FINALIZED JUNE 19TH, 2019

Dear investor,

- **The U.S.-China dispute is the most significant hit to a cyclical recovery.**
- **For central banks, the darkening outlook will likely propel them deeper into dovish territory.**
- **Companies with a domestic business focus and defensive stocks should outperform in the near term.**

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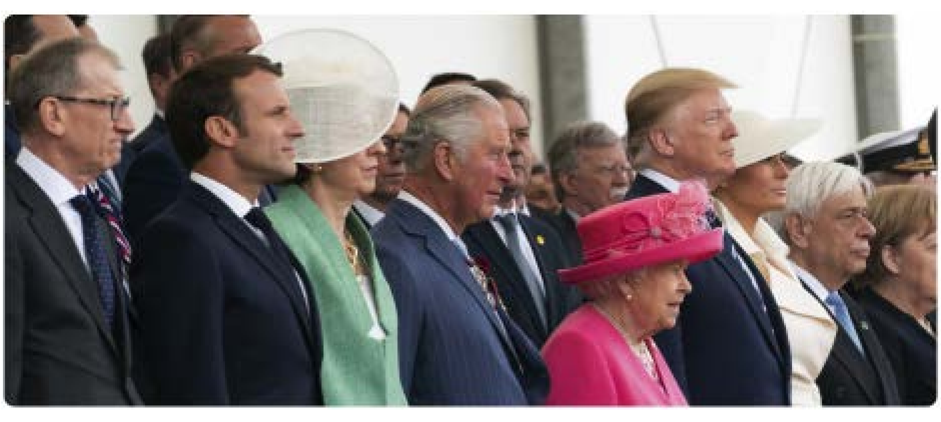
EQUITIES

The run-up in stocks is losing steam



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Companies with a domestic business focus and defensive stocks in developed markets should outperform in the near term as trade frictions continue to pose a headwind. We still recommend a "quality" bias such as big caps, higher-yielding stocks, low volatility stocks, stocks with strong balance sheet, and stocks with high and stable gross profit margins.

While the world commemorated last month the 75th anniversary of D-Day, a trade deal between the U.S. and China still remains elusive. As a result, the trade war is throwing global supply chains into question and contributes further to the uncertainty already weighing down business investment and investor confidence. To cope with what could be a kind of permanent state of trade conflict, investors have been flocking to safer assets. Bonds rallied in May and June, sending sovereign bond yields (1%) to the lowest since the end of 2017, while the value of stock markets has lost nearly 2%. The good news is that the trade war gives the Chinese authorities the narrative to continue to loosen monetary policy and for the Federal Reserve to hold or potentially cut rates over the coming quarters. Assuming this is correct, an easing should support the equity market and limit the downside to the MSCI World index vs. the precipitous fall in the fourth quarter of last year. But we are skeptical about the central banks' ability to spur growth if we don't see a resolution on trade. What that says to investors is we will probably have a much more volatile summer than we have had over the last couple of months.
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- **Be defensive, stay in Developed Markets.**
- **Growth shares push on but without support of "FAANG" giants.**
- **High-yielding stocks are seen as more appealing after Fed policy shift.**
- **The food and beverage sector looks increasingly like the only haven within the battered stock market.**

BONDS

Central banks turn to interest rate cuts

Sovereign bonds continued to rally with haven buying driving 10-year yields to an all-time low in Germany and to the lowest since 2017 in the U.S. Investors are cutting risk and seeking safety amid concern the latest flare-up of the U.S.-China trade war will hurt a fragile economy. The renewed bout of risk aversion reflects increasing bets that major central banks will need to cut rates to stimulate growth.

The bond rally gathered pace, with sovereign 10-year yields dropping to record lows (-0.30% in Germany and below 2.10% in the U.S.), as the U.S.-China conflict and political risks in Europe boosted demand for the safest assets. Shaky global growth and simmering trade tensions are leading bond investors to price in additional rate cuts at major central banks, even though doing so will re-ignite concerns about potential side effects. Markets are predicting up to three reductions in the U.S., along with one in the Euro-Area and in Japan, where the benchmark is already negative. With little ability to cut beyond that, traders are also starting to focus on a potential increase in unconventional measures.
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- **German 10-year yield falls to a record low amid haven buying**

OTHER ASSET CLASSES

Investors are spooked and gold is a big beneficiary

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The precious metal surged by more than $50 an ounce since end May, as heightened tensions in the Strait of Hormuz, escalating trade disputes and wavering equity markets spur demand for haven assets. Adding fuel to the fire, manufacturing data across the U.S., Europe and China is showing further signs of deterioration.

The macro environment has changed for gold and the wind is at its back. Geopolitical tensions are proving good for the precious metal. Hedge funds boosted their long position in bullion last month (+300.000 contracts). That is paying off, as gold futures surged above $1.335 an ounce on revived demand for the metal as a haven asset. Funds are returning to gold as the U.S.-China trade war, attacks on tankers in the Strait of Hormuz and signs of a swoon in global manufacturing - which was last month the weakest since 2012 - dominate investors' attention. To counter heightened geopolitical and economic uncertainty, governments around the world including those in Russia and China have also been on a bullion-buying spree in a bid to diversify reserves. The metal, which doesn't offer a yield, is also getting a boost from declining interest rates amid increased expectations that the Federal Reserve will ease monetary policy this year.
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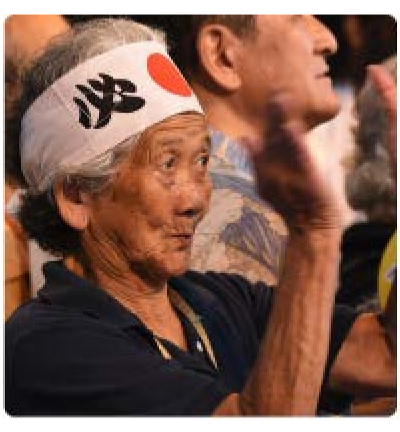
- **Commodity prices set 50-year lows relative to U.S. stocks.**
- **Gold and silver send a worrisome signal to risk assets.**
- **It becomes increasingly difficult to know what production levels will balance the oil market.**

IN THE NEWS

The "Japanification" of Europe?



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Even though there are undoubtedly similarities (low growth, low inflation, low yields and aging population), the Eurozone's current state is still different to that of Japan's.

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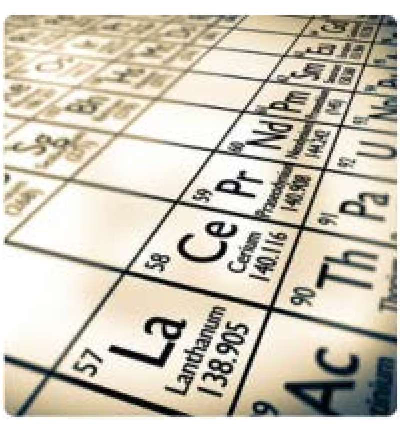
Rare earths become more precious



Rare earths are the latest focus of the escalating trade spat. Beijing is gearing up to use its dominance of rare earths as a counter in its trade battle with Washington. The group of elements includes scandium and yttrium and is used in high-tech applications from batteries to wind turbines, with 80% of U.S. supply coming from China.

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Ban (non-electric) cars in the city

Making increasingly crowded cities more livable has to become an urgent public-policy goal. Amsterdam has joined Chengdu, Hamburg, Madrid, Oslo and other cities in moving toward at least partial car bans to reduce pollution. Getting in on some of that action now would be a great addition to any long-term portfolio.

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