

ECONOMIC OUTLOOK

Back in November the **macro fundamentals** have been looking strong again and surprised mostly. The base for such a strong worldwide economy is coming from a rising global trade, loose monetary policy and especially the outcome of the political agenda this year which were mostly gracious. In the US, the chances are good of having a growth in GDP of 3% or more in Q4. That would be the third time in a row. The economy in the Eurozone is presenting itself as well very favourable and the Emerging Markets are on the right course. This boom is accompanied by a moderate inflation which still makes equities favourable over bonds.

However, we consider a possible increasing price pressure in the US for the upcoming months. Looking at the **fundamentals** the global economy is entering in a late business cycle. The production gap is closed and there is full employment which leads to a normalisation of the Fed's monetary policy. The rather dry labour market should have a positive impact on the wages. Higher prices for commodities will add some further increase in inflation and the weaker USD is continuing to make imports more expensive. Based on all these factors and economy development, the Fed dot plot shows a gradual schedule of interest rate hike, i.e. three hikes in 2018.

**Fixed income** markets are awaiting next week's Central Banks' decisions. The FED is expected to raise interest rates by 25bp in response to the steady growth of the economy. Investors seem to be indifferent about the around USD 1tn of extra debt the Federal Government will have to raise over the next ten years because of the proposed tax cuts. The curve has further flattened with a slightly negative overall performance. We are still cautious and keep our slight underweight in fixed income markets.

The **stock markets** showed a slight correction at the beginning of November which mostly regained few weeks ago and have left investors in a risk on mood. Not only might the US tax reform provide further temporary stimulus to growth but could also result in higher equity valuations. We are still neutral for the equities and prefer slightly more European stocks over US due to lower valuations. As we do not see any major threats in the current equity development in the short term we are cautious in the mid-term though. The favourable macro back drop has boosted returns across assets and we are soon nearing the longest bull market without a 10% total return downturn. The longest bull market was in late 1920s which ended in the Great Depression. Analysis show that current valuations across assets are expensive versus history which reduces the potential for returns and diversification. Thus, elevated valuations increase the risk of drawdowns for the simple reason that there is less buffer to absorb shocks. In a nutshell: the current asset valuation is most comparable to the late 1920s which investors should bear in mind. Despite of the valuation signals, we stay neutral in general as momentum and macro signals are supportive.

Speaking of **commodities**, the OPEC agreed end of November to cut production for the first time in 8 years and to rid the world of record global inventories. The agreement not only included OPEC but also non-OPEC countries including Russia. In general, this should lead to higher oil prices and increasing inflation the coming months. **Gold and Silver** showed range trading the last month and we still favour adding Gold at USD 1255-1250 levels. The **EUR/USD** should range trade the coming weeks as there are no major events coming up and the December Fed rate hike is already fully priced in.

TACTICAL ASSET ALLOCATION

Liquidity	Slight overweight
Bonds	Slight underweight
Equities	Neutral
Alternative Investments	Neutral

EQUITY INDICATORS

Valuation	Slight underweight
Momentum	Neutral
Seasonality	Overweight
Macro	Slight overweight

Should you require further information or advise, please do not hesitate to contact your Clarus Capital relationship manager.



## MARKET OVERVIEW AS OF 8 DECEMBER 2017, 2:41 PM

### FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd		Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Overnight	1.18	0.00	0.01	0.49	USD Deposit 1m	0.1%	0.3%	0.6%	1.0%
USD 1y Swap	1.83	0.15	0.42	0.64	USD Aggregate 1-3y	-0.1%	-0.5%	0.1%	0.8%
USD 3y Swap	2.10	0.16	0.53	0.41	USD Aggregate 3-5y	-0.3%	-1.0%	0.0%	1.7%
USD 5y Swap	2.21	0.14	0.50	0.24	USD Aggregate 5-7y	-0.2%	-0.7%	0.3%	2.6%
USD 10y Swap	2.39	0.09	0.38	0.06	USD Aggregate 7-10y	-0.1%	-0.8%	0.7%	3.4%
EUR Overnight	-0.33	0.03	0.03	0.00	EUR Overnight	0.0%	-0.1%	-0.2%	-0.3%
EUR 1y Swap	-0.27	0.00	0.00	-0.07	EUR Aggregate 1-3y	0.0%	0.1%	0.1%	0.1%
EUR 3y Swap	-0.06	0.03	0.04	0.04	EUR Aggregate 3-5y	0.1%	0.4%	0.7%	1.1%
EUR 5y Swap	0.21	0.03	0.07	0.13	EUR Aggregate 5-7y	0.2%	0.8%	1.3%	2.0%
EUR 10y Swap	0.81	0.00	0.04	0.15	EUR Aggregate 7-10y	0.4%	1.4%	2.1%	3.1%
CDX Xover 5y	1.08%	0.00%	0.01%	0.02%	US Corp. HY	0.2%	0.9%	2.2%	7.2%
iTraxx Xover 5y	2.33%	-0.01%	-0.01%	-0.55%	EUR HY	-0.7%	0.6%	1.8%	4.7%

### EQUITY

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	5,812	18.1	2.4%	4.7%	MSCI World	0.8%	5.5%	8.1%	20.0%
S&P 500	2,637	19.7	1.9%	4.3%	S&P 500	1.6%	7.1%	8.3%	17.8%
NASDAQ	6,316	21.0	1.1%	4.4%	NASDAQ	-0.5%	6.8%	7.3%	29.9%
Euro Stoxx 50	3,601	15.6	3.3%	12.1%	Euro Stoxx 50	-1.5%	4.4%	1.0%	9.4%
SMI	9,317	19.1	3.3%	7.3%	SMI	0.6%	4.5%	5.7%	13.3%
FTSE 100	7,361	15.0	4.1%	2.5%	FTSE 100	-2.2%	-0.2%	-1.2%	3.1%
DAX	13,203	14.9	2.8%	6.9%	DAX	-1.3%	7.3%	3.8%	15.0%
MSCI Asia Pacific	168	14.7	2.5%	4.2%	MSCI Asia Pacific	-2.2%	4.0%	8.2%	24.4%
FTSE China A50	13,066	12.0	2.4%	21.6%	FTSE China A50	1.2%	8.8%	16.4%	31.0%
MSCI Emerging Market	1,101	13.6	2.5%	6.9%	MSCI Emerging Market	-3.0%	0.9%	8.0%	27.6%
PH Semiconductor	1,245	15.9	1.7%	4.8%	PH Semiconductor	-5.8%	13.8%	9.3%	37.3%

### COMMODITY

	Price	FCST 17	FCST 18	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1,245	1258	1263	-0.1%	Gold	-3.0%	-7.6%	-2.5%	8.1%
Silver	15.85	17.2	17.5	9.3%	Silver	-8.0%	-13.0%	-10.4%	-2.8%
Platinum	894	951	1018	11.8%	Platinum	-4.7%	-12.0%	-5.4%	-2.4%
Palladium	1,005	854	944	-5.1%	Palladium	-0.3%	8.7%	21.0%	46.2%
Crude Oil	57.60	50.5	53.0	-5.4%	Crude Oil	1.0%	17.7%	22.3%	1.1%
Brent Oil	63.14	53.6	56.4	-7.7%	Brent Oil	-0.2%	18.1%	27.3%	7.7%

### FOREIGN EXCHANGE

	Price	FCST 17	FCST 18	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.1744	1.1700	1.2100	3.0%	EUR/USD	1.3%	-2.4%	4.7%	11.7%
GBP/USD	1.3434	1.3200	1.3400	-0.3%	GBP/USD	2.4%	1.8%	3.7%	8.9%
USD/CHF	0.9968	0.9900	0.9800	-1.7%	USD/CHF	0.3%	-5.3%	-3.0%	2.2%
USD/JPY	113.49	113.00	114.00	0.4%	USD/JPY	0.3%	-5.0%	-3.1%	3.1%
EUR/CHF	1.1707	1.1600	1.1800	0.8%	EUR/CHF	-0.9%	-2.9%	-7.3%	-8.4%
USD/RUB	59.29	58.73	59.00	-0.5%	USD/RUB	-0.1%	-3.3%	-4.0%	3.3%
EUR/RUB	69.63	68.40	70.80	1.7%	EUR/RUB	-1.4%	-1.0%	-8.4%	-7.1%

Source: Clarus Capital Group, Bloomberg

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