

ECONOMIC OUTLOOK

In August, market sentiment started to change due to political headlines. Tensions between North Korea and USA grew following North Korea's missile tests. The aggressive rhetoric between the two countries escalated when North Korea launched a ballistic missile overflying Japan. Investors' reaction resulted into lower equity prices and higher safe havens' notations. Despite of the **limited impact of political uncertainty on financial markets**, an investor should keep an eye on the second political risk - the **US debt ceiling** discussion -. This one is looming in September and might lead to a possible government shutdown. Expectations are that the White House and the US congress settle for an economy-friendly budget, however the road could be bumpy.

Meanwhile, the Jackson Hole left markets' expectation unchanged about central banks future actions. US inflation data might shed light on the further course whether the agony of **low inflation continues**. Global PMIs showed broad-based strength. In the US, the expansion is on a healthy pace with stable unemployment rates and hourly wage rates. The FED is therefore expected to deliver two more rate hikes over the next 12 months. The normalisation process for its balance sheet could be announced in September. The ECB probably follows at the end of the year indicating its balance sheet policy changes, but growing concerns about a stronger EUR could hold them back. Eurozone PMIs confirmed the resilience despite of the stronger EUR. Since the beginning of the year the **EUR has strengthened by 15%** against the US Dollar.

US Swap yield curve has further flattened with 10y Swap Rates down by 20bp in August and short-term rates stable. Therefore, bonds equalised the losses of June. Corporate Bond spreads were unchanged over the past month whereas Government bonds slightly tightened due to their safe-haven

characteristics. High Yields slightly widened, but are still at record lows. Our current **focus lies on High Grade Corporate bonds** despite the diminishing yield pick-up over government bonds.

Stock markets retreated slightly despite of the recent earnings season confirming a broad-based upturn in earnings growth. This global synchronisation of earnings growth has not been seen for the last five years. Markets are still counting in significant stimulative government policies such as tax reform, deregulation, infrastructure investments, etc. for US equities. On the other hand, European equities are cheaper compared to their US counterparts but facing currency headwind. Our cautionary stance in August has proven right and we continue to suggest a **slight underweight in Equities** due to Seasonality and Valuation.

Gold has profited from the political uncertainties and increased to levels above USD 1'300 – a 10 months high. Investors should continue to hold a strategic position in this precious metal to reduce volatility of equity or credit portfolios. In relation to our tactical exposure, we slightly **reduce our exposure to gold**. Crude oil took a hit due to signs of rising global output. So far, Hurricane Harvey has done more to curb demand than supply, shuttering about 2.35mio barrels a day of refining capacity. This is good news for oil products but not for crude. In the medium-term, an oil market in deficit and large expected oil inventory draw-downs in 2H17 should **favour higher oil prices**.

Hedge Funds performed by 4.8% year-to-date with Macro / Trend Following Strategies lagging and Market Neutral outperforming. Low pair-wise correlation of equities favoured active managers not only in the Hedge Fund sector. We still **prefer Divergent Hedge Fund Strategies**.

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 AS OF THURSDAY, 31 AUGUST 2017, 10:38 AM

FIXED INCOME

| | Rate | Δ 1m | Δ 3m | Δ ytd | | Δ 1m | Δ 3m | Δ 6m | Δ ytd |
|-----------------|-------|--------|--------|--------|---------------------|-------|-------|-------|-------|
| USD Overnight | 1.18 | 0.00 | 0.25 | 0.49 | USD Deposit 1m | 0.1% | 0.3% | 0.5% | 0.7% |
| USD 1y Swap | 1.45 | -0.01 | 0.09 | 0.26 | USD Aggregate 1-3y | 0.2% | 0.4% | 0.8% | 1.2% |
| USD 3y Swap | 1.64 | -0.08 | 0.00 | -0.05 | USD Aggregate 3-5y | 0.5% | 0.7% | 1.8% | 2.5% |
| USD 5y Swap | 1.78 | -0.12 | -0.04 | -0.19 | USD Aggregate 5-7y | 0.6% | 0.8% | 2.2% | 3.0% |
| USD 10y Swap | 2.10 | -0.15 | -0.05 | -0.24 | USD Aggregate 7-10y | 0.9% | 1.1% | 2.9% | 3.7% |
| EUR Overnight | -0.36 | 0.00 | 0.00 | -0.03 | EUR Overnight | 0.0% | -0.1% | -0.2% | -0.2% |
| EUR 1y Swap | -0.26 | -0.01 | -0.02 | -0.06 | EUR Aggregate 1-3y | 0.1% | 0.0% | 0.0% | 0.0% |
| EUR 3y Swap | -0.08 | -0.06 | -0.02 | 0.02 | EUR Aggregate 3-5y | 0.4% | 0.3% | 0.5% | 0.5% |
| EUR 5y Swap | 0.16 | -0.12 | 0.00 | 0.09 | EUR Aggregate 5-7y | 0.7% | 0.4% | 0.9% | 0.9% |
| EUR 10y Swap | 0.80 | -0.15 | 0.02 | 0.14 | EUR Aggregate 7-10y | 1.0% | 0.7% | 1.6% | 1.3% |
| CDX Xover 5y | 1.07% | -0.01% | 0.00% | 0.01% | US Corp. HY | -0.2% | 1.1% | 2.9% | 5.9% |
| iTraxx Xover 5y | 2.42% | 0.07% | -0.11% | -0.46% | EUR HY | 0.2% | 1.1% | 2.6% | 3.9% |

EQUITY

| | Price | P/E | D. Yield | FCF yield | | Δ 1m | Δ 3m | Δ 6m | Δ ytd |
|----------------------|-------|------|----------|-----------|----------------------|-------|-------|-------|-------|
| MSCI World | 5461 | 17.2 | 2.5% | 4.8% | MSCI World | -0.5% | 2.3% | 7.1% | 12.8% |
| S&P 500 | 2458 | 18.8 | 2.0% | 4.4% | S&P 500 | -0.5% | 1.9% | 4.0% | 9.8% |
| Euro Stoxx 50 | 3416 | 14.6 | 3.5% | 10.3% | Euro Stoxx 50 | -1.0% | -3.9% | 2.9% | 3.8% |
| SMI | 8880 | 17.8 | 3.4% | 6.4% | SMI | -1.9% | -1.5% | 3.9% | 8.0% |
| MSCI Asia Pacific | 160 | 14.2 | 2.6% | 4.7% | MSCI Asia Pacific | 0.0% | 5.0% | 10.5% | 18.7% |
| MSCI Emerging Market | 1088 | 13.6 | 2.6% | 6.2% | MSCI Emerging Market | 2.0% | 8.2% | 16.2% | 26.2% |

COMMODITY

| | Price | FCST 17 | FCST 18 | Δ Future | | Δ 1m | Δ 3m | Δ 6m | Δ ytd |
|-----------|-------|---------|---------|----------|-----------|-------|-------|--------|--------|
| Gold | 1307 | 1245 | 1260 | -5.2% | Gold | 3.2% | 2.8% | 4.3% | 13.5% |
| Silver | 17.5 | 17.2 | 18.0 | 1.5% | Silver | 3.4% | -0.7% | -6.6% | 7.6% |
| Platinum | 993 | 961 | 1045 | 3.7% | Platinum | 5.5% | 4.1% | -4.4% | 8.8% |
| Palladium | 934 | 790 | 820 | -12.3% | Palladium | 6.4% | 14.5% | 20.7% | 36.0% |
| Crude Oil | 45.9 | 50.7 | 53.5 | 10.7% | Crude Oil | -8.6% | -6.0% | -16.9% | -19.4% |
| Brent Oil | 50.7 | 52.9 | 56.6 | 9.3% | Brent Oil | -3.9% | -1.3% | -11.2% | -13.8% |

FOREIGN EXCHANGE

| | Price | FCST 17 | FCST 18 | Δ Spot | | Δ 1m | Δ 3m | Δ 6m | Δ ytd |
|---------|--------|---------|---------|--------|---------|-------|-------|--------|-------|
| EUR/USD | 1.1889 | 1.1700 | 1.2000 | 0.9% | EUR/USD | 0.4% | 5.7% | 12.4% | 13.0% |
| GBP/USD | 1.2903 | 1.2900 | 1.3300 | 3.0% | GBP/USD | -2.4% | 0.1% | 4.2% | 4.6% |
| USD/CHF | 0.9644 | 0.9800 | 0.9800 | 1.6% | USD/CHF | 0.3% | 0.4% | 4.3% | 5.7% |
| USD/JPY | 110.47 | 112.00 | 110.00 | -0.4% | USD/JPY | -0.2% | 0.3% | 2.1% | 5.9% |
| EUR/CHF | 1.1465 | 1.1500 | 1.1500 | 0.3% | EUR/CHF | -0.1% | -5.1% | -7.2% | -6.5% |
| USD/RUB | 58.54 | 60.00 | 61.00 | 4.1% | USD/RUB | 2.1% | -3.4% | -0.4% | 4.7% |
| EUR/RUB | 69.59 | 69.77 | 72.24 | 3.7% | EUR/RUB | 1.7% | -8.6% | -11.3% | -7.0% |

Source: Clarus Capital Group, Bloomberg

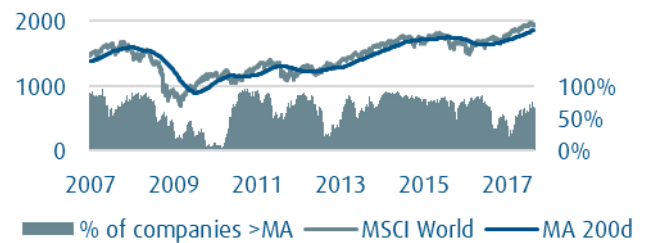
EQUITY: VALUATION

In August, Valuation factors such as P/B, P/E, etc. hardly changed. Recent earning season confirmed a global growth continuation. In the Eurozone, the stronger EUR might curb growth rates. The political situation in the US could reduce the expectations for growth of US equities to a modest pace. **As valuations are still expensive we continue to slightly underweight Equities.**



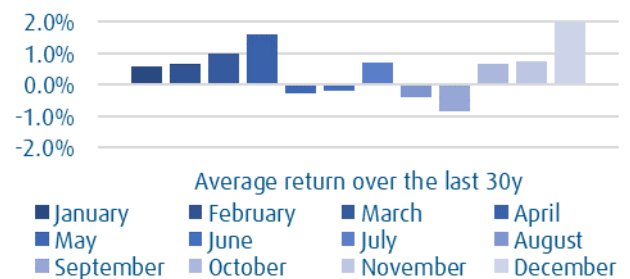
EQUITY: MOMENTUM

Momentum in Equity markets is still strong and broad with two thirds of the companies' current price above their moving average. Other Momentum ratios such as the RSI or MACD are rather mixed with 50% and MACD recovering from negative territory. **Overall, Momentum is still in favour of equities markets.**



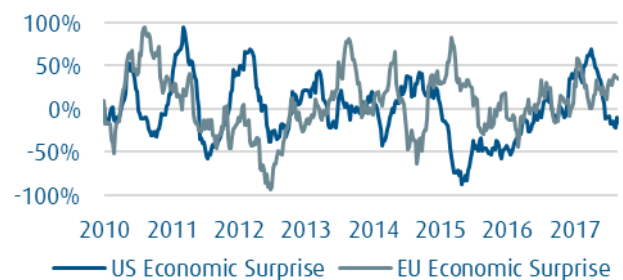
EQUITY: SAISONALITY

September is traditionally a volatile month with a historical maximum return of 8.7% for the MSCI World and a minimum of -12.9%. Two important calendar effects are the Halloween and the TOM (Turn-of-month) effects. The Halloween effect recommends only to invest during November and April. The TOM effect proposes to harvest the last day of a month return as well as the four beginning business days of a month. **We continue therefore to be negative on the equity markets for the upcoming weeks.**



EQUITY: MACRO

The world economy outlook remains positive and is broadly synchronized across regions. PMIs for the Eurozone showed strengthening, but at a more modest pace. Manufacturing in Asia is driven by the tech sector. EM central banks distinguish themselves from the DM central banks. Russia and Brazil are expected to cut rates. **We continue to interpret the macro-economic environment as neutral for Equities.**



Source: Clarus Capital Group, Bloomberg

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IMPRESSUM

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