

MONTHLY HOUSE VIEW

MARKETS, INVESTMENT & STRUCTURING – MARCH 2019



EQUITIES

TAKE PROFITS AND REBUILD CASH

FOCUS

HEDGE FUND INVESTMENTS

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EDITORIAL



DR PAUL WETTERWALD

Chief Economist,
Indosuez Wealth Management

(TRADE) WAR AND PEACE

Dear Reader,

Investor sentiment has increasingly turned to uncertainty and scepticism which can be partially linked to the trade war. However, the picture is not as bleak as we may think. Let's take a short look at the current situation:

- Last December, China and the US agreed on a 90-day truce, ending 1 March 2019, and under which both countries agreed not to increase or introduce new tariffs. Existing tariffs will stay in place. Official delegations from both respective countries are still holding talks. While a deal has not been agreed upon yet, President Trump has stated that he will extend the deadline for increasing tariffs on imports from China beyond 1 March.
- Meanwhile, the EU Japan Economic Partnership Agreement (EPA), came into force 1 February 2019. The EPA covers almost one third of the world's total GDP. The trade agreement with Japan sends a powerful signal that two of the world's biggest economies reject protectionism.
- The US administration's decision on auto tariffs is pending. The US Commerce Department issued its report on 17 February, and President Trump is expected to make an announcement before 18 May.

- In 2018, the former NAFTA was revamped under the form of the United States–Mexico–Canada Agreement (USMCA).
- Nevertheless, steel and aluminum tariffs on Canada, Mexico, and the EU have been imposed by the US through the use of Section 232 of the Trade Expansion Act of 1962. Canada and Mexico will be shielded from possible auto tariffs under section 232.
- The UK and Switzerland have actively prepared for Brexit as they signed a trade agreement on 11 February 2019. As outlined by the Swiss administration "At present, relations between Switzerland and the UK are largely based on the bilateral agreements with the European Union, which will cease to apply to the UK after its withdrawal from the EU. (...) Switzerland wishes to ensure that the existing mutual rights and obligations in its relationship with the UK will continue to apply as far as possible after the UK leaves the EU, and to expand them where necessary".

We recognise that amongst negotiating parties some remain distant from each other. However, wise investors should mind the gap, it may not be that large anymore, which comforts the market's bullish stance.

FOCUS

HEDGE FUND INVESTMENTS

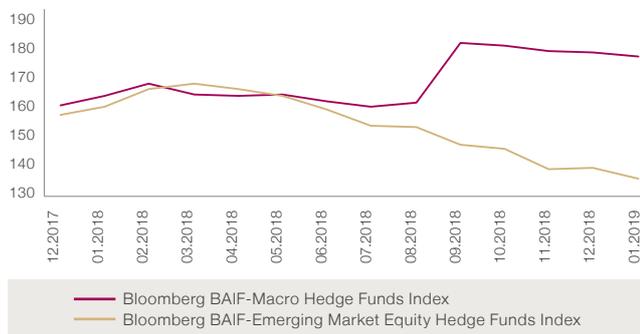
A REAL ALTERNATIVE TO TRADITIONAL INVESTMENTS?

For a traditional portfolio investment, it is currently the norm to recommend allocating part of it to so-called alternative investments, such as hedge funds. These are considered to provide diversification in terms of return, compared with standard investments (equities and bonds).

AFTER A DIFFICULT YEAR IN 2018, HAVE THEY PLAYED THEIR PART?

Investing in hedge funds can be profitable but it is still necessary to apply the reasonable rules of due diligence. Too often investors build their hedge fund allocations on one-off opportunities and overlook the essential aspect of diversification. Last year, some fund managers discouraged by the difficult market environment and by sluggish performances, preferred to return capital to investors in order to focus on the management of their own wealth. Thus, it is not enough to consider only the operational framework of a hedge fund and the validity of its strategy. Its motivation and sense of service to investors must also be taken into account.

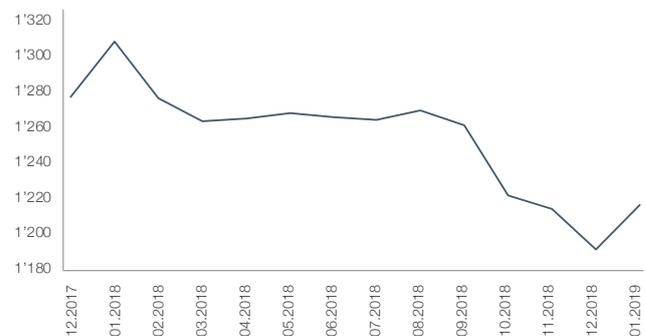
BAIF HEDGE FUNDS SUB-INDICES



Source: Bloomberg, Indosuez Wealth Management
Past performance does not guarantee future performance.

Indosuez Wealth Management supports its well-informed professional clients with a Hedge Funds Advisory agreement, and currently offers a discretionary management mandate in hedge funds. In 2018, thanks to an institutional-quality selection process, our hedge funds portfolio demonstrated its high added value, whereas all other asset categories finished up in the red. Thus, we enabled our clients to diversify their profile of returns. However, if we only look at hedge fund indices, performance over 2018 is barely in positive territory. Therefore, as with investment in equities, we must look for individual performances in order to gain an understanding of the incredible diversity of return. Above all, we must not fall into the marketing trap, such as that promoting risk premia investment. This was followed by significant fundraising but which ultimately finished in the bottom decile of performance for 2018.

HFRX GLOBAL HEDGE FUND INDEX



Source: Bloomberg, Indosuez Wealth Management
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WHAT ABOUT 2019?

In an environment of increasing interest rates, withdrawal by the central banks, and multiple political risks, the diverse strategies offered by hedge funds allow more flexibility both in terms of picking up on return and protecting it. Our watchword is still diversification of drivers for return.

HEDGE FUNDS PERFORMING COMPARAISON, %

STRATEGY	ANNUAL PERFORMANCE	VOLATILITY			MAX UNDER PERFORMANCE					
		2018	2017	2016	2018	2017	2016			
HFRX GLOBAL HEDGE FUND INDEX	HEDGE FUNDS	-6.7	6.0	2.5	5.1	1.2	3.8	-8.9	-	-3.1
S&P 500 INDEX	EQUITIES US	-6.2	19.4	9.5	15.3	3.9	10.2	-14.0	-	-5.5
EUROSTOXX 50 INDEX	EQUITIES EUROPE	-14.3	6.5	0.7	12.9	10.0	14.4	-16.8	-4.6	-12.3
BARCLAYS GLOBAL HIGH YIELD INDEX	CREDIT	-2.7	8.4	15.6	3.4	2.1	5.7	-3.2	-0.3	-1.3

Source: Bloomberg, Indosuez Wealth Management
Past performance does not guarantee future performance.

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