Prime Partners

SINCE 1998

MARKET INSIGHT

OCTOBER 2018

Are investors starting to have confidence in the future again?

After a turbulent summer, equity markets rebounded in early autumn. However, the air of uncertainty that drove the erratic performance of stock markets over the summer still persists.

Although investors were reassured by the United States' more moderate tariffs on Chinese goods, the threat of a trade war has not dissipated. Improved economic figures for Europe were also welcomed by investors after disappointing performances in H1 2018. Was the desynchronisation of the global economic cycle seen in the last few quarters only temporary? which would refute the idea that some kind of economic "euphoria" has taken hold.

Some may argue that the major international organisations – rather than having a clearer perspective on things than investors – can be slower in revising their forecasts. Does that mean that investors have decided to ignore the "cautious realism" of economic institutions?

The positive developments mentioned above are undeniable, but they don't carry weight. As a matter of fact for those who believe that the trade issue isn't a problem, the eurozone PMIs for September should be a stark wake-up call – there is tangible pressure on European exports and orders.

> "Economic uncertainties still abound and this will not change over the coming months."
>
> **FRANÇOIS SAVARY,** CHIEF INVESTMENT OFFICER, PRIME PARTNERS

Before getting ahead of ourselves, let's remember that the United States' lead in the economic cycle was amplified by the effect of tax cuts of late.

In short, the above mentioned more favourable developments have allayed the fears of the financial markets, but they cannot alone explain the record highs posted by US equities in September.

The autumn marks a change in the focus of projections. With this year already "in the bag", attention is turning to forecasts for 2019. Like the major international organisations, investors are fine-tuning their medium term predictions for the global economy and earnings growth. Have market players revised their forecasts for 2019 upwards? This would certainly explain the stock market rally in September and, if this is the case, we need to ask ourselves if such a revision is justified.

In answering this question, it should be noted that following the example of the IMF, global growth forecasts for 2019 have tended to be revised downwards recently.

Despite what Donald Trump may say, trade wars are not easy to win and they harm the economic activity. You just need to listen to US business leaders to realise how dangerous the country's trade policy is for growth and earnings.

Consensus expectations for growth and earnings are high for the next 18 months and could be met with disappointment.

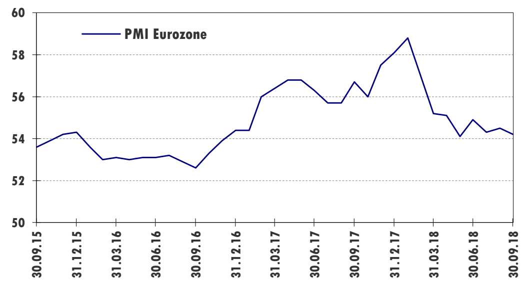
Firstly, because there is still uncertainty surrounding disruptions to international trade and it's difficult to take this into account in earnings projections.

Secondly, because the recent US GDP growth of 4% is unsustainable over the medium term; unless Donald Trump can find a way of making the tax cuts permanent, the impact of fiscal stimulation will diminish over the coming quarters.

On that note, it's back to politics and the US President's ability to keep his party's majority in

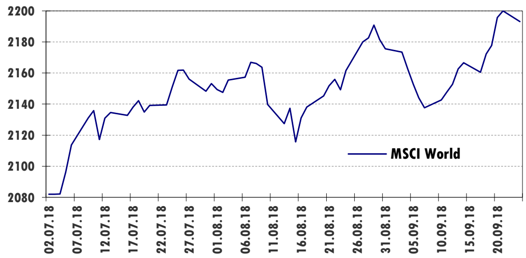
Congress next month.

No acceleration in sight for European growth



The battle between the Democrats and the Republicans for control of the House of Representatives is heating up. A Democrat majority would increase the risk of a government shutdown – a powerful weapon in the budget battle. This would create another problem for the Federal Reserve in its monetary policy normalisation – a necessity in light of economic conditions in the US.

Global equities set to reach new highs in January 2019?



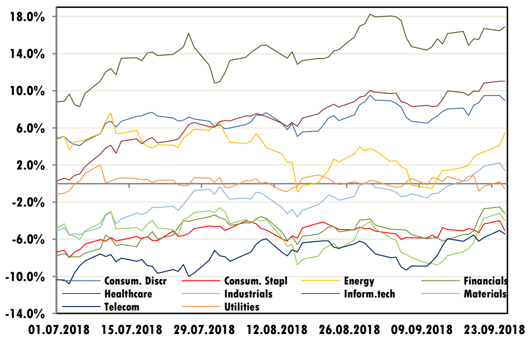
Renewed optimism on the back of September's excellent stock market performance should not cause complacency, and the rally has only partially convinced us that the trend is set to continue. That doesn't mean that indices won't continue to perform well; across-the-board gains (compared to the largely technology driven market of the last few quarters) are a favourable development.

By the same token, the stabilisation of the dollar has breathed new life into risky assets, in particular equities.

Economic and political uncertainties still abound and this will not change over the coming months. As such, we firmly believe that economic growth and earnings forecasts for 2019 should be kept in check.

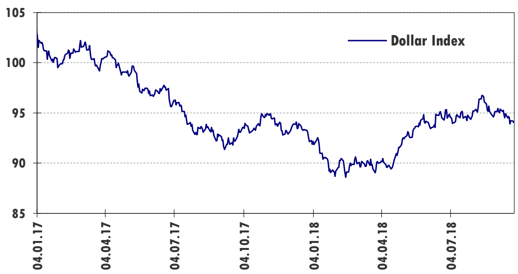
We have opted for a more defensive strategy over the past few months, and believe that we should continue in the same vein, especially on the bond front. In light of this, we only slightly

All sectors took part in the recent rally except utilities



In light of this, we only slightly changed our asset allocation during the past few weeks, strengthening our alternative investments exposure. This was due to the addition of a long/short strategy on international bonds.

Dollar: is the rally over?



As the last phase of the economic and financial cycle gradually develops, our investment strategy aims to keep exposure to risky assets in check, with overweights in cash and alternative assets.

This strategy is in place for several months and we will continue to pursue it going forward. Although we have favoured equity over corporate debt risk for the past few months, we still believe that equity rallies should be used to reduce portfolio positions in the coming months.

Geneva, 26 September 2018

Prime Partners SA
Rue des Alpes 15
P.O. Box 1987
1211 Geneva 1

www.prime-partners.com

CONTACTS

François Savary
Chief Investment Officer

Jérome Schupp
Equity Analyst

Julien Serbit
Portfolio Manager

T: 41 22 595 09 97
fsavary@prime-partners.com
jserbit@prime-partners.com