



ASSET ALLOCATION STRATEGY

MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES

AUGUST 2019

CENTRAL BANKS ARE COMMITTED TO REASSURING INVESTORS

► The Fed and the ECB have managed to firmly establish lower interest rates while pushing risk assets higher. Investors are sceptical amid high political and economic uncertainty but, at least for the time being, the central bank actions have helped distract markets from the mixed fundamental picture.



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Even so, **we remain rather cautious overall** due to the following risks:

- markets are already expecting a lot from central banks, close to a **100bps cut from the Fed**. And yet, even an ardent defender of a laxer approach to the monetary policy like FOMC's member James Bullard has only been suggesting a moderate and precautionary cut.
- **political risk and protectionist issues** have every chance of lasting at least up to the next US presidential elections, leading companies to adopt a wait-and-see attitude and investment to fall. We note also that the risk of a hard Brexit is on the rise. In addition, we cannot rule out fresh elections in Italy after the summer, with the risk that a coalition of the hard right (the *Legha* headed by Matteo Salvini and *Fratelli d'Italia* led by Giorgia Meloni) might come to power on an anti-euro ticket.

We will also be looking at **second quarter results** to analyse corporate margin trends. The big question is whether we are on the cusp of a downward trend. If so, along with the US yield curve inversion, it would mean that the end of the cycle is approaching.

That being said, central banks are firmly committed to underpinning activity to reassure investors so we see no reason to change our asset allocation, apart from some marginal adjustments. We have, for example, reduced Japanese equities exposure and upped thematic investment plays like (e.g. the Big Data) instead. Earnings revision momentum has evaporated in Japan and, more importantly, the Bank of Japan seems incapable, or even unwilling, to follow the Fed and the ECB in moving towards fresh easing.



KEY POINTS

Markets are already
discounting
interest rate cuts

We remain cautiously
invested

We are underweight
on Japan equities
and favor thematic
equities instead



NEXT HEADLINE EVENTS

Next ECB meeting: September 12

Next FED meeting: July 31

Brexit date?: October 31

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