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More challenging investment markets

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How do you see the current macro environment?
The first quarter of the year started pretty well after a very dismal fourth quarter of 2018. The losses of Q4 2018 have largely been re-corrected in the first quarter of 2019 with financial gains across almost all financial assets. That is largely due to the fact that the economic situation in Europe and the U.S. and China is not that bad. Earnings have held up relatively well.

Clearly, the news from central banks is very different than it was last year, which is now more dovish or of a neutral stance compared to last year. That's a big reversal. The market currently is pricing in that Brexit will be orderly, and that the U.S. and China will come to an agreement with regards to trade. That's how far we've come.

In order for the current rallies that we've seen to continue further, we need to see more evidence of continued earnings growth. We do need to see an orderly Brexit, because we believe that is not yet priced in if it's a no deal Brexit. The U.S.-China trade deal that we're all expecting, that has been priced in, so if something goes wrong on that side, we might see a lot more volatility.

How does that impact your views on the fixed income markets?
The more accommodative stance of central banks is helping in this respect, so we see Asia, Europe, U.S. will not be as bad as we expected. In fact, it's pretty good. However, both Europe and the U.S., we now prefer investment grade over high yield.

How about equities and commodities?
Let me start with equities. For equities, we are a lot more cautious. We expect a lot more volatility in the

near future, so we are still quite positive, although more selectively specifically on Asia ex-Japan followed by the U.S., followed by Europe. However, it is more thematic driven than before, so for example, we like the theme of aging population, we like disruptive technologies, we like new healthcare innovations, and we like ESG.

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Coming back to your question on commodities, as we have seen broadly across financial assets, we've seen a rebound of commodities, especially oil that had a significant drop in Q4 last year. We've seen a significant volume increase, and with the U.S. now producing 12 to 13 million barrels a day, being globally the biggest producer and notably starting to export a record level of roughly 3 million barrels a day, that is a big ceiling on this oil price. We foresee USD60 to USD65 per barrel regardless of other developments.

What are the main risks that you see today?

If indeed Brexit is going to be disorderly with no deal, that has not been priced in and that will cause a lot of volatility and a lot of downward pressure on European and UK equity markets. and probably broader than that. Similarly, the impending trade deal between the U.S. and China, if that is either delayed or cancelled altogether, that will really rattle global markets, so those are still risks that have not been formally resolved.

All of a sudden, the markets have priced in rate cuts instead of rate hikes. Now, whilst they might be more accommodative in opposing hiking, we're not sure that they're actually going to cut or be more accommodative, so that could be a too optimistic view going forward.

Last but not least, the U.S. yield curve has actually inverted now for the past three months or so, and in the past 55 years every single time that happened a recession followed. There are all kinds of other signals that are not yet saying a recession is due, but obviously we shouldn't ignore it. In that sense, it's an environment where we need to be much more prudent, much more selective, a little bit more risk-off, a bit of profit taking, and very picky when it comes to risky assets. ■