Investment Outlook 2018

Economy and Regions:

The **global economy is booming**. Long-delayed investments are now being made up and consumers have shown themselves to be as buoyant as they have not been for a long time. Despite this good mood, we also see clouds in the sky. **The credit cycle in China and global debt are at their highest levels** (much higher than before the 2008 financial crisis). What happens if these catch-up effects and euphoria of companies and consumers diminish? **We expect the zenith of the current cycle around the middle of 2018**. However, countries such as India are likely to be of long-term interest. There, China's previous history seems to be repeating itself after a long wait.

Interest and bonds:

The inflationary development long awaited by the central banks is likely to become reality in 2018. The holes of the financial crisis are filled and the speed of circulation of money is increasing due to increasing confidence of consumers and businesses. **Are we now facing the turning point of yields? We think that is the case and interest rates will rise slowly and steadily**. A modest increase of 1% means that bonds with maturities in the range of 10 years on average lose around 7% in value. With at the same time puny coupons of at best 1% - 3%, a negative total yield should result. But there are still bright spots, i.e. segments with adequate income opportunities, i.e. implicit inflation-linked fixed-to-float bonds of highest quality debtors.

Commodities and gold:

Commodities are moving in very long cycles and are **likely to have bottomed out relative to equities**. The sins of the last 10 years of a massive supply shortage are likely to be felt with rising prices. Also for reasons of inflation, commodities and, above all, gold should take up adequate space in portfolios.

Currencies:

Nothing is harder to predict, such as currencies. For investors who think in CHF, taking on accentuated foreign currency exposures has not paid off and this is likely to remain the case for the time being. **We believe that the Swiss franc remains strong.** The cryptocurrencies (if they can even be called currencies) we consider unpredictable and currently not investable. Far more meaningful is the addition of gold, also in view of high stock and bond valuations and the likelihood of a noticeable turnaround in interest rates and rising inflation.

Equities:

Stock valuations **are very high in the historical context**. But this does not mean that stocks can not rise even more. There are some signs that many investors are investing well beyond their risk profiles. There are also several signs of euphoria. The US Federal Reserve, the European Central Bank and, in turn, the Swiss National Bank will become more monetary restrictive by the end of 2018. At the same time, we expect the zenith of the current economic upturn around the middle of 2018. These are not good companions for the stock markets. **We therefore position ourselves cautiously** and rely on globally leading companies with stable business models. **We supplement our safety corset with hedging strategies** and are skeptical of the mainstream view that equities will outperform even in 2018.

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