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Multi Asset 2019 Performance Commentary

Zurich, January 2020

A decade of strong Multi Asset performance has ended with the strongest year

Monetary easing following the market sell off at the end of 2018 helped financial markets throughout 2019. A broad mix of asset classes generated close to 15% over the full year. All asset classes performed positively.

Global equity markets were up 26.6% as fixed income performed strongly with government bonds up 7.6% and corporate bonds up 12.5%. Commodities, being the laggard of the last decade was up 5.4%.

An expected decline in economic growth rates at the beginning of 2019 led central banks to cut rates to support the economy. The US Federal Reserve cut rates three times in their so called “Mid-Cycle Adjustment”. Central banks across the globe followed suit with monetary easing.

A strong US consumer, low unemployment and recovering company earnings expectations helped equity prices to go up. Europe has seen some headwinds from the escalation of tensions on the trade front that pushed Germany into an industrial recession.

Although we saw elevated Fed recession probabilities in 2019 and a significant US yield curve inversion, both indicators are back to more normal levels.

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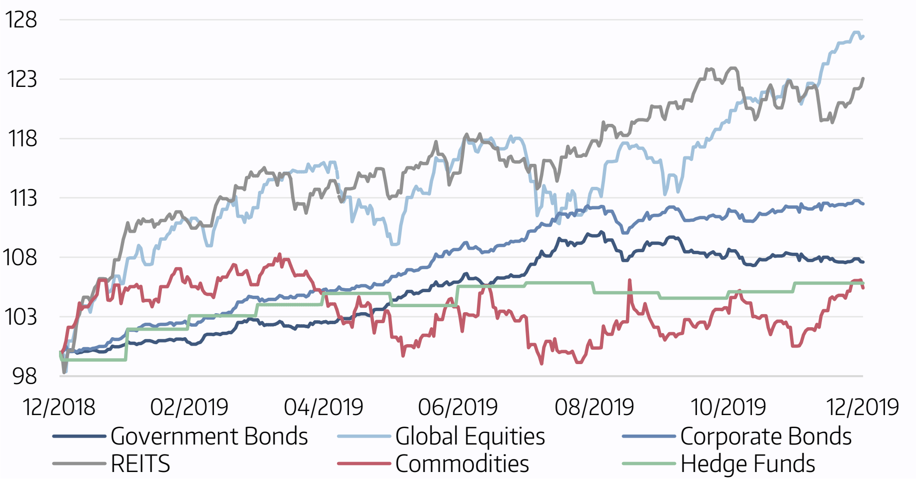
2019 asset class performance

The year of 2019 has been illustrative of the last decade. Global equity markets including REITs performed strongly with extremely low volatility. Equity markets were up 26.6% and REITs gained 23.1%.

Fixed income assets profited from quantitative easing of central banks which pushed down spreads. Government bonds increased 7.6% while corporate bonds profited from lower yields and further credit spread tightening (+12.5%).

Commodity prices declined for several years and saw a bottom in 2016. Performance last year was mainly driven by the energy and precious metals complex. Low capital expenditures in the sector dampening supply, stabilised global GDP growth and tension in the Middle East increase the risk of a positive price spike. Commodities closed the year 5.4% higher.

Hedge fund strategies also performed positively across the board. The HFRI FoF Index increased by 5.8% for the year.



Outlook

With last year's central bank intervention, the longest US economic expansion in history has been further extended. Central banks have provided support to the economy with looser monetary policy. One should not ignore the length of the current cycle and its vulnerability as central banks have few tools available to prop up the economy in the event of a downturn. Companies are in good shape and earnings improved considerably over the last two years. US and China are close to a first agreement on tariffs that has reduced trade uncertainty to some degree. We are conservatively positive for next year and advise clients to search for diversifying asset classes that provide protection in a more a difficult economic environment. The equity market is becoming richly priced and market corrections can still provide good entry points. Tight credit spreads only marginally pay for the risk taken. Low yielding government bonds did generate strong returns and still provide important diversification. Limited commodity supply and increased tension in the Middle East might create a strong case for investing in commodities.

The following indices are used as a representation of the asset classes:

FTSE WGBI Hedged USD

MSCI World All Countries Daily Net TR USD

BarCap Global Agg Corporate Total Return Index Value Hedged USD

FTSE EPRA Nareit Global Real Estate Index

Bloomberg Commodity Index

HFRI Fund of Funds Composite Index

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