

ECONOMIC OUTLOOK

The ECB and the FED drew a similar picture of the global economy. The ECB is not yet ready to announce the start of tapering and no decisions were taken at the July meeting. Despite of the low inflation figures, the FED remains on track with **another interest rate hike and balance sheet normalization within 2017**. The global economic expansion has lost some of its momentum, however some leading indicators are still dropping hints at a positive environment. Despite of the liquidity infusion by the Central banks, demand is rather weak – most of the institutions relate it to the weak wage growth. To boost wage rates, investments are key, but Trump’s delaying economic stimulus causes uncertainty. The capital stock has not significantly increased since the financial crisis. A higher capital stock would also go hand in hand with a **normalization of inflation rates**. The drops in inflation rates are seen as temporary by the Central banks. The Euro has strengthened above 1.18 USD – a top for the last two years. We see a **lower EUR** due to the significant economic dispersion in the two regions.

Despite of a possible expansionary course of the Central banks, bond yields have traded in their expected range. Long-term US yields might move slightly higher, but the balance sheet normalization leads to a **flattening of the yield curve**. In the Eurozone, a possible tapering of the ECB limits the upside of bond returns. High yield spreads in Europe are at historically tight levels at around 300bp. We see a neutral stance as default rates will likely stay below 2 percent.

The stock market recovery has been in its 8<sup>th</sup> year. Since the beginning of the year, US stock markets have risen by 10%. Price Earnings ratio are at elevated levels, but earning figures of the companies came in supportive. Low inflation rates and expansive Central banks might give some down-side protection. On a cautionary note, record-low volatility, an impressive bull market and unsolved political issues (Europe, Middle East, US, etc.) make a correction in share prices probable. Our models suggest a **slight underweight in Equities** due to Seasonality and Valuation.

**Gold** has performed by 10% in the first half of the year due to lower USD. Central banks’ policy might lead to **higher real interest rates** and some down-ward pressure. Continuing political risks and better Asian gold demand can offset some of these short-term risks. A modest decline in oil inventories this year kept the Crude oil price around USD 50. Oil supply growth is lagging demand growth. **Crude** could establish a price **range of USD 50-60** in the upcoming months.

Hedge funds could not keep pace with the performance of the equity markets and yielded 5.5% on average. The most important argument for Hedge Funds are their risk aspects. They normally perform well during interest rate hike periods. This is one of the reasons why investors started to lower their exposure to Long/Short Hedge Funds and switch it into Market Neutral strategies. We **favour Divergent Hedge Fund strategies** because of their diversification aspects and high liquidity as some of the hedge fund trades are crowded.

TACTICAL ASSET ALLOCATION

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

EQUITY INDICATORS

|             |                    |
|-------------|--------------------|
| Valuation   | Slight underweight |
| Momentum    | Slight overweight  |
| Seasonality | Underweight        |
| Macro       | Neutral            |

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

**MARKET OVERVIEW**
**FIXED INCOME**

|                 | Rate  | Δ 1m  | Δ 3m  | Δ ytd |                     | Δ 1m | Δ 3m  | Δ 6m  | Δ ytd |
|-----------------|-------|-------|-------|-------|---------------------|------|-------|-------|-------|
| USD Overnight   | 1.18  | 0.01  | 0.25  | 0.48  | USD Deposit 1m      | 0.1% | 0.3%  | 0.5%  | 0.6%  |
| USD 1y Swap     | 1.46  | -0.01 | 0.08  | 0.27  | USD Aggregate 1-3y  | 0.3% | 0.4%  | 0.8%  | 1.0%  |
| USD 3y Swap     | 1.71  | -0.08 | -0.01 | 0.02  | USD Aggregate 3-5y  | 0.6% | 0.8%  | 1.8%  | 2.1%  |
| USD 5y Swap     | 1.89  | -0.11 | -0.04 | -0.09 | USD Aggregate 5-7y  | 0.7% | 1.0%  | 2.3%  | 2.5%  |
| USD 10y Swap    | 2.22  | -0.10 | -0.02 | -0.12 | USD Aggregate 7-10y | 0.8% | 1.3%  | 3.1%  | 3.1%  |
| EUR Overnight   | -0.35 | 0.00  | 0.00  | -0.02 | EUR Overnight       | 0.0% | -0.1% | -0.2% | -0.2% |
| EUR 1y Swap     | -0.25 | -0.01 | -0.01 | -0.05 | EUR Aggregate 1-3y  | 0.2% | 0.1%  | 0.1%  | 0.0%  |
| EUR 3y Swap     | -0.04 | -0.04 | 0.01  | 0.06  | EUR Aggregate 3-5y  | 0.4% | 0.3%  | 0.7%  | 0.3%  |
| EUR 5y Swap     | 0.24  | -0.03 | 0.04  | 0.17  | EUR Aggregate 5-7y  | 0.6% | 0.5%  | 1.3%  | 0.5%  |
| EUR 10y Swap    | 0.90  | -0.01 | 0.11  | 0.24  | EUR Aggregate 7-10y | 0.8% | 0.8%  | 2.3%  | 0.7%  |
| CDX Xover 5y    | 0.01  | 0.00  | 0.00  | 0.00  | US Corp. HY         | 1.2% | 2.1%  | 4.4%  | 6.2%  |
| iTraxx Xover 5y | 0.02  | 0.00  | 0.00  | -0.01 | EUR HY              | 0.7% | 1.6%  | 3.2%  | 3.8%  |

**EQUITY**

|                      | Price | P/E  | D. Yield | FCF yield |                      | Δ 1m | Δ 3m  | Δ 6m  | Δ ytd |
|----------------------|-------|------|----------|-----------|----------------------|------|-------|-------|-------|
| MSCI World           | 5514  | 17.6 | 2.5%     | 4.7%      | MSCI World           | 2.9% | 5.0%  | 11.0% | 13.8% |
| S&P 500              | 2477  | 19.0 | 2.0%     | 4.6%      | S&P 500              | 2.2% | 3.6%  | 8.6%  | 10.6% |
| Euro Stoxx 50        | 3471  | 14.8 | 3.5%     | 11.3%     | Euro Stoxx 50        | 0.8% | -3.0% | 6.7%  | 5.5%  |
| SMI                  | 9121  | 18.2 | 3.3%     | 6.6%      | SMI                  | 2.4% | 3.5%  | 9.5%  | 11.0% |
| MSCI Asia Pacific    | 161   | 14.6 | 2.5%     | 5.1%      | MSCI Asia Pacific    | 4.4% | 7.6%  | 13.7% | 19.5% |
| MSCI Emerging Market | 1069  | 13.6 | 2.5%     | 7.0%      | MSCI Emerging Market | 5.8% | 8.2%  | 16.8% | 24.0% |

**COMMODITY**

|           | Price | FCST 17 | FCST 18 | Δ Future |           | Δ 1m | Δ 3m  | Δ 6m   | Δ ytd  |
|-----------|-------|---------|---------|----------|-----------|------|-------|--------|--------|
| Gold      | 1268  | 1234    | 1264    | -2.2%    | Gold      | 2.1% | 0.9%  | 4.2%   | 10.1%  |
| Silver    | 16.7  | 17.2    | 18.0    | 5.1%     | Silver    | 0.2% | -1.5% | -5.5%  | 3.2%   |
| Platinum  | 950   | 978     | 1045    | 8.3%     | Platinum  | 2.5% | 2.2%  | -5.6%  | 4.1%   |
| Palladium | 899   | 790     | 820     | -6.6%    | Palladium | 7.4% | 10.5% | 18.2%  | 31.2%  |
| Crude Oil | 49.2  | 51.2    | 54.9    | 9.6%     | Crude Oil | 6.4% | 1.5%  | -11.6% | -13.6% |
| Brent Oil | 52.0  | 54.0    | 58.0    | 9.4%     | Brent Oil | 5.9% | 1.6%  | -9.5%  | -11.7% |

**FOREIGN EXCHANGE**

|         | Price  | FCST 17 | FCST 18 | Δ Spot |         | Δ 1m  | Δ 3m   | Δ 6m   | Δ ytd |
|---------|--------|---------|---------|--------|---------|-------|--------|--------|-------|
| EUR/USD | 1.1833 | 1.1500  | 1.1800  | -0.3%  | EUR/USD | 4.1%  | 8.3%   | 10.0%  | 12.5% |
| GBP/USD | 1.3230 | 1.2900  | 1.3200  | -0.2%  | GBP/USD | 2.2%  | 2.2%   | 5.6%   | 7.2%  |
| USD/CHF | 0.9692 | 0.9800  | 0.9700  | 0.1%   | USD/CHF | -0.6% | 2.3%   | 2.4%   | 5.1%  |
| USD/JPY | 110.65 | 115.00  | 114.00  | 3.0%   | USD/JPY | 2.5%  | 1.2%   | 1.9%   | 5.7%  |
| EUR/CHF | 1.1469 | 1.1100  | 1.1300  | -1.5%  | EUR/CHF | -4.5% | -5.5%  | -6.9%  | -6.5% |
| USD/RUB | 60.60  | 60.00   | 59.75   | -1.4%  | USD/RUB | -2.2% | -5.9%  | -2.0%  | 1.1%  |
| EUR/RUB | 71.71  | 68.33   | 65.60   | -8.9%  | EUR/RUB | -6.1% | -13.1% | -10.9% | -9.8% |

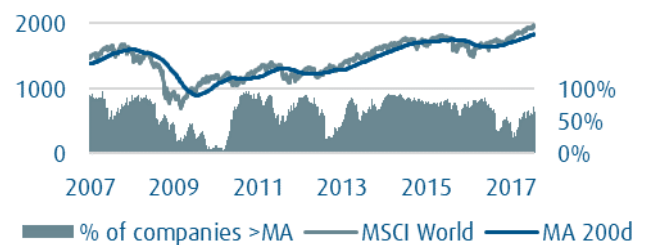
## EQUITY: VALUATION

Performance of the last years was partially driven by a significant P/E expansion. Earnings data are still supportive with a US surprise rate of 77%, but outlook is mixed due to stronger USD. We expect modest growth rates for the second half-year. Under these conditions we see a slight potential for correction.



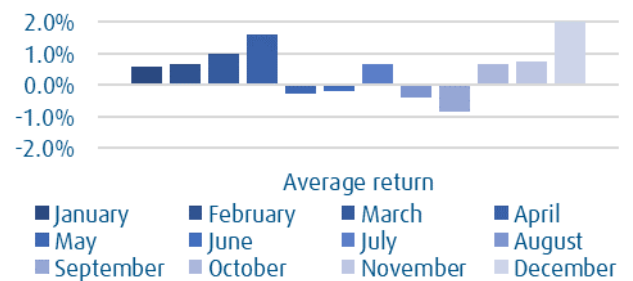
## EQUITY: MOMENTUM

Momentum in Equity markets is still strong and broad with 75% of the companies' current price above their moving average. Other Momentum ratios such as the RSI also indicate strong momentum with 70%. MACD is still on favour, but close to a sell signal. Therefore, Momentum still favours equities.



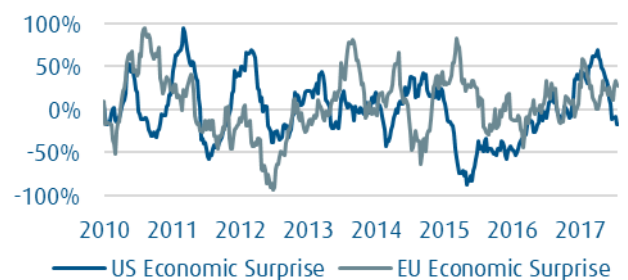
## EQUITY: SAISONALITY

Long-term studies have proven Seasonality a significant equity return driver. For example: end-consumer oriented businesses face seasonality during holiday seasons. We are therefore negative on the equity markets for the upcoming weeks.



## EQUITY: MACRO

The macroeconomic environment is still positive with mixed outlook. Whereas growth in Europe has picked up speed, a stronger EUR could offset some of the growth. In the US, the political discussions hinder higher growth rates with tax stimuli in the waiting line and tightened sanctions on Russia. Leading indicators draw a more positive picture than hard data such as vehicle sales and retail sales. We interpret the macroeconomic environment as neutral for Equities.



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IMPRESSUM

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