



EDMOND
DE ROTHSCHILD

ASSET ALLOCATION STRATEGY

MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES

OCTOBER 2018

AN UPBEAT
ENVIRONMENT
BUT RISKS ARE
BEING
OVERLOOKED

► Last month, we tactically reduced portfolio asset risk by returning to neutral on equity markets. For the moment, we are maintaining this stance. Global economic momentum is still very favourable in spite of a few concerns over China's slow down.



BENJAMIN MELMAN
*Head of Asset Allocation
and Sovereign Debt*



KEY POINTS

Neutral exposure
to market risk

Still underweight bonds

Donald Trump's stimulus plan offers enough visibility on US economic momentum up to mid-2019, Europe's economic slowdown is still under control and China is focusing once again on traditional targeted lending stimulus to improve short term prospects at the expense of long term growth. But there are number of weak spots that suggest we should be more cautious than the environment would seem to warrant:

► **global liquidity** has not yet stopped contracting. The Fed's balance sheet has been shrinking at a faster rate since October 1st and the ECB will finalise plans to wind up quantitative easing at the end of 2018. Estimating the impact of these moves is extremely tricky but it can only be potentially negative insofar as quantitative easing proved such a stimulus for markets.

► **Italy's budget talks** are only just starting. Italian bond valuations are already largely discounting a number of risks but we cannot rule out further volatility.

► **Brexit talks** will be ramped up in the coming weeks. For several months, markets have been unruffled over the uncertain future of US-European Union relations. Rather remarkably, sterling has been less volatile against the euro in recent months than the Swedish krona or the Swiss franc; the opposite is usually true. But the UK's political situation has become so complicated that we cannot be sure Theresa May has the leeway to find an acceptable compromise with the EU that her own party and parliament will then be able to approve. It is highly likely that Brexit will be a stronger source of market disruption in coming weeks.

► **the oil price** has perhaps risen a little too fast. The increase is a token of Middle Eastern tensions which are unlikely to abate in the near term but it could end up triggering concerns as it generally weighs on global growth and can also have unexpected consequences.

Since the beginning of the year, bond markets have overall witnessed an increase in interest rates and a widening in spreads. Bonds are slightly more attractive than they were but for the moment we remain underweight.



NEXT HEADLINE EVENTS

Next ECB meeting: October 25

Decision on Italy's debt by Standard
& Poor's: October 26

Next BoJ meeting: October 30 & 31

Next Fed meeting: December 18 & 19

Written on October 6, 2018. This document is for information only.

Disclaimer: The data, comments and analysis in this document reflect the opinion of Edmond de Rothschild Asset Management (France) and its affiliates with respect to the markets, their trends, regulation and tax issues, on the basis of its own expertise, economic analysis and information currently known to it. However, they shall not under any circumstances be construed as comprising any sort of undertaking or guarantee whatsoever on the part of Edmond de Rothschild Asset Management (France). Any investment involves specific risks. Main investment risks: risk of capital loss, equity risk, credit risk and fixed income risk. Any investment involves specific risks. All potential investors must take prior measures and specialist advice in order to analyse the risks and establish his or her own opinion independent of Edmond de Rothschild Asset Management (France) in order to determine the relevance of such an investment to his or her own financial situation.

Special warning for Belgium: Please note that this communication is intended for institutional or professional investors only, as mentioned in the Belgian Law of July 20th, 2004 on certain forms of collective management of investment portfolios. This notice is also intended only for investors who are not consumers as described in the Belgian Law of July 14th, 1991 on trade practices and information and protection of consumers.

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)
47, rue du Faubourg Saint-Honoré, 75401 Paris Cedex 08
Société anonyme governed by an executive board
and a supervisory board with capital of €11,033,769
AMF registration No. GP 04000015 – 332.652.536 R.C.S Paris

www.edram.fr