FINALIZED MAY 17TH, 2019

Dear investor,

- **Risks surrounding U.S.-China trade relations** - which were not on investors' radar as late as April - **came flooding back**. Markets had been lulled into a state of complacency in recent weeks as confidence grew the trade discussions were going well and major central banks were dovish.
- But now markets realize that **even if the U.S and Chinese authorities do reach an agreement, the risk of a delay is quite significant.**
- The ugly combination of weak data, exhausted momentum and political uncertainty **could put the stock market rally to the test.**
- Current market conditions are good for a **"defensive" portfolio.**

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EQUITIES

"Tariff Man" is back...

Investors are betting that Emerging Market assets will be the worst-hit if global trade tensions continue to simmer. Ambushed by the latest tweets storm from President Donald Trump and his carry through with higher tariffs, they are selling higher-yielding developing-market assets while scaling into government debt in advanced economies.

Neither the Brexit drama nor patchy macro data has been enough to derail World's equity market rally in 2019. Until a few tweets from President Donald Trump, which revived concerns on trade and gave investors an excuse to take some money off the table and erase about €2 trillion from global stocks. In that context, the question is: are markets still too complacent that a deal between the U.S. and China will be achieved, because both sides say that is what they want? Even if they do reach an agreement the risk of a delay is quite significant. The market had pretty much ignored this as well as many other worrying factors: global economic data has been deteriorating for 12 months in a row, the longest stretch since the financial crisis, world trade volumes plunge at fastest pace in a decade, business confidence in developed economies is falling since end of 2017, and investors appear too optimistic about prospects for corporate earnings growth. This all means that equities may struggle to add to their recent rally.

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- **Weak stock price and earnings trends, and currency and commodity sensitivity depress prospects for Emerging Markets.**
- **Japan is worst developed stock market.**
- **Trade tensions are back on radar screens of cyclical stocks**

BONDS

Central banks' club of caution grows as bad news piles up

In response to poor economic fundamentals, monetary policy makers across Asia, Europe and North America opted for a more dovish tone. But that monetary stance could store up trouble down the road should the financial threats materialize, especially on the credit market where the risk premium seem too low.

The momentum is clearly easing across the world's major economies as the OECD's Composite Leading Indicator, designed to anticipate turning points six to nine months before they happen, fell for 12th straight month in March, hitting its lowest level since 2009. Central banks are thus under pressure to rethink their monetary strategy. Five months since the Federal Reserve put U.S. interest rates on a prolonged pause, more and more central bankers around the world are getting nervous about tightening monetary policy. But now some policy makers seem sounded open to using higher interest rates to lean against potentially over-exuberant financial markets. But now some policy makers seem resigned to running a heightened risk of asset bubbles and other financial excesses as they seek to keep the economic expansion going. As a result, the bond market, usually the voice of reason, is looking a little exuberant these days by pricing in as many as three Fed rate cuts this year by some measures. And, even though a JPMorgan survey showed credit investors are the most bearish since 2012, the risk premium of corporate grade bonds is just 2.70%, far below the 3.20% entering the year and 7.30% in 2007.

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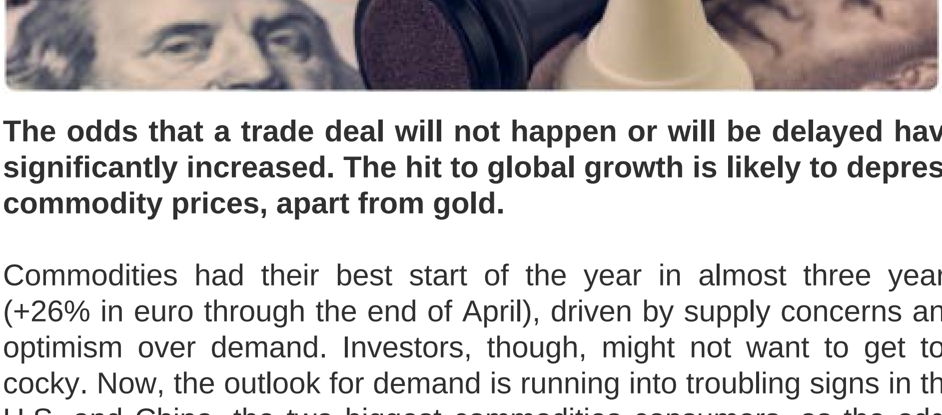
- **Don't forget about Italy!**

OTHER ASSET CLASSES

Escalating trade war could dim demand for commodities



The odds that a trade deal will not happen or will be delayed have significantly increased. The hit to global growth is likely to depress commodity prices, apart from gold.

Commodities had their best start of the year in almost three years (+26% in euro through the end of April), driven by supply concerns and optimism over demand. Investors, though, might not want to get too cocky. Now, the outlook for demand is running into troubling signs in the U.S. and China, the two biggest commodities consumers, as the odds that a trade deal will not happen or will be delayed have significantly increased. While the OECD's Composite Leading Indicator is at the weakest in almost a decade for the U.S. and since 2013 for the Euro-Area, the fragility of China is evident as it girds for an intensified face-off with the U.S. Increasing signs of a slowdown led Chinese leaders to lower their economic growth expectations for 2019 to 6.2%, from 6.8% in 2018, which was already the slowest growth in 28 years! But their 2019 gross domestic product growth could be lowered by 0.3% by the rise in U.S. tariffs on $200 billion of imports from China. If more tariffs are introduced to cover all Chinese goods, that will cost China 0.6% in the 12 months after, according to the median estimates of economists polled by Bloomberg. It is thus hard to make the case that, overall, commodities can stay in this uptrend even if the dovish stance at the U.S. Federal Reserve on interest rates could ease dollar strength, underpinning commodities demand.

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- **Central banks boost bullion reserves.**
- **Oil investors are nervous.**
- **The trade flap is denting demand for industrial metals.**

IN THE NEWS

Sell in May and go away?

Can you position yourself to snag better returns simply by owning stocks on Fridays? How about month's end? Or around holidays, when investors might be jubilant headed into a long weekend? The answer: maybe 60 years ago, but not anymore. However, the "sell in May and go away" investment strategy seems valid, especially when the stock market has surged like in now.

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It hasn't paid to be long on Trump

Stocks seen as benefiting the most from Donald Trump have fallen 5% in USD (+3% in euro) since the Trump administration implemented tariffs on imported steel and aluminum in March 2018, compared with a gain of 8% in USD (+17% in euro) for the S&P 500.

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5G will transform the way we live and work

Self-driving cars, remote robotic surgery, autonomous weapons, ... all that and much more is set to be delivered via the 5G wireless network, which promises to transform our lives and add $12 trillion of annual sales in 2035. That is about the size of China's economy last year and should support the performance of this new thematic of investment which is outperforming the MSCI World index by 7% (in euro) since the end of 2017.

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If you have any questions or wish to discuss this further, please contact your private banker.