ECONOMIC OUTLOOK

Is President Trump going to shock the world in 2018? According to many economists, last week was one of the most dangerous weeks of geopolitics in a long time and it might only have begun: the US President is undermining relationships with other countries and developing economical disputes with Russia, China, North Korea, Iran, etc. These implications might change global order and its safety.

The US announced new tariffs against Chinese exports which led stock markets to dive deeply last week. Major indices lost between 2 and 6 percent and are back to levels last seen in February. Last Thursday, the White House reported that tariffs are extended to Chinese products for a trade volume of USD 50 to 60 bn. These products are imposed with a duty of 25% which would result in a GDP detraction of 0.2 percent – an insignificant impact. On the other side, the Chinese reacted promptly and announced tariffs on US imports equivalent to USD 3 bn. We will shed some more lights to the implications of a possible global trade war looming in our focus on the next page.

Focusing on the fundamental data in the US, the economy looks still rock solid. The recovery has strengthened the last couple of months and the inflation should rise further which should lead to a stabilization of the FED's inflation target of 2 percent. The growth forecast for this year has been increased by 0.2 percent to 2.7 percent and the unemployment rate should level at 3.8 percent by the end of 2018. The economy in the US seems on a steady path despite the political headwind. Hence, the FED has increased its rates by 25bps to now 1.5 – 1.75 percent which was already fully priced in by the markets. For this year the FED is expected to hike three times. However, the last FOMC meeting was expected to have more hawkish comments from FED's Chairman Powell. The FED seems to be hesitating about the economic outlook and delays its decision to hike three or four times this year. We identified three possible reasons why the FED may be reluctant: international trade will weaken because of more import tariffs, inflation is still below the target and Q4 growth below expectations, and finally central banks prefer their traditional instruments to steer monetary policy and are willing to normalize it as fast as possible.

Fixed Income Markets were not surprised by the FED decision. USD bonds slightly gained during March. The curve flattened further. Credit Spreads widened due to the risk-off environment. We expect stable curves for the following month and a slight tightening of the credit spreads.

We are still positive for equity markets. The real interest rates in many economies are negative, the nominal interest rates are below GDP growth rates and the negative effects of the monetary tightening in the US is balanced by higher growth with continuing lose monetary policy in Europe. From this point of view, the big picture for equity has not changed. However, tighter labour markets are pushing up wages and give companies a bigger incentive to step up investments in labour saving projects. Lastly, the recent disappointing in growth data in the US and Eurozone we discard it as a seasonal effect. Thus, the recent sell-off might be a good entry point and we are continuing to overweight equities.

Commodities are having a good support due to a continuing and synchronized global growth. Gold might rise further as we observe a temporary decline in long-term interest rates. However, we do not see a real catalyst for prices above USD 1'400 per ounce. Oil dropped due to surprisingly more supply coming from the US and uncertainties on the equity markets.

TACTICAL ASSET ALLOCATION

Liquidity	Neutral
Bonds	Slight underweight
Equities	Overweight
Alternative Investments	Neutral

EQUITY INDICATORS

Valuation	Attractive
Momentum	Neutral
Seasonality	Attractive
Macro	Attractive

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

MARKET OVERVIEW AS OF THURSDAY, 29 MARCH 2018, 4:11 PM

FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	1.70	0.25	0.26	0.27
USD 1y Swap	2.42	0.11	0.52	0.52
USD 3y Swap	2.66	0.01	0.49	0.49
USD 5y Swap	2.72	-0.03	0.47	0.47
USD 10y Swap	2.79	-0.08	0.40	0.40
EUR Overnight	-0.37	-0.01	-0.01	-0.02
EUR 1y Swap	-0.26	-0.01	0.00	0.00
EUR 3y Swap	0.02	-0.06	0.01	0.01
EUR 5y Swap	0.37	-0.09	0.05	0.05
EUR 10y Swap	0.97	-0.11	0.08	0.08
CDX Xover 5y	3.67%	0.32%	0.60%	0.60%
iTraxx Xover 5y	2.85%	0.21%	0.52%	0.52%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Deposit 1m	0.1%	0.4%	0.7%	0.4%
USD Aggregate 1-3y	0.1%	-0.2%	-0.4%	-0.2%
USD Aggregate 3-5y	0.3%	-1.0%	-1.3%	-1.0%
USD Aggregate 5-7y	0.4%	-1.4%	-1.5%	-1.4%
USD Aggregate 7-10y	0.5%	-2.0%	-1.7%	-2.0%
EUR Overnight	0.0%	-0.1%	-0.2%	-0.1%
EUR Aggregate 1-3y	0.0%	0.0%	-0.1%	0.0%
EUR Aggregate 3-5y	0.3%	0.1%	0.1%	0.1%
EUR Aggregate 5-7y	0.6%	0.0%	0.4%	0.0%
EUR Aggregate 7-10y	1.1%	0.3%	1.2%	0.3%
US Corp. HY	-0.7%	-0.9%	-0.4%	-0.9%
EUR HY	-0.2%	-0.6%	-0.2%	-0.6%

EQUITY

	Price	P/E	D. Yield	FCF yield
MSCI World	5,798	15.6	2.6%	4.7%
S&P 500	2,605	16.7	2.0%	4.4%
NASDAQ	6,461	19.5	1.1%	4.3%
Euro Stoxx 50	3,356	13.5	3.8%	10.4%
SMI	8,729	15.4	3.7%	0.3%
FTSE 100	7,063	13.4	4.5%	7.4%
DAX	12,034	12.5	3.3%	4.7%
MSCI Asia Pacific	172	13.3	2.7%	3.2%
FTSE China A50	12,729	10.5	3.0%	20.6%
MSCI Emerging Market	1,163	12.4	2.8%	5.3%
PH Semiconductor	1,300	14.8	1.8%	5.1%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	-3.1%	-2.2%	3.2%	-2.2%
S&P 500	-4.0%	-2.6%	3.4%	-2.6%
NASDAQ	-5.7%	1.0%	8.1%	1.0%
Euro Stoxx 50	-2.4%	-4.2%	-6.6%	-4.2%
SMI	-2.0%	-7.0%	-4.7%	-7.0%
FTSE 100	-2.3%	-8.1%	-4.2%	-8.1%
DAX	-3.2%	-6.8%	-6.2%	-6.8%
MSCI Asia Pacific	-3.1%	-1.2%	6.6%	-1.2%
FTSE China A50	-4.6%	-3.5%	6.4%	-3.5%
MSCI Emerging Market	-2.7%	0.4%	7.5%	0.4%
PH Semiconductor	-4.6%	3.7%	10.9%	3.7%

COMMODITY

	Price	FCST 18	FCST 19	Δ Future
Gold	1,325	1313	1325	-1.8%
Silver	16.26	17.1	18.06	3.7%
Platinum	942	985	1059	3.2%
Palladium	964	1055	1036.25	7.9%
Crude Oil	64.33	60.3	60	-4.2%
Brent Oil	69.26	64.5	65	-4.0%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	0.6%	1.2%	3.4%	1.2%
Silver	-0.9%	-5.6%	-3.5%	-5.6%
Platinum	-5.2%	-0.2%	1.9%	-0.2%
Palladium	-7.1%	-8.3%	3.8%	-8.3%
Crude Oil	4.7%	6.7%	23.4%	6.7%
Brent Oil	7.0%	4.8%	23.4%	4.8%

FOREIGN EXCHANGE

	Price	FCST 18	FCST 19	Δ Spot
EUR/USD	1.2318	1.2600	1.3000	5.4%
GBP/USD	1.4075	1.4200	1.4500	3.0%
USD/CHF	0.9562	0.9400	0.9300	-2.8%
USD/JPY	106.46	109.00	105	-1.4%
EUR/CHF	1.1779	1.1800	1.2100	2.7%
USD/RUB	57.56	58.00	58.95	2.4%
EUR/RUB	70.94	71.37	76.70	7.8%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.0%	2.6%	4.3%	2.6%
GBP/USD	2.3%	4.2%	5.1%	4.2%
USD/CHF	-1.2%	1.9%	1.3%	1.9%
USD/JPY	0.2%	5.9%	5.7%	5.9%
EUR/CHF	-2.2%	-0.6%	-2.9%	-0.6%
USD/RUB	-2.1%	0.1%	-0.1%	0.1%
EUR/RUB	-3.1%	-2.3%	-4.1%	-2.3%

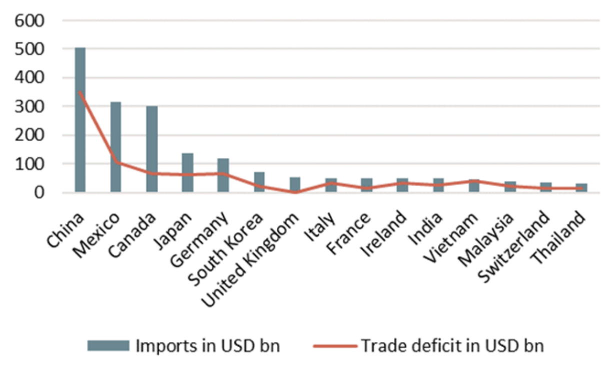
Source: Clarus Capital Group, Bloomberg

THEME IN THE SPOTLIGHT

TRADE WAR LOOMING?

Mostly off the radar the US have imposed tariffs on solar panels and washing machines around last turn of the year. But the real shock came last week when US Trump announced protectionist measures towards imports from China. All major stock markets tumbled across the board and erased the performance since the beginning of this year. What has caused this harsh tone from President Trump? The government reacted to the development that the US has fallen more and more behind China in the past years in the industrial sector. China itself is responsible for the half of the US trade balance deficit (USD 375bn). Last year China exported goods and services in value of USD 500bn to the US and thereby four times more than contrary.

US Imports 2017



Source: Bloomberg, Clarus Capital Group

Following an analysis of Strategy Analytics, the import of the iPhone in the last 10 years lead already to a deficit of USD 101bn. However, only 4 percent of the creation of value can be traced back to China. The share of South Korea for example sums up to more than one third of the production costs with Samsung as the most significant supplier. Furthermore, Paul Krugman estimated the trade deficit with China to half of the official figures if one were to consider the use of US know-how.

At this point we should ask ourselves whether a real trade war is looming or is it just a threatening gesture from the White House? Fact is that there are measures announced for the time being, but nothing has been decided. For now, there won't be any tariffs on Chinese products before May. Behind the curtains there will be intense negotiations on both sides to avoid any protectionist measures or at least to temper them. Should these measures be applied the impact would not be significant on China's economy. However, the picture would look completely different if we see an escalation and a global trade war. The OECD has elaborated a worst-case scenario which would lead in a reduction of the global GDP by 1 to 1.5 percent in the medium term if the trade costs increase by 10 percent (for all traded goods a tariff of 10 percent will be imposed).

We are not expecting such a scenario as there would be only losers. However, as China has made it clear to concentrate on their own program "Made in China 2025" – the corresponding counterpart to "Make America Great Again", negotiations might be challenging. Especially US high tech companies such as Apple do not leave out any opportunity to praise the advantages of global trades as they would be hurt most by the probable effects of a trade war. In addition to this, "historically American farmers were to take a hit when the US targets imports of industrial goods" citing CNN Money. This implies that the US president might harm his most loyal supporters: 75 percent of farm-belt voters elected President Trump.

The current development increases probability for a bad equilibrium following the classic game theory known as "prisoner's dilemma". The outcome of a cooperation on both sides would be favourable to both, a defection would leave both worse than before. Unfortunately, the dominant strategy for both actors is to defy.

Prisoner's dilemma: effect of trade wars on GDP

		China: Cooperation	China: Defection
USA	Cooperation	USA: no change China: no change	USA: -2% China: +0.5%
USA	Defection	USA: +0.2% China: -0.5%	USA: -2% China: -0.5%

Source: Goldman Sachs, Financial Times, Clarus Capital Group

In a nutshell, the threatening trade war will weight on the financial markets and conduct to an ongoing increased volatility, but we estimated the impact on global economy to be negligible.

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IMPRESSUM

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