Investment Review

January 2018

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Environment: 2017 in a few words

2017 started with the usual amount of global risks ranging from the negotiation of Brexit, presidential elections in France and the new wave of protectionism of the United States. We also had an important question mark on the position of the Central banks regarding their long standing quantitative easing policies.

To the benefit of the financial markets, Central banks continued their accommodative policies keeping interest rates at an all-time low in the United States, Europe and Japan. However, all of them warned that these policies were slowly coming to an end. The USA started the move with a gradual increase in interest rates during the year. The ECB also notified the markets that their current policy would continue until mid-2018 but that after that date, they could decide to shift towards a more hawkish stance. In Japan, the Central Bank gave a similar message.

Environment: 2017 in a few words

In France, a new president, Mr. Macron, was elected. Following up on his campaign promise to achieve a new economic revival of France, he eliminated a wealth tax and finalized a major labor reform. In the same scenario as France, the Netherlands defeated a wave of rising nationalism in their country.

At the end, equities had an outstanding year with markets rising all around the world. Emerging markets were the clear winner with an increase of 35%.
The dollar declined against all major currencies. After a difficult first half, where Oil (WTI) reached a level close to $40.-, it recovered and finished the year at $60.-

Outlook 2018

It is difficult to see what will disrupt this not-too-hot, not-too-cold environment. Growth continues to surprise on the upside and cash allocations remain high, despite our expectations of a gradual shift towards higher interest rates around the world. Central banks will proceed carefully and, gradually, stop their quantitative easing policies. There are obviously several risk to this scenario. Inflation could start to pick up more strongly than expected and rates, in that event could rise more quickly. Equity market are not trading on the cheap side and, although we do not foresee a major correction, volatility which has almost disappeared in 2017, could start rising again.

Outlook 2018

Our geographical asset allocation will be divided between Europe, the USA and Japan. Emerging markets will be more volatile and we will be more selective in our specific country allocation. In the fixed income arena, navigation will be difficult as rates around the world will clearly be on the rise and duration will be an important element in the allocation of funds in that sector. On the equity side, our favorite sectors are Energy, Financial, Healthcare and selectively Technology.

On the currency front, we expect the US dollar to remain weak in the early part of 2018 as growth prospects in Europe will attract investors. Overall, we do not expect major fluctuation in the USD by the end of 2018.

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