ECONOMIC OUTLOOK

Looking at the rising global economy there is no doubt that forecasts have been increased on a broad basis. Even the Eurozone is presenting itself strongly. For example, the business climate index reached its highest levels since its inception in 1985 and consumers are the most optimistic since 2001. Last week ECB President Draghi underpinned its loose monetary policy. Draghi highlighted again that ECB's policy is to target the inflation rate of just under 2 percent - currently below this target with 1.3 percent. We are still convinced that the ECB's Quantitative Easing will come to an end by September and the first rate hike will take place in 2019.

IMF Outlook Growth Projections

	2016	2017	2018	2019
World Output	3.2%	3.7%	3.9%	3.9%
United States	1.5%	2.3%	2.7%	2.5%
Euro Area	1.8%	2.4%	2.2%	2.0%
Germany	1.9%	2.5%	2.3%	2.0%
France	1.2%	1.8%	1.9%	1.9%
Italy	0.9%	1.6%	1.4%	1.1%
Spain	3.3%	3.1%	2.4%	2.1%
Japan	0.9%	1.8%	1.2%	0.9%
United Kingdom	1.9%	1.7%	1.5%	1.5%
Emerging Markets	4.4%	4.7%	4.9%	5.0%

Source: IMF, Clarus Capital

The International Monetary Fund (IMF) raised its global growth forecast for this year and 2019 to 3.9%, expecting the global economy to continue to recover on the back of buoyant trade and investment – and not to forget the latest US tax reforms. The new estimates are 0.2% higher than the IMF's latest projections back in October 2017. Interestingly half of the global revision was attributed to the impact of the US tax reforms which is expected to increase growth in the US through 2020 and have a positive effect on its trading partners.

The US economy shows a solid growth of 2.6 percent. This letdown in growth was due to the exceptional low stock investments and the heavy increase in imports. However, the growth dynamic should further intensify this year. The solid private consumption as well as the capital spending should benefit from the recent US tax cut reforms. Based on the strong fundamentals, the FED will most probably take another step in March and increase their interest rate by 25bp which is almost fully priced in by the markets.

Fixed Income Markets lost broadly due to higher US interest rates supported by strong figures. As the US market functions as an anchor, it also lifted up interest rates globally. Most bond indices lost over one percent. High Yield indices performed remarkably stable demonstrating their historical negative correlation of credit spreads and yields to be true.

The global stock markets showed a spectacular start into 2018. The global economy provided an above-average boost for Equity Markets, especialy for the cyclical sector. Analysts have already increased the earnings expectations for the US lately which leads to the conclusion that US equities should continue to raise further.

Commodity prices further raised with oil up by 7 percent. We see energy with limited upside potential. The 9-month extension of OPEC supply cuts helps but was widely anticipated and positioning looks stretched. Focus is shifting to US shale production. The forward curve has further steepened with even lower values at the long end. This year could be an interesting year for Hedge Funds Strategies as they offer stable returns in laterally trending markets.

TACTICAL ASSET ALLOCATION

Liquidity	Slight overweight
Bonds	Slight underweight
Equities	Slight overweight
Alternative Investments	Neutral

EQUITY INDICATORS

Valuation	Slight underweight
Momentum	Slight overweight
Seasonality	Overweight
Macro	Overweight

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

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MARKET OVERVIEW AS OF MONDAY, 05 FEBRUARY 2018, 5:25 PM

FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	1.44	0.01	0.25	0.01
USD 1y Swap	2.11	0.21	0.46	0.21
USD 3y Swap	2.50	0.33	0.56	0.33
USD 5y Swap	2.63	0.39	0.54	0.39
USD 10y Swap	2.77	0.38	0.42	0.38
EUR Overnight	-0.36	-0.02	-0.01	-0.02
EUR 1y Swap	-0.26	-0.01	0.00	-0.01
EUR 3y Swap	0.09	0.08	0.16	0.08
EUR 5y Swap	0.49	0.17	0.28	0.17
EUR 10y Swap	1.08	0.20	0.23	0.20
CDX Xover 5y	1.08%	0.00%	0.00%	0.00%
iTraxx Xover 5y	2.38%	0.04%	0.14%	0.04%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Deposit 1m	0.1%	0.4%	0.7%	0.1%
USD Aggregate 1-3y	-0.3%	-0.4%	-0.4%	-0.3%
USD Aggregate 3-5y	-0.9%	-1.1%	-1.2%	-0.9%
USD Aggregate 5-7y	-1.1%	-1.2%	-1.1%	-1.1%
USD Aggregate 7-10y	-1.6%	-1.3%	-1.1%	-1.6%
EUR Overnight	0.0%	-0.1%	-0.2%	0.0%
EUR Aggregate 1-3y	-0.1%	-0.3%	-0.2%	-0.1%
EUR Aggregate 3-5y	-0.4%	-0.8%	-0.2%	-0.4%
EUR Aggregate 5-7y	-0.7%	-1.2%	-0.1%	-0.7%
EUR Aggregate 7-10y	-0.9%	-1.4%	0.2%	-0.9%
US Corp. HY	0.6%	0.6%	1.9%	0.6%
EUR HY	0.2%	-0.4%	1.2%	0.2%

EQUITY

	Price	P/E	D. Yield	FCF yield
MSCI World	6,242	17.1	2.4%	4.4%
S&P 500	2,824	18.4	1.9%	4.1%
NASDAQ	6,950	21.3	1.0%	3.9%
Euro Stoxx 50	3,609	14.4	3.5%	12.1%
SMI	9,335	16.5	3.4%	7.5%
FTSE 100	7,534	14.5	4.2%	2.4%
DAX	13,189	13.7	3.0%	6.8%
MSCI Asia Pacific	184	14.7	2.4%	3.6%
FTSE China A50	14,533	12.1	2.4%	18.9%
MSCI Emerging Market	1,255	13.5	2.5%	5.6%
PH Semiconductor	1,362	16.2	1.6%	4.4%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	5.3%	8.8%	13.2%	5.3%
S&P 500	5.6%	9.5%	14.0%	5.6%
NASDAQ	8.7%	11.2%	17.9%	8.7%
Euro Stoxx 50	3.0%	-2.4%	3.8%	3.0%
SMI	-0.5%	0.7%	3.1%	-0.5%
FTSE 100	-2.0%	0.6%	1.5%	-2.0%
DAX	2.1%	-2.0%	7.7%	2.1%
MSCI Asia Pacific	5.9%	8.5%	14.1%	5.9%
FTSE China A50	10.1%	13.7%	21.3%	10.1%
MSCI Emerging Market	8.3%	11.1%	17.4%	8.3%
PH Semiconductor	8.7%	7.1%	24.8%	8.7%

COMMODITY

	Price	FCST 17	FCST 18	Δ Future
Gold	1,339	1258	1283	-5.2%
Silver	17.20	17.1	17.3	-1.0%
Platinum	997	951	975	-3.5%
Palladium	1,019	855	1000	-2.1%
Crude Oil	64.73	50.6	60.0	-4.6%
Brent Oil	68.88	54.0	62.4	-7.4%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	2.3%	4.8%	5.2%	2.3%
Silver	0.3%	-0.5%	1.4%	0.3%
Platinum	6.2%	5.9%	4.3%	6.2%
Palladium	-4.0%	2.9%	15.8%	-4.0%
Crude Oil	7.1%	18.4%	29.9%	7.1%
Brent Oil	3.7%	15.2%	31.0%	3.7%

FOREIGN EXCHANGE

	Price	FCST 17	FCST 18	Δ Spot
EUR/USD	1.2395	1.1700	1.2400	0.0%
GBP/USD	1.4190	1.3200	1.3700	-3.5%
USD/CHF	0.9340	0.9900	0.9500	1.7%
USD/JPY	109.60	113.00	110.00	0.4%
EUR/CHF	1.1578	1.1600	1.2000	3.6%
USD/RUB	56.30	58.73	56.70	0.7%
EUR/RUB	69.77	68.40	71.24	2.1%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	3.2%	6.7%	5.0%	3.2%
GBP/USD	5.1%	7.1%	7.5%	5.0%
USD/CHF	4.4%	7.4%	3.4%	4.3%
USD/JPY	2.8%	4.2%	0.7%	2.8%
EUR/CHF	1.1%	0.7%	-1.6%	1.1%
USD/RUB	2.4%	3.5%	7.2%	2.4%
EUR/RUB	-0.1%	-3.1%	2.1%	-0.7%

Source: Clarus Capital Group, Bloomberg

THEMES IN THE SPOTLIGHT

EUR/USD

ECB's President Draghi confirmed its loose monetary policy last week. Hence the EUR/USD should have weakened on the back of the press conference's outcome, but as a matter of fact it strengthened rather quickly up to a high of 1.2537. The markets justified the appreciation of the EUR/USD based on stronger fundamentals within the Eurozone. The strengthened EUR however is a burden for the Eurozone growth outlook and increases the likelihood of some negative economic surprises. A stronger EUR should lead to lower import prices in the coming months and consequently dampen the inflation. Low inflation means that the EUR's purchasing power remains solid, which is - together with a firm balance-of-payments situation – a major tailwind for the European currency in the longer term.

Recently, the EUR has overshot the level implied by the yield differential. We think that the EUR as an attractive financing currency and its rate disadvantage relative to the USD, should weaken at least in the medium-term. President Draghi will most certainly try to talk the EUR/USD down should it appreciates further towards the 1.30. But this is not our base scenario for the upcoming months. The latest rally has eroded a significant part of the previous misvaluation considering the current fundamental dynamics. Only if the Eurozone economic data improves further to a certain degree a higher EUR/USD is justified.

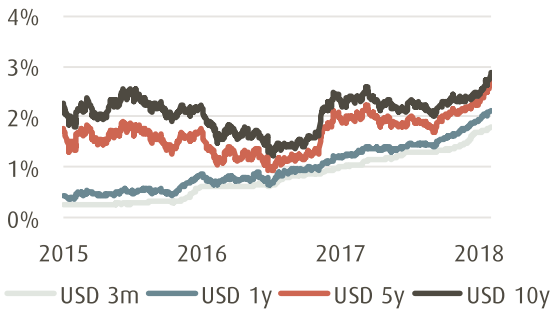
Until spring there are two political risk factors to be considered. The first one is the shutdown which has been set aside until February 8. The second risk factor refers to the negotiations between the Democrats and Republicans for a removal of the debt ceiling. Both risk factors have been already seen during Obama's presidential term with a positive outcome and a neutral impact on economy and financial markets.

Technically speaking, we may see a higher EUR/USD rate should we brake the topside levels at 1.2476 and 1.2492. If these resistance levels are conquered, there is still more room on the upside from 1.2535 – 1.2600 levels. The current EUR bull positioning seems to be somehow stretched. Furthermore, the Italian election risk premium is imminent and with US yields to rise further, we prefer to sell on rallies in the EUR/USD 1.2600 area.

INTEREST RATES ON THE RISE

Hiking interest rates normally are a bullish signal for markets: demand for money is rising, businesses want to put it to use. It's the opposite of something that has bugged stock bulls for years, the flattening yield curve, which can imply waning expectations for long-term growth. Last week, the gap between 2- and 10-year yields steepened by the most in four months.

Development of US interest rates



Source: Bloomberg, Clarus Capital Group

But there's a point where the "signal" leaves the abstract and becomes a drag on earnings. Higher rates may raise corporate expenses, which can shrink net income and compress margins. Rock-bottom financing costs have been a boon to earnings for a decade, a period in which the FED has held rates near zero.

Not only are rising interest rates giving headaches to bond investors but also to other risky assets. A major selling point for equities since the financial crisis has been the higher yield of equities versus fixed income, with earnings considered the "yield" of a share of stock. While not everyone is in love with the comparison, many investors feel safe when that number is comfortably above risk-free rates – in the US by 1.5 percentage. Still, the rise in bond yields has narrowed the spread to the smallest in eight years.

Another concept is the Net Present Value: interest rates affect everything from mortgages to car loans and are particularly important for calculating the value of anything expected to generate profits in the future. To simplify, today's value of future earnings goes down as interest rates go up, and the risk-free pay-out of a bond in, say, a year, becomes more competitive.

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IMPRESSUM

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