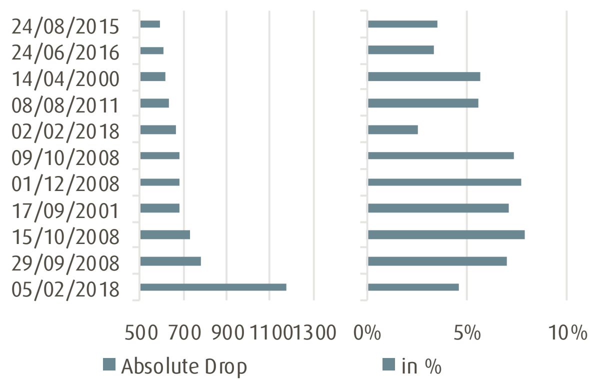
PULSE RATE TUESDAY, 06 FEBRUARY 2018

MARKETS CRASH

In the last days, global stocks plunged and wiped out their gains for 2018. US yields helped spark off the selloff and investors reckon inflation to roar back and might force the FED to accelerate interest rate hikes. Equity market volatility resurrected and the VIX index closed at 37.32, the highest level since 24 August 2015, and compared with 17.31 at close last Friday. However, in this environment there was surprisingly no real safe haven with Gold only slightly advancing to USD 1'342 from 1'330. The only assets going up were the USD as well inflation-linked securities.

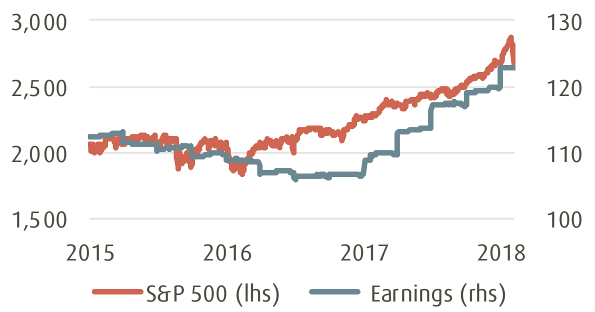
Biggest Drops in Dow Jones Index



Source: Bloomberg, Clarus Capital

Inflation fears based on accelerating wage rates in the US led markets to their crash. However, amid the sell-off the macro data of last week was fundamentally good: both the ISM manufacturing and services had 59 handles, and the US payrolls report signalled above consensus job growth. Labour participation rate in the US is still far below their before-crisis level by 62 percent. But company earnings are still supportive of equity markets.

Stock Markets and Company Earnings in the US



Source: Bloomberg, Clarus Capital

Currently there are three important technical forces at work which reinforced the selloff. The first one is liquidations which means that investors who were positioned long the stocks will be forced to closing out in order to cover their leveraged positions. This adds to the momentum of selling. Another factor can be found in the machine-driven trading. Many of these complex financial models allocate money according to risk. And we have seen a broad sense of panic yesterday, which makes it difficult to rationalize such a strong move. And the third factor are the excessive use of passive instruments such as exchange-traded fund. ETF's are forced to immediately reduce their positions following a redemption in their funds and can therefore accelerate markets crash.

On a historical basis it is not uncommon to see intra-year selloffs averaging more than 10 percent in bull markets. It even might be a sign of real health in markets. At this point, we still consider the equities a good place to put your money in. However, the road to return this year will be bumpy and not as pronounced as last year. Overall, we confirm our positive view on the asset class.

TACTICAL ASSET ALLOCATION

Liquidity	Slight overweight
Bonds	Underweight
Equities	Slight overweight
Alternative Investments	Neutral

EQUITY INDICATORS

Valuation	Neutral
Momentum	Neutral
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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IMPRESSUM

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