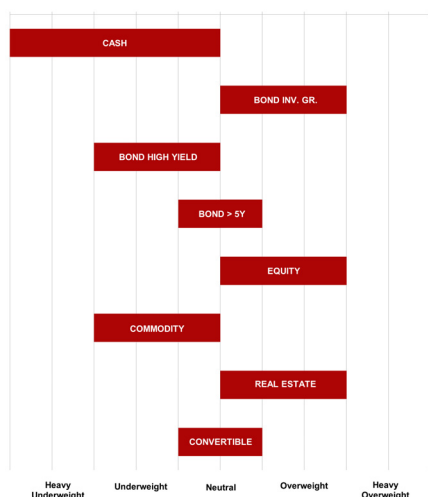


Increasing stocks on weakness, but without overdoing it

We have taken advantage of recent periods of market volatility to increase the proportion invested in stocks with non-directional products.

We are keen to maintain some level of protection as the markets are becoming progressively more fragile considering a stable, but lacklustre, macroeconomic environment and rather high valuations in some sectors. However, the recent fall of interest rates does seem excessive to us, as they paint an overly negative picture of the economy. That is why we have sold some of our long-term bonds and are keeping the durations of the products in our portfolios short.

ASSET ALLOCATION



- We keep the percentage of **CASH** in accounts low, having invested the portfolios in short-term bonds or money market funds.
- The rate increases made by the central banks in the last two years have made investing in **GOVERNMENT** and **CORPORATE INVESTMENT-GRADE BONDS** very interesting. However, we remain underweight on duration.
- We prefer to avoid significant exposures to the **HIGH-YIELD BONDS** sector, which is currently characterised by a limited level of credit spreads, compared to historical standards.
- In terms of **EQUITIES**, we continue to see a generally positive environment thanks to a fairly stable global macroeconomic situation and support from central banks, where appropriate, but we still consider the market potential to be quite limited. That is why we see phases of weakness as opportunities for accumulation.
- **COMMODITIES** are supported by public and private investments, but, in the short term, there is a lack of strong growth drivers, especially in the cyclical sector. We are instead inclined to accumulate gold on weakness if growth on the US market slows down.
- We are fairly positive regarding Swiss **REAL ESTATE** in view of the strong fundamentals of the sector (supply and demand for real estate) and the current level of interest rates, which makes the sector interesting as an investment vehicle.
- **CONVERTIBLE BONDS** remain a valid means of exposure to the equities market, with greater downside protection.

MACRO VIEW

The economy is still dominated by services, while the manufacturing industry continues to struggle its way out of relative stagnation.

The US economy is feeling the effects of higher real rates and its labour market is normalising even in terms of the number of people joining it (participation rate).

The Chinese economy seems incapable of recovering from the real estate crisis; it should, however, remain stable thanks to monetary and fiscal stimuli balancing out the lack of confidence expressed by private players.

The European economy is struggling on the export front, but rising real wages are keeping things stable, supporting domestic consumption.



FIXED INCOME

When assessing yield curves in general, we are confident that we will see increased steepness in the months ahead: the level of rate cuts priced in by the market currently seems excessive in the face of a stable global economy and only slowly receding inflation. Should our forecasts prove to be wrong and the economy does indeed experience a sharp slowdown, we might still see a “steepening” of the curves, owing to both the downward slope of the short end and the expectation of higher growth and inflation in the medium term. As for the credit component, spreads in both the investment grade and high yield segments are rather expensive at present.

As far as our positioning is concerned, we have not really veered away from our basic approach of short duration and credit risk focused on medium/high quality issuers.

FX VIEW

Our view on the US dollar remains neutral: the currency is supported by its high carry, whereas it is weakened by possible rate cuts to support the US economy.

In the short term, the Swiss franc should weaken against the Euro, while in the medium term, the fundamentals that support it seem destined to re-emerge.

The Bank of Japan is proceeding with the normalisation of its monetary policy. We would therefore like to reiterate that the yen could be a purchasing opportunity in the medium/long term and a chance to diversify portfolios.

EQUITY MARKETS

After witnessing a sectoral market rotation over the summer period and seeing at least some of the speculative positioning in very large capitalisation stocks shrink, we are now back to being quite proactive on equities, even with earnings growth continuing to be solid, especially in the US. Switzerland also maintains a good outlook, with some positive signals coming from emerging market equities, which could be favoured by any rate cuts by the Fed. To conclude, we do not feel that the Eurozone market currently has any relevant growth drivers.



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