MIRABAUD 1819
Asset Management

Renewed volatility against the backdrop of trade war risks

3 April 2018 — Strategy Team

REVIEW

The first quarter had two phases. In January, risk assets continued to rise, driven by accelerating global growth and high earnings forecasts. Equity markets in the USA, China and peripheral eurozone countries were the best performers. In the USA, bullish sentiment was focused on the tech sector, whose leading stocks accounted for most of the market rally. Combined with the dollar's weakness against the euro and the earnings growth gap between Europe and the USA, the tech rally caused the US markets' to outperform their European counterparts.

In February, however, markets started a substantial correction, caused by fears of a rapid rise in inflation and monetary tightening by the US Federal Reserve. The publication of US wage growth figures sparked a 9% fall in the MSCI World index in the space of 10 days. A second market decline took place in March after the Trump administration talked about raising customs tariffs on its trade partners, particularly China, and because of regulatory concerns in the tech sector. After averaging 11% since 2017, the equity market's implied volatility has been around 20% since February.

Bond yields rose. In the US, the yield curve remained relatively flat, with higher long yields accompanied by an increase in short rates driven by monetary policy normalisation. In March, the Federal Reserve increased its key interest rates by 25 basis points. In other developed countries, short rates remained low because of ongoing loose monetary policies. Credit spreads on high-quality corporate debt and high-yield bonds widened as volatility rose.

There were mixed performances in the commodities market. On the one hand, oil prices rose sharply, while gold benefited from the weak dollar. However, the rise in the gold price was limited by higher real interest rates. On the other, industrial metals underperformed despite their role as an inflation hedge.

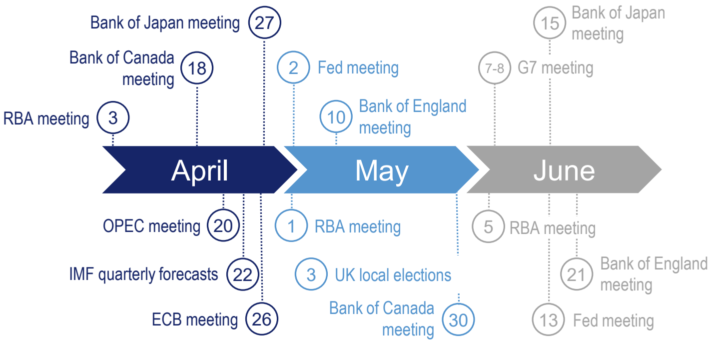
OUTLOOK

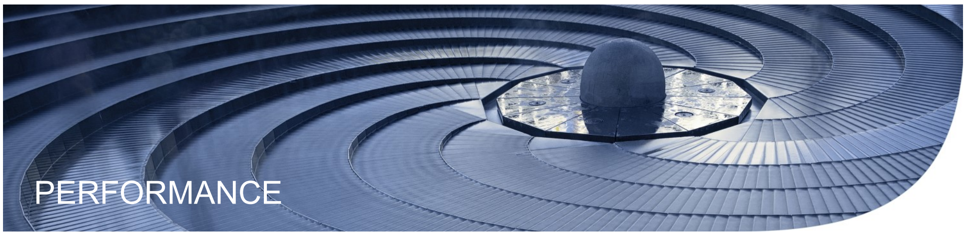
We are still expecting solid economic growth in 2018 despite threats of an escalating trade war. Although volatility will remain high, we regard the US administration's aggressive rhetoric as a negotiating tactic, which is likely to result in the USA and China reaching a negotiated solution. However, growth is likely to peak this year.

In the bond markets, we expect the US yield curve to continue shifting upwards in the second quarter. The US Federal Reserve could raise key interest rates once per quarter this year, while long yields should become a more accurate reflection of the fundamentals. Credit spreads are likely to continue widening for both investment-grade and high-yield paper. In Europe, the yield curve should steepen, with short rates remaining at today's low levels.

In the equity markets, volatility will remain relatively high because of monetary policy normalisation and greater dispersion in economic forecasts. Any disappointments will lead to rapid market corrections. However, the overall market trend should remain positive against a background of firm earnings growth.

What's on the agenda?





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Net total return performance of major financial assets

EQUITIES

Indices	YTD↓	QTD	Volatility
BOVESPA (Brazil)	11.7%	11.7%	19.6%
MICEX** (Russia)	7.6%	7.6%	13.2%
FTSE MIB (Italy)	2.8%	2.8%	14.6%
HSCEI (HK - China Enterprises)	2.5%	2.5%	18.6%
MSCI EM (Emerging Markets)	1.4%	1.4%	11.3%
Hang Seng (Hong Kong)	0.9%	0.9%	14.9%
ISE 100 (Turkey)	0.8%	0.8%	16.3%
PSI 20 (Portugal)	0.3%	0.3%	11.7%
S&P 500 (USA)	-0.9%	-0.9%	11.5%
MSCI World	-1.3%	-1.3%	8.8%
Dow Jones I. A. (USA)	-2.1%	-2.1%	12.3%
CAC 40 (France)	-2.6%	-2.6%	12.0%
SPIEX* (Switzerland)	-2.8%	-2.8%	11.3%
CSI 300* (China)	-3.3%	-3.3%	13.2%
Nifty 50* (India)	-3.6%	-3.6%	10.1%
EURO STOXX 50 (Europe)	-3.8%	-3.8%	11.8%
IBEX (Spain)	-4.0%	-4.0%	13.7%
Stoxx Europe 600 (Europe)	-4.2%	-4.2%	10.1%
S&P/TSX (Canada)	-4.5%	-4.5%	8.1%
Nikkei 225 (Japan)	-5.1%	-5.1%	15.0%
SPI* (Switzerland)	-5.2%	-5.2%	11.0%
SMI* (Switzerland)	-5.5%	-5.5%	11.2%
DAX* (Germany)	-6.4%	-6.4%	12.6%
FTSE 100 (United Kingdom)	-7.2%	-7.2%	10.1%

** Total returns, ** Price returns*

BONDS

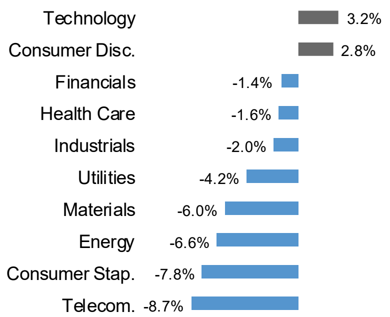
Bloomberg Indices	YTD↓	QTD	Duration
EM Sovereign Local	2.9%	2.9%	5.7
EZ Sovereign	1.4%	1.4%	7.6
EUR Corporate IG	-0.4%	-0.4%	5.3
EUR Corporate HY	-0.5%	-0.5%	4.5
USD Corporate HY	-0.9%	-0.9%	4.1
US Treasury	-1.2%	-1.2%	6.1
EM Corporate USD	-1.3%	-1.3%	4.6
EM Sovereign USD	-1.8%	-1.8%	7.2
USD Corporate IG	-2.3%	-2.3%	7.5

CURRENCIES

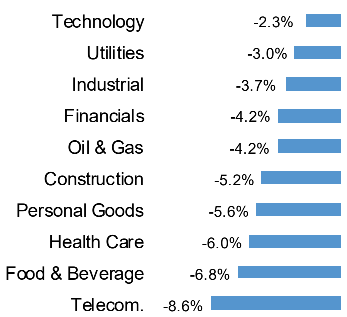
	YTD↓	QTD	Spot
GBPUSD	3.7%	3.7%	1.40
EURUSD	2.7%	2.7%	1.23
USDCAD	2.6%	2.6%	1.29
Latam Currency Index	2.5%	2.5%	64.4
Asia Dollar Index	1.9%	1.9%	111.8
EURCHF	0.4%	0.4%	1.18
USDCHF	-2.1%	-2.1%	0.95
Dollar Index	-2.3%	-2.3%	90.0
EURJPY	-3.2%	-3.2%	130.97
USDJPY	-5.7%	-5.7%	106.28

EQUITY MARKET SECTORS

USA: S&P 500 - Sector Performance YTD

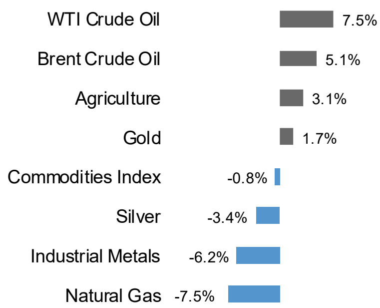


Europe: Stoxx 600 - Sector Performance YTD



COMMODITIES

Commodities - Performance YTD



Source: Bloomberg. Performances as of 31 March 2018