off-balance sheet expenditures, **the total government deficit is expected to reach nearly 13% of GDP** in 2019 (chart 4). This is a bigger deficit than during the depths of the credit crisis. The fiscal stimulus is needed looking at core inflation (2019e 1.4%), which has been below 2% for the 14th straight month, and producer price inflation, which fell from 2.7% in November 2018 to -1.4% today. **The weak core inflation and falling producer price inflation reflect broader underlying slackness in the economy.** In November, the Ministry of Finance announced that it would bring forward funding for infrastructure projects equalling 1.1% of 2018 nominal GDP. A big upside surprise and confirmation that the government plans more stimulus throughout 2020 to ensure decent economic growth in 2021, when the Chinese Communist Party will celebrate its 100th anniversary.

Chart 4: China budget balance including local governments



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

Investment conclusions

Global manufacturing is likely to see a **moderate rebound over the next 3-6 months** and, hence, a **near-term recession is highly unlikely**. Low inflation, low interest rates and full employment is a very powerful combination and ensures **consumer spending continues to drive the expansion**. In this scenario, the US economy should do fine but we expect **Europe and China to possibly surprise** if external and domestic conditions align. The Phillips curve (full employment leading to higher wages and inflation) is not dead and a **cost-push from wages can be expected in the medium term**. The **single biggest question along the way is inflation** and what it will do to bond markets and how central banks will react.

Central banks are likely to hold off any further interest rate cuts after all the interest rate cuts we have seen in 2019. A **warning signal across asset classes** would come from the 10 year US Treasury should its yield move above 2.3%. Expect **default rates** to continue **to rise** and **be aware of a liquidity crisis**. In **fixed income**, we avoid US long maturity corporate bonds and continue to **favour European loans** and **selective emerging market bonds** in hard and local currency.

Global equity valuations are largely following the script of the central banks and will have to **climb a wall of worry in 2020**. We see a good chance for **European** and **emerging market equities to outperform** their US counterparts **in the short-term**. At this stage, we prefer to maintain a **balanced portfolio** and to **avoid concentrations**. We want to be prepared for all possible scenarios.

Market Consensus Forecasts

GDP growth (%)	2017	2018	2019e	2020e
World	3.8	3.6	3.1	3.2
United States	2.4	2.9	2.5	1.8
Eurozone	2.5	1.9	1.2	1.0
Germany	2.5	1.5	0.5	0.6
France	2.3	1.7	1.3	1.2
Italy	1.7	0.8	0.2	0.5
United Kingdom	1.9	1.3	1.3	1.0
Switzerland	1.9	2.8	0.8	1.2
Japan	2.2	0.3	0.9	0.3
Emerging economies	4.9	4.9	4.4	4.5
Asia Ex-Japan	6.4	6.0	5.3	5.2
Latin America	2.0	1.6	1.0	2.0
EMEA region	3.6	3.0	2.1	2.5
China	6.9	6.6	6.1	5.9
India	8.2	7.2	5.6	5.1
Brazil	1.3	1.3	1.1	2.1
Russia	1.6	2.3	1.2	1.7

Inflation (%)	2017	2018	2019e	2020e
World	3.2	3.6	3.1	3.0
United States	2.1	2.5	1.8	2.1
Eurozone	1.5	1.8	1.2	1.2
Germany	1.7	1.9	1.4	1.4
France	1.2	2.1	1.3	1.3
Italy	1.3	1.3	0.7	0.8
United Kingdom	2.7	2.5	1.8	1.8
Switzerland	0.5	1.0	0.4	0.5
Japan	0.5	1.0	0.6	0.8
Emerging economies	3.4	3.6	3.9	4.0
Asia Ex-Japan	1.9	2.3	2.6	2.9
Latin America	6.5	7.5	9.4	8.3
EMEA region	5.8	5.7	6.1	5.3
China	1.6	2.1	2.8	3.1
India	3.3	4.0	3.5	4.0
Brazil	3.5	3.7	3.7	3.7
Russia	3.7	2.9	4.5	3.3

Central bank rates (%)	2017	2018	2019e	2020e
US Fed Funds	1.50	2.50	1.75	1.55
ECB Main Refinancing	0.00	0.00	0.00	0.00
China 1yr Best Lending	4.35	4.35	4.35	4.25
Bank of Japan Overnight	-0.06	-0.06	0.00	-0.10
UK Base Rate	0.50	0.75	0.75	0.75
Swiss 3mth CHF Libor	-0.75	-0.75	-0.75	-0.85

Commodities	2017	2018	2019e	2020e
NYMEX WTI oil USD/barrel	55	49	61	55
ICE Brent oil USD/barrel	60	55	65	60
Iron Ore USD/metric ton	72	71	87	77
Copper USD/metric ton	7247	5965	6147	6190
Gold USD/troy oz	1303	1277	1583	1599
Silver USD/troy oz	16.9	15.5	18.4	18.7

Major interest rates (%)	2017	2018	2019e	2020e
USA 3mth rate	1.7	2.8	1.8	1.7
USA 10yr Gov't Bonds	2.4	2.7	1.8	1.9
Eurozone 3mth rate	-0.3	-0.3	-0.4	-0.5
Eurozone 10yr Gov't Bond	0.4	0.2	-0.4	-0.3
China 3mth rate	4.9	3.3	2.8	2.7
China 10yr Gov't Bond	3.9	3.3	3.2	2.9
UK 3mth rate	0.5	0.9	0.8	0.8
UK 10y Gov't Bond	1.2	1.3	0.7	1.0
Swiss 3mth rate	-0.7	-0.7	-0.7	-0.8
Swiss 10y Gov't Bond	-0.1	-0.3	-0.6	-0.6

Exchange rates	2017	2018	2019e	2020e
EURUSD	1.20	1.15	1.11	1.15
EURCHF	1.17	1.13	1.10	1.12
USDCHF	0.97	0.98	0.99	0.97
EURJPY	135.28	125.81	119.00	122.00
EURGBP	0.89	0.90	0.86	0.85
USDJPY	112.62	109.70	108.00	106.00
GBPUSD	1.35	1.27	1.29	1.35
USDCNY	6.51	6.88	7.08	7.02
USDBRL	3.31	3.88	4.08	3.95
USDRUB	57.98	69.72	64.10	64.00

Performance table

		Performance		
Global equity markets	**Price**	**Q4**	**Ytd Q4**	**Div.yld**
MSCI World (USD)	2358	8.2%	25.2%	2.4
MSCI World (USD) hedged	1125	7.7%	28.4%	n.a.
HFRX Global Hedge Fund	1293	2.6%	8.7%	n.a.
S&P 500	3231	8.5%	28.9%	1.9
Russell 1000	1784	8.5%	28.9%	1.9
Nasdaq 100	8733	12.7%	38.0%	1.0
Stoxx Europe 600	416	5.8%	23.2%	3.5
MSCI Emerging Markets	1115	11.4%	15.4%	3.0
Nikkei 225	23657	8.7%	18.2%	1.9
China CSI 300	4097	7.4%	36.1%	2.6

	Forward		EPS growth	
Equity market valuations	**PE**	**PB**	**2019e**	**2020e**
MSCI World (USD)	17.2	2.4	14%	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	18.6	3.3	15%	11%
Russell 1000	18.9	3.2	15%	11%
Nasdaq 100	22.9	5.8	19%	15%
Stoxx Europe 600	15.1	1.8	28%	8%
MSCI Emerging Markets	13.2	1.6	3%	14%
Nikkei 225	17.7	1.7	-3%	7%
China CSI 300	12.0	1.6	32%	13%

		Performance		
Global gov't bonds	**Yield**	**Q4**	**Ytd Q4**	**YtW**
10yr US Treasury	1.92	-1.2%	8.5%	n.a.
10yr Euro gov't bond	-0.19	-2.9%	6.8%	n.a.
10yr German gov't bond	-0.19	-3.1%	3.1%	n.a.
10yr Italian gov't bond	1.41	-3.7%	14.5%	n.a.

		Performance		
Global bond indices	**Price**	**Q4**	**Ytd Q4**	**YtW**
Barclays Global Corporate IG	279	1.8%	11.5%	2.2
Barclays US Corporate IG	3240	1.2%	14.5%	2.8
Barclays Euro Corporate IG	259	-0.5%	6.2%	0.5
Barclays Emerging Market USD	1209	2.1%	13.1%	4.9
Barclays US Corporate HY	2183	2.6%	14.3%	5.2
Barclays Pan-European HY	413	2.5%	12.3%	3.5

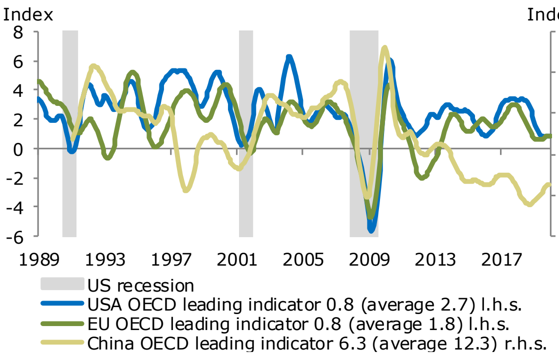
		Performance	
Commodities and currencies	**Price**	**Q4**	**Ytd Q4**
Brent oil	66	8.6%	22.7%
US Energy Services	78	19.5%	-2.9%
Copper	6159	7.9%	3.3%
Gold	1517	3.0%	18.3%
EURUSD	1.12	2.9%	-2.2%
EURCHF	1.09	-0.2%	-3.7%

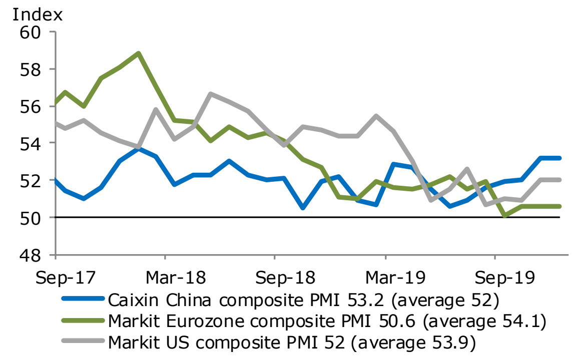
Source: Bloomberg Finance L.P., Alpinum Investment Management
Note: Q4 = data as of December 31, 2019 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

Key Charts

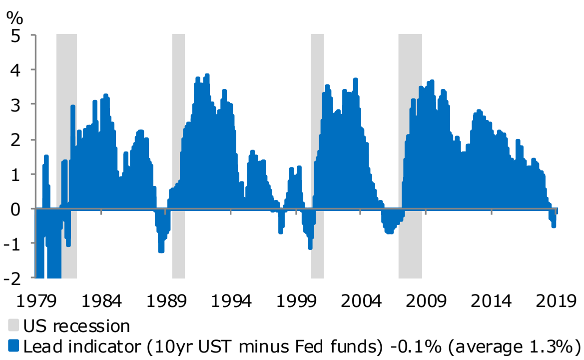
Leading indicators and manufacturing

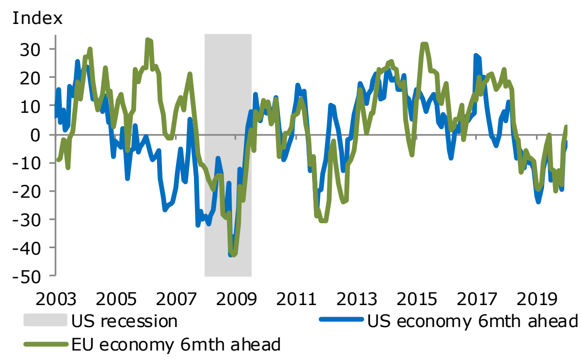
Source: Bloomberg Finance L.P., Alpinum Investment Management



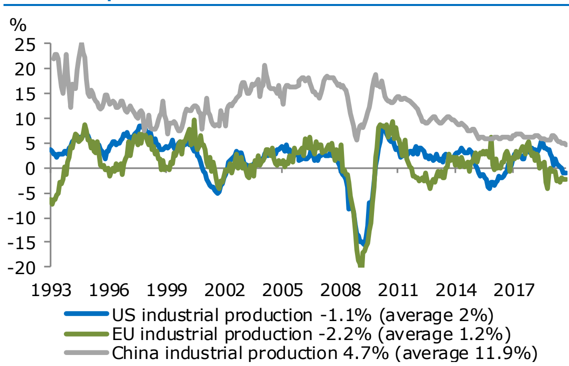


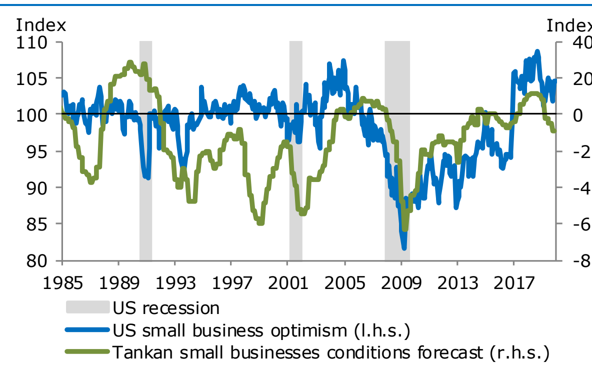
Recession indicator



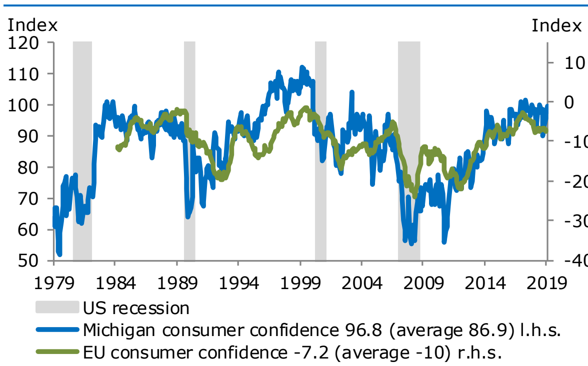


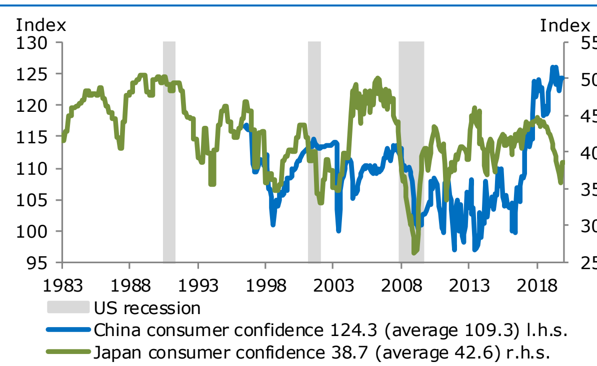
Industrial production and small businesses





Consumer confidence





Scenario Overview 6 months

Base case 75%

- **US:** GDP grows ~2% p.a. and recession risk is minimal for next 6 months. Government spending is up. Private consumption is supported by a robust labour and housing market. Corporates still benefit from low tax rates, but capex has been weak due to the uncertainties around the trade conflict and the moderate growth prospects.
- **Eurozone** GDP growth remains sluggish with around 1%. Germany and Italy avoid a deepening of their economic downturn and generate minimal growth. The ECB remains a strong supporter of the markets throughout 2020. Politics is less of a drag than in 2019 and hopes for fiscal stimulus could brighten investment sentiment.
- **China** compensates drag from US trade conflict with an economic stimulus programme. GDP growth is only slightly below the 6%-mark.
- **Oil:** Brent remains volatile, but prices are capped due to high OPEC and US shale oil production.

Investment conclusions

- **Equities:** Equities seem fairly priced given the low economic growth outlook and elevated equity multiples. Nevertheless, because of the dovish central banks, equities still find support for some upside as investment alternatives remain scarce. But as we operate in a late cycle economy, the potential for considerably higher valuations is limited. We slightly overweight selective emerging market & European equity exposure.
- **Interest rates:** Neutral on rates, but yields are not attractive. (US) Duration exposure serves only as a diversifier and tail hedge.
- **Credit:** Credit spreads are tight and corporates benefit from low interest rates and moderate growth. Corporate default rates are slightly rising. We favour EUR syndicated loans (and CLOs) and Asian/EM bond exposure.
- **Commodities/FX:** Prices tend to be volatile up and USD stops strengthening.

Bull case 10%

- **US:** Economic activity levels off towards 3% led by strong consumption and a breakthrough deal in the U.S./China trade conflict. Wage growth, low interest rates and strong consumer sentiment leads to more capex, extending the business cycle.
- **Europe** profits from economic momentum in the US. Hard Brexit gets avoided. ECB stays put despite stronger economic growth. Fiscal stimulus gets on the agenda of the EU.
- **China/EM:** Trade deal is a relief to China's export industry. A domestic stimulus programme is another positive and keeps GDP around the 6% level.

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 most (EM/Asia, EU).
- **Interest rates:** Rates will go back into modest 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 bonds, especially in EM/Asia.
- **Commodities/FX:** Support for commodity bloc, EUR accelerates and EM currencies stabilize.

Bear case 15%

- **US:** Softer GDP growth rate of ~1% or even a mild recession towards the end of 2020. Global trade conflict intensifies again and feeds through. Corporate earnings growth and profit margins disappoint. US real wage growth is a worry at the same time and leads to higher inflation. US Fed is challenged to keep its dovish tone.
- **Europe:** Politics remain a worry with Brexit and Italy/France. Investors lose faith and Italian long-term yields rise. Germany is unable to leave the recessionary territory. (EU confidence crisis 2.0).
- **China/EM:** China weakens RMB and its stimulus programme fails. GDP grows ~5.5% p.a.

Investment conclusions

- **Equities:** Negative for equities, whereby higher priced US equities 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. Default rates increase to a level of 4-5% p.a.
- **Commodities/FX:** Negative for commodity bloc, USD remains robust, CHF/JPY act as safe haven.

Tail risks

- Asset price bubble bursting or liquidity shock.
- An Italian sovereign debt crisis, Euro break up.
- 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
▪ We are neutral on equities with a slight 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 18) and stock market returns will be primarily linked to the corporate earnings growth rate (and M&A/share buybacks). ▪ Should markets face a downturn, we tend to buy opportunistically, but we will act very 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 small overweight positions in specific emerging markets/EU.	▪ 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 18 results in an earnings yield of 5.6% and compares with a yield of 1.9% for 10 year government bonds. In Europe, this comparison leads to an earnings yield of 7.1% (P/E ratio 14) compared to negative government bond yields. ▪ If global trade war risks fade, export-led stock markets and Asia will benefit the most in the short term. However, general equity re-pricing is capped by the fact that we are operating in a late cycle economy.

Credit/Fixed Income	Comment
▪ **Rates**: The near term outlook for interest rate duration is neutral to negative. On a structural basis, we still consider duration risk as unattractive, especially in Europe and hold minimal exposure only. 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 much more attractive valuations. ▪ **High Yield:** US loans and high yield bonds look fully priced. However, the yield is still attractive compared to other investment alternatives. We favour selective non-cyclical US short-term bonds, European loans and EUR CLOs (A to BB rated). ▪ **Emerging Debt:** Emerging market bonds offer a relative value advantage, whereas we favour hard currency bonds, but with very careful selection. We also own very selective local currency bonds.	▪ After a wave of rate cuts in 2019, we expect major central banks to stay put, while the dovish stance remains a strong positive factor. ▪ The ECB is committed to keep rates low for longer as the economic growth rate in Europe remains weak. ▪ With "lower for longer", credit spreads could marginally see a further tightening, which lifts all the boats. The general market remains benign for credit although corporate default rates will rise in 2020. ▪ We like the structured credit market and hold for example exposure in US non-agency RMBS or European CLOs (high relative value vs HY/loans). ▪ Consider harvesting the illiquidity premium from direct loans (i.e. corporate or mortgage backed loans). ▪ We identify also attractive yield in "new" alternatives such as "Trade Finance". However, a proper liquidity management is paramount.

Alternatives	Comment
▪ 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. ▪ Alternative Lending as an asset class is in the spotlight in a "low for longer" rates environment.	▪ A late cycle economy and "innovative disruption" leads to more price dispersion among single securities, industries as well as asset classes. This leads to more relative value opportunities for credit and equity long short managers. ▪ Global macro managers benefit from sharp market movements in either direction.

Real Assets	Comment
▪ Gold benefits when real interest rates fall. Hence, the current environment with low yields and potentially rising inflation is beneficial for the gold price. A slightly weaker USD is also supportive for gold.	▪ Slow economic growth rates and tame inflation generally do not support higher commodity prices, whereas a weaker USD is beneficial for the whole commodity bloc.

Asset Class Conviction Levels

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

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

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

Hedge Fund: Regional Focus	Underweight	←	Neutral (Conviction Level over 6 Months)	→	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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