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Multi Asset Allocation View

Zurich, December 2019

Keeping a relatively neutral position with a view to increase risk early 2020

Very strong asset class returns during 2019 leaves us cautiously positive towards end-year.

Our Asset Allocation View has moved from a slight equity overweight to a neutral positioning during Q4 2019. Equities still seem to provide the best risk adjusted return expectations going forward. However, continued strong performance keeps us from going overweight at the moment. Tight credit spreads do not provide a lot of upside potential, whereas government bonds have some room to tighten further if recession probabilities should increase.

A high level of dispersion between sector returns in equity markets without strong arguments for a broad-based continuation of the equity rally argue for a neutral positioning in equities.

An overweight in government bonds was also proposed in conjunction with an underweight in corporate bonds. Valuations in credit are stretched after one of the strongest years on record for this asset class. Credit quality and fundamentals are still generally robust but deteriorating in some parts of the market. Also, the positive impulse from monetary policy over the year to September is now largely priced in. Government bonds have retraced somewhat from the lows seen over the summer and, absent a solid pick-up in growth or no change in central bank policy, should either remain around the current levels or tighten further in case of negative shocks.

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Current Asset Allocation

- No strong view on the broad equity market, remain neutral through December with a bias to going overweight in January
- With the yield curve having a more "normal" shape and after the selloff in October a small overweight in government bonds could be justified
- Take a small underweight in corporate bonds after an extremely strong year
- No change on hedge fund allocation but the restructuring of liquid and less-liquid holdings starts in January

New Asset Allocation

- UK election and positive news around trade elevated equity prices and valuations further. The positive equity environment seems to persist with risk for some short term pull back
- Fed's slightly dovish rhetoric recently pushed down long term yields marginally, but otherwise, the US yield curve did not change significantly. Low probability of a rate hike continues to support the overweight in government bonds
- Corporate bond spreads tightened further with little change on the underlying economic situation. Very tight spreads make the asset class vulnerable for a correction
- Commodity demand seems to improve with more policy clarity (trade and UK election) whereas supply will not pick up quickly as capex is very low

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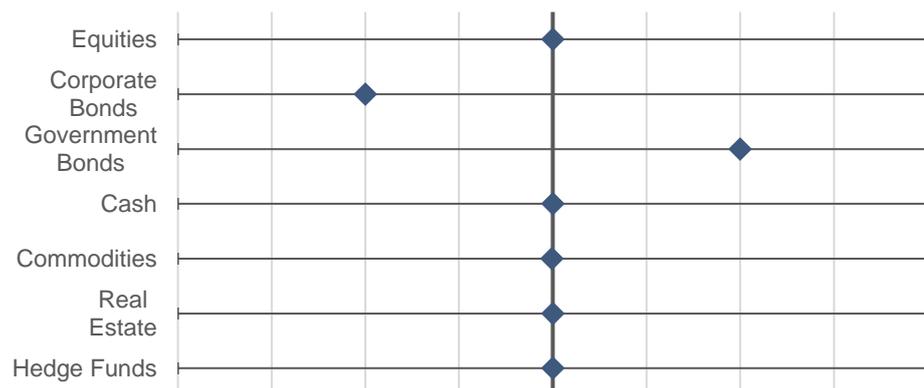+41 44 444 16 32
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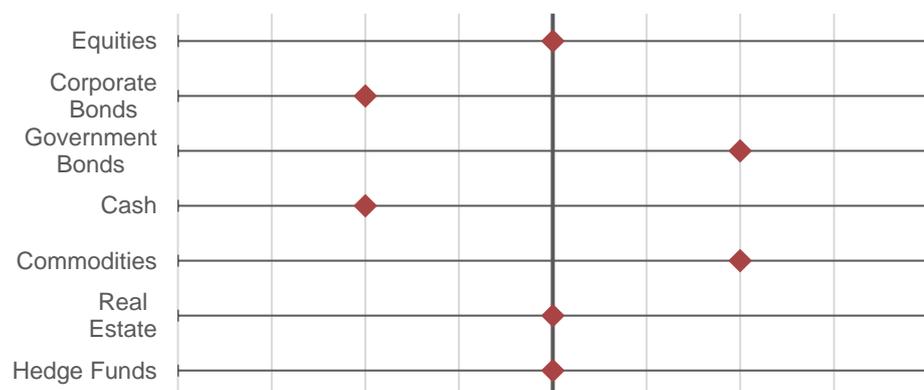Portfolio Analyst
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