



# ASSET ALLOCATION STRATEGY

## MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES

JUNE 2019

MARKETS HAVE  
MOVED LOWER  
BUT CAUTION  
IS STILL THE  
WATCHWORD

► Any drop in risk assets like the recent retreat in May is always an invitation to review the situation with a view to reassuming risk. This is particularly tempting today as the rally earlier this year might have more mileage.



**BENJAMIN MELMAN**

*CIO Asset Allocation  
and Sovereign Debt*



### KEY POINTS

Political risk  
rising again

We remain cautiously  
invested

We assume a neutral  
stance on the US dollar

At this stage we prefer to remain relatively cautious.

After all,

- The market fall was relatively mild and the reasons behind our prudent stance last month are still valid. Over the **short term**, there is a threat of a trade war and the market has become riskier because of massive VIX shorts while over the **medium term** there will be mounting end-of-cycle signs. Market valuations are not excessive but they are not particularly attractive especially as the cycle is now in a mature phase.
- Markets have partially factored in the increased risk of a trade war, but at least some protectionist rhetoric is likely to survive up to the next US presidential elections as Donald Trump thinks it is a vote winner. As concerns China, Democrats have also ended up embracing Donald Trump's trade strategy. Once an agreement, however minimal, is signed with China, the subsequent truce will leave Donald Trump free to focus on autos and Europe. Bear in mind that US auto imports are already significant and that if the NAFTA 2.0 agreement were to be approved, US auto manufacturers would be even less competitive due to higher production costs.
- The latest PMI and IFO readings have slightly dampened investor hopes that China and Europe might enjoy a recovery in the second half.

True, the big difference with the ends of previous cycles is that central banks are this time underpinning the cycle and might once again ease monetary policy. But the Fed's support is not limitless. Its current stance is neutral with no bias so the 25bp cut by end 2019 that markets have priced in is purely an investor bet with no input from the Fed. The environment would have to deteriorate more markedly for the Fed to intervene. As a result, it is highly likely that the Fed's support for markets is already fully discounted; only a market correction could offer the promise of more intervention.

In the circumstances, our portfolio positioning is still relatively cautious. And, as a result of increased political pressure over issues like international trade, Brexit and Iran, we have slightly raised US dollar weightings.



## NEXT HEADLINE EVENTS

Next ECB meeting: June 6

Next FED meeting: June 19

Next G20 summit: June 28 & 29

---

Written on 28/05/2019. 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](http://www.edram.fr)