BearBull
Global Investments Group

Investment Strategy

July 2018


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INTRODUCTION

Letter to Investors - Investment Climate

- Economic recovery in Q2, outlook remains favourable for 2018
- Predictable monetary policies with no major risks for financial markets
- Valuation of equity markets once again reasonable
- Positive environment for most asset classes
- Trade tensions constitutes the main source of uncertainty for financial markets

While, as we expected, volatility made a comeback in Q1, Q2 benefitted first and foremost from investors' repositioning, as they made the most of valuation levels that were once again attractive. These gains will have been short-lived due to the rapid return of political uncertainties. Indeed, the political crisis in Italy and President Trump's inflammatory statements towards his trading partners soon took precedence over fundamentals that frequently pointed to a recovery in economic activity and corporate results.

Donald Trump's declarations with regards to customs policies fuelled uncertainties and increased the risk perceptions of the trade war spreading to all of the US' economic partners. It does seem like the US President intends to attack all of the US' trading partners, including his closest allies like Canada and Europe. Convinced of an easy victory in the trade war, he seems completely unconcerned with the consequences of his policies, no matter that US law only authorises such action in specific cases of national security violations. The principle of "checks and balances" among the President, the Senate and Congress apparently did not work optimally in this quarter.

The US President is thus prepared to adopt major protectionist measures for the US, without hesitation and without assessing the potential consequences for his country's own economy. Nevertheless, the introduction of new trade barriers will trigger reactions, inevitably leading to escalating counter-measures that may harm the US' growth objectives. Although initial trade war measures involved tariffs on $50 billion worth of goods imported from China, the threat of further tariffs has since increased, now potentially involving hundreds of billions of dollars' worth of goods – enough to worry investors and jeopardise the prospects for robust economic growth in 2018 for the US as well as for the global economy if these threats materialise.

Fears of a trade war have thus once again led to risk reduction and profit taking in the second part of the quarter. Equity markets also suffered two phases of weakness, one triggered by concerns over increasing rates and the other by the risks of a trade war.

However, on a macroeconomic level, the signs have been rather favourable throughout the quarter. Despite a perceptible slump in activity at the beginning of the year, prospects have remained very favourable for the rest of the year. Global growth will likely exceed +4% in 2018 and remain robust in 2019. Developed economies will likely benefit from strong momentum and enjoy growth rates of up to +3%. US GDP could even exceed +3.5% in Q2, while emerging markets will likely contribute to the strengthening of the global business cycle.

With regards to developments in key rates, the US Federal Reserve's latest message was clear: monetary policy will not derail a booming economy. Key rates thus continued to rise in June in the US and will likely normalise without disruption. In the eurozone, the President of the ECB confirmed that there would be no rate increases before the summer of 2019, thereby confirming that the normalising process would be slow. In this environment, the US equity market put in a strong performance (+6.69%) over the quarter, which helped it make up for the -2.9% fall in the first three months of the year. In the eurozone, prospects of rising tariffs affecting European vehicles triggered new uncertainties that were intensified by the developing economic crisis in Italy. The stock market climate thus deteriorated significantly, triggering profit taking on European shares; while the latter had initially posted significant gains (+10%) they deteriorated very slightly towards the end of the quarter (-0.5%).

In Switzerland, stocks in the SMI first benefitted from a similar surge (+8%) before surrendering the gains achieved as the Swiss franc rose +5%. With regards to the bond markets, we still believe that the US market provides better opportunities with a 3% yield over ten years than the European market, whose risk of capital losses are increasing as we grow closer to the end of the European QE.

Commodities (+11.94%) benefitted from a favourable economic context, which will likely continue to support the current market cycle. As for international real estate, a +9.74% increase over the quarter proves its attractiveness in terms of diversifying away from low-yielding bonds.

In terms of currencies, the trade-weighted dollar has made up the ground it lost between November 2017 and February 2018. Our positive expectations are materialising with an exchange rate against the franc once again close to parity.

As for the euro, improvements in Europe's business activity and the prospects of an interruption of cash injections by the ECB in 2018 have recently supported the uptrend in the European currency. A widening interest rate spread will support a further appreciation of the euro beyond 1.20 francs. The weakness of the last few weeks (-4.5%) represents an opportunity for repositioning.

At current levels, we do not believe that the valuation of financial markets is a major risk factor, no more than are current trends in monetary policies, interest rates and inflation. The risk is once again political and unfortunately depends on an unpredictable US President who will do anything to achieve his goals.

Alain Freymond
Chairman
BearBull Global Investments Group

Graph sources: Bloomberg/BearBull Global Investments

BIG PICTURE

Key Convictions

- World GDP growth will be robust in 2018
- Monetary policy normalisation will be gradual
- Risks of a trade war are the main threat
- Swiss franc will continue to weaken
- Investment opportunities in the equities, real estate and commodities markets

World GDP growth will be robust in 2018

Q1 turned out to be less stellar than expected in several economies, but we anticipate the next several quarters to offer up better performances, in particular in the US and in the Eurozone. In 2018, global growth should exceed +4% and ought to remain strong in 2019.

Developed economies should benefit from sustained momentum and should register positive economic performances close to +3%. Meanwhile, the global business cycle, particularly in China (+6.5%) and India (+7.2%), should also be strengthen by the emerging market. The US economy is in full expansion mode and could even surprise in Q2 with stronger momentum. It will not be hampered by normalisation of the fed funds rate and will likely subsequently benefit from the fiscal measures that have been announced.

In the longer term, the decline of the unemployment rate to 3.5% will contribute to raising disposable income and will boost consumption. In the Eurozone, leading indicators are also pointing to improvements in Q2 and confirming favourable expectations for H2. The business climate is excellent, consumer confidence is high, and both remain unaffected by the recent strength of the euro, the Italian crisis, and Brexit. The Japanese economy is struggling, due in particular to the yen's excessively high levels, and is unlikely to contribute much to global growth.

Current economic trends are not likely to be derailed by a gradual rise in inflation and interest rates; however, the threat of a trade war could constitute the main threat to our rather positive scenario.

Monetary policy normalisation will be gradual

At its latest meeting, the ECB announced that providing there are no unexpected shocks, it will stop quantitative easing at the end of 2018. It also underscored that the Governing Council now planned to maintain its key rates until summer 2019, at the earliest. Now that the end of QE has been announced, it could put an end to the calm that seemed to be reigning on rate markets.

As regards key rates, the ECB will therefore not be particularly proactive in wanting to act before the last quarter 2019. A few more quarters of growth and improvement in employment are needed before the ECB will risk taking any action, the balance should still last several quarters.

In the United States, the Federal Reserve once again aimed to reassure investors potentially concerned about the pace at which it intends to raise interest rates. The Fed is clearly committed to implementing its monetary policy gradually and without any risk to the ongoing economic recovery. The Fed's latest message is crystal clear, monetary policy will not derail a booming economy. The Fed will pay close attention to risks that could derail the current growth cycle. In this context, we believe that it will not react excessively to a possible acceleration of inflation for example if it were to happen, or to a temporary strengthening of economic growth. There should be no surprises in H2 on this front – monetary policy normalisation will be gradual, with no major impact on financial markets.

Risks of a trade war are the main threat

Global growth has progressively gained strength in the past several years, and the global economy could post growth of close to +4% in 2018 if nothing happens to upset the equilibrium established in particular by the central banks along with their accommodating monetary policies. These results should continue to firm up in 2018, benefitting from an upswing in world trade. The alignment of positive growth scenarios in the US, Europe, Asia, and in emerging countries was indeed expected to lead to an increase in trade and accordingly to wealth creation and growth.

After several decades of trade liberalisation, President Trump seems to want to reinstate American trade deficits by unilaterally adopting protectionist measures. Trump's threats may be carried out, and the spectre of a large-scale trade war waged simultaneously against China and long-standing US allies such as Canada and Europe could well have devastating effects unanticipated by the man who claims 'trade wars are easy to win'. Trump may not have fully gauged the risk to which he is exposing the US economy with his aggressive strategy. This risk is clearly the most significant factor to take into account today, as most macroeconomic factors seem to be on the right track.

Swiss franc will continue to weaken

Since January 2015, in our analyses we have regularly upheld that the SNB's monetary policy would be a success, frequently mentioning that the EUR/CHF exchange rate would return to 1.20. Recently, the improvement in the European economic situation and the prospect of the end of ECB liquidity injections in 2018 have led to rise in the euro. However, we had indicated that in the short-term the euro would likely hit the 1.20 mark, but that it would be unsustainable in the immediate future.

Graph sources: Bloomberg/BearBull Global Investments

After the noticeable appreciation in the euro, we were expecting a phase of consolidation before an upward movement of the exchange rate against the Swiss franc could take place. As such, the correction in May came as no surprise amidst the uncertain political context in Italy. We probably need growth to pick up the pace in the Eurozone and the interest rate differential to widen in order to push the Euro to continue to appreciate beyond the 1.20 threshold against the Swiss franc. However, we believe that the weakness seen over the past few weeks (-4.5%) provides a new opportunity to reposition on the euro. As regards the US dollar, the consolidation has been modest (-2%) and we maintain our upward forecasts. The SNB should be pleased to note the effect of its policy, which is proving a major monetary strategy success, as demonstrated by the record 54.5 billion Swiss francs in profit for the bank in 2017. SNB currency reserves are still high, but have stabilised at around 740 billion Swiss francs. The market effects over the last few weeks certainly explain this drop in currency reserves, so one should not read into this a change in SNB monetary policy.

Investment opportunities in the equities, real estate and commodities markets

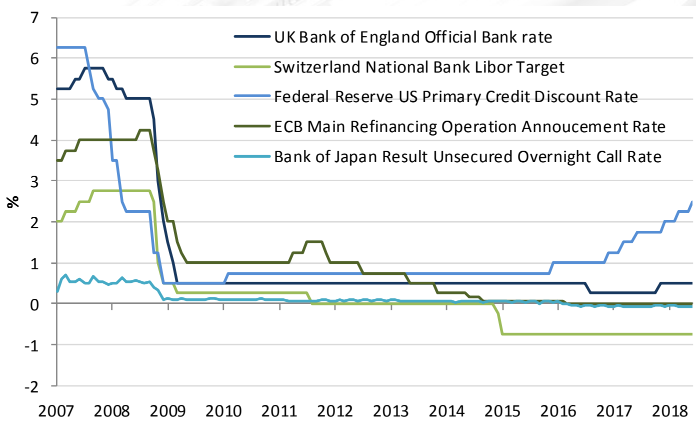
The correction in equities in February and the recent weakness in financial markets significantly reduced the risk levels in equity markets, in particular by adjusting valuation levels in many markets. The PE ratios of the Swiss, European as well certain emerging markets are thus once again reasonable, while PE ratios in the US declined more moderately. The Swiss market in particular should benefit from continued weakness of the franc, which will further support corporate earnings growth. Swiss companies will thus likely achieve new performance records in 2018. Moreover, average dividend yields remain high (3.4%), both by historical comparison and compared to bond yields. In the absence of major negative developments resulting from Trump's threats of introducing protectionist tariffs and escalating measures unfavourable to world trade, macroeconomic conditions appear likely to support corporate earnings growth globally and drive further gains in stock prices.

With respect to real estate, the pace of key rate normalisation in the US and in the Eurozone in particular does not seem to constitute a proximal risk with regard to this asset class. The upward trend in long-term rates will likely have an impact on real estate valuations in the longer run, but we maintain our view that the increase in long-term rates will be rather marginal, especially in the Eurozone, and entirely insufficient to significantly affect real estate prices. Investors' diversification and yield generation requirements remain considerable and will continue to favour real estate investments internationally and in the Eurozone in particular in 2018 to compensate for the absence of yield in bond markets. Securitised real estate will not be spared by volatility, however, as it is not immune to the risk of deterioration in financial conditions and in the stock market climate.

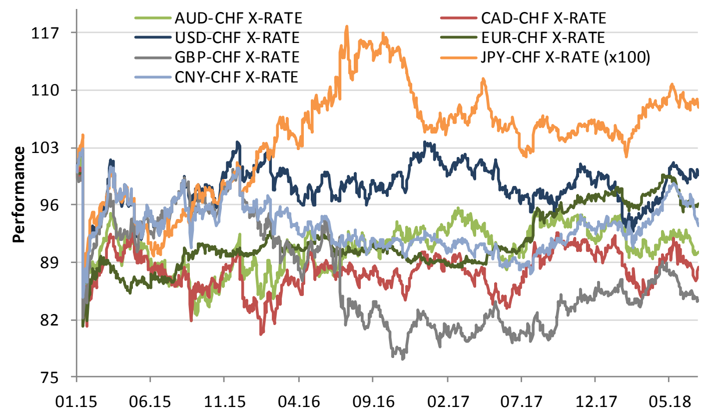
Commodities posted their first run of four consecutive quarters of growth since 2007, bringing their overall progress over twelve months to over +30% and underscoring investors' renewed interest in this asset class, which performs better when the business cycle is on the upswing. Results posted since the beginning of the year thus confirm our optimistic views on the asset class, which is benefitting from an increasing number of positive fundamentals after the sharp declines in capex over the past few years and often more robust demand trends. Crude prices in particular will be boosted by a forthcoming supply deficit resulting from a steady increase in global demand. Inventory reductions are still preventing oil prices from rising above $80, but this factor will likely not be able to limit price increases in 2019.

Industrial metals will also benefit from this more dynamic economic context. As for precious metals, we continue to believe that inflationary expectations must gain strength for attitudes towards gold and silver to change in the current context. We should remember that the lower production capacities in several sectors (energy, gold, silver, industrial metals) will affect market balance more heavily in 2019 and will likely help create conditions for a sustainable bull market.

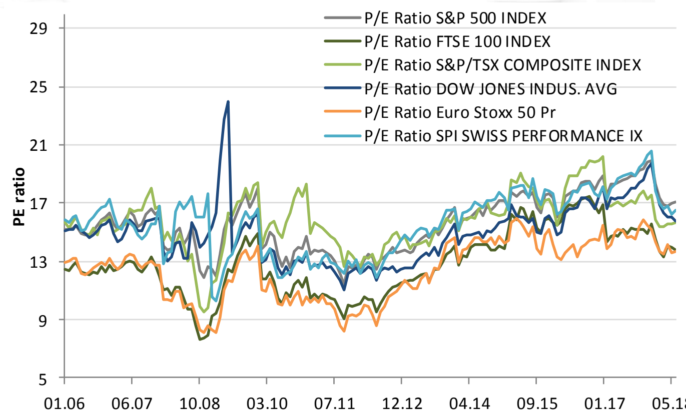
Central Bank rate (EUR, CHF, GBP, USD, JPY)



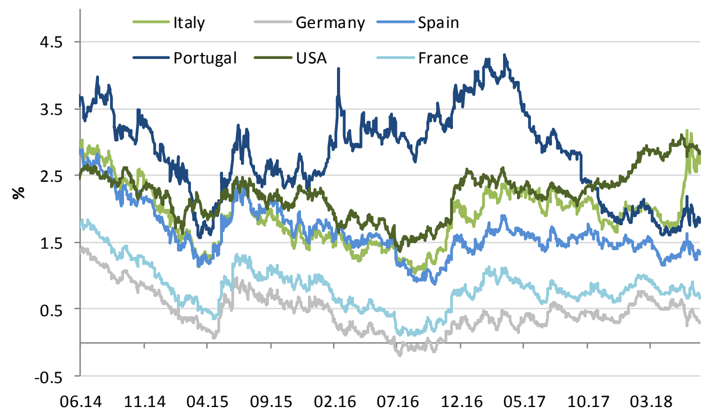
7 Major currencies against CHF (Normalized at 100)



Price/Earning Ratios in developed Markets



Government Bond yield (10 year)



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Global Outlook

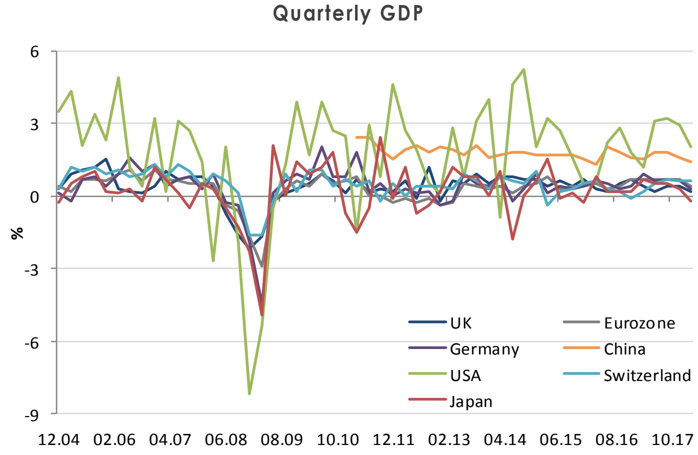
- Inevitable deceleration in US growth ?
- Growth in Eurozone will likely recover after a temporary dip in GDP
- Weak signs of hope for British economy
- Japanese economy should avoid a technical recession in Q2
- Swiss GDP growth could exceed +2.2% in 2018

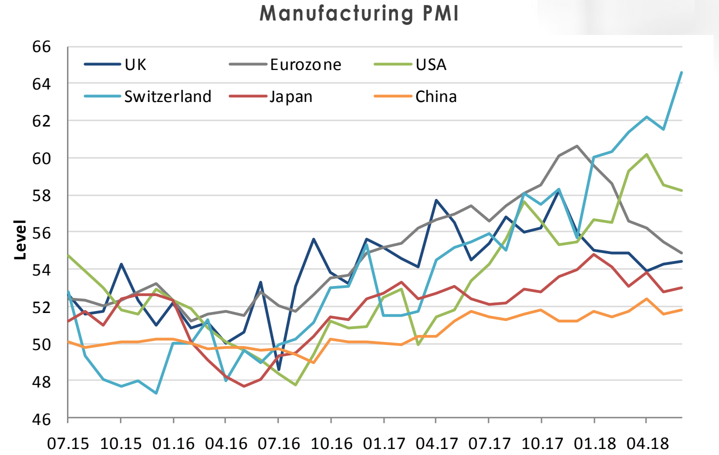
Inevitable deceleration in US growth

We pointed out that it would probably be difficult for the US economy to maintain growth above +3% in early 2018. Q3 2017 (+3.2%) remains a benchmark that may yet be reached once more in Q2. A few months ago, we also pointed out that we would likely see a drop in GDP growth. However, after the rather unimpressive result in Q1, our forecast is once again a little more optimistic. Now in its tenth year, this economic cycle is one of the longest in contemporary history, although it still does not show any of the usual features of an end of cycle. Indeed, the desired wage pressure still has not been observed, and inflation is barely reaching the 2% target set by the Fed, thereby reducing probabilities of any significant increase in key rates and long-term rates. As Q2 is coming to a close, we note that probabilities of a growth rate greater than +3% are once again high. US consumers are well and truly present, largely driving increased momentum in a context increasingly favourable to growth in personal income and purchasing power. The outlook has also improved markedly for investment, and tax policies will likely start having some effect, probably temporary, but which will support accelerating economic growth. Therefore, the next quarters could well be the strongest in the current cycle with a result close to +3.4% at the end of June already. Leading indicators actually point towards an increase in economic activity in 2018, and US consumers will likely be encouraged by a flow of positive economic news and an increasingly favourable situation in the labour market. May's manufacturing PMI (56.4) was at its highest since 2014 with the services PMI presenting a similar picture (56.8). The composite PMI thus logically also reached a peak in the period (56.6). The ISM non-manufacturing index reached a decade high of 59.9 in January before stabilising in May at its highest level in the decade at 58.6. The ISM manufacturing index followed the same trend, reaching 58.7. Current momentum will likely remain robust in Q3, supported by factors already in play, unless the risks of a trade war, which re-emerged because of the introduction of import duties in the US, affect the economic context. The risks to US growth are now more political than ever and relate to the consequences of the unilateral measures taken by President Trump in terms of tariffs and import taxes.

Growth in Eurozone will likely recover after a temporary dip in GDP

The European economy improved as expected in the 4th quarter 2017 (+2.7%), and in the end posted a better result than the US economy (+2.5%) due to a slight drop in activity in the United States. However, unfortunately this bright spell could not continue, and the European economy took its turn treading water at the start of the year. Growth forecasts for the 1st quarter 2018 (+0.6%) were not achieved, with growth probably having been held back by the strength of the Euro. As such, GDP only grew +0.4%, or +2.5% year on year. A few months ago, we stated that caution was the watchword for economic forecasting for the Eurozone, in a context in which leading indicators were clearly weakening. Our forecasts of temporary weakness in Eurozone activity proved accurate, but they have now once again given way to appreciation, which will be slightly more favourable in the current quarter and over the coming months. PMI indices seem to be picking themselves up after their decline over the past few months, suggesting a recovery in activity. The Markit services index is posting an encouraging recovery, having bounced back from 53.8 to 55 in June, but it remains well below its recent high in January (58). The manufacturing index has stuck to its downward trend (54.9) and remains a source of concern.





Graph sources: Bloomberg/BearBull Global Investments

We are maintaining our positive European GDP growth forecasts, but the risks caused by the rise in the Euro are not insignificant and could hold back forecasts of the economy picking up the pace in the end. On the institutional front, Brexit does not seem to be having any major impact on economic confidence. The migrant crisis, and particularly the difficulty in finding a response to Italy's resolute requests for support, do not seem to be making a difference either. President Trump's statements and comments raised fears that a second front in the trade war he is waging against the whole world would be opened in the Eurozone, likely having an increasing effect on investor and household sentiment. The European Commission's indicator of economic confidence had already dipped in the 1st quarter, but has now slid a little further, driven by the "economic prospects" component, which is dropping faster than the consumer confidence indicator. Data regarding the business climate and industrial confidence have also dipped slightly, but like consumer confidence indices, they are still close to their ten-year high. Whilst not disguising this slight downturn in global confidence, at the start of the 3rd quarter the evaluation of the situation remains rather positive. Sentiment has improved overall and is still propped up by the favourable developments in employment market conditions. Indeed, we are seeing ongoing improvement in employment and the unemployment rate. The latter fell to 8.4% in May, and has further dropped away from the peak seen in summer 2013 (12.1%).

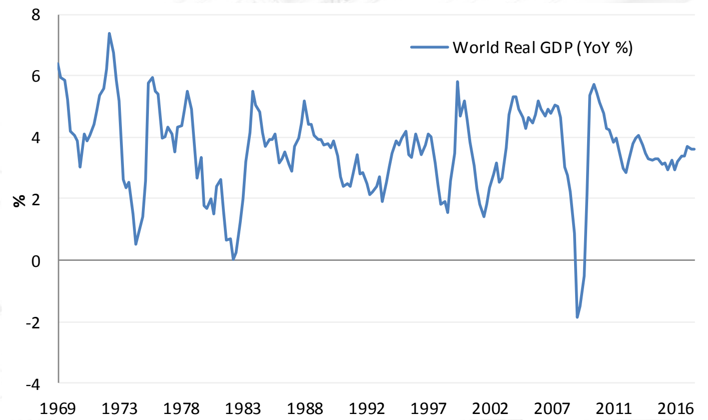
Weak signs of hope for British economy

The British economy continues to slowly deteriorate as it has since the Brexit vote. Indeed, growth has still not stabilised as hoped, even though the international and European economic contexts are relatively robust. After GDP growth fell back in Q4 2017 (+0.4%), Q1 2018 figures came out significantly below expectations, posting their poorest performance since 2012. The deceleration was sharp, with the economy abruptly losing almost all momentum; indeed, GDP grew only by a measly +0.1%. On an annual basis, GDP growth fell from +3.4% in December 2014 to only +1.2% in March 2018. The British economy is thus struggling and could quickly find itself in an even more precarious situation absent a genuine upturn in Q2. The latest industrial production figures are not encouraging. The -0.8% drop in April took analysts by surprise, as they were forecasting a slight rise of +0.1%. Most sectors experienced a decrease in production except for the energy segment. The trade balance posted its third worst result of the past five years. Given the pound's enhanced competitiveness, it is particularly disappointing to observe that exports are struggling to grow. The uncertain economic climate continued to affect British consumers over the same period, and private consumption remained anaemic (+0.2%). Domestic demand fortunately continued to benefit from the support of public consumption, up +0.5%. However Markit/CIPS composite PMI leading indicator generates hope of a brighter Q2 for the British economy. Despite this upswing, it is still well below the high reached in April 2017. The upswing in the composite index is driven by increases in the manufacturing and services indicators. Uncertainly caused by Brexit continues to weigh significantly on the minds of economic actors, but consumer and business confidence improved slightly. As for the job market, it is sending mixed signals. The unemployment rate remained relatively low (4.2%) and the sustained pace of job creation in Q2 is thus an encouraging sign with regards to GDP, as there are increases in wages, which indicate that the economy could benefit from a potential upswing in consumption. The growth prospects of the British economy will likely remain rather limited in the current environment. An upturn in Q2 seems somewhat more likely today in view of the slight improvement in leading indicators.

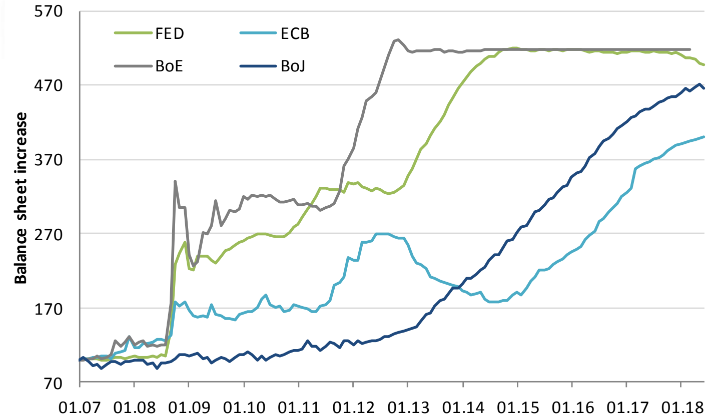
The Japanese economy should be able to avoid a technical recession in Q2

As we predicted, the Japanese economy contracted in Q1, due in particular to a +10% increase of the yen against the dollar, as GDP shrunk by -0.2% over three months. Real GDP thus declined by -0.6% YoY, its worst performance since Q4 2015. The unexpected strength of the yen between December 2017 and March 2018 clearly curbed the growth of exports and corporate earnings, which had been significant drivers of the economic upturn.

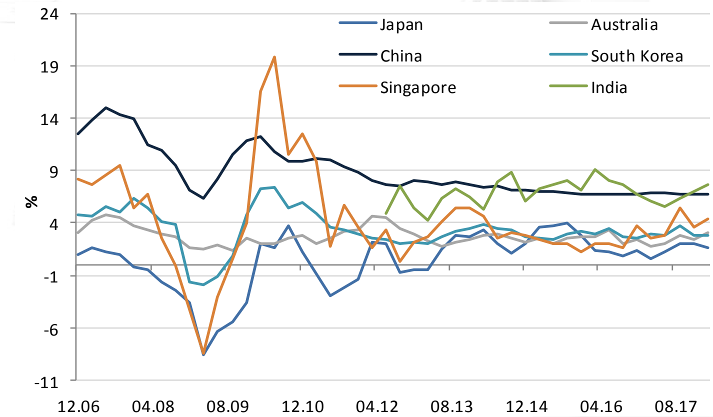
World Real GDP Growth



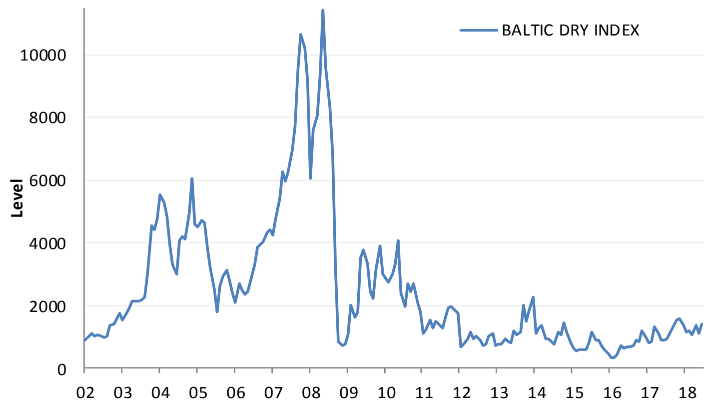
Balance sheet increase



GDP Growth rates in Asia



Baltic Dry Index



Graph sources: Bloomberg/BearBull Global Investments

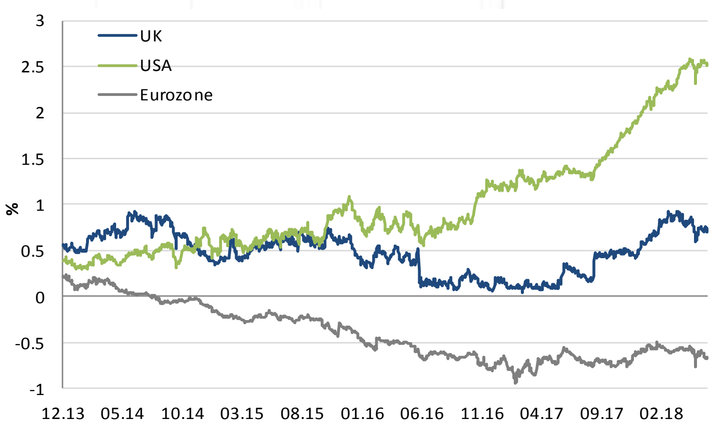
However, the fall-off in consumer spending is the main factor that weighed on GDP growth at the beginning of 2018. Export growth in Q1 slowed sharply (+7.8%) YoY in March, dropping by over half compared with growth posted in August 2017 (+18%). Unfortunately, it appears that the Japanese economy is lacking the support of a weak currency at the same time as domestic demand more than ever requires confidence and genuine growth of wages and household disposable income. Corporate earnings growth was supposed to lead to wage increases, but it has already fallen significantly from +5.5% to +0.9% between Q3 and Q4 2017, barely clearing +0.2% at the end of March, far from the +26.6% growth rate posted in Q1 2017. This context warrants concern with regard to the outlook for consumption, as inflation dropped from 1.1% in March to 0.7% in May.

The yen's rise was fortunately interrupted in March, giving way to weakness and a welcome respite for the Japanese economy. The threat is thus receding in Q2, but at 109.5 yen to the dollar, the yen remains relatively strong compared to its value as of 31 December 2017. The BoJ is no doubt aware of the significance of this factor but has no other means at its disposal to counter the negative impact of a strong currency than those already implemented. This situation thus remains concerning and continues to weigh on the economic outlook for Japan over the next few quarters. Absent a steeper depreciation of the yen in Q2, we expect continuing uncertainty with regard to the Japanese economy in 2018. GDP growth could suffer from a decline in both external and domestic demand. Hopes for recovery in 2018 thus rest upon a more lasting trend reversal with regard to the exchange rate, with a steeper depreciation of the yen. Even if there is now a real risk that the strength of the yen will once again drag the Japanese economy into a surprise technical recession, we believe that disaster will be averted in Q2.

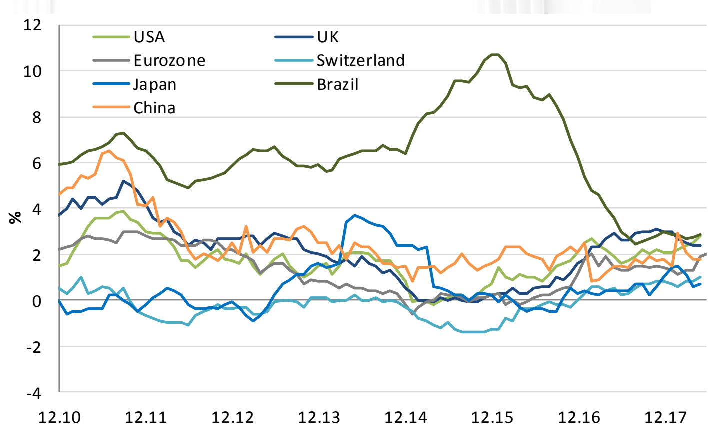
Swiss GDP growth could exceed +2.2% in 2018

At the end of the 2nd quarter, we believe that the current economic trend will continue, propped up in part by further adjustments to the value of the Swiss franc. This should enable the Swiss economy to post robust growth in past comparison, and perhaps even head above +2.2% growth by the end of the year. In 2018, the Swiss economy will benefit from the general improvement in the economic climate and consumer confidence to an even greater degree than in the second half of 2017. Specifically, domestic demand should be boosted by the lowest unemployment rate in ten years, high savings rates, and an investment recovery within an improved international economic context. The increasingly robust economic conditions which Switzerland's main economic partners should enjoy in 2018 should also drive the trend. The weakness of the Swiss franc against most currencies should make Swiss-made products more attractive. In this context, we are maintaining our Swiss growth forecasts at +2.2% in 2018. The latest leading indicators remain temporarily affected by renewed uncertainty on financial markets from the 1st quarter and by political events in Italy, but they are still pointing toward sustained economic activity for the coming months, despite a loss of momentum. The KOF index has continued to slide away since its peak in November (110.3), which marked the highest levels of optimism since 2010. In June it stood at 101.7. The manufacturing PMI indicator, which hit its highest level (65.5) since July 2010 (65.6) in February, has been showing signs of weakness for a few months. The trend seems to be rather running out of steam according to the latest figures published for June (61.6), although it remains very much positive. Three years after the SNB dropped the euro-Swiss franc floor, the manufacturing sector is once again in good shape. That said, although for the time being the purchase managers index is not indicating any particular risk, some caution would seem reasonable given the recent bright spell on the index. Leading indicators are suggesting that the current trend will continue, but also seem unsure as to whether the Swiss economy can keep up its current pace.

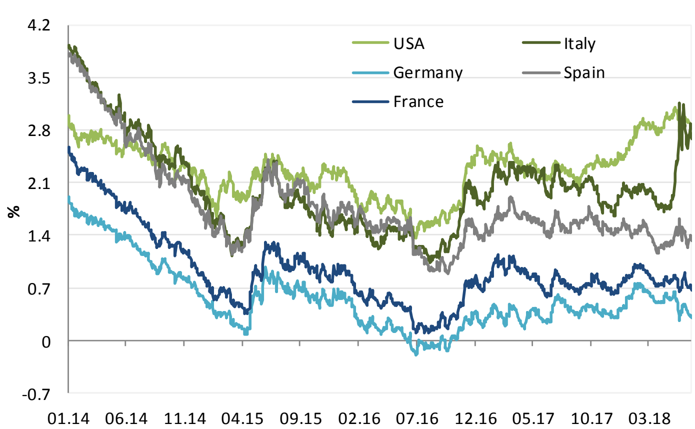
2-year Government Bond yield



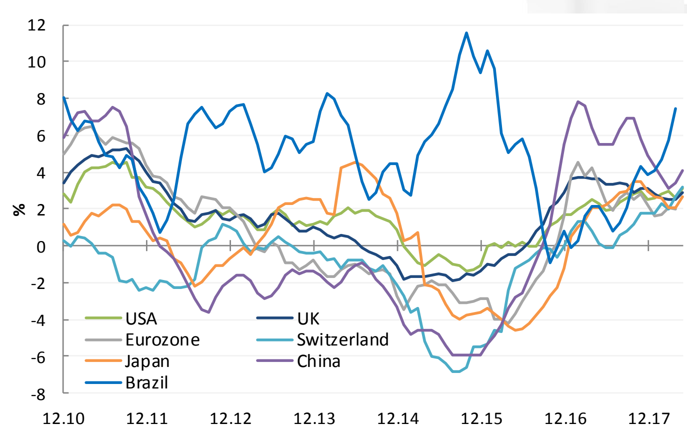
Inflation - CPI Indices



10-year Government Bond yield



Inflation - PPI Indices



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United States

- Monetary policy will not derail a booming economy
- Inevitable deceleration in growth
- Reassessing the risks of a trade war
- Increases in wages, inflation and interest rates
- Dollar finally on the rise
- Contraction in margins a threat to the S&P 500

The Fed's latest message is crystal clear, monetary policy will not derail a booming economy

The US Federal Reserve once again aimed to reassure investors potentially concerned about the pace at which it intends to raise interest rates. The Fed is clearly committed to implementing its monetary policy gradually and without any risk to the ongoing economic recovery. Let us recall that these concerns have arisen although the US economy is enjoying its second longest expansion phase and inflation is progressing faster than expected. The Fed's stance on the issue of raising key rates is therefore meant to reassure investors.

On 13 June, the Fed raised its key rates by 0.25% for the second time in 2018 in a context of robust growth and particularly positive prospects for the US economy. The discount rate went from 2% to 2.25%, and the target for the Fed Funds rate rose by 0.25% with low and high targets standing at 1.75% and 2%.

This seventh hike since the change in monetary policy, decided unanimously, was widely expected and did not come as a shock to the markets. It should therefore have no major impact on the investment climate. If anything, the potential risks related to the Fed's analysis and assessment of the country's economic situation and to the resulting possible changes in monetary policy. On that point, let us mention that we may now expect four rate increases in 2018 instead of the three expected until now.

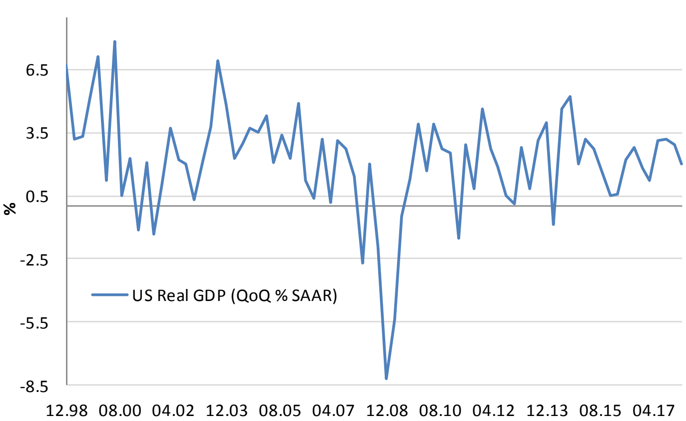
The increase in the number of expected hikes by the Fed in 2018 should not be overrated, however, since it is the result of an increase in the number of members from seven to eight in favour of two new 0.25% increases in H2 2018. This development may feel like a future tightening of monetary policy, but it will still depend on changes in economic conditions at the end of the year. The final hike in December is therefore far from certain. Moreover, the outlook for 2019 remains unchanged with three 0.25% rate increases. Central bank committee members will most likely feel more and more inclined in the next few months to consider that the upturn in US growth will warrant regular yet measured action on key rates. Still, they have not changed their forecast for the Fed Funds rate at 3.4% by the end of 2020.

The Fed will pay close attention to risks that could derail the current growth cycle. In this context, we believe that it will not react excessively to a possible acceleration of inflation for example if it were to happen, or to a temporary strengthening of economic growth. The estimated level of the Fed Funds rate (median progression) has thus increased to 2.375% for the end of 2018 and to 3.125% for the end of 2019.

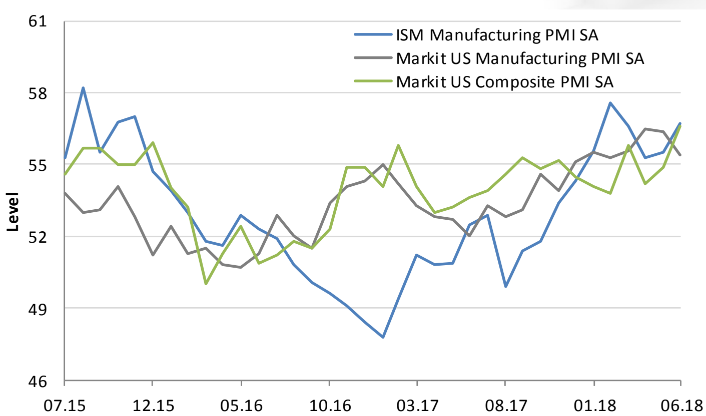
Serenity at the Fed and in the financial markets ?

The US central bank has conveyed its assessment of the current economic situation and seems increasingly comfortable communicating its positive conclusions on the state of the US economy. The Fed is more confident than ever in the country's growth prospects and has once again raised its forecast for 2018 from 2.7% to 2.8%, although it has kept the outlook for 2019 at +2.4%. Growth in the US is now considered "robust" after having been deemed "moderate".

Quarterly US Real GDP Growth

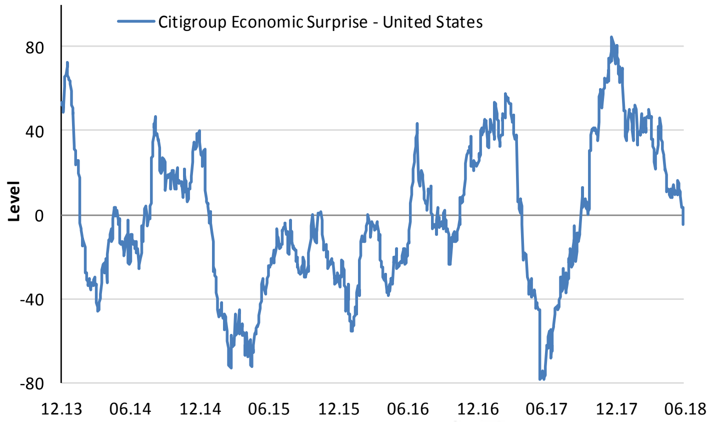


PMI Indices

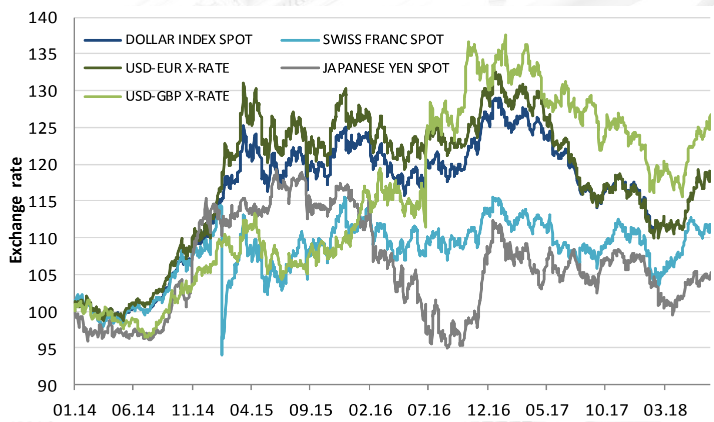


Graph sources: Bloomberg/BearBull Global Investments

Citigroup economic surprise index USA



Dollar trade-weighted index and currencies



The temporary drop in momentum in Q1 has been replaced by a much better outlook in Q2.

With regards to the labour market, the Fed revised its projections based on better prospects for 2018. The key focus of its analysis remains labour market conditions, which continue to point to an increase in new jobs and a decrease in the rate of unemployment (3.8%). The institution's forecast for the latter is of 3.6% in 2018 and 3.5% in 2019. The Fed's outlook on inflation remains relatively unchanged. An increase beyond the set target of 2% (2.1%) seems likely in 2018 with no perceived risk of this target being exceeded quickly and significantly. The central bank is not claiming victory with regards to inflation, highlighting that inflationary expectations are relatively stable. To date, the bond market has shown no specific reaction to the announcement of this monetary policy measure. Ten-year rates barely reached 3% before stabilising slightly below this mark, as the rate hike failed to drive these rates closer to the high reached on 18 May 2018 at 3.12%.

The situation is a little less stable for the US currency. The trade weighted US dollar index surged by close to +2% to return to his highest level since 29 May 2018.

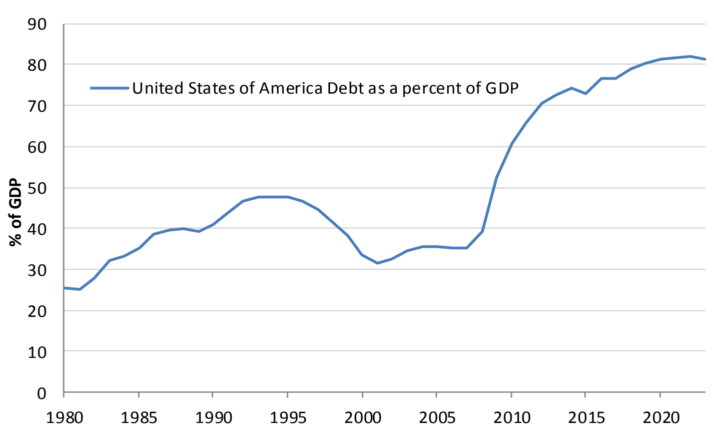
As for the US equity market, it remains in wait-and-see mode since the S&P 500 remained quiet this week at 2,785 points.

Inevitable deceleration in growth

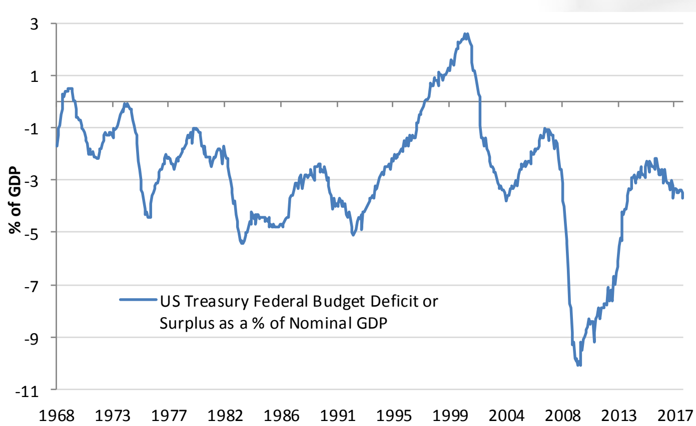
We pointed out that it would probably be difficult for the US economy to maintain growth above +3% in early 2018. Q3 2017 (+3.2%) remains a benchmark that may yet be reached once more in Q2. A few months ago, we also pointed out that we would likely see a drop in GDP growth. However, after the rather unimpressive result in Q1, our forecast is once again a little more optimistic. Now in its tenth year, this economic cycle is one of the longest in contemporary history, although it still does not show any of the usual features of an end of cycle. Indeed, the desired wage pressure still has not been observed, and inflation is barely reaching the 2% target set by the Fed, thereby reducing probabilities of any significant increase in key rates and long-term rates. As Q2 is coming to a close, we note that probabilities of a growth rate greater than +3% are once again high. US consumers are well and truly present, largely driving increased momentum in a context increasingly favourable to growth in personal income and purchasing power. The outlook has also improved markedly for investment, and tax policies will likely start having some effect, probably temporary, but which will support accelerating economic growth. Therefore, the next quarters could well be the strongest in the current cycle with a result close to +3.4% at the end of June already. Leading indicators actually point towards an increase in economic activity in 2018, and US consumers will likely be encouraged by a flow of positive economic news and an increasingly favourable situation in the labour market.

May's manufacturing PMI (56.4) was at its highest since 2014 with the services PMI presenting a similar picture (56.8). The composite PMI thus logically also reached a peak in the period (56.6).

Debt (% GDP)



Deficit/Surplus



Graph sources: Bloomberg/BearBull Global Investments

The ISM non-manufacturing index reached a decade high of 59.5 in January before stabilising in May at its highest level in the decade at 58.6. The ISM manufacturing index followed the same trend, reaching 58.7. Current momentum will likely remain robust in Q3, supported by factors already in play, unless the risks of a trade war, which re-emerged because of the introduction of import duties in the US, affect the economic context.

Reassessing the risks of a trade war

The risks to US growth are now more political than ever and relate to the consequences of the unilateral measures taken by President Trump in terms of tariffs and import taxes. The introduction of taxes on aluminium and steel imports will undoubtedly be followed by an increase in import tariffs on other goods, including motor vehicles for example.

The spectre of a possible global trade war is back thanks to Donald Trump's protectionist stance. The US' economic partners have re-acted in unison, insisting that they will not have measures imposed that are contrary to the commercial treaties and international agreements that were signed. Moreover, it should be noted that the decisions taken by the US President are far from foolproof in legal and constitutional terms. Indeed, as it was pointed out by the House Financial Services Committee Chairman (Republican) in front of Congress, "I don't believe the Honda Accord is a threat to US national security". This is indeed a vital argument since President Trump has justified his decision to introduce tariffs on the fact that the low prices of imported steel and aluminium are a threat to na-tional interests. An estimate of the effects of these customs barriers suggests that the creation of 92,000 jobs could be offset by the destruction of 250,000 other jobs.

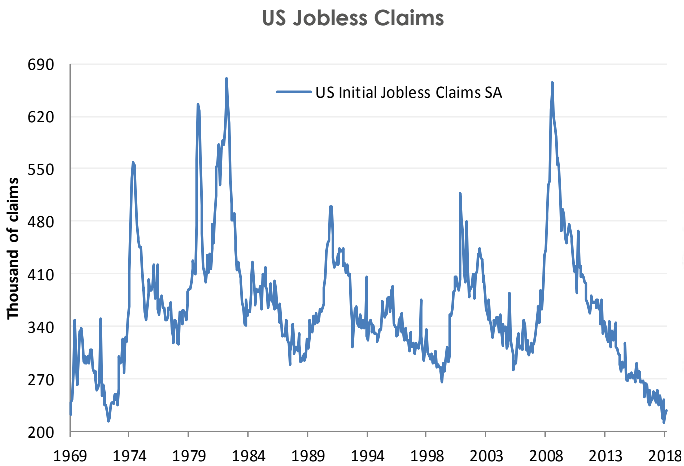
US imports of European steel and aluminium only represent 0.5% of imported goods, i.e. barely $2 billion out of $256 billion. The impact on Germany or China's GDP is estimated at about 0.04 basis points. We believe it is still early to assume the US President will commit to total trade war, which would probably not have the desired effects.

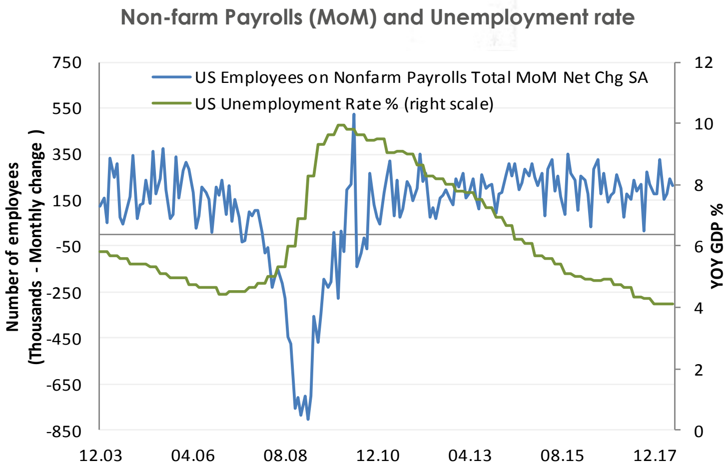
Increases in wages, inflation and interest rates

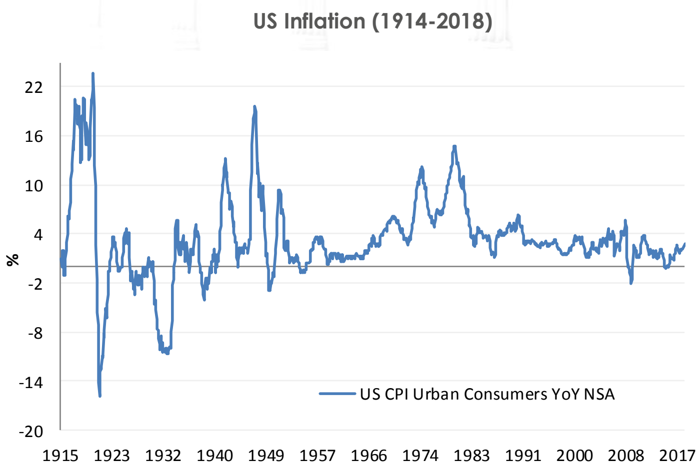
The consumer price index (CPI YoY) reached +2.8% in May while the core index settled at +2.2%. Inflation seems to have accelerated also for producer prices, confirming the Fed's expectations. The PPI for final demand is also at its lowest since 2011. Momentum is still restrained but remains above the Fed's target. Expected YoY infla-tion has increased greatly, reaching +2.9% in May. In the longer term, the 5- to 10-year expected inflation forecast is also higher than current inflation at +2.6%.

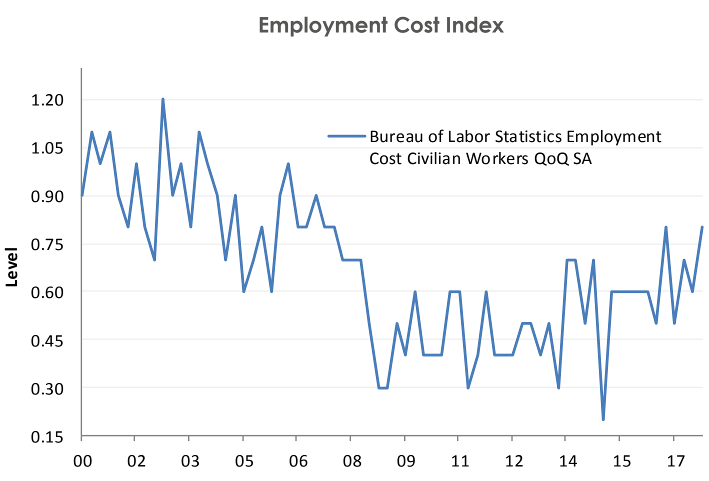
An acceleration of this trend depends on an increase in wages, which is taking some time to materialise despite a labour market close to full employment and an unemployment rate of 3.8%. How-ever, the upturn in inflation will strengthen due to wage pressures and price increases, which will intervene to preserve business mar-gins.

After a few quarters of stabilisation, US long-term rates were the first to take off. Our 3% growth forecast for long-term rates has material-ised. Nevertheless, although we still believe that long-term rates should ultimately exceed this level, it is likely that in the short term, volatility in the equity markets will drive a temporary stabilisation phase.









Graph sources: Bloomberg/BearBull Global Investments

Dollar finally on the rise

A few months ago, we predicted that superior US economic momentum would likely support an interest rate spread in favour of the dollar – a trend that now looks like it is strengthening. In this context, the perceived weakness of the dollar seems unjustified. The adjustment of the valuation of the dollar is ongoing.

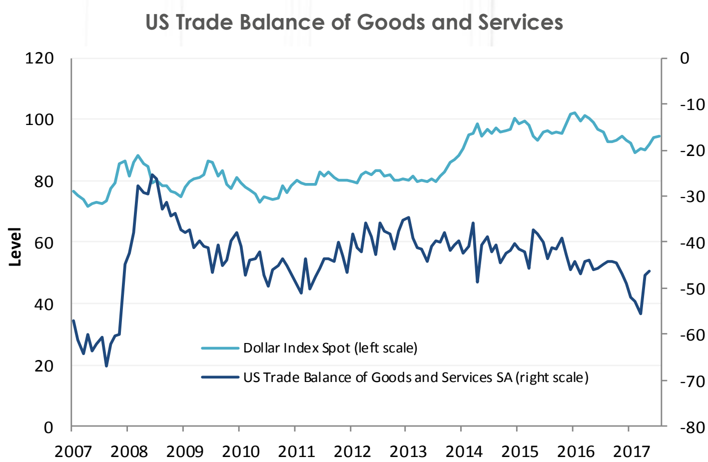
The trade weighted dollar has regained the ground lost between November 2017 and February 2018. Our positive forecast is materialising with an exchange rate against the franc that is once again close to parity.

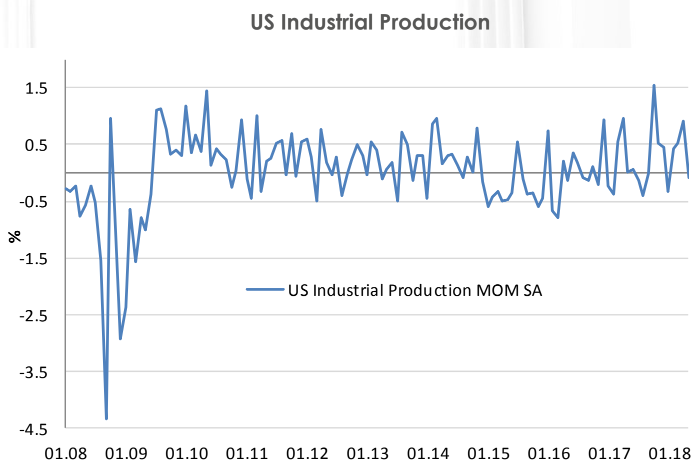
Contraction in margins a threat to the S&P 500

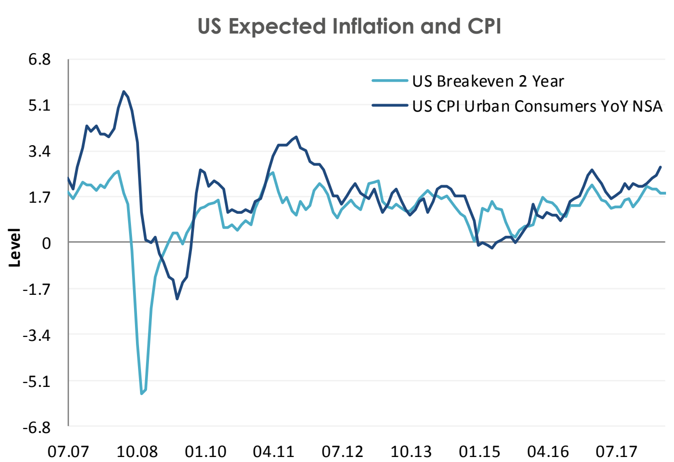
The price correction in February-March was expected and triggered new repositioning opportunities thanks to more attractive valuation levels. Risks remain after the rebound in May and June of seeing insufficient profit growth to justify once again higher valuation levels, which are approaching the levels that prevailed before the price correction. The earnings growth of multinational corporates could indeed suffer due to pressure on margins.

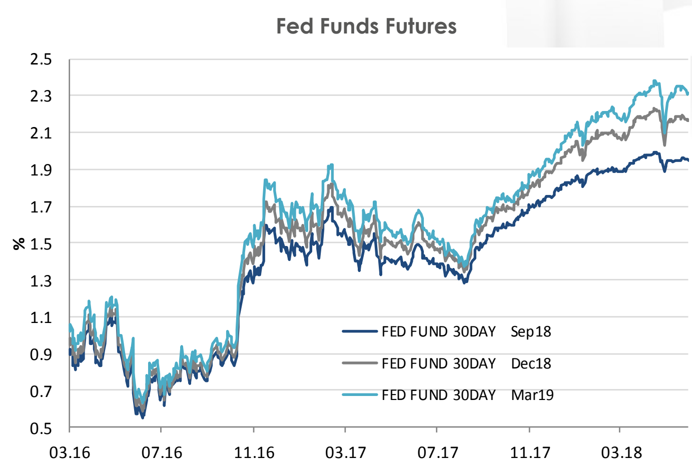
In the last few years, the rise in stock prices has mainly been driven by a phase of strong multiple growth, logical in a context of falling interest rates. The cycle of rising interest rates could therefore lead to adjustments and a PE contraction phase. It is likely indeed that, whatever the developments in corporate profits, the increase in interest rates will put an end to this ten-year expansion phase.

After the rebound of US stocks in the last few weeks, we once again recommend a degree of caution.



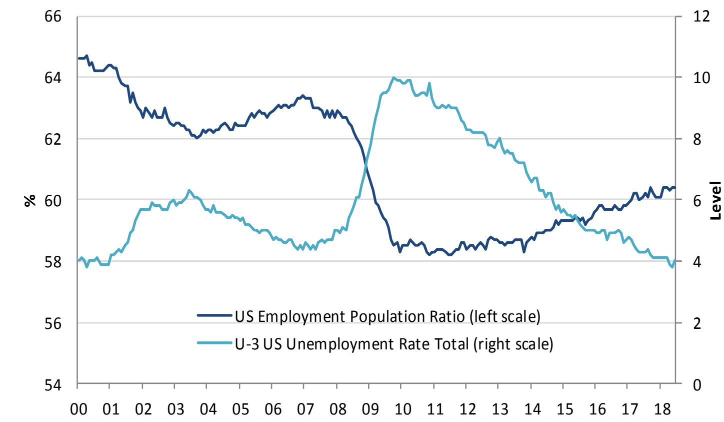




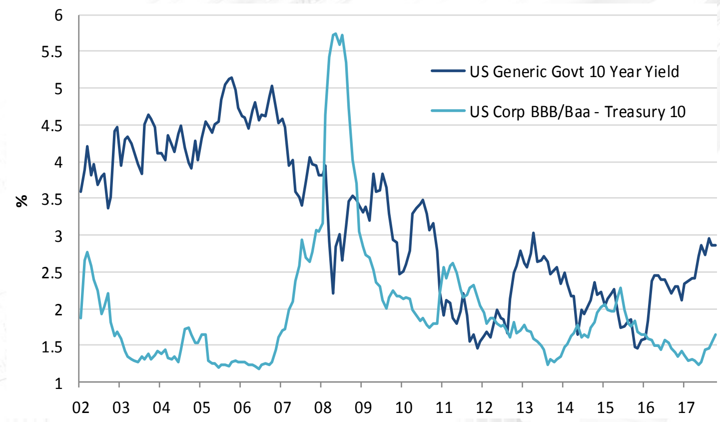


Graph sources: Bloomberg/BearBull Global Investments

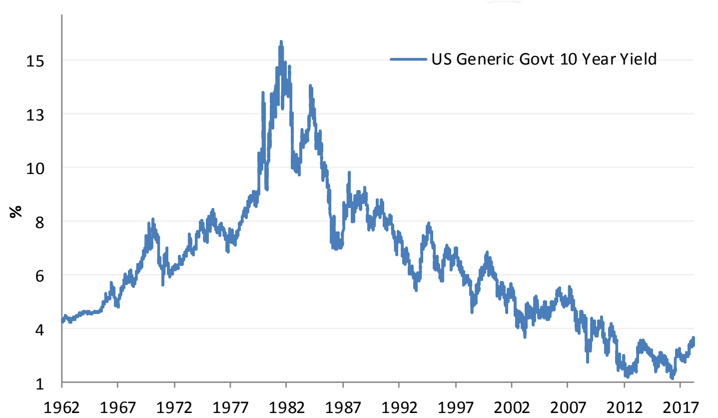
US Unemployment rate and Employment Population Ratio



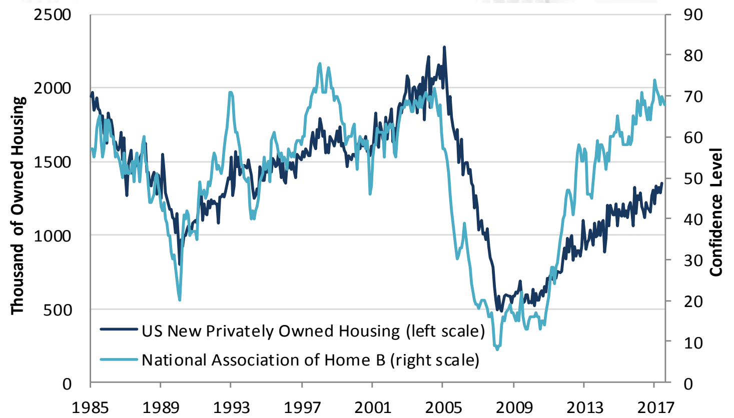
Yield spread Us Treasury - BBB 10 year



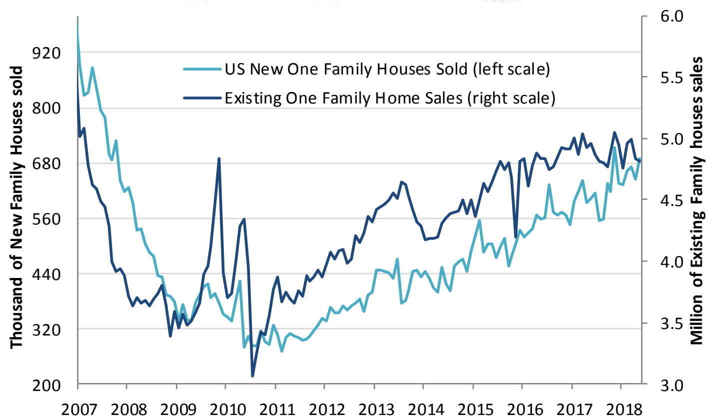
US Government Bonds 10 year yield



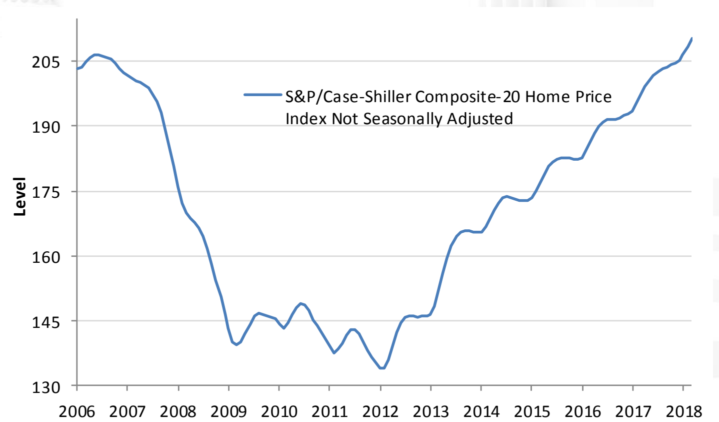
US New Privately Owned Housing and NAHB USA



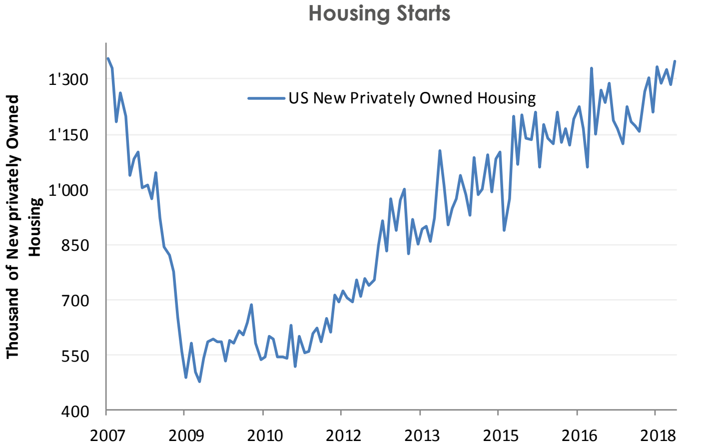
Sale of US New and Existing Family Houses



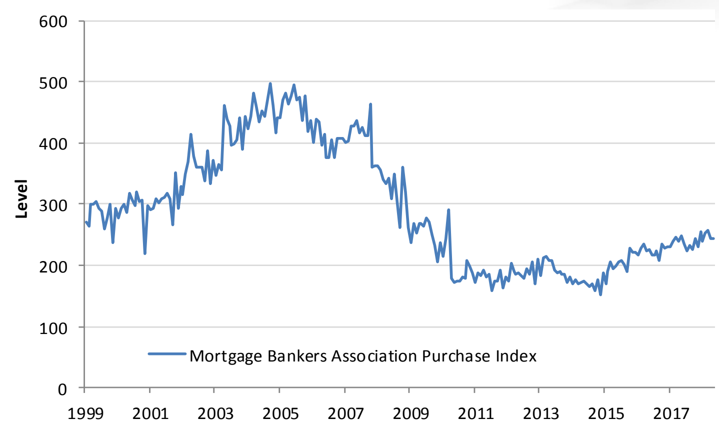
Real Estate Prices - S&P Case-Shiller Index



Housing Starts



New Mortgage Applications - MBA



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

SWITZERLAND

- Swiss GDP growth could exceed +2.2% in 2018
- Climate still positive for private spending
- Boost expected for foreign trade
- New period of weakness for the Swiss franc
- Is this the end of micro-movements on long rates ?

1st quarter GDP heralds a buoyant 2018 for the Swiss economy

Last Thursday, the State Secretariat for Economic Affairs (SECO) published the latest Swiss growth figures. Real terms Swiss GDP once again showed excellent +0.6% growth in the 1st quarter 2018 (+2.2% year on year). As such, it has kept up a sustained growth rate, bearing out our forecast which we had left unchanged at +2.2% for 2018. The Swiss economy is backing up its good results over the past few quarters, though proving a slight negative surprise for analysts who were expecting +2.3% year on year growth.

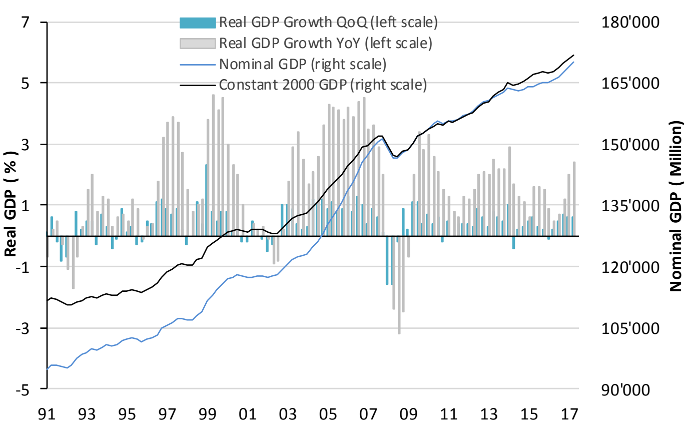
As such, the trend seems to have established itself well enough at the beginning of the year for the Swiss economy to post one of its best results of the past ten years in 2018. It has only twice hit the growth rate seen over the 1st quarter since 2011- in the first (+2.6%) and last (+2.9%) quarters 2014.

The good performance of European economies and of the economies of Switzerland's main trading partners, along with the weakness of the Swiss franc, should continue to support Swiss economic growth over the coming months. We had forecast better prospects for 2018, thanks in particular to the improvement in the international economic situation mentioned above, as well as positive exchange rate conditions. We are therefore pleased to note that Switzerland is now making a greater contribution to the international trend, which we believe to be more in line with its growth capacity in a more robust global context in 2018.

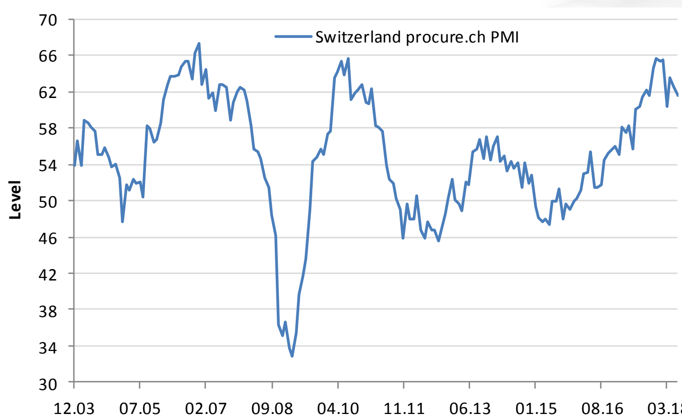
This pleasing GDP performance was propped up by quite a few sectors, especially services and private spending. The leisure sector did particularly well, posting +7.3% growth thanks to large international sporting events. It seems worth underscoring this point, as it made a very clear contribution to the quarter's performance, which the SECO believes would only have stood at +0.4% otherwise. Final domestic demand made a positive contribution to GDP thanks to private spending. It rose +0.4% and was still a key growth driver over the quarter. Growth was also boosted by investment spending in research and development, which enabled investment in capital goods to post solid +3.6% growth. Although in the previous quarter domestic demand had enjoyed the advantage of a positive combination of private and public spending, as well as investment in construction, the start of the year was more of a mixed bag. The latter two segments each made a negative contribution (-0.3% and -0.4% respectively). Most branches of the services sector posted a rise in their added value; the financial sector continued on its trajectory with a +1% rise, and transport and communication (+1.3%) and health (+1.2%) also posted satisfactory growth. After a few quarters of strong growth, the manufacturing sector has trodden water, with a modest +0.2% rise. In terms of foreign trade, merchandise imports grew +2.9%, backed up by +0.8% growth in services imports after two weak quarters. Services exports (+2.9%) posted higher-than-average performance, as did merchandise (+2%).

After a very favourable second half of 2017 for currencies, the 1st quarter 2018 was more stable for the Swiss franc, approaching the sensitive 1.18-1.20 zone against the euro, and 0.98-1.00 against the US dollar. The correction to the exchange rate, which we had been predicting ever since the Swiss franc-euro floor was dropped, is now materialising and propping up growth. The revaluation of the euro from 1.06 to 1.20 has greatly helped to improve economic conditions. After having stood strong in the face of the appreciation of the Swiss franc, the Swiss economy is now benefiting from exchange rate normalisation. This situation should continue in 2018.

Nominal GDP - Nominal and Real GDP Growth rate

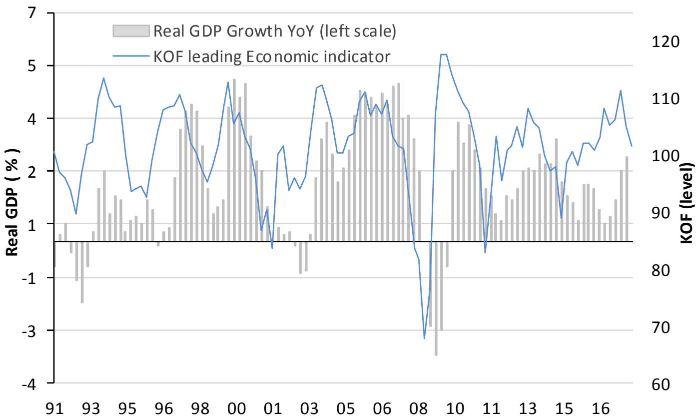


Swiss Purchasing Manager Index (PMI)

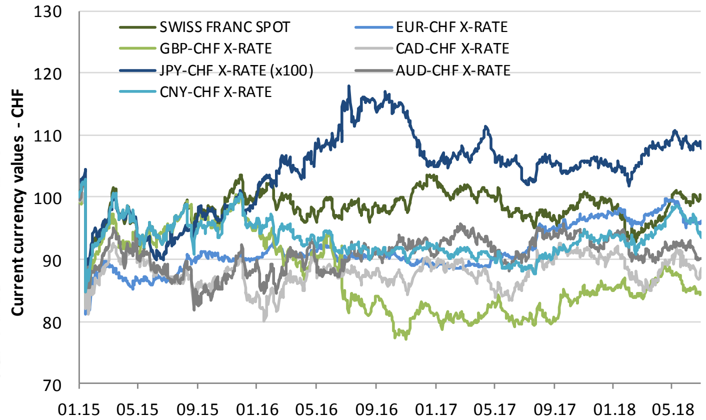


Graph sources: Bloomberg/BearBull Global Investments

Real GDP Growth YoY - KOF leading economic indicator



CHF Exchange rate (Normalized at 100)



Swiss GDP growth could exceed +2.2% in 2018

At the end of the 2nd quarter, we believe that the current economic trend will continue, propped up in part by further adjustments to the value of the Swiss franc. This should enable the Swiss economy to post robust growth in past comparison, and perhaps even head above +2.2% growth by the end of the year. In 2018, the Swiss economy will benefit from the general improvement in the economic climate and consumer confidence to an even greater degree than in the second half of 2017. Specifically, domestic demand should be boosted by the lowest unemployment rate in ten years, high savings rates, and an investment recovery within an improved international economic context. The increasingly robust economic conditions which Switzerland's main economic partners should enjoy in 2018 should also drive the trend. The weakness of the Swiss franc against most currencies should make Swiss-made products more attractive. In this context, we are maintaining our Swiss growth forecasts at +2.2% in 2018.

The dip in some leading indicators suggests a loss of momentum

The latest leading indicators remain temporarily affected by renewed uncertainty on financial markets from the 1st quarter and by political events in Italy, but they are still pointing toward sustained economic activity for the coming months, despite a loss of momentum. The KOF index has continued to slide away since its peak in November (110.3), which marked the highest levels of optimism since 2010. In May it stood at 100.

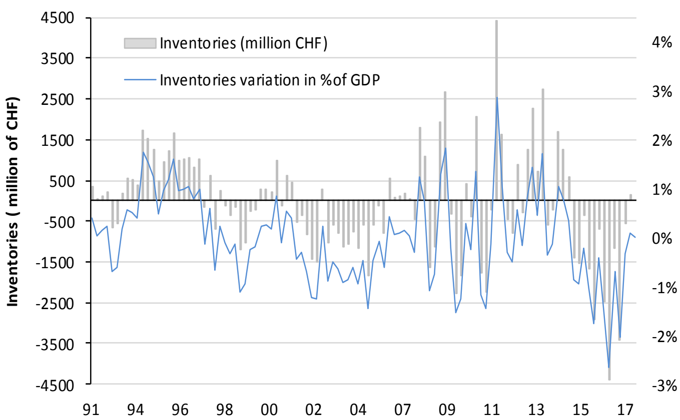
The manufacturing PMI indicator, which hit its highest level (65.5) since July 2010 (65.6) in February, has been showing signs of weakness for a few months. The trend seems to be rather running out of steam according to the latest figures published for May (62.4), although it remains very much positive. Three years after the SNB dropped the euro-Swiss franc floor, the manufacturing sector is once again in good shape. That said, although for the time being the purchase managers index is not indicating any particular risk, some caution would seem reasonable given the recent bright spell on the index. Leading indicators are suggesting that the current trend will continue, but also seem unsure as to whether the Swiss economy can keep up its current pace.

Climate still positive for private spending

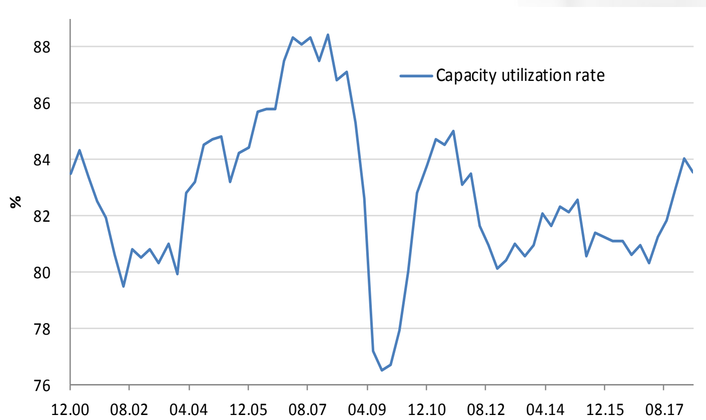
The latest drop in the unemployment rate to 2.4% in May demonstrates the strength of the Swiss economy in the 2nd quarter and suggests that there will likely soon be tensions on the job market. Indeed, over just a few months, the unemployment rate has fallen significantly, and is approaching a 10-year low (2.3%) last seen in 2008. This should continue to have a very positive effect on household confidence, and especially on spending, in Switzerland.

Household confidence has remained high after having regularly improved since 2015. The rise in the euro and the stabilisation of its exchange rate with the Swiss franc at around 1.20 should have an even starker effect on the Swiss economic climate over the coming months. As such, private spending should stick to its positive trend, propping up GDP. Public administration consumption spending will remain volatile in 2018, but federal and cantonal accounts are in rather good shape and the debt to GDP ratio (34%) remains low when compared to other countries, which could give some room for manoeuvre for public spending to make a positive contribution to GDP.

Inventories - variation in % of GDP

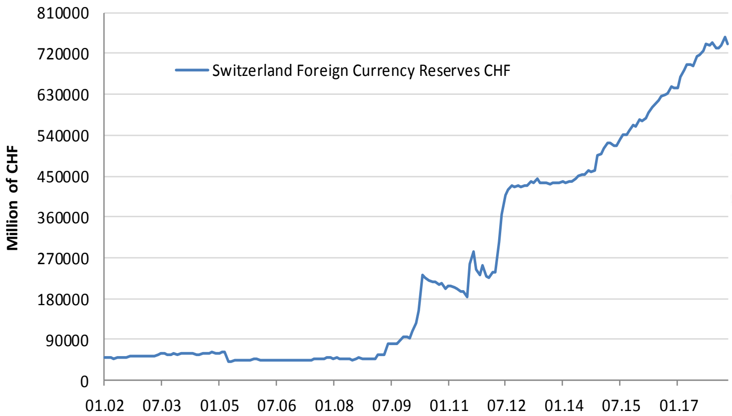


Capacity utilization rate

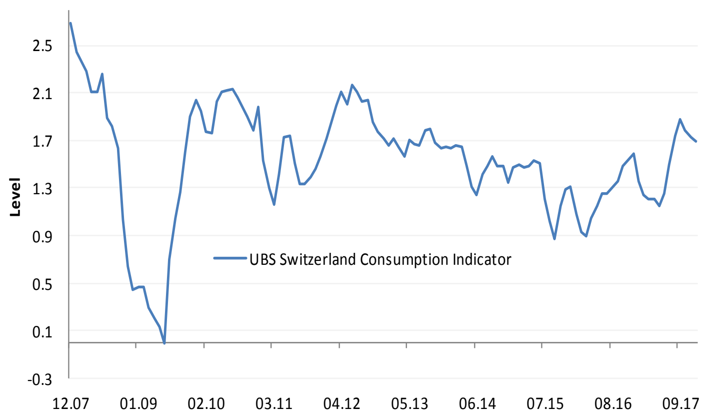


Graph sources: Bloomberg/BearBull Global Investments

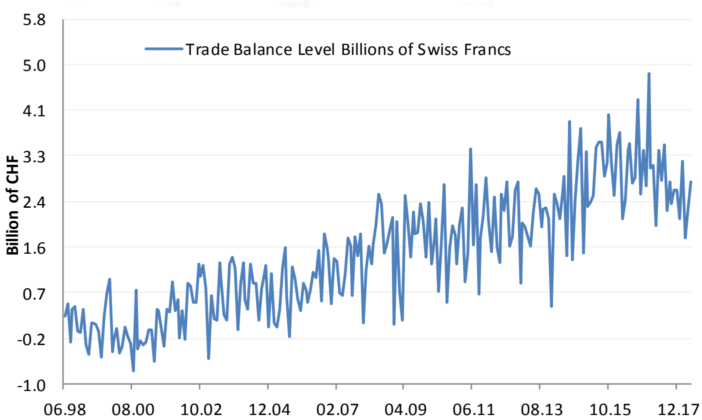
SNB Foreign Currency Reserves



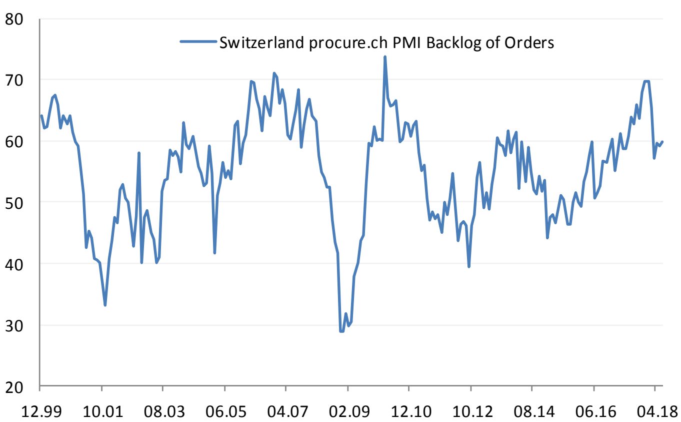
UBS Switzerland Consumption Indicator



Trade Balance level



Backlog of Orders



Graph sources: Bloomberg/BearBull Global Investments

Boost expected for foreign trade

Since its peak in January 2017, the monthly foreign trade balance has stabilised at between 2 and 3 billion Swiss francs, with no clear signs of recovery for the time being. However, we believe that the improvement in international economic conditions and the weakness of the Swiss franc should finally work together to boost exports. The recovery of the watchmaking sector, which started in 2016, is on the right track. Sales in the watchmaking sector have increased +13.8% year on year according to the latest estimates in April. Exports of machines, manufacturing products, and services should also benefit from a more positive context.

New period of weakness for the Swiss franc

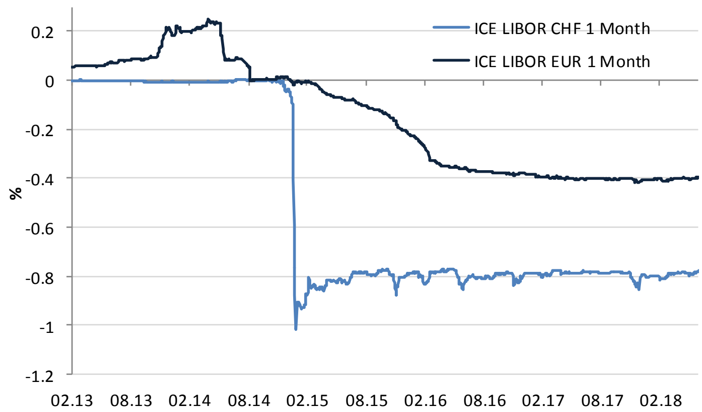
Since January 2015, in our analyses we have regularly upheld that the SNB's monetary policy would be a success, frequently mentioning that the EUR/CHF exchange rate would return to 1.20. Recently, the improvement in the European economic situation and the prospect of the end of ECB liquidity injections in 2018 have led to rise in the euro. However, we had indicated that in the short-term the euro would likely hit the 1.20 mark, but that it would be unsustainable in the immediate future. After the noticeable appreciation in the euro, we were expecting a phase of consolidation before an upward movement of the exchange rate against the Swiss franc could take place. As such, the correction in May came as no surprise amidst the uncertain political context in Italy. We probably need growth to pick up the pace in the Eurozone and the interest rate differential to widen in order to push the Euro to continue to appreciate beyond the 1.20 threshold against the Swiss franc. However, we believe that the weakness seen over the past few weeks (-4.5%) provides a new opportunity to reposition on the euro. As regards the US dollar, the consolidation has been modest (-2%) and we maintain our upward forecasts. The SNB should be pleased to note the effect of its policy, which is proving a major monetary strategy success, as demonstrated by the record 54.5 billion Swiss francs in profit for the bank in 2017. SNB currency reserves are still high, but have stabilised at around 740 billion Swiss francs. The market effects over the last few weeks certainly explain this drop in currency reserves, so one should not read into this a change in SNB monetary policy.

Is this the end of micro-movements on long rates ?

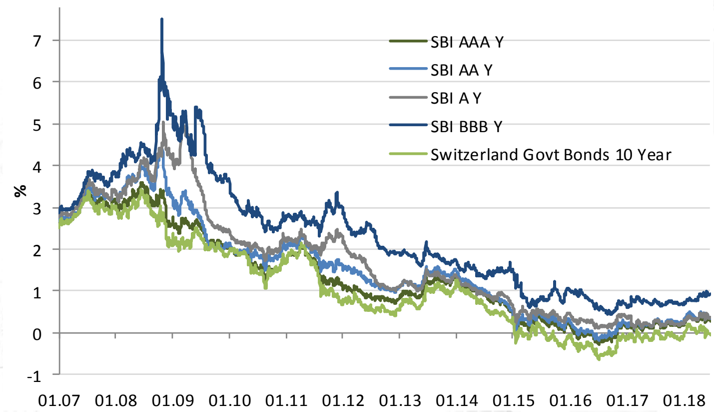
Swiss long rates did indeed start to normalise in summer 2016 in the wake of the change of trend in the United States. However, after a first adjustment to ten-year Swiss rates from -0.6% to 0% in the 4th quarter 2016, we then saw a long period of stabilisation at around 0%. A few months ago, we announced that this situation would certainly not last in 2018, which has partly been proven right with an increase in volatility in the 1st quarter. In just a few weeks, long rates leapt 40 basis points, and then stabilised. This rise likely heralds the end of "micro-movements" on long rates, and the arrival of a faster pace of rate normalisation. SNB monetary policy is still influencing the very short end of the Swiss rate curve, and is holding back any increase in yield on this end of the curve. Short-term maturities have of course hardly reacted, whereas longer maturities have risen. As such, the rate curve has steepened, as we had mentioned in previous analyses, and this should continue at a faster pace in 2018. A rise in inflation could be the next trigger for further long rate rises in the Eurozone and Switzerland.

Although it remains modest, the 1% rise in the CPI (YOY) is still the greatest rise of the last ten years, if we exclude the tensions in March (1.4%) and April (1.4%) 2010. In this context, the long rate differential between the German Bund and Swiss bonds has not really changed, and remains close to 0.5%. However, we believe this differential should grow, due to the improvement in the European trend and the end of the ECB bond purchasing programme.

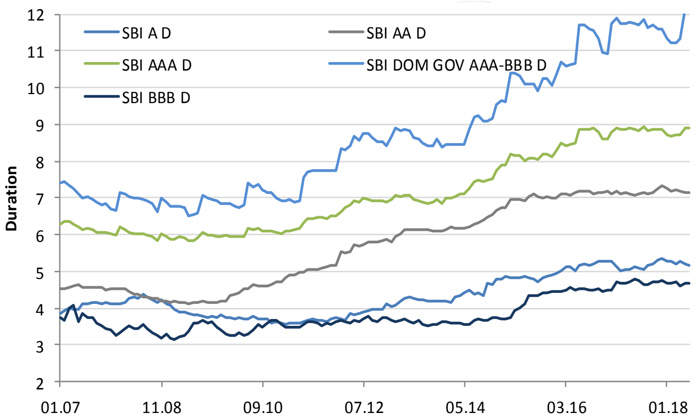
Libor spread rates 1 month



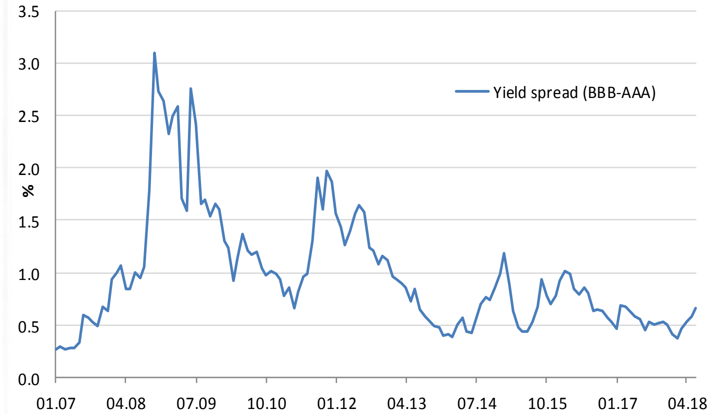
Yield (Government, AAA, AA, A, BBB)



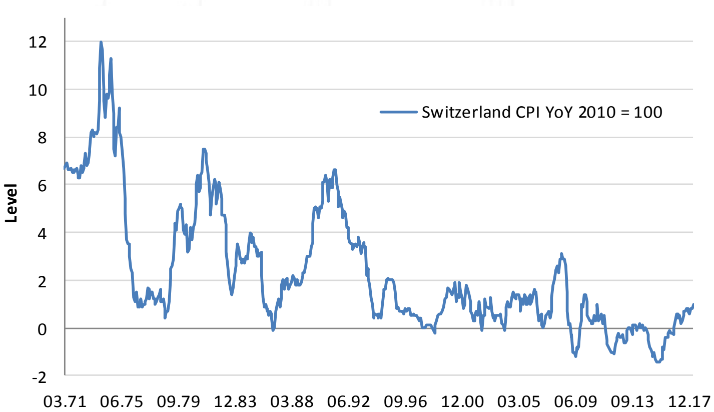
Duration of Swiss bonds



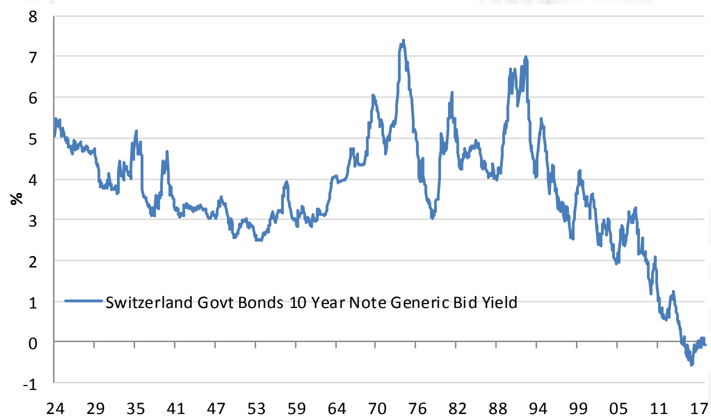
Yield spread



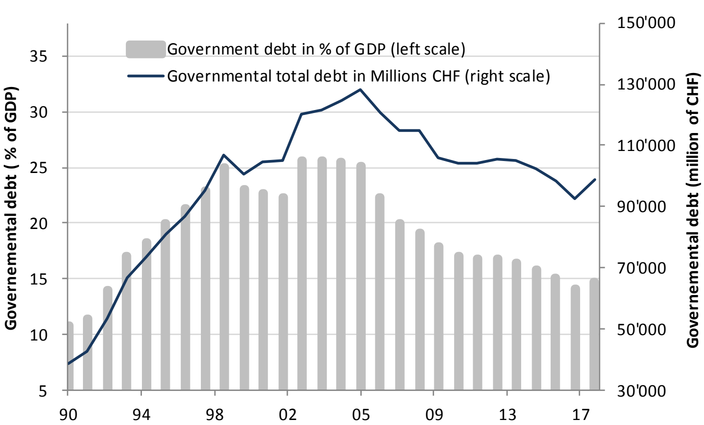
Inflation CPI



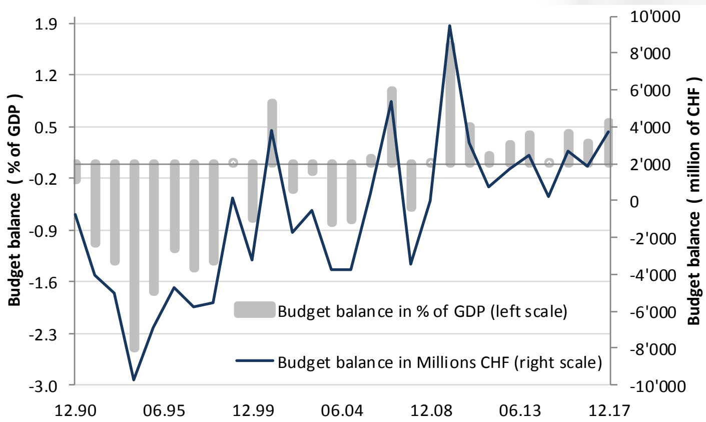
Government Bonds 10 year yield since 1924



Switzerland Government total debt



Switzerland Budget Balance



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Eurozone

- Euro Summit in June rings hollow
- ECB: nothing to report until 2019?
- The Euro should weaken against the US dollar and appreciate against the Swiss franc
- Growth will likely recover after a slight, temporary dip in GDP
- Long rate rise still held hostage

Euro Summit in June rings hollow

The Euro Summit on the 28th and 29th June was set to be both critical and decisive. In the end, they found a way to hammer out a compromise on approaching the migratory crisis from a new angle. Italy is satisfied; they will no longer deal with the crisis single-handedly. Solidarity has won the day.

The European Union finally seems to have found a compromise on the difficult issue of the migratory crisis at the latest Eurozone Summit. The agreement is brittle, and above all hazy as regards implementation, but European cooperation has won out, and there will now be greater solidarity with receiving countries. The welcome centres that are being built on European soil could eventually give way to landing "platforms" and control centres outside of the European Union.
As regards Brexit, hopes have dwindled even further as the negotiations with the United Kingdom are stumbling and floundering due to the lack of clear position on the part of Theresa May's government. Nine months from the deadline, there is still no credible proposal. On a different front, a few days before the Summit at the end of June, France and Germany had reached an agreement to float the idea of a European budget, but had to bow to the fact that the migrant crisis had monopolised the debate. European leaders put off substantive discussions on the topic, by postponing Eurozone reform, whilst accepting the idea of finalising the banking union and putting in place a crisis budget. Luckily, Europe showed more solidarity and engagement in setting out their position for the current negotiations with the United States on tariff barriers.

The EU will not give in to Trump's threats

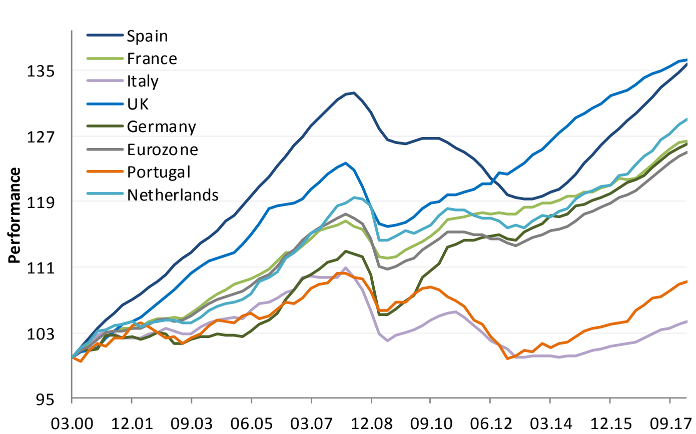
The trade war started by Donald Trump could spread; it now also includes a 20% increase in customs duties on European vehicle imports. Europe seems to have no intention of giving in to threats, and is showing a united front in the face of an American attack that it considers unacceptable. The European Union seems prepared to introduce retaliatory measures which could amount to several hundred billion US dollars' worth of American products if the United States go ahead with their threat to tax car imports. This type of escalation in trade tensions is not desirable, and as Mario Draghi stated, the risks hanging over the European economy due to these threats could affect the current trend. The ECB chief clearly seems concerned by the emergence of new protectionist threats, and seems sufficiently irritated by Donald Trump's stance to remind him that trade tensions would not necessarily be beneficial for the US dollar. Nor is it certain that the US economy would immediately come out of this wave of protectionism Donald Trump has set in motion swinging.

European leaders did agree on proposals to change the WTO (World Trade Organization). The aim is to ease tensions by making certain changes, particularly to the dispute settlement process.

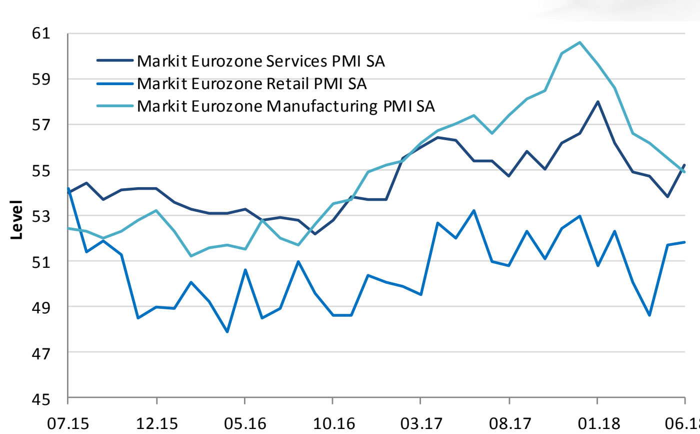
ECB: nothing to report until 2019?

At its latest meeting, the ECB announced that providing there are no unexpected shocks, it will stop quantitative easing at the end of 2018. It also underscored that the Governing Council now planned to maintain its key rates until summer 2019, at the earliest. Now that the end of QE has been announced, it could put an end to the calm that seemed to be reigning on rate markets. The end of ECB bond purchases does not currently seem to be considered a likely and imminent risk by investors, who for the time being seem to be more preoccupied with the economic downturn in the 1st quarter and risks of a trade war. However, we believe that once this decision is taken more seriously, it could significantly change long rates, as was the case in May 2015 when German rates leapt from 0.05% to 1.05% in just six weeks. As regards key rates, the ECB will not be particularly proactive in wanting to act before the last quarter 2019.

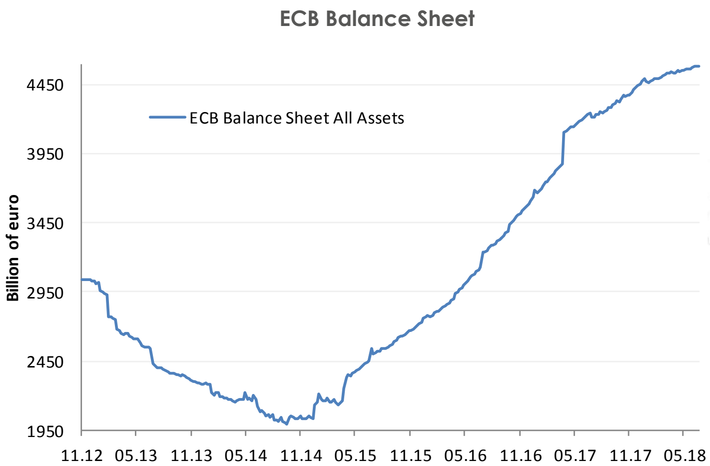
GDP Growth - Eurozone

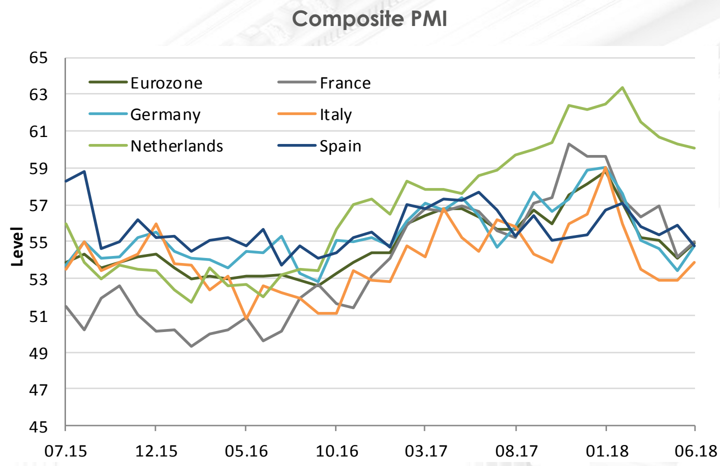


PMI (Manufacturing, Services and Retail) - Eurozone



Graph sources: Bloomberg/BearBull Global Investments





A few more quarters of growth and improvement in employment are needed before the ECB will risk taking any action. Inflation should be "robust", enabling the bank to clearly change its position without risking affecting the economic trend and financial conditions. The ECB should certainly wait for the Euro to weaken and inflation to recover before raising its key rates.

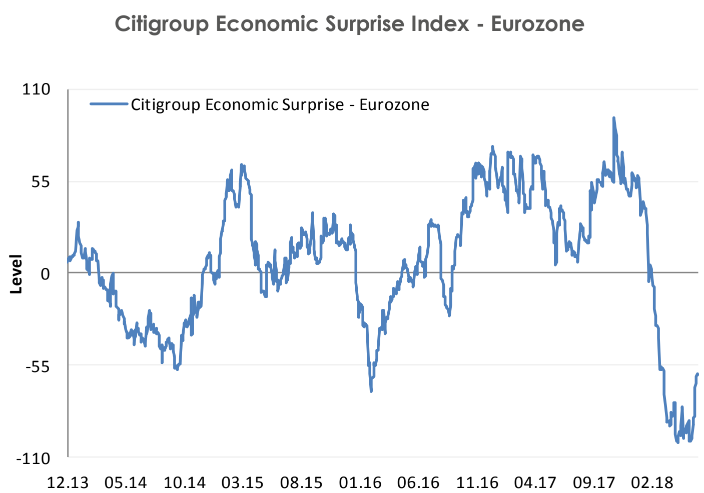
The Euro should weaken against the US dollar and appreciate against the Swiss franc

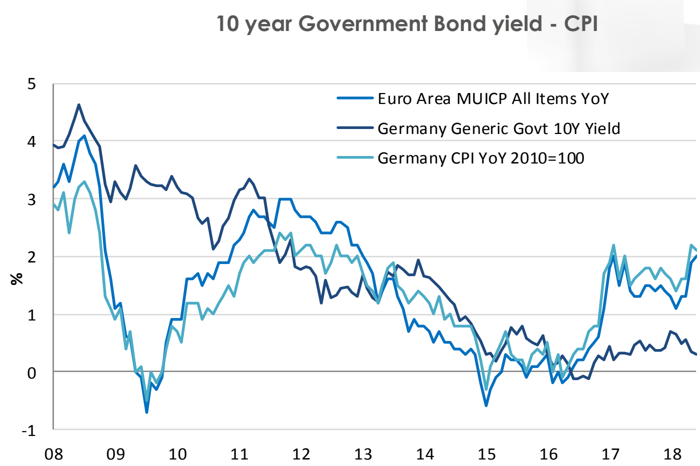
The single currency remains almost surprisingly highly sought after in a context which is rather uncertain. Indeed, the Euro is still not feeling the effects of the threats of a trade war that the US president is holding over the European Union, of the slight economic slowdown at the start of the year, or the political migrant crisis which once again threatened Eurozone cohesion. Nothing currently seems able to shake the Euro, but its appreciation since the start of 2017 is nonetheless threating the Eurozone's trade development prospects and inflation forecasts. At its current level, the strength of the Euro is certainly problematic for the ECB and is endangering the quality of the recovery and the competitiveness of European industry. We can see that to date, our euro/CHF exchange rate strategy, put in place following the SNB's policy change, is still proving effective.

The exchange rate has almost recovered to where it was on 14th January 2015 (1.20). However, a few months ago we had pointed out that the bounce back in the Euro already seemed to broadly reflect the improvement in fundamentals, and that a new phase of relatively horizontal consolidation should get underway, sparking some profit taking. Today, after two quarters of stabilisation, we believe that the chance of the single currency hitting 1.20CHF and surpassing it is once again higher, particularly given the upcoming end of ECB bond purchases and rises in long rates, which will make themselves felt in the second half of the year.

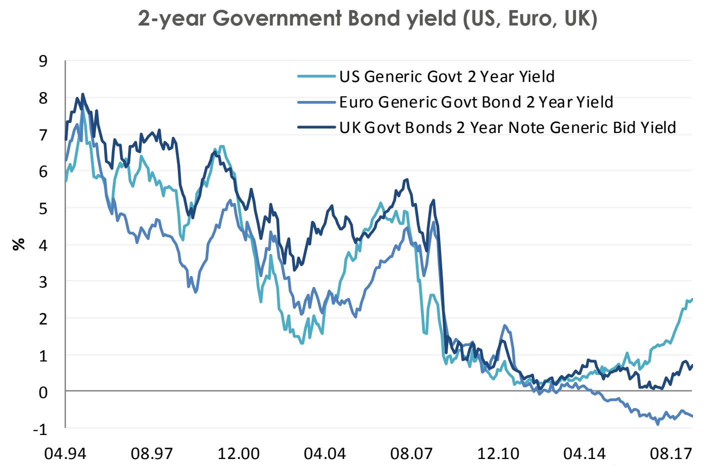
Growth will likely recover after a slight, temporary dip in GDP

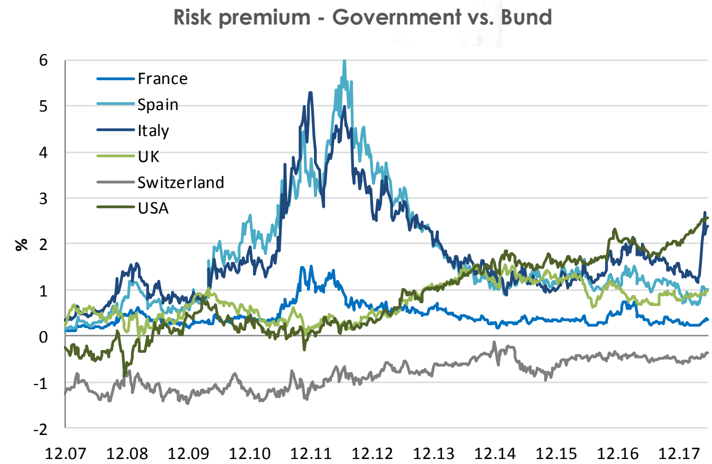
The European economy improved as expected in the 4th quarter 2017 (+2.7%), and in the end posted a better result than the US economy (+2.5%) due to a slight drop in activity in the United States. However, unfortunately this bright spell could not continue, and the European economy took its turn treading water at the start of the year. Growth forecasts for the 1st quarter 2018 (+0.6%) were not achieved, with growth probably having been held back by the strength of the Euro. As such, GDP only grew +0.4%, or +2.5% year on year. A few months ago, we stated that caution was the watchword for economic forecasting for the Eurozone, in a context in which leading indicators were clearly weakening. Our forecasts of temporary weakness in Eurozone activity proved accurate, but they have now once again given way to appreciation, which will be slightly more favourable in the current quarter and over the coming months. PMI indices seem to be picking themselves up after their decline over the past few months, suggesting a recovery in activity. The Markit services index is posting an encouraging recovery, having bounced back from 53.8 to 55 in June, but it remains well below its recent high in January (58). The manufacturing index has stuck to its downward trend (54.9) and remains a source of concern. We are maintaining our positive European GDP growth forecasts, but the risks caused by the rise in the Euro are not insignificant and could hold back forecasts of the economy picking up the pace in the end.

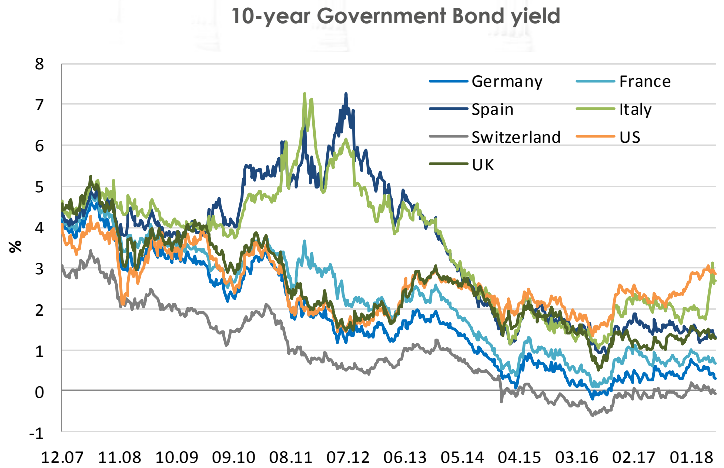




Graph sources: Bloomberg/BearBull Global Investments







Uncertainty has yet to make a dent in confidence

On the institutional front, Brexit does not seem to be having any major impact on economic confidence. The migrant crisis, and particularly the difficulty in finding a response to Italy's resolute requests for support, do not seem to be making a difference either. President Trump's statements and comments raised fears that a second front in the trade war he is waging against the whole world would be opened in the Eurozone, likely having an increasing effect on investor and household sentiment. The European Commission's indicator of economic confidence had already dipped in the 1st quarter, but has now slid a little further, driven by the "economic prospects" component, which is dropping faster than the consumer confidence indicator.

Data regarding the business climate and industrial confidence have also dipped slightly, but like consumer confidence indices, they are still close to their ten-year high. Whilst not disguising this slight downturn in global confidence, at the start of the 3rd quarter the evaluation of the situation remains rather positive. Sentiment has improved overall and is still propped up by the favourable developments in employment market conditions. Indeed, we are seeing ongoing improvement in employment and the unemployment rate. The latter fell to 8.4% in May, and has further dropped away from the peak seen in summer 2013 (12.1%).

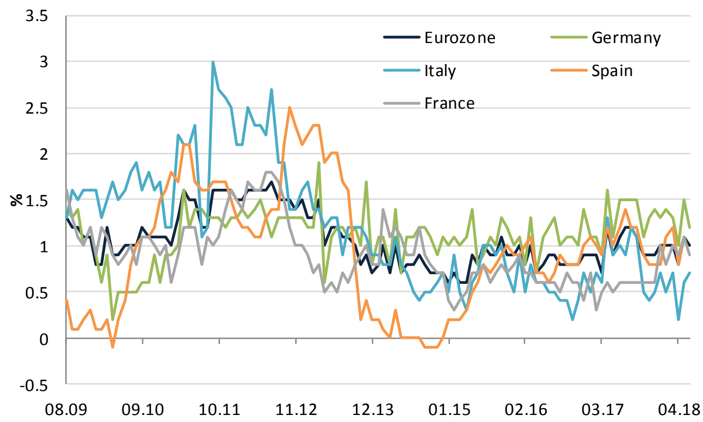
Long rate rise still held hostage

The rise in long rates is still held hostage by the evaluation of how inflationary risks and ECB monetary policy are developing. As regards the central bank's position, its decision to pursue its bond purchase strategy, even at a lesser pace, is still slowing the adjustments that investors should normally make in the current context of +2.5% GDP growth year on year. Higher yield should certainly be demanded in the current economic situation due to the gradual inflation recovery. However, upward pressures on long rates are still very modest, particularly as the rise in inflation is not caused by wage rises, but by crude oil prices. The result is an unwanted real-terms wage contraction. Despite everything, we are seeing a relative surprise in June, with the CPI index increasing to +2% in a year, bringing it up to the same level as in February 2017, and rekindling forecasts of price increases. Although we have just started to see this, for the time being these forecasts mainly depend on external factors, such as the rise in crude oil prices. Inflation excluding food and energy remains contained and relatively stable at +1%, approximately the average of the past few years. It is likely that for the time being the ECB will not give any more thought to this figure, which says nothing of any importance about the potential tensions forming in the economy other than those caused by the rise in crude oil and the Euro. As such, it is not urgent to take action and adjust expected yield on ten-year state bonds in order to incorporate the fact that the CPI has hit the ECB's target. We still need to wait for a trend reversal that works against the Euro/US dollar, as well as tensions on the job market in order for inflationary forecasts to be pushed upwards and subsequently foreshadow a rise in long rates. Despite unemployment dropping to 8.4%, it is still too early to predict a clear inflation recovery sparked by wage rises.

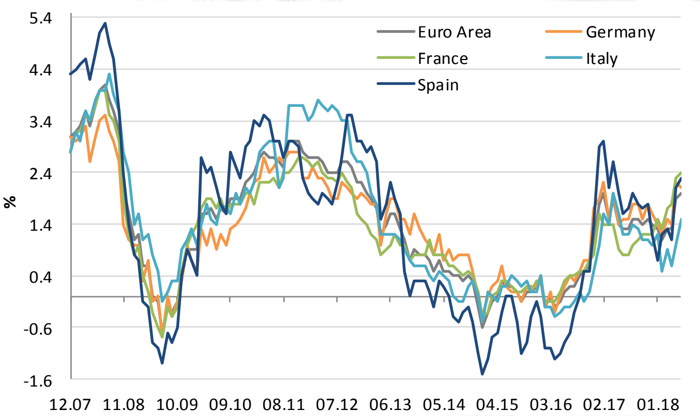
In this context, Eurozone long rates should not be able to carry on completely disconnected from the recovery in long rates in the US for much longer. We believe that the grounds for the yield differential are increasingly flimsy, given how the European economy has caught up with US growth. After a first half of the year still shaped by stability, we should now see a change in investors' risk perception. We recommend further reducing the bond risk in Euros without delay.

Graph sources: Bloomberg/BearBull Global Investments

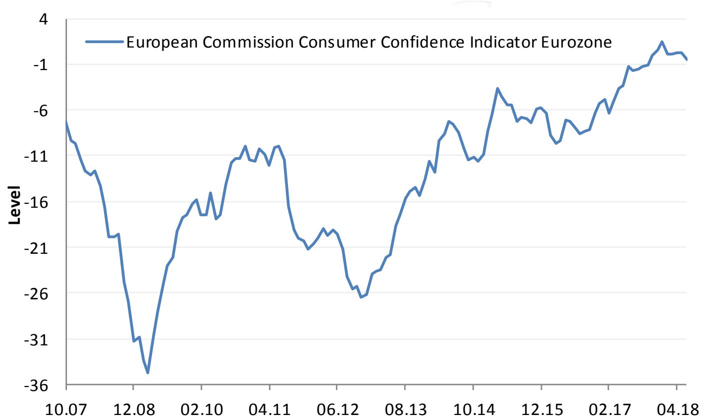
Eurostat CPI - Core Inflation (Eurozone, YoY)



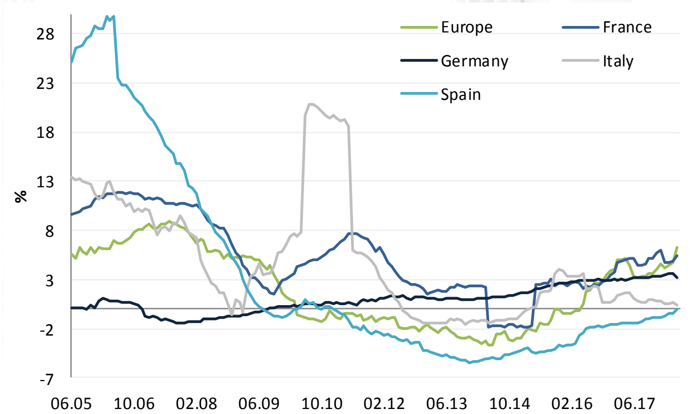
Eurostat CPI - all items (Eurozone, YoY)



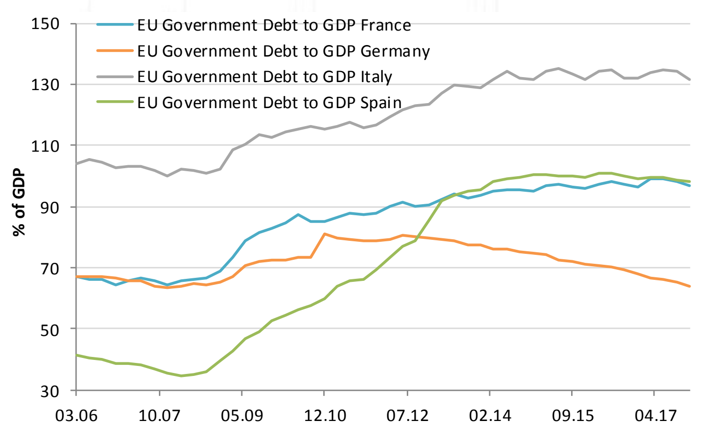
Consumer Confidence - Eurozone



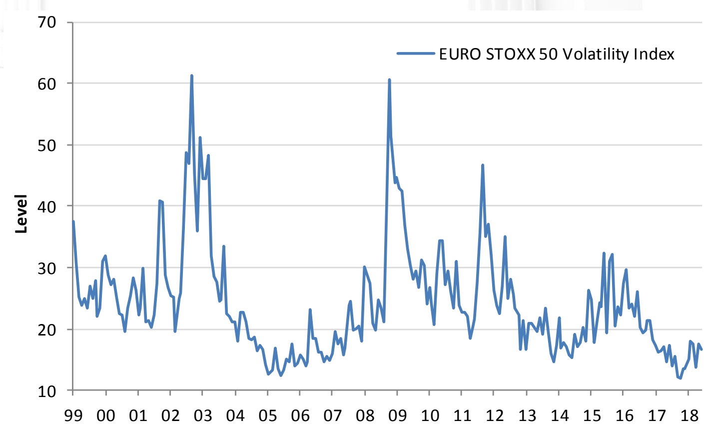
Loans to households (Eurozone - YoY)



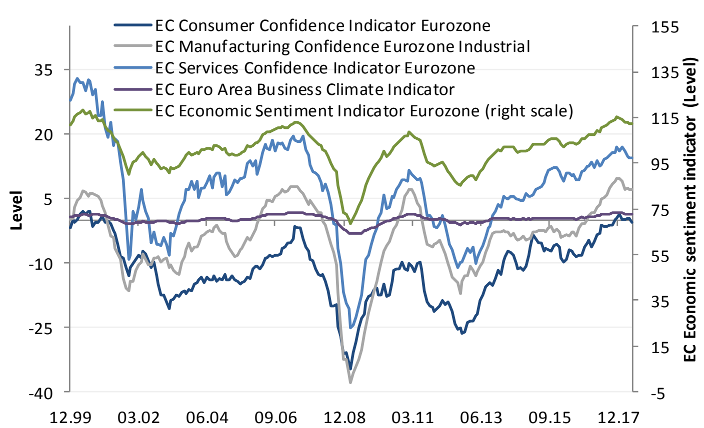
EU Government Debt



Euro Stoxx 50 Volatility Index



Economic Confidence Index



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United Kingdom

- Brexit talks: more than ever, confusion abounds
- An impossible political agenda
- The pound is in wait-and-see mode
- Growth slows in Q1 (+0.1%)
- The BoE is not prepared to raise rates

Brexit talks: more than ever, confusion abounds

The British government is overcome with confusion, and talks with the EU remain in a deadlock. Less than 10 months away from the deadline for divorce, the Europeans are increasingly exasperated by British prevarication and London's unrealistic proposals regarding, among others, the border with Ireland. But the negotiations are also at a standstill on other matters, which starkly highlights the extreme complexity involved in the actual implementation of Brexit. Two years after the referendum and following 15 months of discussions, Theresa May still has not been able to establish a clear and logical strategy to withdraw from the EU. After attempting to impose a hard Brexit, which initially seemed to correspond to the spirit of the referendum, she then understood the necessity of establishing a transition period in order to seek a more complex and certainly more realistic solution. In view of the magnitude of the challenge and of the opposition, she is now considering postponing Brexit to 2023, de facto acknowledging that the transition period, though in effect through 31 December 2020 per agreement with the 27 EU members, would be too short to carry out a genuine implementation plan. This strategy will give her more time to extract a compromise from her majority, but her government remains more than ever divided between the pro-Europeans who wish to stay in the customs union and those who call for intransigent bilateral talks. In this context, the Irish question is not the least of the matters that could give Theresa May trouble in the next few weeks. Indeed, it seems impossible to withdraw from the customs union without immediately having to reintroduce a physical border in Northern Ireland. This would call into question the agreements signed two decades ago among the parties and could provoke unexpected reactions. For the European Union, there is no doubt: the only solution to the Irish question is for the UK to remain in the customs union, which at this stage is not a conceivable option for proponents of a radical Brexit. In fact, the EU has already rejected the UK's proposal drawn up to avoid the reintroduction of a border in Ireland, noting that it raised more questions than it answered.

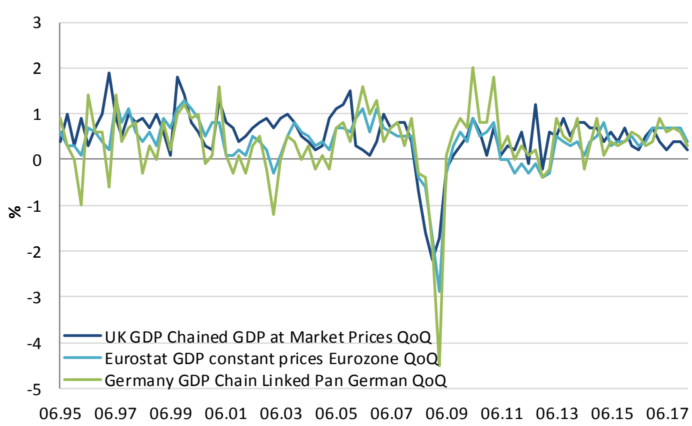
A victory for pro-European MPs that eliminates the risk of a no-deal outcome?

When the Brexit bill was under review, the British prime minister only just avoided a stinging defeat by obtaining the withdrawal of an amendment about to be passed that would have given Parliament veto rights with regard to the terms of any agreement negotiated by the government. Indeed, on 12 June, pro-European Conservatives forced Theresa May to back off from a key point, obtaining that she give up the notion of a hard Brexit. She promised them that the views of Parliament would be taken into account in the fall, when the government presents the contents of a future agreement with the EU, which remains to be formulated. The rebellion of certain Conservative MPs thus forced the prime minister to give in, a concession that further weakened her position. The no-deal strategy, which was intended as a means of putting pressure on the EU, thus seems to be cast aside, which is an important victory in terms of the immediate prospects of the negotiations. The latter could now become more constructive and pragmatic. However, this development may also open up a new path, which could potentially lead to new elections, the fall of the May government, and even the organisation of a new referendum on the withdrawal agreement once it is formalised.

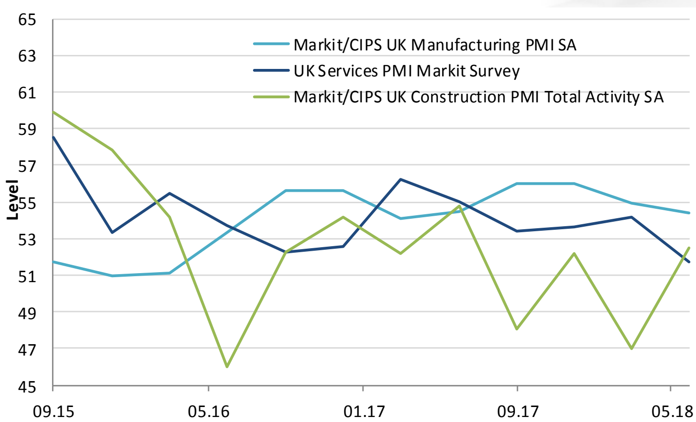
An impossible political agenda

The agenda for the European Council meeting on 28 and 29 June is impossible; among other matters to be addressed are the thorny issue of the border between Northern Ireland and the Irish Republic as well as future trade relations. Given the British government's current, particularly agitated context, it seems unrealistic to expect that the UK will present a roadmap establishing the broad outline of their proposals to the Europeans. It is thus likely that no real progress on talks will be made at this meeting and that the summer will then not be sufficiently

Quarterly GDP Growth - UK

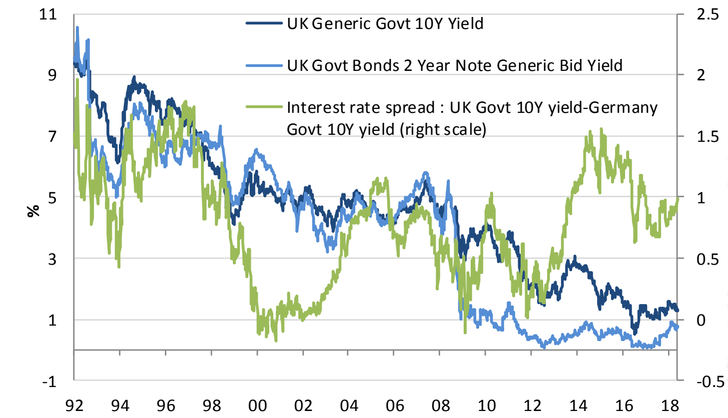


Manufacturing, Services and Construction PMI - UK

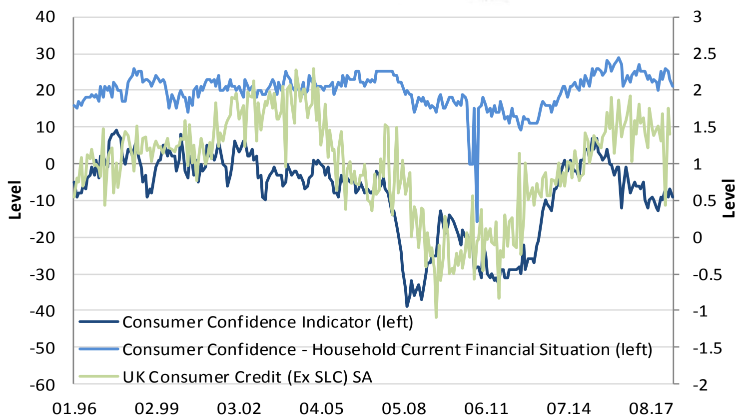


Graph sources: Bloomberg/BearBull Global Investments

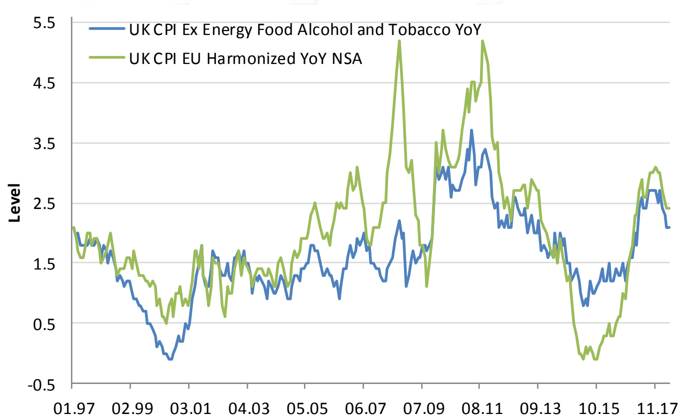
UK Government Bonds - 10 year and 2 year yield



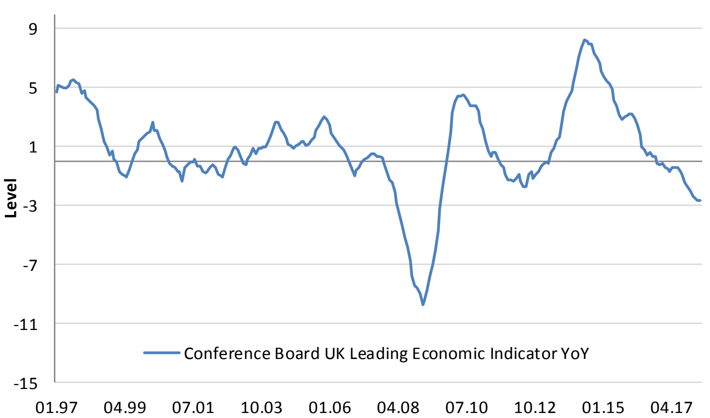
Consumer Confidence



Inflation CPI



UK Leading Economic Indicator



Graph sources: Bloomberg/BearBull Global Investments

conducive to drafting an agreement in time to be endorsed at the next Council meeting in October. As for the European negotiators, they are clearly frustrated, as they view the UK's proposals as less than satisfactory and have clearly not dismissed the risks that the talks may fail. In the UK, the business world is plainly exasperated by politicians' lack of realism, and public opinion appears to be more and more sceptical as to the rationale for Brexit. The public is having doubts, and views are progressively shifting in favour of the notion of a referendum on the final agreement negotiated by the government. The replacement at the helm of the Daily Mail of a Europhobic editor by a more Europhile editor-in-chief may be a sign.

The pound is in wait-and-see mode

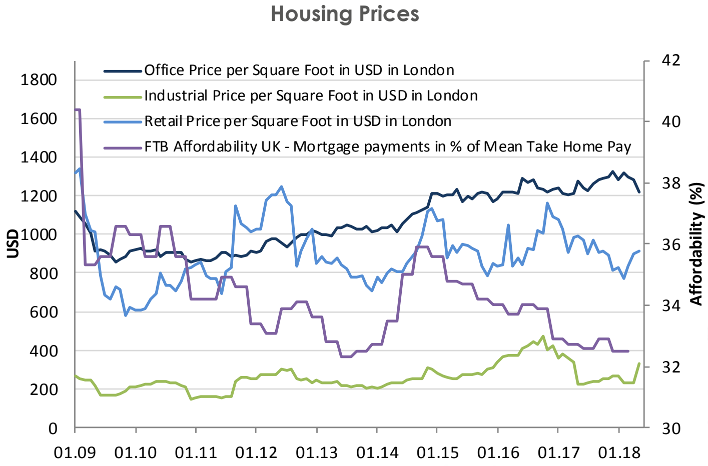
The British currency still appears unaffected by the political uncertainty and the absence of concrete progress made on defining the post-Brexit trade framework. We continue to believe that the pound has entered a phase of stabilisation against most major currencies after its historic fall in the wake of the Brexit vote. After talks resumed in December 2017, the pound benefited from a slightly more constructive political climate leading to hopes of a reasonable solution between the UK and the EU. This expectation continues, for now, to bolster the pound/euro exchange rate, which has remained stable since October 2017 at between 1.12 and 1.14.

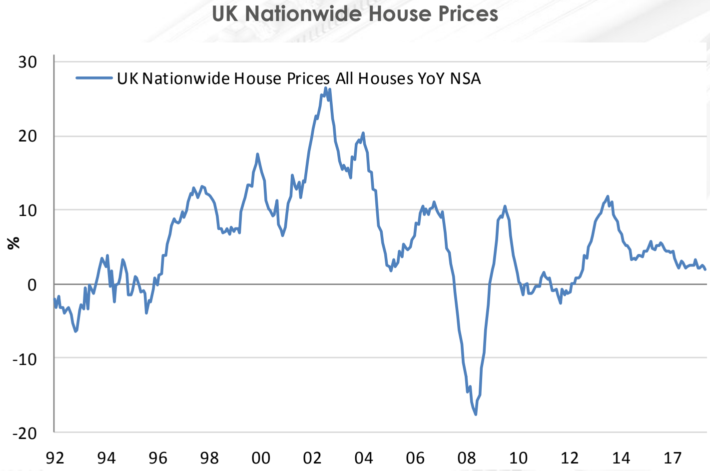
However, after having banked on a stabilisation of the exchange rate in H1 2018, we are now concerned that, as the March 2019 deadline set for Brexit draws nearer and the difficulties encountered in the negotiation process fail to abate, the level of risk will increase and once again affect investors' perceptions regarding the British currency's outlook. Less than a year away from the deadline, the level of uncertainty remains extreme, even if it looks like a hard exit is not currently the most likely outcome. It is thus not unlikely that volatility will return in the coming months along with renewed pressure on the pound.

Growth slows in Q1 (+0.1%)

The British economy continues to slowly deteriorate as it has since the Brexit vote. Indeed, growth has still not stabilised as hoped, even though the international and European economic contexts are relatively robust. After GDP growth fell back in Q4 2017 (+0.4%), Q1 2018 figures came out significantly below expectations, posting their poorest performance since 2012. The deceleration was sharp, with the economy abruptly losing almost all momentum; indeed, GDP grew only by a measly +0.1%. On an annual basis, GDP growth fell from +3.4% in December 2014 to only +1.2% in March 2018. The British economy is thus struggling and could quickly find itself in an even more precarious situation absent a genuine upturn in Q2.

The latest industrial production figures are not encouraging. The -0.8% drop in April took analysts by surprise, as they were forecasting a slight rise of +0.1%. Most sectors experienced a decrease in production except for the energy segment, which is still up +1.8% YoY but is not really benefiting from the stabilisation of the pound at low levels against the euro. Production in the manufacturing sector saw its most significant decline since October 2012 (-1.4%), even while analysts were expecting a +0.3% rise. The trade deficit increased to 5.37 billion pounds, a worrying result compared with the March figure, which was already at 3.2 billion. The trade balance thus posted its third worst result of the past five years. Given the pound's enhanced competitiveness, it is particularly disappointing to observe that exports are struggling to grow and in fact declined by -0.5% at March end. A concurrent decrease in imports (-0.6%) prevented the trade balance from worsening even further. The uncertain economic climate continued to affect British consumers over the same period, and private consumption remained anaemic (+0.2%). Domestic demand fortunately continued to benefit from the support of public consumption, up +0.5%.





Some hopeful signs of GDP growth in Q2

One positive factor generating hopes of a brighter Q2 for the British economy is the Markit/CIPS composite PMI index. Indeed, since March, this leading indicator has progressed from 52.4 to 53.2, closing in May on a positive note at 54.5. Despite this upswing, however, it is still well below the 56.3 high reached in April 2017. The upswing in the composite index is driven by increases in the manufacturing and services indicators (from 53.9 to 54.4 and from 52.8 to 54.0, respectively). In contrast, the activity index for the construction sector stabilised at 52.5, still well below 2015 highs. Consumer confidence and the business barometer show slightly more optimism than before. Uncertainly caused by Brexit continues to weigh significantly on the minds of economic actors, but consumer and business confidence improved slightly in May. As for the job market, it is sending mixed signals. The unemployment rate remained relatively low (4.2%), but jobless claims decreased, while job creation expanded at a slower pace in April than in March.

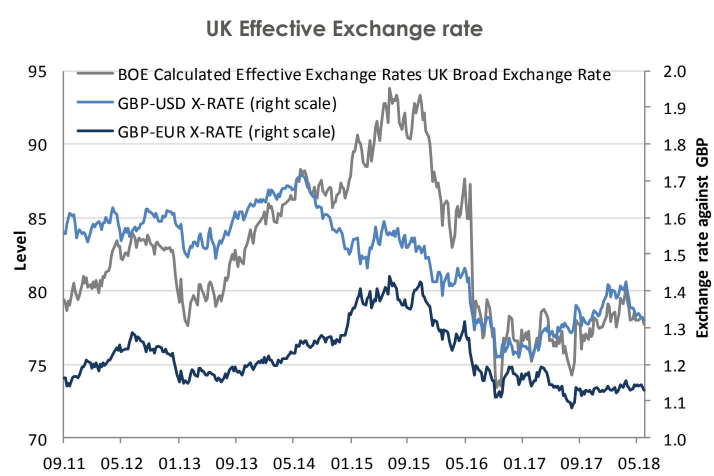
Analysing the job market is particularly important in the current situation to determine whether sluggish GDP growth in Q1 could be followed by further weakness. The creation of 146,000 jobs in May is positive, and these numbers are relatively high in comparison to the statistics of the past 10 years. A sustained pace of job creation in Q2 is thus an encouraging sign with regards to GDP, as are increases in wages, which indicate that the economy could benefit from a potential upswing in consumption.

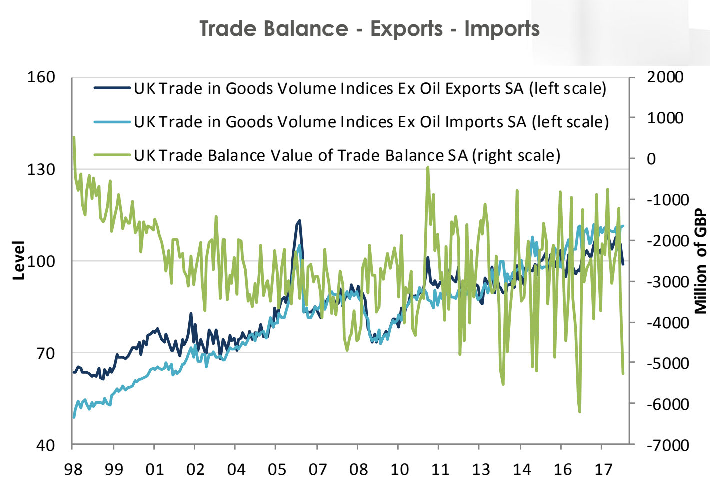
The growth prospects of the British economy will likely remain rather limited in the current environment. An upturn in Q2 seems somewhat more likely today in view of the slight improvement in leading indicators.

The BoE is not prepared to raise rates

The BoE recently published the results of its survey on consumers' inflationary expectations for the next year, which increased slightly from 3.4% to 3.5%. The proportion of households expecting interest rates to rise over the next 12 months declined from 58% to 51%. The BoE's 2% inflation target had been exceeded in the Brexit context, but since the beginning of the year, the CPI index has steadily dropped from its 3.1% high reached in November to 2.4% in April 2018.

The decline in the price indices should enable the BoE to view the economic slowdown in Q1 with a little more serenity. Over the past months the bank has likely been concerned with the decrease in economic activity in the UK, but inflation trends should allow it to maintain an accommodating policy for a while longer. The rate of wage growth is now higher than inflation, which should have a positive impact on consumption. The BoE's position thus remains difficult, in particular if one considers that it may be hoping for an upward revision of GDP figures for Q1. The bank likely wishes to normalise its target with regards to key rates, currently at 0.5%, but this move seems very unlikely to occur in the near future. The likelihood of action in August thus remains below 50%. The status quo is likely to persist given the current economic slowdown. As mentioned in our previous analyses, the rate hike to 0.5% will likely be followed by a long period of inaction before a minor hike in the second half of the year. GDP growth in Q2 will be a determining factor in the evolution of monetary policy over the next several months.





Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Japan

- Materialisation of the risks of an economic slowdown
- The economy should be able to avoid a technical recession
- Persistently weak household spending
- Leading indicators remain lackluster
- The yen finally weakens further against the dollar

The previously mentioned risks of an economic slowdown materialised in Q1

As we predicted, the Japanese economy contracted in Q1, due in particular to a +10% increase of the yen against the dollar, as GDP shrunk by -0.2% over three months. Real GDP thus declined by -0.6% yoy, its worst performance since Q4 2015. The unexpected strength of the yen between December 2017 and March 2018 clearly curbed the growth of exports and corporate earnings, which had been significant drivers of the economic upturn. However, the fall-off in consumer spending is the main factor that weighed on GDP growth at the beginning of 2018.

Growth thus finally stalled after eight consecutive quarters on the rise, interrupting one of the longest sequences of stable GDP growth in Japan.

Growth had already slowed during the past several quarters, leading to expectations that it would turn negative at the beginning of 2018. In analyses earlier this year, we thus pointed to an increase in the risks that the Japanese economy would underperform, in particular due to currency effects. However, the latter were not the only determining factor. Indeed, in spite of the +10% appreciation of the yen, exports, for instance, remained relatively solid, contributing +0.6% to GDP. Another positive factor was the +0.3% increase in corporate capital spending. However, these two elements were not sufficient to counter weak consumer spending, which decreased slightly by -0.1%.

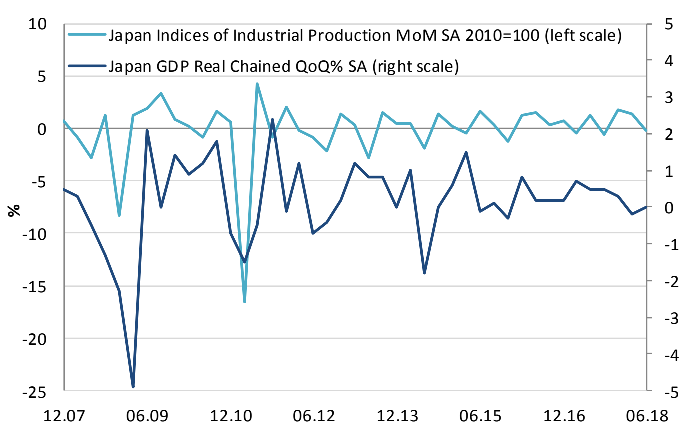
The Japanese economy had been bolstered by an environment favourable to export growth in 2017 and by renewed capital spending, but the appreciation of the yen clearly penalised this economic upswing and is likely to further weigh on GDP growth in Q2.

The economy should be able to avoid a technical recession in Q2

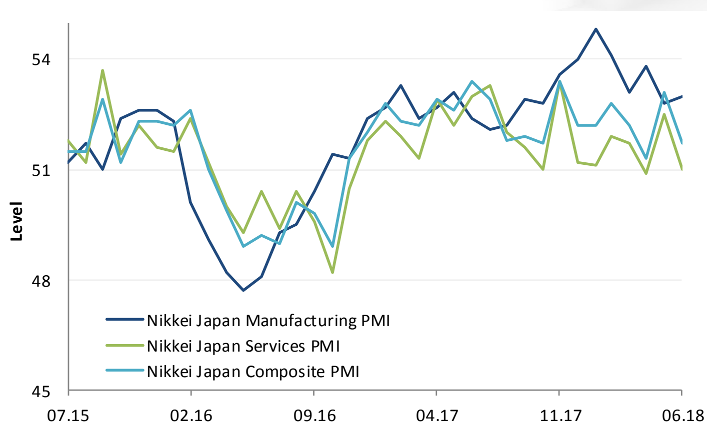
Export growth in Q1 slowed sharply (+7.8%) yoy in March, dropping by over half compared with growth posted in August 2017 (+18%). Unfortunately, it appears that the Japanese economy is lacking the support of a weak currency at the same time as domestic demand more than ever requires confidence and genuine growth of wages and household disposable income. Corporate earnings growth was supposed to lead to wage increases, but it has already fallen significantly from +5.5% to +0.9% between Q3 and Q4 2017, barely clearing +0.2% at the end of March, far from the +26.6% growth rate posted in Q1 2017. This context warrants concern with regard to the outlook for consumption, as inflation dropped from 1.1% in March to 0.6% in April. The yen's rise was fortunately interrupted in March, giving way to weakness and a welcome respite for the Japanese economy. The threat is thus receding in Q2, but at 109.5 yen to the dollar, the yen remains relatively strong compared to its value as of 31 December 2017. The BoJ is no doubt aware of the significance of this factor but has no other means at its disposal to counter the negative impact of a strong currency than those already implemented.

This situation thus remains concerning and continues to weigh on the economic outlook for Japan over the next few quarters. Absent a steeper depreciation of the yen in Q2, we expect continuing uncertainty with regard to the Japanese economy in 2018. GDP growth could suffer from a decline in both external and domestic demand. Hopes for recovery in 2018 thus rest upon a more lasting trend reversal with regard to the exchange rate, with a steeper depreciation of the yen. Even if there is now a real risk that the strength of the yen will once again drag the Japanese economy into a surprise technical recession, we believe that disaster will be averted in Q2.

GDP and Industrial Production

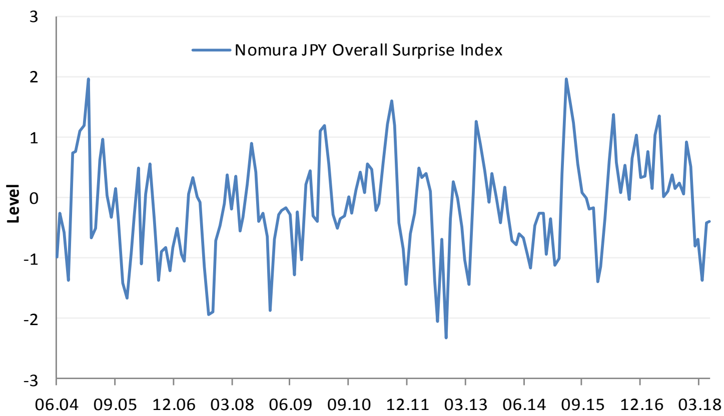


Composite, manufacturing and Services PMI - Japan

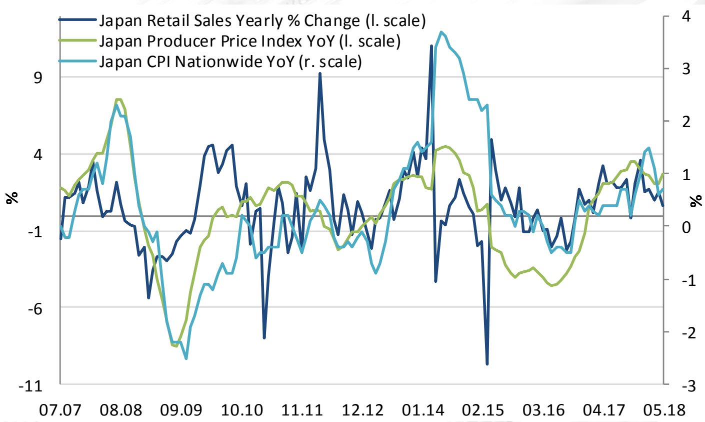


Graph sources: Bloomberg/BearBull Global Investments

Economic Surprise Index



Inflation (CPI and PPI) and retail sales



Persistently weak household spending

After rising a promising +1.9% in January, household spending fell back in the following three months by -0.9%, -0.7% and -1.3% on an annual basis. Japanese consumers thus remain particularly cautious in spite of a persistently low unemployment rate. Indeed, income growth is not benefiting from the historically low unemployment rate, as the +2% upswing in wages in March was unfortunately followed by a growth rate of barely +0.9% in April. Will the unemployment rate (2.5%) have to drop below 2% for wage growth to rise above +2.5% and have an observable impact on inflation? Indeed, the job market has improved, as indicated by the jobs-to-applicant ratio, which is at a 30-year high (1.59). However, the diminished progression of incomes and wages remains a key factor in consumers' lack of enthusiasm. As long as household net incomes do not increase significantly, it is highly likely that private consumption will not contribute to GDP growth to the extent hoped for. As for the BoJ, it continues to hope that corporate earnings will be more effectively distributed, leading in particular to the wage increases required to boost private demand growth and inflation. A weaker yen remains a necessary condition to achieve this objective.

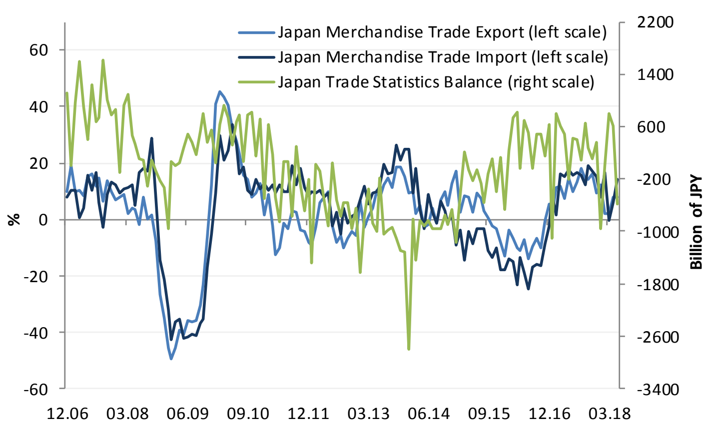
Leading indicators remain lacklustre

Rising uncertainty linked to Q4 figures will not immediately be mitigated by leading indicators, which remain relatively lacklustre. The Japanese economy is still growing, but hesitancy remains, and the temporary strength of the yen in Q1 is not reassuring. The upswing in exports and external demand, supported in part by a more favourable international business cycle and by growing investment in Asia, initially had a visible effect on industrial production and on the outlook for the sector, but leading indicators are not pointing to any further acceleration at the outset of 2018. Industrial production progressed by only +0.3% in April, coming in below expectations and disappointing observers. Its growth of +2.5% on an annual basis was also disappointing and substantially lower than the highs of 2017 (+6%). Rising inventories over the past several months indicated a likely decrease of future business activity and industrial production, but this decrease has been more substantial than expected. The trend remains positive though it was significantly destabilised by the yen's rise. PMI indices were down overall, with the composite index sliding to 51.7, reaching 2017 lows. The services PMI also fell to 51.0, slightly below its January level, suggesting a deceleration in the growth of new contracts. The manufacturing PMI for May stabilised at 52.8, and overall, leading indicators with regard to the business cycle are suggesting the economy will continue to slow down.

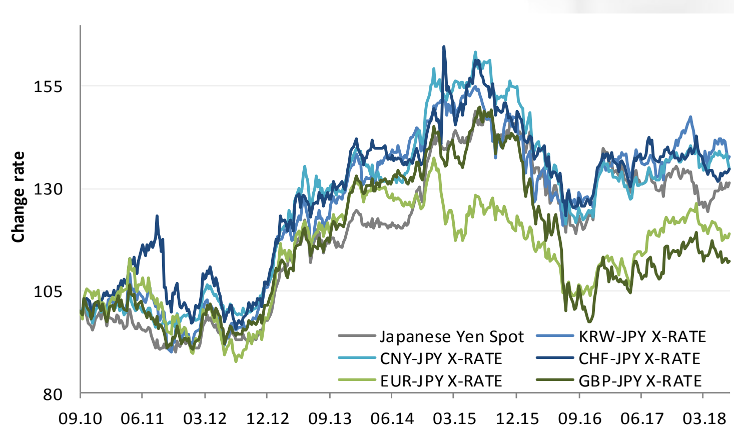
The yen finally weakens further against the dollar

The recent weakness of the yen will likely give a boost to the Japanese economy, but the currency's depreciation of around 5% against the dollar, from 105 to 110, is likely not enough to provide the contribution required. In our March analysis, we noted that the strength of the yen resulted in part from its safe haven status in an uncertain context and predicted that the exchange rate would likely return to a 110-115 range once financial market volatility diminished. The aim of monetary policy is still to weaken the yen, but available means remain limited. We continue to think that the yen will in all likelihood be disregarded by investors, given a totally unfavourable interest rate environment and interest rate spreads that should continue to penalise the Japanese currency. The on-going normalisation of US monetary policy along with expectations of further increases in long-term rates in the US will likely further weigh on the yen in 2018. A weaker exchange rate has been one of the key elements of the government's policy to boost inflation and exports. This policy remains relevant, even if some believe the yen remains undervalued. Having temporarily benefitted from its safe haven status, the yen will likely weaken again in Q2 and reach a level of 115 against the dollar.

Trade Balance (Billion of yen)



Exchange rate (Normalized at 100)



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

China

- GDB growth remains robust
- The overall trade surplus is contracting, but not the surplus with the US
- The increase in tariffs will not reduce the US deficit
- Deliberate depreciation of the yuan?

GDB growth remains robust

Growth expectations for the Chinese economy are not overly influenced by the risks of a trade war and thus remain close to +6.5% for 2018, +6.3% for 2019 and +6.2% for 2020. Economists' average forecast is unchanged for H2, as are the forecast for inflation (2.2%) and for the PBOC's key rates, which will likely remain stable at 4.35% until the end of the year. Moreover, the central bank did not follow the Fed in June when the latter hiked the fed funds rate to 0.25%, likely preparing to maintain more flexible monetary policy conditions in anticipation of the risks – difficult to estimate – of an increase in US tariffs. Several economic indicators for the month of May were slightly disappointing, but we do not think these results should be attributed (yet) to the new conditions that will soon govern trade between the two countries. Indeed, it is still too early to estimate what economic sectors and goods will ultimately be involved as well as the impact on the actual level of future trade. In fact, the slight slowdown mentioned results mainly from the deceleration in infrastructure investments, which is not related to the increase in tariffs.

Limited inflation gives the PBOC room to manoeuver

Yoy inflation is once again below 2% in China, coming in at 1.9% in June after having for a short time increased by +2.9% in February. Inflationary pressures thus remain weak overall in China, which will give the PBOC sufficient room to manoeuver in the context of a possible trade war requiring the implementation of a policy favouring economic growth to compensate for the potential negative effects of a decrease in exports. Production prices rose more than anticipated mainly due to the increase in oil prices. The recent depreciation of the yuan could increase the risks of imported inflation over the next few months. We thus estimate that inflation will likely progress slightly to above 2% in H2.

The trade surplus overall is contracting, but not the surplus with the US

Export growth (+3.2% in yuan) slowed down significantly in May, however, in this sense continuing a trend already established since Q2 2017. In dollars, exports grew +12.6%. Weaker international demand explains this slower export growth, which very significantly reduced China's trade surplus in May relative to the surplus at the end of 2017 (54 billion). China's trade surplus of 24.9 billion dollars in May was almost entirely due to the US trade deficit (24.6 billion), which did not decrease over the period – sufficient justification to strengthen the US president's resolve to seriously tackle this issue by introducing targeted tariffs.

Leading indicators remain serene

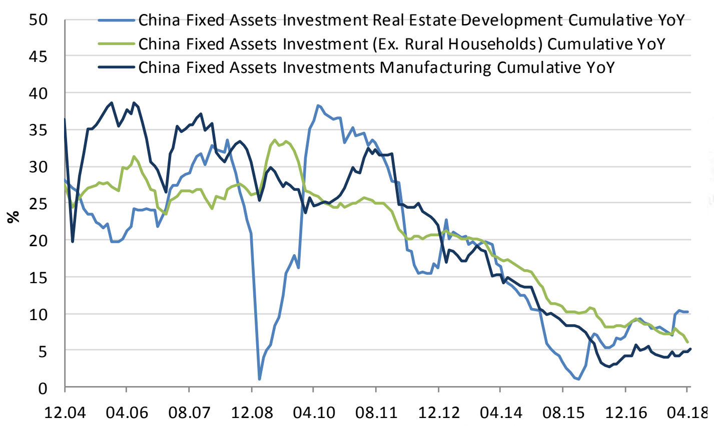
Leading indicators are not yet showing any specific sign of concern related to the start of hostilities and the tariff hikes implemented by President Trump. The composite PMI index dropped slightly from 54.6 to 54.4 in June and does not seem to be announcing any slowdown in business activity in the context of renewed trade tensions. The manufacturing sector does not appear overly concerned either, remaining stable at 51 (51.1 in May), while the Caixin China PMI Services indicator rose from 52.9 to 53.9 in June, drawing nearer to its three-year high of 54.7. Leading indicators thus do not appear to be particularly affected by the potential negative impact of the intensifying tug of war between the two largest economies in the world.

Yoy GDP Growth

PMI and Industrial Production

Graph sources: Bloomberg/BearBull Global Investments

Real Estate, Infrastructure and Industrial Investments (YoY)



Exports and Imports (YoY)

The increase in tariffs will not reduce the US deficit

On 6 July, the trade war started with an initial volley of new tariffs on approximately 34 billion dollars of Chinese imports, followed by similar tariffs in China on US products. The US wants to reduce its trade deficit with China, and to reach this goal it is putting pressure on China by introducing higher tariffs on Chinese exports to the US. The stated objective of reducing the deficit by 200 billion dollars can probably not be achieved by simply introducing tariffs. It could be achieved by increasing China's imports of US goods, if China were willing and able to increase imports. It is true that imports from the US constitute only a small proportion of China's total imports, but this can be justified by the nature of US production and its price levels, which do not correspond to China's needs. An increase in import taxes will not halt US imports from China; essentially, it will raise the cost of Chinese goods for US consumers due to the frequent lack of availability of substitutes made in the US.

Imports from the US represent less than 10% of total imports to China. China imports little compared to other developed economies, but especially little from the US. Thus, the institution of tariffs aims indirectly to force China to buy more American goods in order to reduce the overall deficit. But what are the American goods China is likely to purchase?

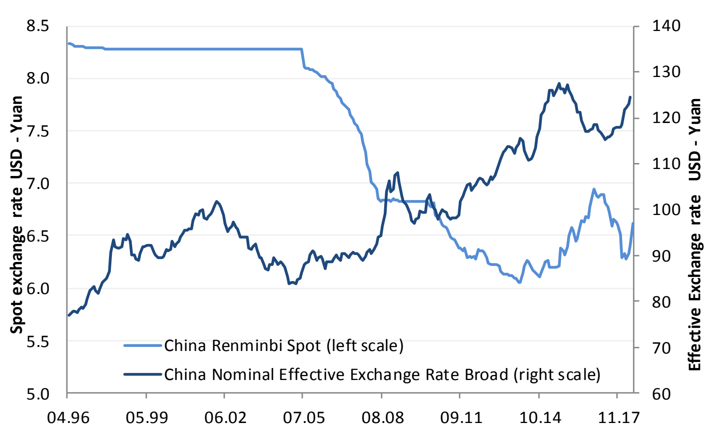
The introduction of trade barriers could, however, reduce the profit margins of Chinese exporters that decide to reduce sale prices to compensate at least in part for the introduction of US taxes.
Nevertheless, for now, recall that the measures implemented by the US will be followed by similar measures affecting US exports to China. It is thus even less likely that this policy will enable the US president to achieve his objective.

Deliberate depreciation of the yuan?

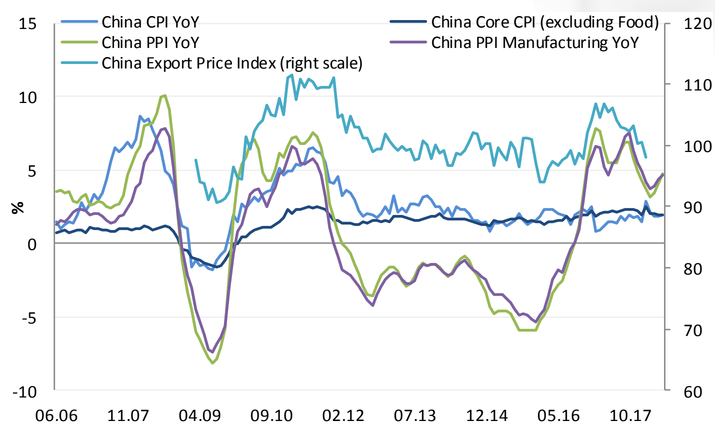
The trade tensions between the US and China have intensified and are now threatening trade between the two countries more significantly. The escalation of measures that could be carried out by both parties is raising fears of a negative impact on GDP growth in both countries. The US government may not yet have fully realised the potential impact on its own economy, but it is likely noting with some concern the rapid depreciation of the yuan by -5% at the end of June. Indeed, the yuan thus posted its steepest quarterly drop (-6%) since 1994. Is the Chinese government deliberately devaluing its currency in reaction to the US tariffs?

While it is possible that China is considering this option, it seems that threatening to sell US dollar assets would potentially be more damaging to the US, in particular in terms of interrupting the financing of US external debt. Thus, China's retaliatory measures could be more directly oriented in this direction, which would ultimately result in an appreciation of the yuan.

Effective Exchange rate and USD/Yuan



Inflation CPI - Core CPI



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United Arab Emirates

- UAE abandons decades of restriction to foreign ownership rules
- Sweeping new reforms to reduce the country's reliance on oil
- 100% foreign ownership to foreign investors
- 10 years residency visa for Investors and skilled workers
- Implementation and technicalities

UAE abandons decades of restriction to foreign ownership rules

The UAE cabinet announced on 20th of May that it will finally issue its long-awaited investment law aimed at boosting foreign investments. According to officials, the new law, which paves the way to allow up to 100% foreign ownership in specific sectors approved by the government, up from the current 49%, is part of the raft of reforms aimed at lowering the UAE's dependence on oil revenue.

Under the new law, the government has also pledged to grant long-term visas to select investors and professionals. These constitute a major breakthrough in relation to foreign investment and residency rules that prevail in the country for the last decades.

The announcement of the new UAE Commercial Companies Law, contrary to the expectations of most global investors, did not completely waive the 49% limit on foreign ownership applied to companies operating onshore. In addition, the government is yet to release the list of sectors or type of investors that could be eligible for 100% ownership of onshore companies which makes it difficult assessing the real effect of these reforms on the UAE's economy going forward.

The recent decisions aim at triggering a return by foreign investors to UAE equities, especially real-estate industry shares, whose index entered a bear market in the second quarter of 2018 amid faltering prospects for real estate industry and large amounts of foreign investors withdrawing funds from local stock markets.

In fact, real estate and construction remain a major pillar of the UAE's economy which is highly correlated to the population growth. Therefore, the proactive approach of the UAE government to ensure the sustainability of long-term economic growth is more vital than ever, particularly in light of the expected dilution of the importance of crude oil globally.

Sweeping new reforms to reduce the country's reliance on oil

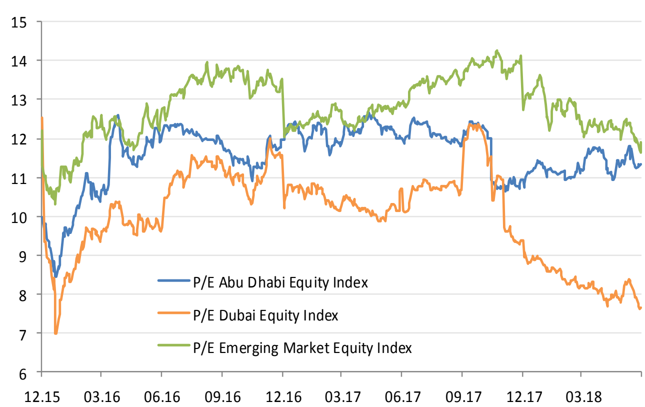
The UAE has been working on several bold reform initiatives, including the bankruptcy law, to boost investors confidence for the past several years. The UAE bankruptcy law, which allows companies in financial distress to restructure, came into effect last year. Therefore, the recent cabinet decision to allow full foreign ownership of onshore companies comes at a time when the country is challenged amidst of its ambitious diversification effort as it moves to become less dependent on oil.

Among the main benefits of the laws, government officials are claiming that it could boost FDI by up to 15%, with most inflows expected from Asia and Europe especially in the non-oil sectors. The UAE's economic diversification policy has been a main factor in the country's economic reforms amid various economic challenges. The UAE has been able to increase the GDP contribution of the non-oil sector to over 77% in recent years. Manufacturing, construction, retail, real estate, logistics, transportation, telecommunications, and tourism - all of which, along with strategic policies and programs, continue to drive the growth. The industrial sector accounts for 16% of the UAE's GDP and the nation intends to increase this to 20% by 2020 and ultimately to 25% by 2025.

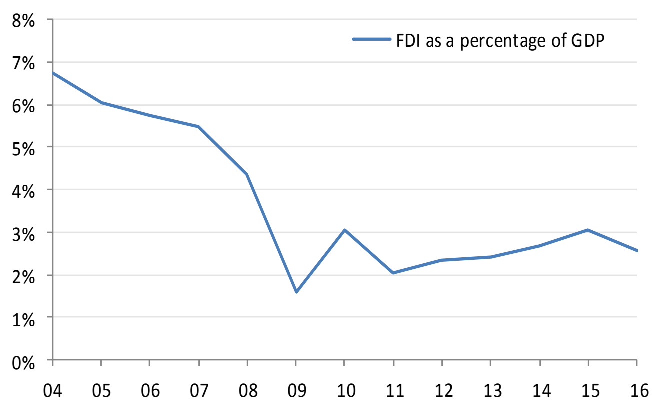
100% foreign ownership to foreign investors

The new law, which will allow up to 100% ownership to foreign investors outside free zones in some specific business sectors comes at a time when the UAE economy needs to reinvent itself once again with an urge to diversify its economy further away from oil. The move also constitutes a major departure from the practice that have prevailed in the country for the last decades that requires an Emirati partner with a majority stake for any onshore business. So far only companies based in various free zones around the UAE were eligible for the 100% ownership rule.

Shares in Dubai, Abu Dhabi trade at a discount to emerging market peers



Foreign Investment to UAE stagnates



Graph sources: Bloomberg/BearBull Global Investments

10 years residency visa for Investors and skilled workers

Under the new law, foreign investors establishing a business or investing in the UAE will be eligible for a residency visa of up to 10 years. Under prevailing laws, many investors held back from committing to larger investments into the UAE as they felt there was no long-term tenure and they were dependent on short-term visa rules. The new rules should encourage those investors to invest and grow their business in the country with more confidence.

However, based on the information available to date, ten year residency visas will be granted only to specialists in medical, technical and research fields, as well as for all scientists and innovators. These categories visas would also cover the families of every such eligible person. In addition, it is not yet clear whether the new 10-year residency visas will be linked to employment.

A move to curb outbound Remittances from UAE

Expatriates which represent 88.52% of the UAE's population, continue to send increased amounts of their earnings back to their home countries. The continued appreciation of the USD against most emerging markets currencies contributed further to the acceleration of this trend over the last years. As the US dollar holds strong, remittances in the last quarter of 2017 alone reached USD11.76 billion according to figures released by the UAE Central Bank.

Therefore, another important objective pursued by the government of the UAE in granting long term residency to expatriates is also to curb the amount of remittances that last year alone represented circa USD44.73 billion which represents over 10% of the countries GDP. Hence, based on the government strategy, maintaining even a portion of the outbound remittances could translate into higher GDP growth.

A boon for the real estate sector

Real estate market in the UAE continues to suffer from two continued years of decline in real estate values ranging from high single digits in Abu Dhabi to double digit price corrections in Dubai. The real estate sector is therefore one of the most important sectors that should stand to benefit from the new laws.

In fact, the changes should encourage UAE's expatriates, which as mentioned earlier constitutes 88.52% its total population, to remain in the country for longer periods and to invest onshore rather than sending their hard earned savings to their home countries. No doubt that the recent announcement was largely hailed by real estate and construction executives as an important turning point for the industry. However, it is worth mentioning that based on the information available to date, only a privileged group of high skilled expatriates will benefit from the new rules which makes it difficult to assess their real effect on the future prospect of real estate values.

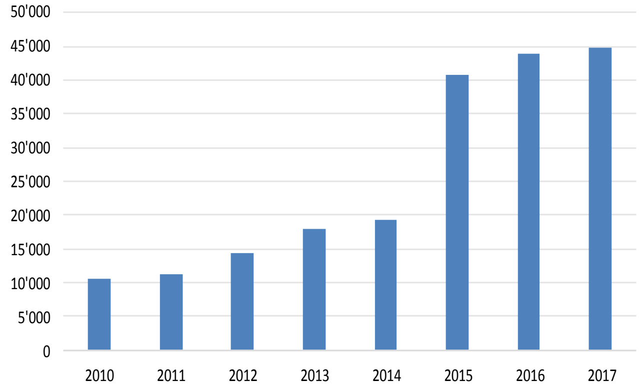
Implementation and technicalities

The law, eagerly awaited by business community, was initially expected to be introduced in the first quarter of 2018. The new law is clearly aimed at boosting foreign investments by liberalizing key sectors ranging from the manufacturing industry, including pharmaceuticals, to the services sectors. His Highness Sheikh Mohammad Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE, has directed the Ministry of Economy to implement the resolution and follow up on its developments, in coordination with all concerned stakeholders. He has asked for a detailed report to be submitted in the third quarter of this year, and the measures will come into force by the end of 2018.

A number of technicalities remain to be defined regarding the effective implementation of the new laws. The most important, in our opinion, will be its impact on free-zones which so far were the only option for foreign owners to own 100% ownership in the UAE. The government seems to be well aware of the challenge and is likely to restrict 100% ownership by foreign investors to specific sectors with probably a requirement to invest a significant amount to benefit from the new rules.

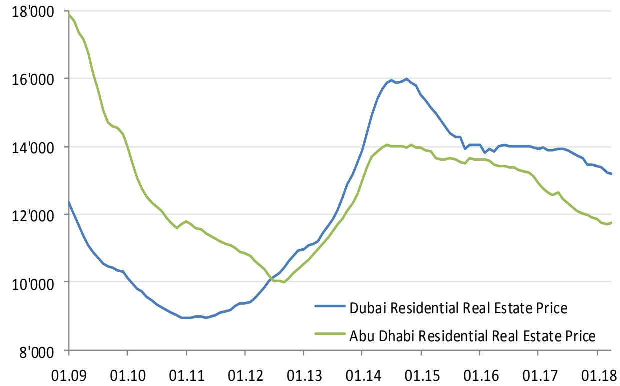
However, despite uncertainties regarding the content of the final law and its effective implementation, the key take-away of the loosening on domestic ownership restrictions lies in the fact that the UAE government seems to be fully committed to diversify its economy and to implement the required framework to increase the contribution of non-oil sectors to drive the country's economy further way from its reliance on oil price and to make it more competitive when it comes to residency and sense of belonging if its significant expatriate population.

Outbound Remittance from UAE (million USD)



Source : EIA / UAE Central Bank

UAE Residential Rent Prices (AED/m²)



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Emerging Markets

- Emerging currencies drop significantly against the dollar
- Emerging equities correct by -7.90% in Q2

Economic situation by country

Brazil – The lorry drivers' strike protesting high petrol prices, which has blocked traffic on hundreds of motorways and drastically reduced supermarket and petrol station inventories, is making it more difficult to assess recent economic activity. While April figures suggest a stronger showing than in previous months, the indicators for May and June were negatively impacted by the abovementioned events. The central bank's baseline scenario is thus indicating an upswing in economic activity at a less sustained pace. The overall outlook remains challenging and volatile, due in particular to risks stemming from interest rate normalisation in various developed economies, leading to adjustments in international financial markets. Consequently, the risk appetite with regard to emerging economies has decreased. The central bank believes that in the short term significant temporary upward pressure on prices resulting from work stoppages in the transport sector and other changes in relative prices will likely impact inflation.

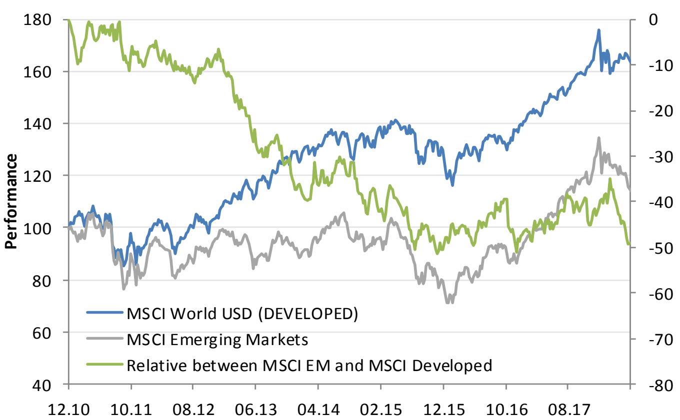
Underlying inflation is still relatively low, due in particular to components that are more sensitive to the business cycle and to monetary policy. In the scenario that assumes a key rate stable at 6.5% at the end of 2018, increasing to 8% in 2019, as well as an exchange rate against the dollar of 3.63 in 2018 and 3.60 in 2019, the central bank's inflation forecast is around 4.2% for 2018 and 3.7% for 2019. In a scenario where the key rate (6.5%) and exchange rate (3.70) remain stable, inflation is forecast at 4.2% and 4.1%, respectively.

At its meeting on 20 June, the central bank's monetary policy committee ('Copom') thus unanimously decided to maintain the Selic rate at 6.50%. The Committee emphasised that current economic conditions dictated an accommodating monetary policy, entailing interest rates below the structural level. The Copom typically bases its decisions on inflation forecasts and expectations, the balance of risks, and economic activity. Shocks that provoke changes in prices should only elicit a monetary policy response if they have secondary effects (that is, propagate to prices that are not directly affected by the shock). It is via these secondary effects that shocks can affect inflation forecasts and expectations and thus alter the balance of risks. Consequently, there is no mechanical relationship between the recent shocks mentioned above and monetary policy.

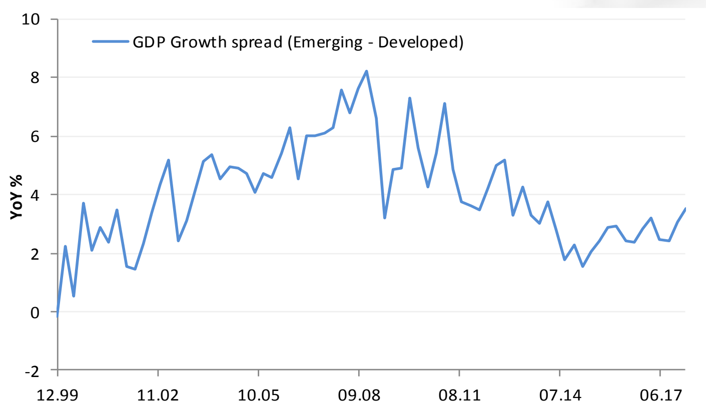
South Africa – The appreciation of the dollar and the rise in long-term US bond rates led to a significant decrease in capital flows to emerging markets. These developments along with the continuing increase in international oil prices contributed to part of the reversal in the rand's strength, tipping the risk scale towards rising domestic inflation. The SARB's overall inflation forecast remains more or less unchanged since the previous meeting of the monetary policy committee (MPC), in spite of rising oil prices and the weakness of the rand.

The forecast for 2018 and 2019 remains unchanged at 4.9% and 5.2%, respectively, while the forecast for 2020 is slightly above 5.2%, against 5.1% previously. Since the last meeting of the MPC, the rand has dropped significantly against the US dollar in particular, thus reversing a large portion of its overvaluation. Indeed, the rand depreciated by 13% against the dollar and 9% against the euro. The main driver of this recent weakness of the rand was the US financial markets, as Treasury yields rose above 3% for the first time since July 2011. Consequently, a number of emerging markets have experienced capital outflows as well as depreciations of their currencies. The domestic growth outlook remains challenging, even if growth will likely be higher than in previous years. The SARB's GDP growth forecast remains unchanged at 1.7% for 2018, but was revised from 1.5% to 1.7% for 2019.

Emerging and Developed Markets - Performance



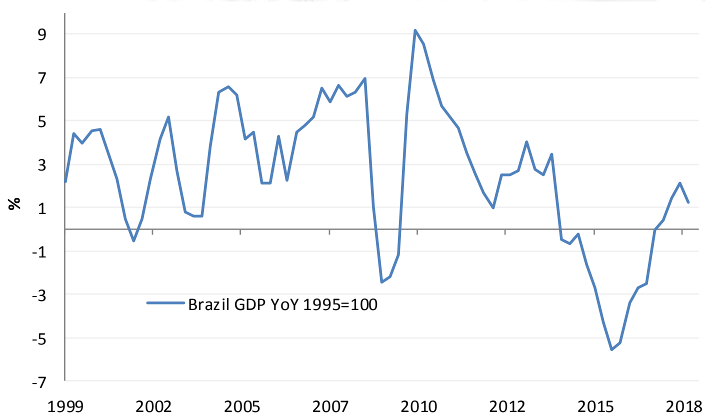
GDP Growth spread



Graph sources: Bloomberg/BearBull Global Investments

GDP (YoY) - Russia

GDP (YoY) - Brazil



The 2020 forecast remains unchanged at 2%. The continued rise in the composite economic indicator points to upward momentum in the economy.

The growth outlook is bolstered by a significant upswing in business and consumer confidence. Moreover, household consumption spending should be the main driver of growth, in spite of the headwinds caused by the increase in the VAT and in oil prices along with weak job growth. Growth in consumer spending will likely stay below 2% both in 2018 and 2019 but should reach 2.5% in 2020, vs. 2.1% previously. The growth forecast has improved slightly, mainly for 2019, but remains too weak to significantly impact the unemployment rate. The sluggish growth in Q1 is unlikely to derail the overall upward trend and is not yet reflecting the renewed optimism of businesses and consumers. Given the changes in the risk balance with regard to the inflation outlook, the MPC decided, unanimously, to keep its key rate unchanged at 6.5%.

Colombia – GDP figures in Q1 and economic indicators in Q2 suggest that growth will likely continue to be sluggish, albeit more robust than in 2017. Based on this information, the central bank's technical staff maintained its growth forecast at 2.7%. However, the bank considered that production capacity was still underutilised and that it would likely increase in 2018. Over the past several months, the annual inflation rate stopped decreasing, settling at 3.20% in June. Inflationary expectations are now above 3%, driven by various lingering uncertainties and risks, among which an increase in food prices that could affect expectations and hamper the convergence of inflation to 3%. Similarly, a steeper-than-expected depreciation of the peso could impact domestic prices. In this context, after having assessed the state of the economy and associated risks, the central bank unanimously deemed it appropriate to keep the key rate at 4.25%.

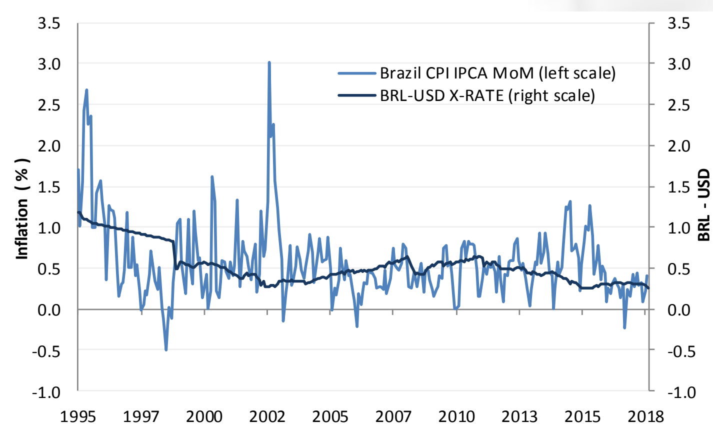
Russia – The Bank of Russia revised its inflation forecast upward in light of the planned increase in the VAT in 2019. This measure will influence next year's consumer prices and could even affect them this year. The Bank of Russia is forecasting that the annual inflation rate will be 3.5-4% at the end of 2018 and will rise temporarily to 4-4.5% in 2019. Consumer price growth is forecast to be 4% in 2020. Monetary conditions are close to neutral, and the central bank considers that they are having almost no constraining effect on loans, demand, and inflation.

At the same time, banks' conservative approach to borrower selection promotes a gradual increase in credit without creating risks in terms of financial and price stability. Deposits remain attractive for households at current interest rate levels.

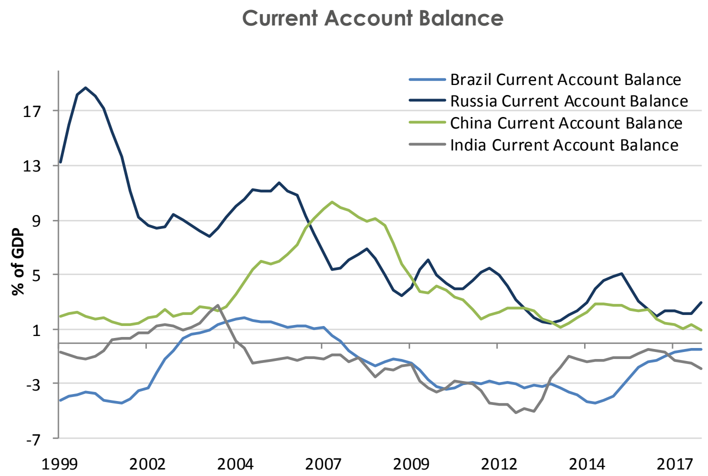
Annualised GDP growth in Q1 2018 (+1.3%) was slightly below analysts' forecasts for March. Q2 was marked by an improvement in investments and industrial activity, confirming the temporary nature of the economic slowdown in March 2018. The Bank of Russia thus maintained its GDP growth forecast of 1.5-2% for 2018. Economic growth is likely to remain close to these levels in 2019-2020. The risk of an economic slowdown remains for 2019, even though in the medium term, if the planned measures are implemented successfully, the economic growth rate could be higher than the Bank's baseline forecast.

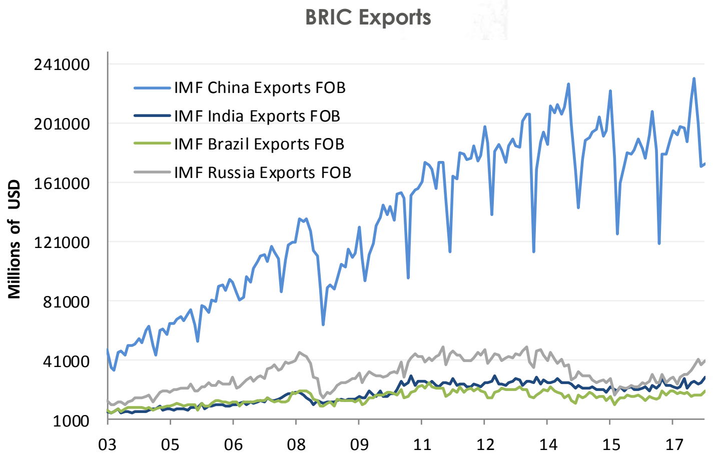
Ruble VS USD

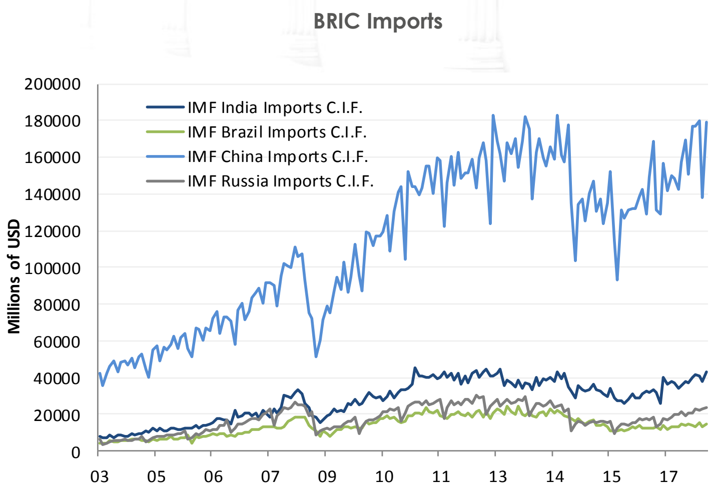
Inflation and Exchange rates



Graph sources: Bloomberg/BearBull Global Investments







Graph sources: Bloomberg/BearBull Global Investments

India – GDP in Q1 boasted a phenomenal growth rate of 7.7%, making the Indian economy the fastest growing in the world. According to Finance Minister Arun Jaitley, this trend is likely to persist in the next few years. Indeed, according to a study by the Boston Consulting Group, India is on track to becoming the third largest economy in terms of consumption by 2025 due to changing consumer behaviour and spending and will likely overtake the US to become the second largest economy in terms of purchasing power by 2040. Inflation is expected to reach 5.30%, exceeding its long-term target (4%).

Mexico – The Mexican economy posted weaker growth between January and March (+1.3%) than in Q4 2017, when the growth rate was already the slowest posted in the last four years. Underinvestment in education is probably the economy's main problem, and Mexicans prefer to go abroad to work, and to the US in particular.

Indonesia – The Indonesian central bank raised its key rate by 100 bps over the past two months, going from 4.25% at the beginning of May to 5.25% at the end of June with the aim of countering the depreciation of the local currency against the dollar. As for GDP, it grew at a rate of +5.06% in Q1, while inflation remained above +3% (+3.12%).

Taiwan – GDP growth dipped slightly in Q1 (3.02%) compared to December 2017 (+3.28%) and will likely lose further momentum due to a cyclical downturn in external demand affecting manufacturing production. Taiwan may also potentially be negatively affected by the escalation of the trade war between the US and China with regard to these countries' exports of electronic goods.

Turkey – Turkey is maintaining its high annual rate of growth with +7.4% as of 31 March, thanks in particular to a series of uncontrolled loans reaching levels that could be considered alarming. Inflation passed 15% in June, driven by the collapse of the lira, which has lost -20% against the dollar since the beginning of the year.

Romania, Czech Republic, Poland, Hungary

After having achieved a growth rate of +6.9% in Q4 2017, the Romanian economy progressed more slowly in Q1 (+4%). Inflation rose once again and is now exceeding 5% (5.40%). As for key rates, they were raised for the third time in 2018 in April (2.5%).

In the Czech Republic, inflation remained above +2% in June (2.6%), while GDP growth clocked in at +4.2% yoy in March. Note that the Czech National Bank raised key rates by +0.25% in May.

While key rates are stagnating in Poland (1.5%), economic growth remained above +5% in Q1 2018 (+5.2%). Inflation has been fluctuating for several months, coming in at 1.9% in June.

The Hungarian economy (+4.4%) continues to grow at the same pace as at the end of 2017, while inflation rose significantly compared to last March (2%), coming in at 3.1% at the end of June. Finally, the central bank did not proceed with any rate hikes between March and June.

PROSPECTS AND STRATEGIES

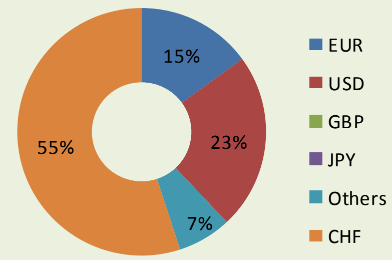
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Currencies

- New weak spell for the Swiss franc
- The US dollar is finally starting to rise
- Expected depreciation of the yen
- The yuan is depreciating in reaction to a rise in customs duties

Currency allocation - CHF portfolio



Tactical Allocation

- Underweight CHF
- Favor USD and AUD
- Overweight EUR
- Avoid JPY

LIQUIDITY/ CURRENCY	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
EUR vs CHF	↗	↗							
USD vs CHF	↗	↗							
GBP vs CHF	↘	↘							
JPY vs CHF	↘	↘							
EUR vs USD	↘	↘							
USD vs JPY	↗	↗							
GBP vs USD	↘	↘							

New weak spell for the Swiss franc

Since January 2015, in our analyses we have regularly upheld that the SNB's monetary policy would be a success, frequently mentioning that the EUR/CHF exchange rate would return to 1.20. Recently, the improvement in the European economic situation and the prospect of the end of ECB liquidity injections in 2018 have led to rise in the euro. However, we had indicated that in the short-term the euro would likely hit the 1.20 mark, but that it would be unsustainable in the immediate future. After the noticeable appreciation in the euro, we were expecting a phase of consolidation before an upward movement of the exchange rate against the Swiss franc could take place. As such, the correction in May came as no surprise amidst the uncertain political context in Italy. We probably need growth to pick up the pace in the Eurozone and the interest rate differential to widen in order to push the Euro to continue to appreciate beyond the 1.20 threshold against the Swiss franc. However, we believe that the weakness seen over the past few weeks (-4.5%) provides a new opportunity to reposition on the euro. As regards the US dollar, the consolidation has been modest (-2%) and we maintain our upward forecasts.

The SNB should be pleased to note the effect of its policy, which is proving a major monetary strategy success, as demonstrated by the record 54.5 billion Swiss francs in profit for the bank in 2017. SNB currency reserves are still high, but have stabilised at around 740 billion Swiss francs. The market effects over the last few weeks certainly explain this slight drop in currency reserves, so one should not read into this a change in SNB monetary policy. Swiss key rates will certainly remain unchanged, at least until September 2019. It is rather unlikely that the SNB will decide to change its key rates before the ECB does, even in the context of the hoped-for, very gradual inflation recovery; inflation has now hit 1.1% and is at its highest since May 2010.

In this climate, over the coming months yield differentials should grow in favour of foreign currencies and maintain the conditions required for the Swiss franc to continue to weaken.

The US dollar is finally starting to rise

A few months ago, we had pointed out that the current faster-paced economic trend in the US should sustain the positive upward development of the various interest rate differentials in the US dollar's favour. This has now happened, and the US dollar is gradually gaining strength against the other major currencies- particularly the Euro, the Swiss franc, the yen and the pound sterling. In this context, the weakness that the US dollar had shown in 2017 and at the start of this year seems entirely unfounded at the start of the second half of 2018, even though a new trend finally seems to be materialising as of mid-April. This change in the US dollar's value has finally started to take place. As such, the trade-weighted US dollar has regained all of the ground it lost between November 2017 and February 2018, and posted +6.5% growth in ten weeks. Today, the US dollar is trading at the average price of the last three years (95), but is still very much below the upper limit of its 90-100 fluctuation band for the period. The US president has made threats that have sparked fears of a trade war which could potentially have a negative impact, from which the United States would not be spared. Providing that these threats do not become a reality, and that no major unexpected risk crops up, we predict that the value of the US dollar could once again gain ground across most currencies, bringing the value of the trade-weighted US dollar to 100-102 once again.

The Euro should weaken against the US dollar and appreciate against the Swiss franc

The single currency remains almost surprisingly highly sought after in a context which is rather uncertain. Indeed, the Euro is still not feeling the effects of the threats of a trade war that the US president is holding over the European Union, of the slight economic slowdown at the start of the year, or the political migrant crisis which once again threatened Eurozone cohesion. Nothing currently seems able to shake the Euro, but its appreciation since the start of 2017 is nonetheless threating the Eurozone's trade development prospects and inflation forecasts. At its current level, the strength of the Euro is certainly problematic for the ECB and is endangering the quality of the recovery and the competitiveness of European industry. We can see that to date, our euro/CHF exchange rate strategy, put in place following the SNB's policy change, is still proving effective. The exchange rate has almost recovered to where it was on 14th January 2015 (1.20). However, a few months ago we had pointed out that the bounce back in the Euro already seemed to broadly reflect the improvement in fundamentals, and that a new phase of relatively horizontal consolidation should get underway, sparking some profit taking. Today, after two quarters of stabilisation, we believe that the chance of the single currency hitting 1.20CHF and surpassing it is once again higher, particularly given the upcoming end of ECB bond purchases and rises in long rates, which will make themselves felt in the second half of the year.

Graph sources: Bloomberg/BearBull Global Investments

Expected depreciation of the yen

The recent weakness of the yen will likely give a boost to the Japanese economy, but the currency's depreciation of around 5% against the dollar, from 105 to 110, is likely not enough to provide the contribution required. In our March analysis, we noted that the strength of the yen resulted in part from its safe haven status in an uncertain context and predicted that the exchange rate would likely return to a 110-115 range once financial market volatility diminished. The aim of monetary policy is still to weaken the yen, but available means remain limited.

We continue to think that the yen will in all likelihood be disregarded by investors, given a totally unfavourable interest rate environment and interest rate spreads that should continue to penalise the Japanese currency. The ongoing normalisation of US monetary policy along with expectations of further increases in long-term rates in the US will likely further weigh on the yen in 2018. A weaker exchange rate has been one of the key elements of the government's policy to boost inflation and exports. This policy remains relevant, even if some believe the yen remains undervalued.

Having temporarily benefitted from its safe haven status, the yen will likely weaken again in Q2 and reach a level of 115 against the dollar.

The pound is in wait-and-see mode

The British currency still appears unaffected by the political uncertainty and the absence of concrete progress made on defining the post-Brexit trade framework. We continue to believe that the pound has entered a phase of stabilisation against most major currencies after its historic fall in the wake of the Brexit vote. After talks resumed in December 2017, the pound benefited from a slightly more constructive political climate leading to hopes of a reasonable solution between the UK and the EU.

This expectation continues, for now, to bolster the pound/euro exchange rate, which has remained stable since October 2017 at between 1.12 and 1.14.

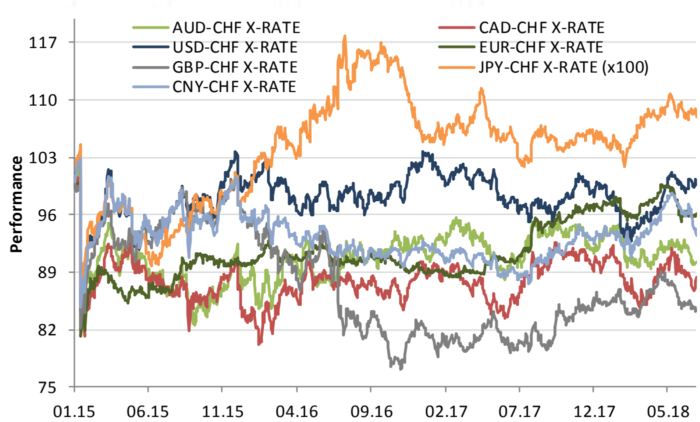
However, after having banked on a stabilisation of the exchange rate in H1 2018, we are now concerned that, as the March 2019 deadline set for Brexit draws nearer and the difficulties encountered in the negotiation process fail to abate, the level of risk will increase and once again affect investors' perceptions regarding the British currency's outlook.

Less than a year away from the deadline, the level of uncertainty remains extreme, even if it looks like a hard exit is not currently the most likely outcome. It is thus not unlikely that volatility will return in the coming months along with renewed pressure on the pound.

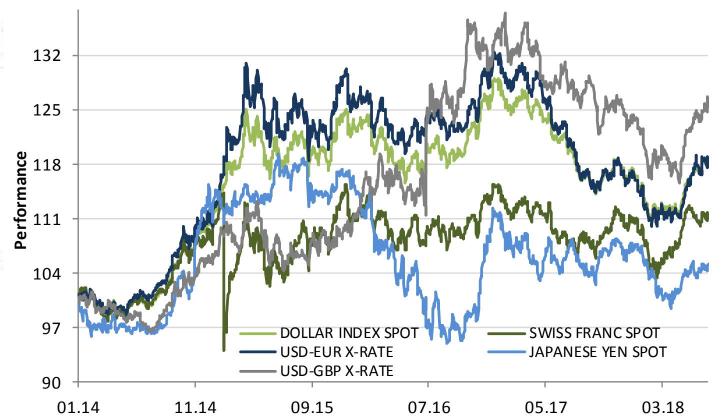
Positive context for the Australian dollar

The Australian economy continues to grow at a sustained pace and posted a +3.1% increase in GDP in the 1st quarter, one of the best results of any developed economy. Despite excellent prospects for the second half of the year in line with our forecasts, the Australian central bank did not hike its key rates at its latest meeting in June due to the lack of sufficient inflationary tensions. The very good form of the commodities sector is considerably benefiting the Australian economy, and this trend should continue over the coming quarters. The country should continue to enjoy low rates and fast growth, which should help the currency to appreciate.

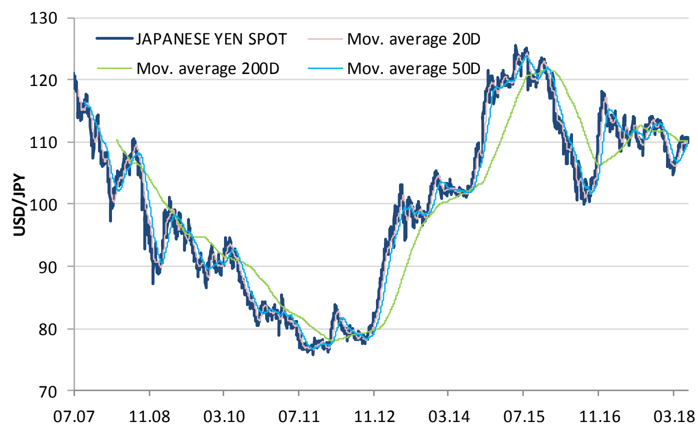
7 currencies against CHF (Normalized at 100)



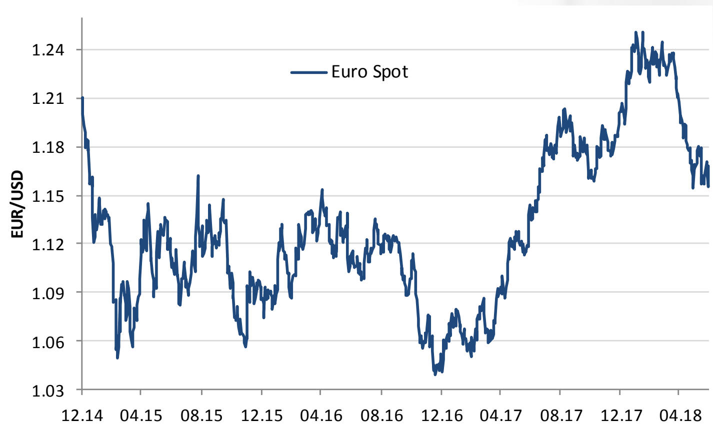
Dollar Trade-weighted index & cross rates (Normalized at 100)



JPY/USD



EUR/USD



Graph sources: Bloomberg/BearBull Global Investments

The yuan is depreciating in reaction to a rise in customs duties

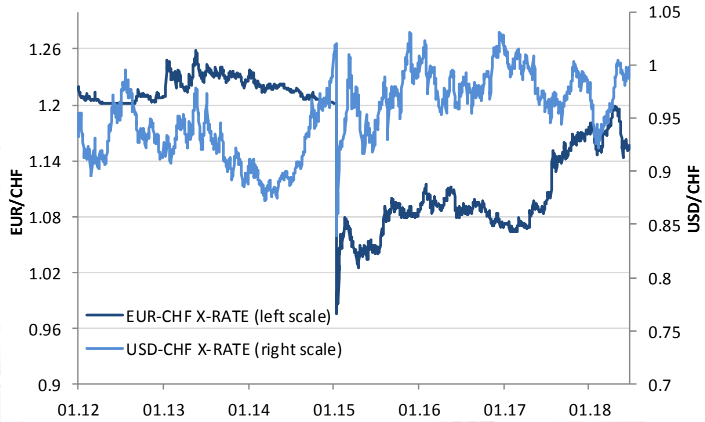
Trade tensions between the United States and China have grown, meaning that rather more serious threats are now hanging over the development of trade between the two countries. The escalation of measures which could be taken on each side is sparking fears of the negative effect that this could have on their respective GDP growth. The US government may well not yet have fully appreciated the potential impact this could have on its own economy, but it is undoubtedly already watching the rapid -5% depreciation of the yuan at the end of June with concern. Indeed, the yuan posted its greatest quarterly drop (-6%) since 1994. Is the Chinese government deliberately devaluing its currency as a reaction to the introduction of US customs duties?

CURRENCIES

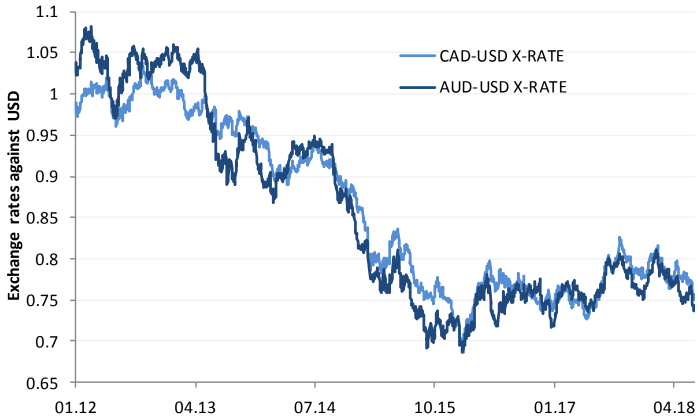
30.06.2018

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.2	0.3	-0.1	-5.2	-2.7	-2.7
CHF-USD X-RATE	1.0	-0.3	-0.5	-3.7	-1.6	-1.6
GBP-USD X-RATE	1.3	-0.4	-0.7	-5.8	-2.2	-2.3
JPY-USD X-RATE	0.0	-0.6	-1.7	-4.0	1.8	1.8
CAD-USD X-RATE	0.8	1.0	-1.3	-1.8	-4.5	-4.3
AUD-USD X-RATE	0.7	-0.5	-2.2	-3.6	-5.1	-5.2
RUB-USD X-RATE	0.0	0.1	-0.6	-9.5	-7.5	-8.0
CNY-USD X-RATE	0.2	-1.8	-3.2	-5.0	-1.8	-1.7
INR-USD X-RATE	0.0	-0.8	-1.5	-4.9	-6.7	-6.7
BRL-USD X-RATE	0.3	-2.4	-3.8	-14.7	-14.6	-14.6
AGAINST SWISS FRANC						
USD-CHF X-RATE	1.0	0.3	0.5	3.8	1.6	1.7
EUR-CHF X-RATE	1.2	0.5	0.4	-1.6	-1.2	-1.1
GBP-CHF X-RATE	1.3	-0.2	-0.2	-2.2	-0.6	-0.6
JPY-CHF X-RATE (x100)	0.9	-0.4	-1.2	-0.3	3.3	3.5
CAD-CHF X-RATE	0.8	1.3	-0.9	2.0	-3.0	-2.8
AUD-CHF X-RATE	0.7	-0.2	-1.7	0.1	-3.7	-3.6
RUB-CHF X-RATE	0.0	0.8	-0.1	-6.1	-6.0	-6.5
CNY-CHF X-RATE	0.1	-1.4	-2.7	-1.4	-0.1	-0.1
INR-CHF X-RATE	0.0	-0.7	-0.7	-1.4	-5.2	-5.2
BRL-CHF X-RATE	0.3	-2.3	-3.4	-11.5	-13.3	-13.3

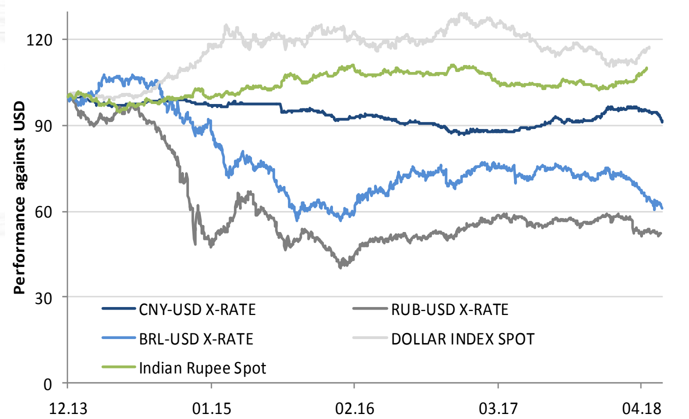
EUR/CHF - USD/CHF



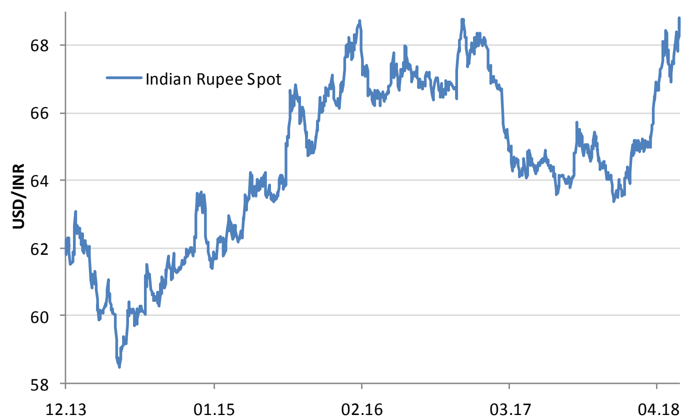
CAD/USD - AUD/USD



Emerging Currencies VS USD (base 100)



Indian Rupee

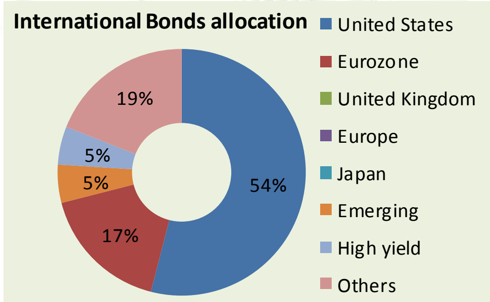


Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Bonds

- US bonds offering attractive yields
- Rise in long-term rates still on hold in the Eurozone
- Adjustment of interest rates further postponed in the UK
- Favour short maturities



BONDS (Areas/currency)	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↘	↘↘	■						
United States	→	↘					■		
Eurozone	↘	↘↘		■					
UK	↘	↘	■						
Europe	↘	↘↘		■					
Japan	↘	↘	■						
Emerging	↘	↘		■					
Other (AUD, CAD, NOK...)	→	→					■		

Tactical Allocation

- Reduce exposure to Eurozone
- Overweight USD
- Diversify exposure to CAD and AUD
- Reduce exposure to Emerging and high yield bonds

US bonds offering attractive yields

The US central bank has conveyed its assessment of the current economic situation and seems increasingly comfortable communicating its positive conclusions on the state of the US economy. The Fed is more confident than ever in the country's growth prospects and has once again raised its forecast for 2018 from 2.7% to 2.8%, although it has kept the outlook for 2019 at +2.4%. Growth in the US is now considered "robust" after having been deemed "moderate". The temporary drop in momentum in Q1 has been replaced by a much better outlook in Q2. With regards to the labour market, the Fed revised its projections based on better prospects for 2018. The key focus of its analysis remains labour market conditions, which continue to point to an increase in new jobs and a decrease in the rate of unemployment (3.8%). The institution's forecast for the latter is of 3.6% in 2018 and 3.5% in 2019. The Fed's outlook on inflation remains relatively unchanged. An increase beyond the set target of 2% (2.1%) seems likely in 2018 with no perceived risk of this target being exceeded quickly and significantly. The central bank is not claiming victory with regards to inflation, highlighting that inflationary expectations are relatively stable.

The consumer price index (CPI YoY) reached +2.8% in May while the core index settled at +2.2%. Inflation seems to have accelerated also for producer prices, confirming the Fed's expectations. The PPI for final demand is also at its highest since 2011. Momentum is still restrained but remains above the Fed's target. Expected YoY inflation has increased greatly, reaching +2.9% in May. In the longer term, the 5- to 10-year expected inflation forecast is also higher than current inflation at +2.6%. An acceleration of this trend depends on an increase in wages, which is taking some time to materialise despite a labour market close to full employment and an unemployment rate of 3.8%. However, the upturn in inflation will strengthen due to wage pressures and price increases, which will intervene to preserve business margins.

For the time being, the bond market has not reacted to this phase of monetary policy being announced. Indeed, recent developments with regard to various measures of inflation have not yet had any significant impact on long-term rates. The CPI increase to nearly 3% is the sharpest observed since 2012, and yet it has not pushed rates beyond the highs they achieved in May. In fact, ten-year rates barely reached 3% before stabilising slightly below this mark, as the rate hike failed to drive these rates closer to the high reached on 18 May 2018 at 3.12%.

After a few quarters of stabilisation, US long-term rates were therefore the first to take off. Our 3% increase in yields has been materialised. Although we still believe that the interest rates should ultimately exceed this level, it is likely that in the short term, there will be a stabilization of rates around 3%. Nevertheless, we must remain alert to the expected consequences for inflation of the conjunction of internal and external factors likely to drive up price indices. The drop in unemployment rates should finally create some pressure in the job market at a time when commodity prices will also impact imported prices. Rising inflation will likely act as a catalyst for long-term rates to rise again. However, in this context, US bonds are offering attractive yields by international comparison. The current yield of 3% offers at least some protection against the risks that rates will rise further in the next few quarters.

BOND INDICES (local currency)

30.06.2018 — Total Return Performance

	Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %
SWISS BONDS	SBI AAA-BBB	135.6	CHF	0.0	-0.1	0.1	-0.6	-0.6
UE BONDS	Barclays EuroAgg	249.3	EUR	0.2	0.5	-0.5	0.3	0.3
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	143.9	EUR	0.1	0.3	-0.7	-0.4	-0.4
US BONDS	JPM U.S. Aggregate Bond Index	621.8	USD	0.3	-0.1	-0.2	-1.7	-1.7
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USDA1	8.4	USD	0.2	-0.1	0.2	-0.1	-0.1
EMERGING BONDS	JPMorgan Emerging Markets Bond	518.8	USD	-0.5	-1.4	-4.0	-6.0	-6.0
INTERNATIONAL BONDS (DIVERSIFIED) - USD	JPM Global Aggregate Bond Index	561.2	USD	0.2	-0.3	-2.5	-1.5	-1.5
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	JPM Global Aggregate Bond Index	631.2	EUR	-0.1	-0.3	2.7	1.3	1.3
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	142.9	CHF	0.5	0.5	1.2	-1.3	-1.3
CONVERTIBLE BONDS (UE)	Exane Europe Convertible Bond	7744.9	EUR	-0.7	0.0	1.8	0.2	0.2
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	142.8	USD	-0.6	0.1	-1.3	-1.2	-1.2
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	14.6	USD	-0.5	0.1	0.3	-0.3	-0.3

1) Short & Medium-term (1-5 years)
2) Emerging Bonds (Corporate)
3) Emerging Bonds - Eastern Europe

Graph sources: Bloomberg/BearBull Global Investments

Rise in long-term rates still on hold in the Eurozone

The rise in long rates is still held hostage by the evaluation of how inflationary risks and ECB monetary policy are developing. As regards the central bank's position, its decision to pursue its bond purchase strategy, even at a lesser pace, is still slowing the adjustments that investors should normally make in the current context of +2.5% GDP growth year on year. Higher yield should certainly be demanded in the current economic situation due to the gradual inflation recovery. However, upward pressures on long rates are still very modest, particularly as the rise in inflation is not caused by wage rises, but by crude oil prices. The result is an unwanted real-terms wage contraction. Despite everything, we are seeing a relative surprise in June, with the CPI index increasing to +2% in a year, bringing it up to the same level as in February 2017, and rekindling forecasts of price increases. Although we have just started to see this, for the time being these forecasts mainly depend on external factors, such as the rise in crude oil prices. Inflation excluding food and energy remains contained and relatively stable at +1%, approximately the average of the past few years. It is likely that for the time being the ECB will not give any more thought to this figure, which says nothing of any importance about the potential tensions forming in the economy other than those caused by the rise in crude oil and the Euro. As such, it is not urgent to take action and adjust expected yield on ten-year state bonds in order to incorporate the fact that the CPI has hit the ECB's target.

We still need to wait for a trend reversal that works against the Euro/US dollar, as well as tensions on the job market in order for inflationary forecasts to be pushed upwards and subsequently foreshadow a rise in long rates. Despite unemployment dropping to 8.4%, it is still too early to predict a clear inflation recovery sparked by wage rises.

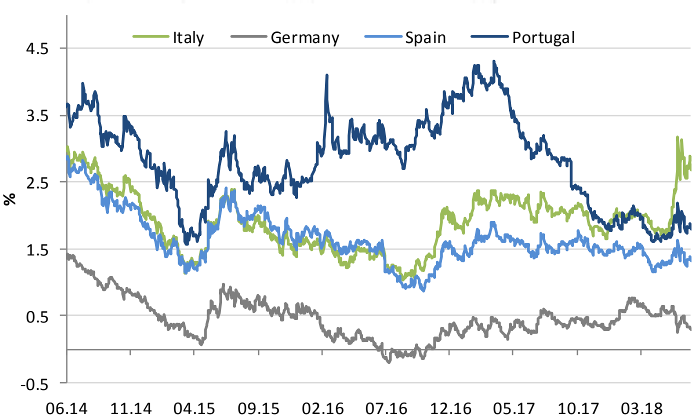
In this context, Eurozone long rates should not be able to carry on completely disconnected from the recovery in long rates in the US for much longer. We believe that the grounds for the yield differential are increasingly flimsy, given how the European economy has caught up with US growth. After a first half of the year still shaped by stability, we should now see a change in investors' risk perception. We recommend further reducing the bond risk in Euros without delay.

Adjustment of interest rates further postponed in the UK

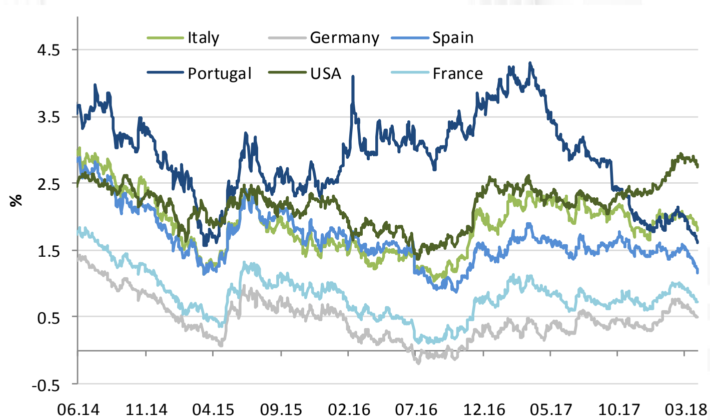
Retail price indices thus eased somewhat over the past few months, among which the core index in particular, which slid back to 2.1% in April, a significant decline in the BoE's eyes given the high of 2.7% YoY reached at the end of January. Pressures fortunately did not intensify, in spite of the stabilisation of the exchange rate against the euro in particular. As for production prices, they fell more sharply in 2017 but are creeping back up in 2018 in part due to the increase in commodities prices. We maintain our forecast with regard to a stabilisation of inflation above the BoE's 2% target over the next quarters and remain alert to the risks of an adjustment of long-term interest rates should economic activity pick up.

Over the past months the BoE has likely been concerned with the decrease in economic activity in the UK, but inflation trends should allow it to maintain an accommodating policy for a while longer. The bank likely wishes to normalise its target with regards to key rates, currently at 0.5%, but this move seems very unlikely to occur in the near future. The likelihood of action in August thus remains below 50%. The status quo is likely to persist given the current economic slowdown.

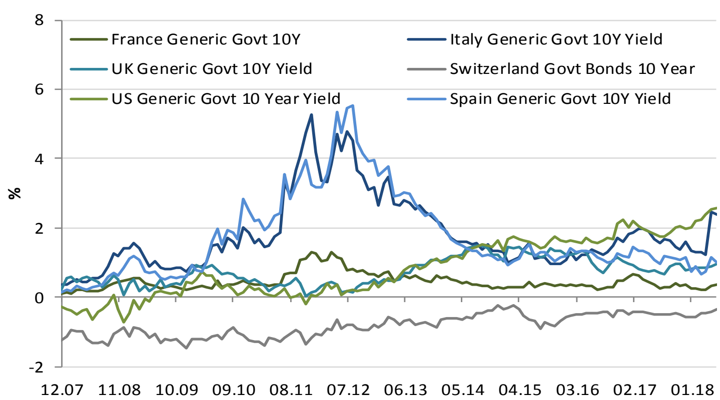
European Bonds (10 year yield)



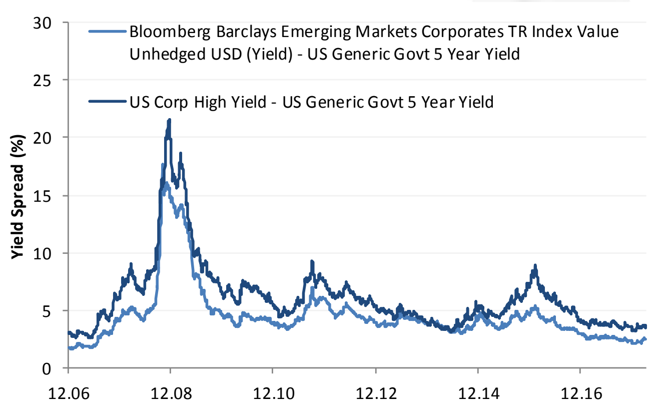
10 year yield



Risk premium over Bund



Risk premium over Treasury



Graph sources: Bloomberg/BearBull Global Investments

As mentioned in our previous analyses, the rate hike to 0.5% will likely be followed by a long period of inaction before a minor hike in the second half of the year. GDP growth in Q2 will be a determining factor in the evolution of monetary policy over the next several months. The UK bond market is likely to be further affected by domestic fundamentals and by Brexit-related uncertainties, which are not waning.

The British economy's loss of momentum at the beginning of the year could justify long-term rates being temporarily lower than inflation. Long-term rates could thus yet stabilise around 1.5% without any economic upturn, but an upward revision of the economic outlook could also push long-term rates closer to 2%. The British bond market is not benefitting from attractive fundamentals and should thus be underweight in a diversified allocation.

Avoid Japanese bond market

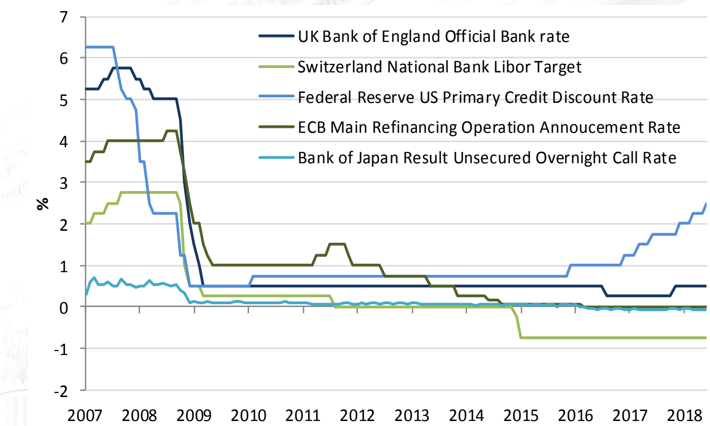
The Japanese economy had been bolstered by an environment favourable to export growth in 2017 and by renewed capital spending, but the appreciation of the yen clearly penalised this economic upswing and is likely to further weigh on GDP growth in Q2. The BoJ is no doubt aware of the significance of this factor but has no other means at its disposal to counter the negative impact of a strong currency than those already implemented. Despite this, we believe that the Japanese economy should avoid the worst in Q2. In the absence of growth, price indices did not confirm the expected upswing in the past several months. The slowdown at the end of last year persisted in the last few months after the CPI rose by +1.5% in February. Indeed, inflation was once again sluggish, rising by only +0.6% in April. The best hope for a lasting rise in prices is likely still for the yen to depreciate, unless a tighter job market finally has an impact on wages and prices. It is clear that the BoJ's 2% target is still far from being achieved, but the bank remains optimistic, highlighting in particular that the increase of the output gap to +1.5% in Q4 2017 suggests that GDP growth was above potential. If this is confirmed, it would indicate that inflation could finally rise more sharply in Japan. In this context, the Japanese bond market still fails to offer any interesting opportunities for foreign investors.

Focus on short maturities and take a cautious stance on peripheral debtors

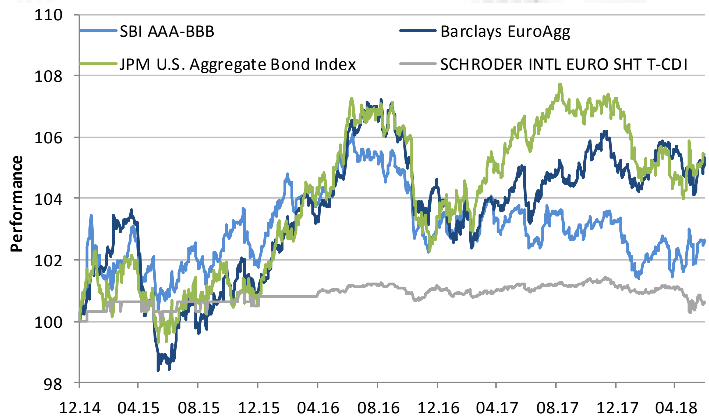
The Year 2018 has thus begun in a strong macroeconomic context on the international level by new tensions on long-term rates and the expected rebound in interest rates in most countries. We should also see next H1 the widening of credit spreads. Prudence will therefore be decisive in order to avoid significant losses during this shift in paradigm. The performance of the European peripheral debt will certainly be disappointing. Overall, risk premiums are expected to increase in 2018 with the rebound in interest rates.

We prefer investment grade bonds in US, Canadian and Australian dollars to the detriment of bonds in euro and yen.

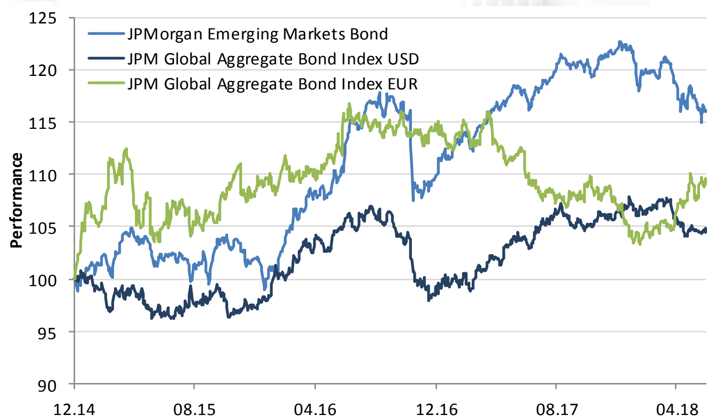
Central Bank rates (EUR, CHF, GBP, USD, JPY)



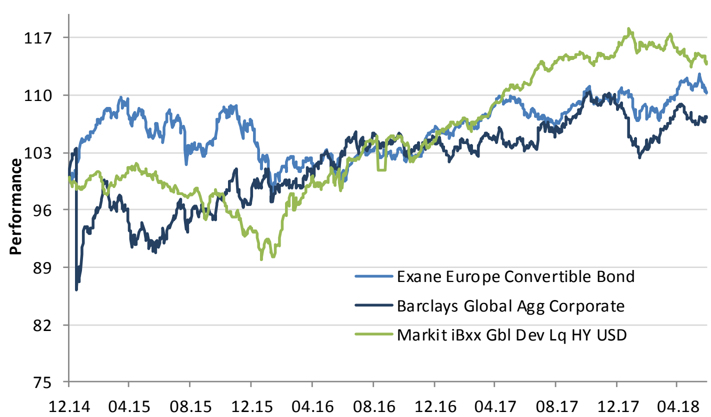
YTD Performance of Bond Indices 1- 5 years (Normalized at 100)



Emerging Bonds - Performance (Normalized at 100)



Eastern Europe Bonds - Performance (Normalized at 100)



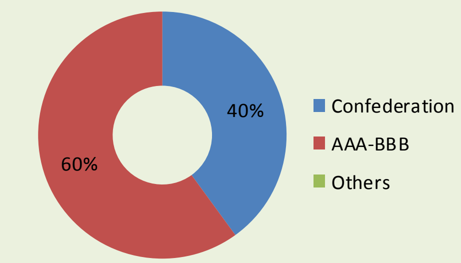
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Bonds

- End of “micromovements” in long-term rates ?
- Rise in Swiss long-term rates in Q4
- Inflation exceeds 1% again
- Real interest rates still negative at the end of the year

Swiss Bonds allocation



BONDS Type of Debtor	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Governement	↘	↘							
Corporate (IG)	↘	↘							
Others	↘	↘							

Tactical Allocation

- Underweight Swiss Government Bonds
- Overweight the “IG” segment
- Prioritise short durations on all segments

End of “micromovements” in long-term rates?

Swiss long rates did indeed start to normalise in summer 2016 in the wake of the change of trend in the United States. However, after a first adjustment to ten-year Swiss rates from -0.6% to 0% in the 4th quarter 2016, we then saw a long period of stabilisation at around 0%. A few months ago, we announced that this situation would certainly not last in 2018, which has partly been proven right with an increase in volatility in the 1st quarter. In just a few weeks, long rates leapt 40 basis points, and then stabilised. This rise likely heralds the end of “micro-movements” on long rates, and the arrival of a faster pace of rate normalisation. Careful however not to draw hasty conclusions about developments in long-term rates in Switzerland, as we believe it is unlikely we will see ten-year rates exceed their current range of fluctuation between -0.15% and +0.15% without a more significant change in the relative macroeconomic context between the eurozone and Switzerland. In other words, the horizontal consolidation of Swiss rates is closely correlated with that of European long-term rates at the moment, which are still vacillating in terms of whether to once again trend upward from their current levels of 0.3% potentially to the levels reached in February (0.8%) before equity markets weakened.

Rise in Swiss long-term rates in Q4

SNB monetary policy is still influencing the very short end of the Swiss rate curve, and is holding back any increase in yield on this end of the curve. Short-term maturities have of course hardly reacted, whereas longer maturities have risen. As such, the rate curve has steepened, as we had mentioned in previous analyses, and this should continue at a faster pace in 2018. In particular if our bullish outlook for the last quarter in the eurozone is also affecting the outlook for the Swiss bond market. We have already stated that the bond bubble should start to deflate, though with no immediate signs of panic, before picking up the pace. We believe that this new faster-paced phase has already begun.

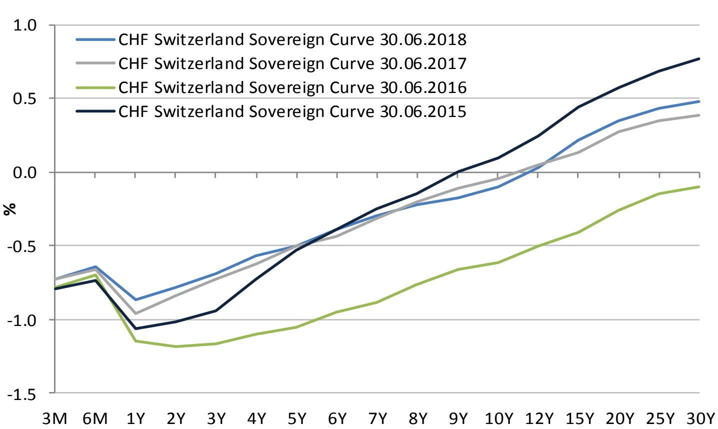
Inflation exceeds 1% again

A rise in inflation could be the next trigger element for further long rate rises in the Eurozone and Switzerland. Although if it remains modest, the 1.1% rise in the CPI (YoY) of June is still the greatest rise of the last ten years, if we exclude the tensions in March (1.4%) and April (1.4%) 2010.This trend will likely be reinforced by the weakening Swiss franc. In this context, the long rate differential between the German Bund and Swiss bonds has not really changed, and remains close to 0.5%. However, we believe this differential should grow, due to the improvement in the European trend and the end of the ECB bond purchasing programme.

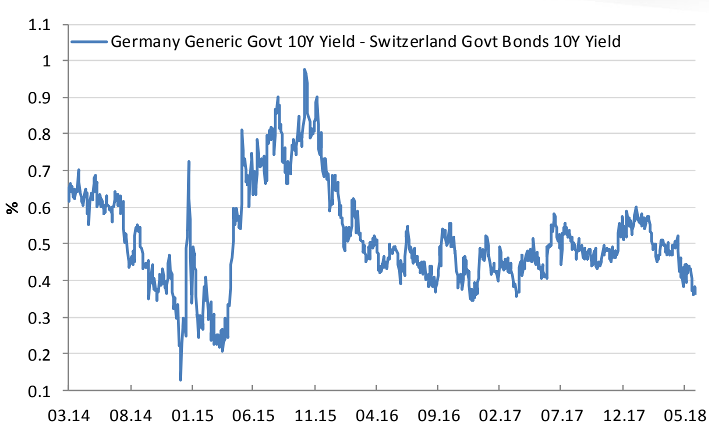
Real interest rates still negative at the end of the year

Negative real interest rates should be temporary and gradually correct as long-term rates rise above inflation. However, they will remain negative in 2018, foretelling another upcoming correction in the valuation of bond markets. We favour quality and short maturities.

Switzerland Sovereign Yield Curve

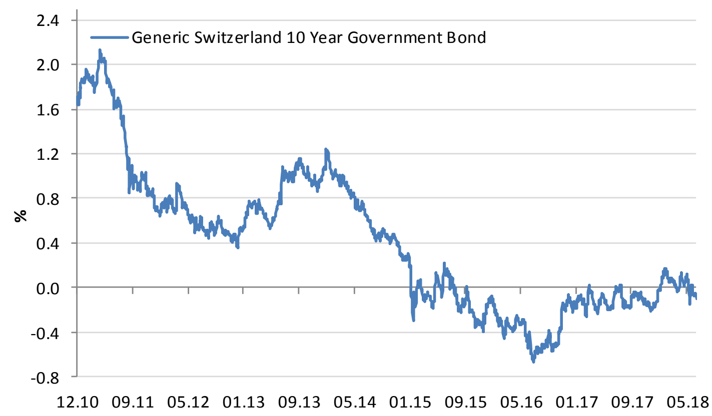


Long rates Yield Spread (German Bund - Swiss Confederation)

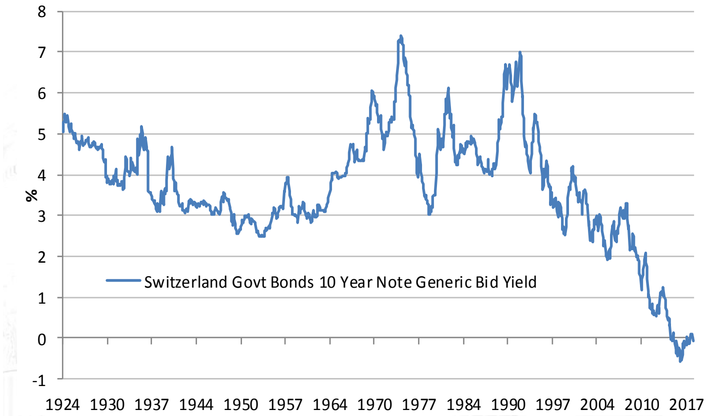


Graph sources: Bloomberg/BearBull Global Investments

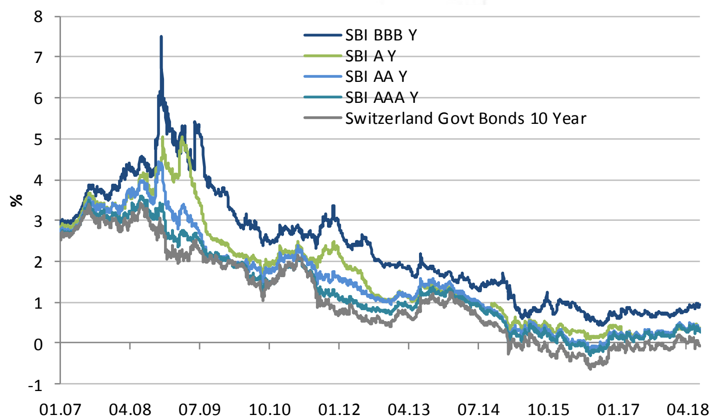
Switzerland Government Bond yield (10 year)



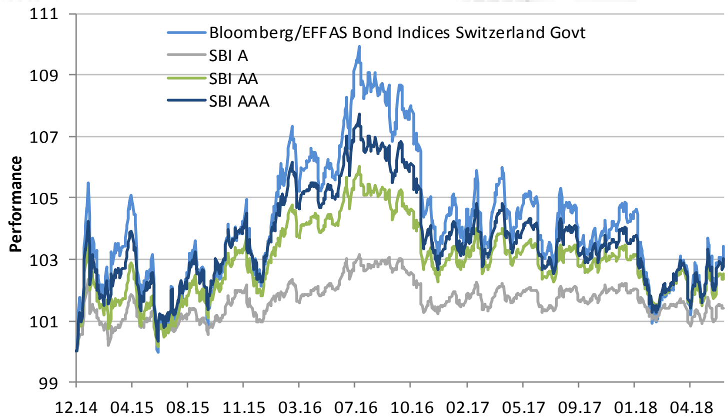
Switzerland Government Bond yield (10 year) since 1924



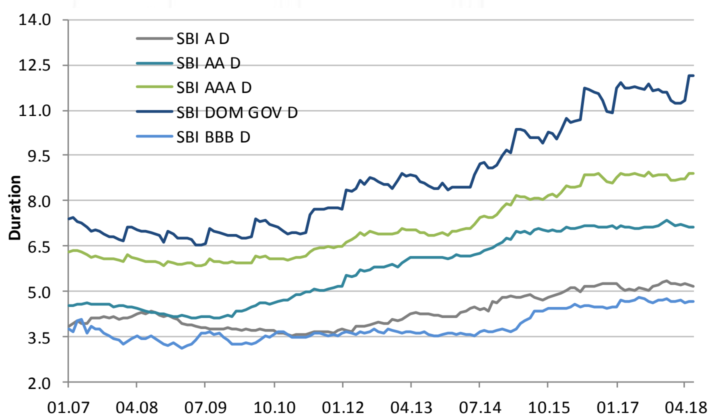
Yield by debtor type



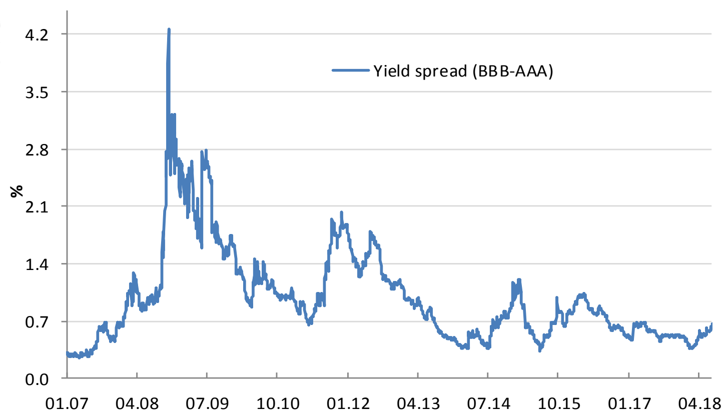
Performance of Swiss Bonds (Normalized at 100)



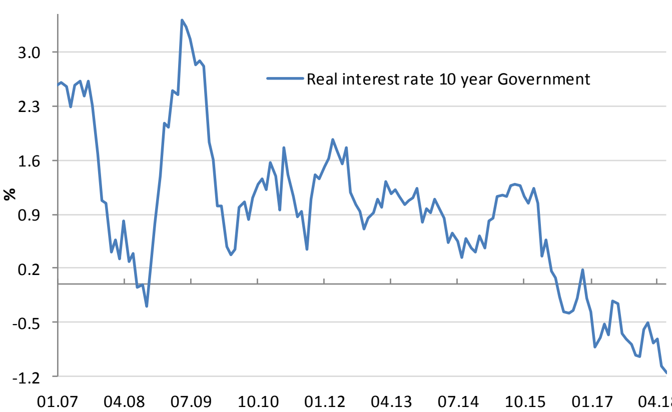
Duration of Bond Indices



Yield spread



Real Interest Rates



SWISS BOND INDICES (CHF)

30.06.2018		Total Return Performance					
N° ISIN	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	259.0	CHF	0.3	0.0	0.7	-0.9	-0.9
SBI A-BBB	135.4	CHF	-0.2	-0.3	-0.3	-0.6	-0.6
SBI AA-BBB	134.0	CHF	-0.1	-0.2	-0.1	-0.5	-0.5
SBI AAA-AA	135.2	CHF	0.1	-0.1	0.2	-0.6	-0.6
SBI BBB	146.8	CHF	-0.2	-0.3	-0.5	-0.6	-0.6
SBI AAA-BBB	135.6	CHF	0.0	-0.1	0.1	-0.6	-0.6
SBI DOM GOV AAA-BBB 1-3P	69.7	CHF	0.0	-0.4	-0.9	-1.6	-1.6
SBI DOM GOV AAA-BBB 3-7P	88.4	CHF	-0.1	-0.6	-0.8	-1.2	-1.2
SBI DOM GOV AAA-BBB 7+ P	126.3	CHF	0.5	-0.1	0.9	-2.1	-2.1

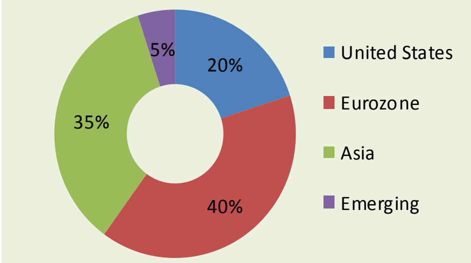
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Real Estate

- Remarkable upswing of international real estate
- Economic environment remains favourable to real estate
- Still too early to worry about rising long-term interest rates
- Asset reallocation in favour of European real estate
- Asian real estate threatened by Trump's policies?

International Real Estate allocation



Tactical Allocation

- Overweight Europe and Asia
- Cash 0%

REAL ESTATE Areas	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↗	↗							
United States	→	↗							
Eurozone	↗	↗↗							
United Kingdom	→	→							
Asia	↗	↗↗							
Emergents	↗	↗↗							
Liquidity									

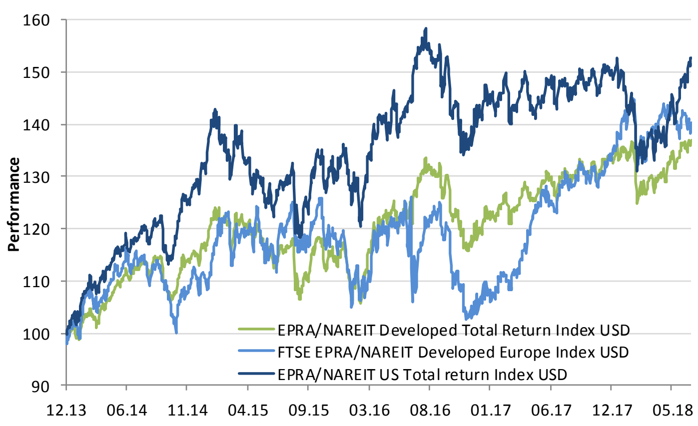
Remarkable upswing of international real estate

International real estate struggled to free itself from rising uncertainty in Q1 and from corrections in the valuation of risky assets, which had fairly substantially affected investors' risk perceptions and the performance of real estate shares for several weeks. The FTSE EPRA NAREIT Developed TR index had indeed dropped by close to -7% in USD, temporarily calling into question the gains posted in H2 2017. The US market had been amongst the markets most affected by the return of uncertainty, while the European and Asian markets, overweight in our investment strategy, remained rather resilient, exhibiting only minor fluctuations. Q2 was significantly more favourable for real estate shares; in a relatively stable interest rate environment, the global index progressed by +5.45% in dollars, its largest quarterly increase since 2014. This progression significantly exceeds that of equity markets, up barely +1.73% in dollars over the same period. US real estate has thus also returned to the forefront in terms of asset diversification, surging up by an impressive +10.24%. We also have to go back to Q4 2014 to observe an increase of this magnitude in the price of REIT shares. European real estate also benefitted from the return of investors to this safer asset class, posting an appreciable increase of +4.4% in euros. Asia benefitted to a lesser extent from the improvement in the investment climate, and real estate shares in the region rose by +0.51% in dollars. In the UK, there was substantial apprehension given the Brexit deadline coming up in just a few months, and real estate shares started to suffer from the absence of visibility on the economic and political front. Finally, it is interesting to note that the Fed's 0.25% rate hike in June, 10-year US Treasury yields once again drawing near 3%, and stronger inflation in the US did not hamper investors' renewed enthusiasm for real estate.

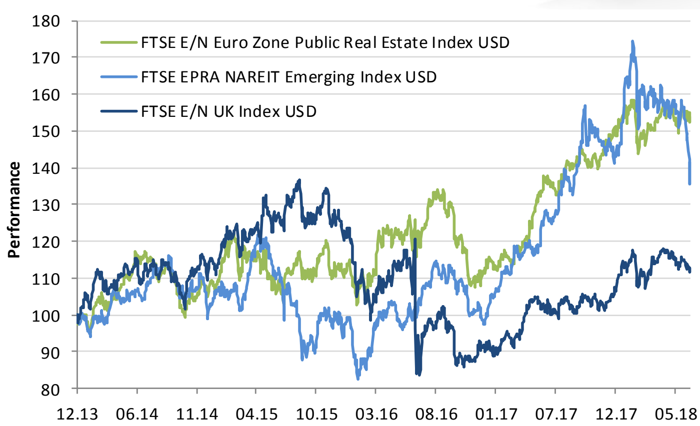
Economic environment remains favourable to real estate

After a slightly weaker Q1, we anticipate an economic upswing starting in Q2, which allows us to confidently expect a global economic growth rate of close to +4% in 2018. The OECD's forecast for 2019 remains very favourable as well. The expansion phase of the global economy should thus continue, unless President Trump's current pressures on China in particular and his implementation of ruthlessly protectionist policies do not end up distressing investors and consumers. The uncertainty related to the magnitude of a potential trade war and its effects on global growth are indeed generating new risks for financial markets overall. For now, the US market seems to be perceived as immune to the possible effects on the US economy of such a confrontation, and in this context real estate investments may thus appear as completely immune to these new risks.

EPRA Nareit - USA, Europe, Global (USD)



EPRA Nareit - Eurozone, United Kingdom, Emerging (USD)



Graph sources: Bloomberg/BearBull Global Investments

Still too early to worry about rising long-term interest rates

As we mentioned in our previous economic outlooks, in 2018 we will likely see a shift in the global monetary policy paradigm and in inflation. The Federal Reserve has initiated a process of rate normalisation that will likely intensify once inflation is found to be persistently higher than the Fed's 2% target, which could be the case as early as 2019. Financial markets barely considered this risk until January 2018, when they started taking into account the increasing risk of stronger action by the central bank given rising inflationary expectations in the US.

At the international level, it is probably still somewhat early to fear a complete reversal of monetary policies and inflation, but the future is clearly trending towards normalisation. The key question is to determine when investors will truly start to worry about the impact of this shift on real estate valuations. We believe that if long-term interest rates indeed follow an upward trend in 2018 and 2019, this upturn in long-term rates will remain entirely insufficient to impact the valuation of real estate investments or even to compete with this asset class in terms of diversification strategies.

Yield spreads (or risk premiums) between long-term interest rates and the yields on indirect real estate investments have remained relative stable these last months. Note that the normalisation of interest rates has not even been truly initiated in several economic zones (Eurozone and Japan). It is thus premature to worry about its negative effects on real estate capitalisation rates in 2018 in general. At the current stage in the global business cycle, this phenomenon is unlikely to have a lasting impact on real estate fundamentals except in the US market, whose growth cycle is already well under way.

Asset reallocation in favour of European real estate

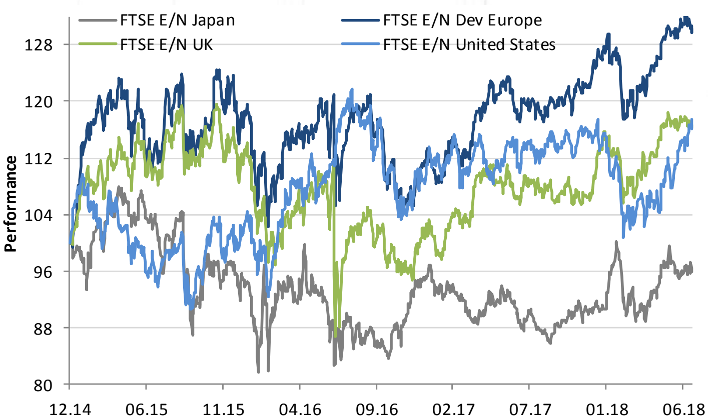
We continue to predict that inflation will rise faster than expected in 2018, in particular in the US. Indeed, inflation will ultimately likely increase due to a tighter job market and have an even greater impact on real interest rates. In spite of the normalisation of monetary policy currently under way in the US and forthcoming in the Eurozone, the upturn in inflation could be swifter than that of long-term rates in our view.

Over the next few quarters, real interest rates are thus likely to stabilize or slightly decline,, which would be favourable to real estate markets in the US, Europe, and Japan in particular. The steady increase in inflation will only further reinforce this trend, which we believe will indeed benefit the sector. The performance of real estate markets should thus be stronger when real interest rates are low and when the growth outlook is equal to or better than its historical average. The acceleration of global economic momentum will be accompanied by expectations of higher rent growth, which should benefit the valuation of real estate assets.

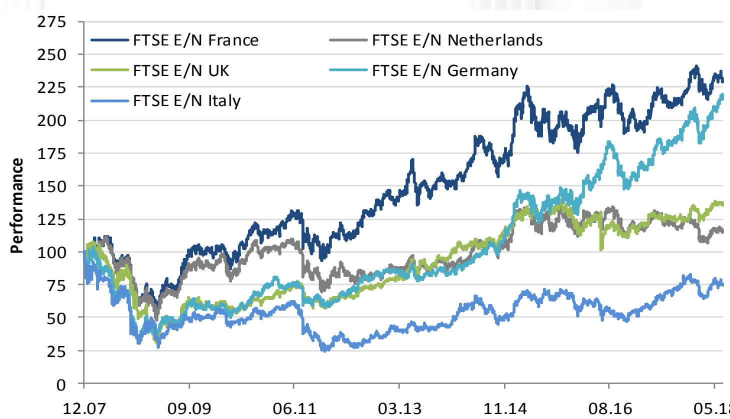
The expected upturn of US real estate has been spectacular

A few months ago we highlighted the risk that the US market would underperform relative to other less mature developed markets, explaining that our investment strategy would maintain underexposure to this market for a time within our international allocation. In our latest strategy, we mentioned that the correction in Q1 had in a way reconstituted the risk premium for US real estate, which would have a positive impact on investment demand.

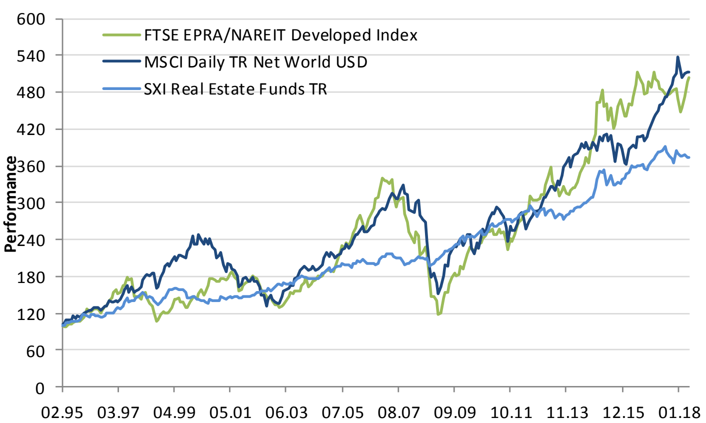
Real estate markets (local currency)



European real estate markets (local currency)



Long-term Performance : international real estate, swiss real estate and international equities (local currency)



INTERNATIONAL REAL ESTATE INDICES (local currency)

30.06.2018				Total Return Performance				
N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	2687.2	USD	-0.6	0.6	3.5	0.0	0.0
DEVELOPED	EPRA/NAREIT Dev TR USD	5030.4	USD	-0.1	1.6	5.5	0.9	0.9
DEVELOPED EUROPE	FTSE E/N Dev Europe	2228.9	EUR	-0.8	0.4	5.5	2.3	2.3
EUROZONE	FTSE E/N Euro Zone	2659.7	EUR	-0.6	0.9	6.5	3.3	3.3
USA	FTSE E/N United States	2913.5	USD	0.6	4.1	10.2	1.7	1.7
DEVELOPED ASIA	FTSE E/N Dev Asia	1537.0	EUR	-1.8	-2.4	5.9	3.2	3.2

Graph sources: Bloomberg/BearBull Global Investments

Despite being somewhat ahead of the revaluation cycle of real estate stocks, we changed our strategy to take this factor into account and increased our allocation in view of a likely upswing in share prices. Indeed, the progression and outperformance of the US market over the quarter happened quickly, with the FTSE EPRA NAREIT USA index jumping up +10.24% over a few weeks. However, we do not think that this spike heralds lasting outperformance in this market segment over the next few quarters at the current stage in the US securitised real estate cycle. Indeed, competition from Treasury bonds and corporate bonds with yields above 3% remains a significant factor, which will likely hamper share price growth.

On a fundamental level, the rise in real estate prices is now losing momentum, with prices increasing by +6.4% yoy, the first slump since summer 2016. Overall, real estate developers' confidence is declining, demand for mortgage loans is contracting, existing home sales seem to be decreasing, and while the real estate market remains solid, we believe it is no longer growing at a significant rate. After growing at an average annual rate of +6.5% for six years, real estate prices will likely continue to rise at a significantly lower pace due to the gradual increase in borrowing costs. The increase in long-term mortgage rates is not yet excessive, if we consider that 30-year mortgage rates are at 4.76%, still well below 5% and far from the 6.5% prevailing before the 2008 financial crisis.

Marginally, the continuation of the present trends will reduce investors' appetite, as fiscal reform is also restricting the options for deducting interest on mortgage debt from taxes. The US market still retains some potential for appreciation, but from a relative point of view we favour a larger exposure to the European and Asian markets.

More significant asset reallocation in favour of European real estate

In our previous outlook reviews, we forecast that economic growth in Europe would accelerate, and indeed it did; in fact it seems like it may well strengthen further in 2018 and 2019. Our positive outlook on European economic growth and in particular with regard to those drivers of growth such as Germany, Spain, and even France should have a positive impact on these countries' respective real estate markets. Political risks have not disappeared completely obviously, as shown in particular by the situation in Italy with the election of a Eurosceptic government and the migrant crisis. The Brexit talks remain hung up on some of the UK's proposals, but the absence of an outline for a concrete solution as the March 2019 deadline looms no longer appears to be a source of destabilising uncertainty. The European business cycle is thus well established.

As regards to the European real estate market, the most favourable situation and a better visibility of the outlook will likely boost demand for commercial real estate and gradually reduce excess supply in certain large cities. The uncertain context of previous years had somewhat hampered development projects especially given the environment already presented excess supply. These developments will allow rents to continue rising in Europe.

The trend reversal with regard to interest rates will likely increase borrowing costs, but real costs (after inflation) and the lack of alternatives will enable the European real estate market to attract new investors. We do not believe that rising borrowing costs will be enough to impede real estate investment.

The yield spread between real estate investments and government bonds in euros remains at 20-year highs. More particularly, the spread for investments in premium real estate is approximately 250 basis points, while for less central areas the yield spread is much higher and more attractive by historical comparison. We continue to maintain that European real estate investments thus provide a very attractive alternative to bonds.

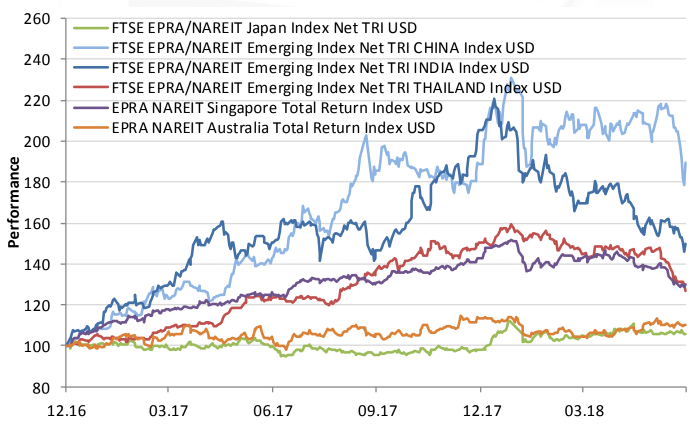
With regard to securitised real estate, we believe that the increasing risk of capital losses on bonds will support a reallocation of assets to real estate in institutional portfolios more broadly.

In terms of regional allocations, the Eurozone will continue to present a higher likelihood of rent growth and of more sustained price increases.

Asian real estate threatened by Trump's policies?

On the macroeconomic front, Asia is benefitting from both international and regional momentum, the latter supported in part by Chinese economic vigour and investment. Growth prospects for the real estate sector remain strong but are affected by the pressures exerted by the US president on China. The risks of a large-scale trade war, although unlikely to materialise, nevertheless threaten the growth outlook and scenario that prevailed before the escalation of tensions between the US and China. This risk must be taken into consideration, but ultimately Asian real estate still seems to exhibit superior fundamentals. The dynamics of the Asian real estate sector are entirely different, and the sector can still count on very robust investment demand. The Chinese market continues to benefit from very solid domestic investment demand, which is supporting the positive trends in commercial and industrial real estate prices especially. The same can be said of Hong Kong and Korea, where prices are rising in spite of increasing borrowing costs. Japan is also benefitting from particularly resilient demand, but prices will likely stabilise amongst reduced transaction volumes. The Honk Kong and Korean markets are seeing increasing foreign investment, while Australia and Singapore are slowing down somewhat. We believe that most Asian markets will be able to count on rising prices over the next 6 months with the notable exception of the Indian market, which may not be as attractive. Asian real estate is overweight in our diversified investment matrix.

Real estate markets (USD)



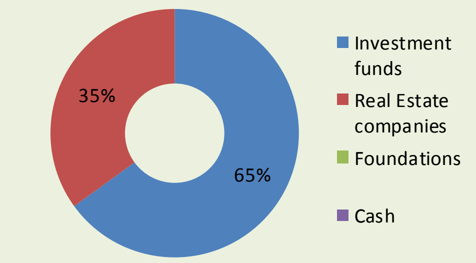
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Real Estate

- Real estate companies holding up better than real estate investment funds
- Use the opportunity to capture a very attractive rate of return
- Limited adjustment of rates in 2018 will not have any major impact

Swiss Real Estate allocation



REAL ESTATE Switzerland	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Investment funds	↗	↗							
Real Estate companies	↗	↗							
Foundations	→	→							
Cash									

Tactical Allocation

- Increase Funds to 65%
- Decrease exposure to Real Estate Shares to 35%

Real estate companies holding up better than real estate investment funds

The correlation between Swiss equities and real estate investment funds turned out to be higher than that of listed real estate shares during the recent period of heightened risk and uncertainty. While real estate funds experienced losses (-6.3%) similar to the SMI's (-6.4%), real estate companies decreased by only -3.5%. A surprising fact if we consider in parallel that the increase of the latter (+6 %) since the beginning of the year was disproportionate to the quasi-horizontal progress of real estate funds (+3%). It is likely that the limited size of the Swiss market in real estate funds and the low daily trading volume have exacerbated the drop in prices in this general context of profit-taking and reduction in overall risk. Nevertheless, on the interest rate front, it turned out to be a rather quiet period, unlikely to raise concerns about an adverse change in capitalisation rates. Moreover, the occurrence of such an event would also have affected real estate companies. We maintain our positive forecast for Swiss securitised real estate as a diversification asset providing a significant yield of more than 3%, which largely exceeds bond yields.

Use the opportunity to capture a still very attractive rate of return

The correction phase in the last few weeks is mainly due to an end-of-quarter risk mitigation process in a tight market for securitised assets. We believe these price corrections are not justified by any deterioration of fundamentals at this stage. We therefore recommend using this opportunity to make adjustments and reposition into real estate funds whose yield levels are once again close to 3%. The yield spread with long-term bonds remains significant and attractive. We still do not expect any real speculative bubble on Swiss real estate. Final demand will remain robust but rational in the next few quarters. The asset allocation transfer between bonds and real estate shares will undoubtedly continue but not at just any price.

Limited adjustment of rates in 2018 will not have any major impact

We do not think that the rise in rates in 2018 will not be sufficient to have a significant impact on real estate prices and capitalisation rates. The risk of price corrections for these assets in this case should thus not be overestimated.

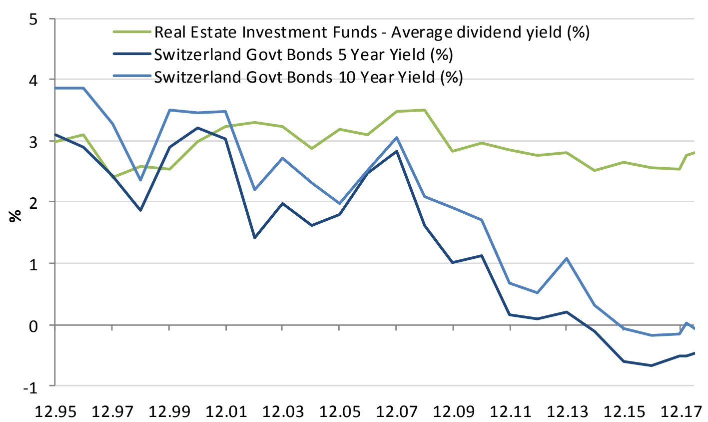
SWISS REAL ESTATE

30.06.2018 — Total Return Performance

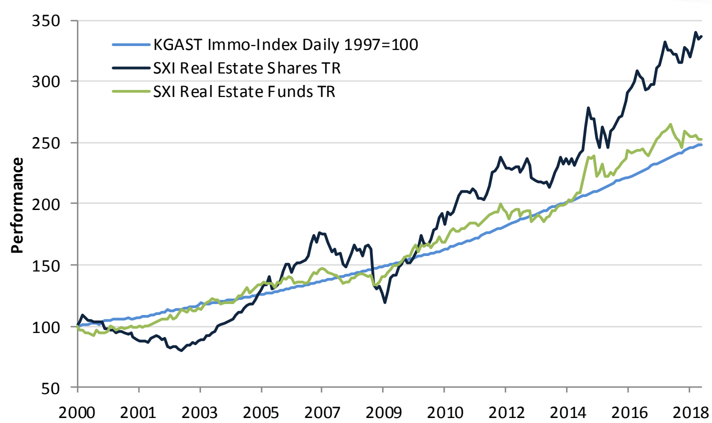
Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	371.9	3.1	0.1	-0.8	-2.6	-2.6
SXI Real Estate Idx TR	2506.9	0.2	0.6	2.4	2.7	2.7
KGAST Immo-Index*	278.0				2.0	2.0

* subject to one-month lag

Government and Real Estate Yield



Performance of Swiss Real Estate

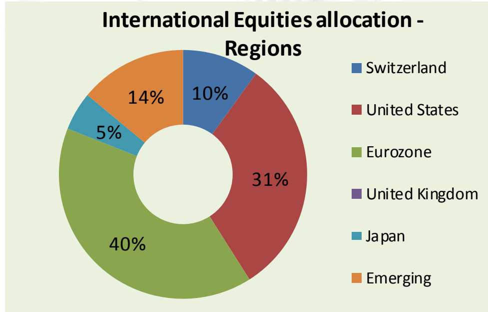


Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Equities - Regions

- Risk of recession still low in the US
- Less volatility in the Stoxx 600
- The Nikkei may finally be able to benefit from a weaker yen
- Risks of a trade war are overestimated in emerging markets



Tactical Allocation

- Favor Eurozone and Emerging markets
- Avoid UK
- Reduce exposure to Japan
- Switzerland is particularly attractive

EQUITIES REGIONS	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↗	↗↗						■	
United States	↗	↗			■				
Eurozone	↗	↗↗						■	
United Kingdom	↗	↗		■					
Europe	↗	↗				■			
Japan	↗	↗				■			
Emergents	↗	↗↗						■	

Risk of recession still low in the US

The price correction in February-March was expected and triggered new repositioning opportunities thanks to more attractive valuation levels. Risks remain after the rebound in May and June of seeing insufficient profit growth to justify once again higher valuation levels, which are approaching the levels that prevailed before the price correction. The earnings growth of multinational corporates could indeed suffer due to pressure on margins. Don't panic: even if the current growth cycle is the second longest in history, it still appears to be largely inferior in magnitude to its historical average. Thus, in the context of 2018, we still believe that the major risk parameters with regard to US equities are not yet in the danger zone. Indeed, the risk of recession is not yet significant, if we exclude an escalation of tensions linked to the US president's threats of raising tariffs on the country's main trading partners, which is the major source of uncertainty in this respect. The virtuous circle that the Fed finally managed to initiate is not yet likely to trigger a lasting increase in wages sufficient to prompt genuine monetary policy tightening. The full employment rate anticipated by the Fed will likely only be reached in 2019 and will then only put significant pressure on wages in the following quarters. A recession could thus occur in 2020, but markets are unlikely to be concerned before 2019.

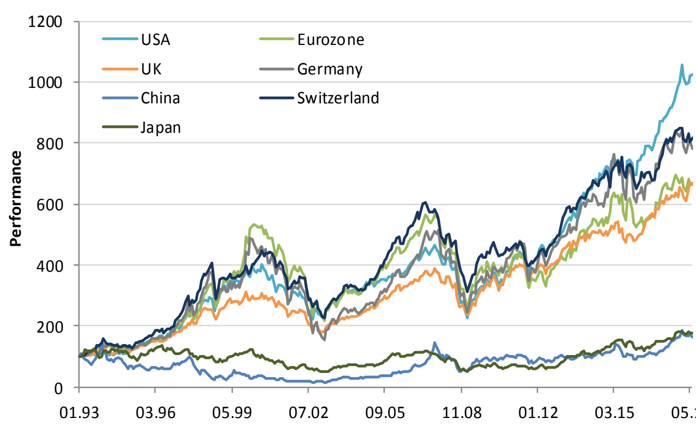
The US economy could take off again in Q2 thanks to tax cuts and an increase in government spending, triggers with known effects, which could indeed boost the results and investments of US multinationals.

The impact of the virtuous circle and of the fiscal and budget stimulus is now visible, as corporate earnings jumped +25% in Q1 from 2017.

In the last few years, the rise in stock prices has obviously been supported by strong organic growth in profits but it has also been reinforced by a phase of strong multiple growth, logical in a context of falling interest rates. The cycle of rising interest rates could therefore lead to adjustments and a PE contraction phase. It is likely indeed that, whatever the developments in corporate profits, the increase in interest rates will put an end to this ten-year expansion phase.

After the rebound of US stocks in the last few weeks, we once again recommend a degree of caution on the relative outlook for US stocks. Earnings expectations for the US market are close to twice as high as those for Europe, and the risk of disappointment are thus more significant.

Long-term Performance (Normalized at 100)



Chinese Equities - A and B (Normalized at 100)

Graph sources: Bloomberg/BearBull Global Investments

Less volatility in the Stoxx 600

The valuation of European equities has improved considerably over the past few months, both compared to historical measures and when compared internationally. At just 13.6x 2018 profits, the valuation of European equities is currently offering a 3.4 valuation point "discount" compared to US equities (PE17x 2018 profits). We do not believe there to be any good reason for the roughly 25% difference in valuation between US and European equities. European equities also seem much more attractive in terms of dividend yield, offering 3.6%. This is nearly twice that offered by US equities (1.9%). European equities have kept their valuation advantage. They should see investors return, but for now they are being punished, undoubtedly excessively so, by the uncertainty sparked by the US President's threats of a trade war.

Corporate earnings in Europe continue to trend upward and are likely to progress by +10% in 2018. The CFOs and CEOs of Stoxx 600 companies appear confident with regard to order books and results, while the macroeconomic context is favourable with respect to European business performance. The depreciation of the dollar against the euro weighed on companies' results at the beginning of the year, but the current revaluation of the dollar will likely have a positive impact on the majority of European shares. Thus, Brexit-related concerns are no longer significantly impacting Eurozone shares, which were temporarily affected by renewed uncertainties in Italy, however. Even if it is not a key concern, this risk of a new fracture in the Eurozone will no doubt remain a threat that could trigger higher volatility.

However, we believe that the valuation gap between European and US shares is completely unjustified. The recent underperformance resulting in particular from the emergence of the Italian risk and from the threat of a trade war represent a repositioning opportunity on European markets in the medium term. In fact, European equities should considerably outperform US assets in local currencies in 2018.

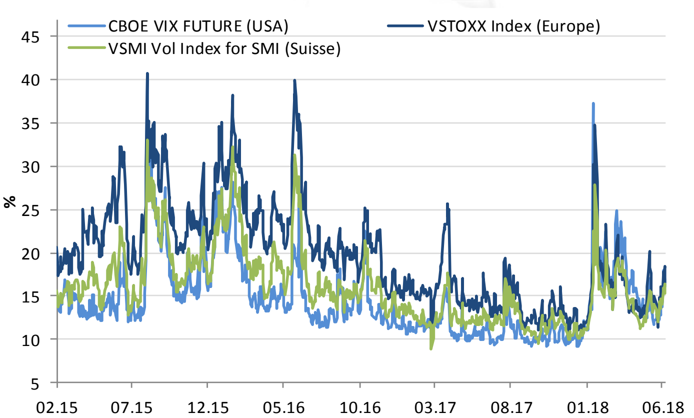
UK equities: Remain cautious

In the uncertain context surrounding the Brexit negotiations, the equity market's expected risk/return ratio remains unattractive. The pound has stayed resilient in the face of these uncertainties, but we maintain our recommendation to remain cautious with regard to UK equities, in spite of reasonable valuations and an attractive dividend yield.

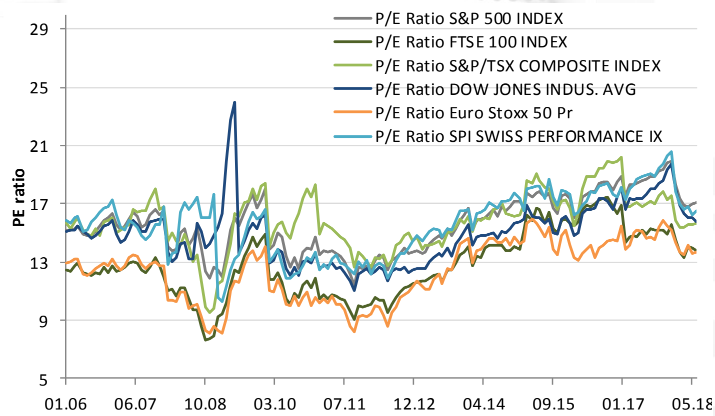
The Nikkei may finally be able to benefit from a weaker yen

The correction of approximately 15% in the price and valuation of Japanese equities in Q1 offered repositioning opportunities for long-term investors. At 17x earnings and given the likelihood of positive surprises, valuation levels were comparatively close to that of US shares, but the currency risk remained an important factor to consider. In spite of the correction of the Nikkei index from 24,000 to 20,500, we noted that, unless the yen undergoes a lasting depreciation, the likelihood of an upswing remains highly uncertain. The 10% rise of the yen against the dollar was a determining factor in the poor performance of Japanese shares. The recent fall of the currency from 105 to 111 yen to the dollar is fortunately providing some support for a rise of the Nikkei. Today, we believe that an acceleration in corporate earnings growth in Japan is still possible in the context of a stronger global economy, provided the risks of a trade war diminish and the yen depreciates and remains weak.

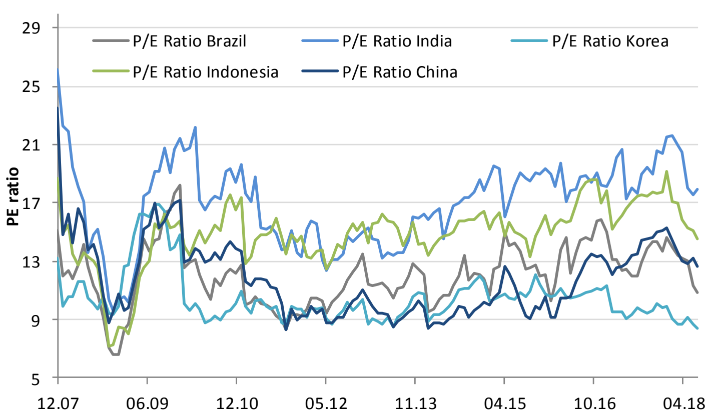
Volatility (USA, Europe, Switzerland)



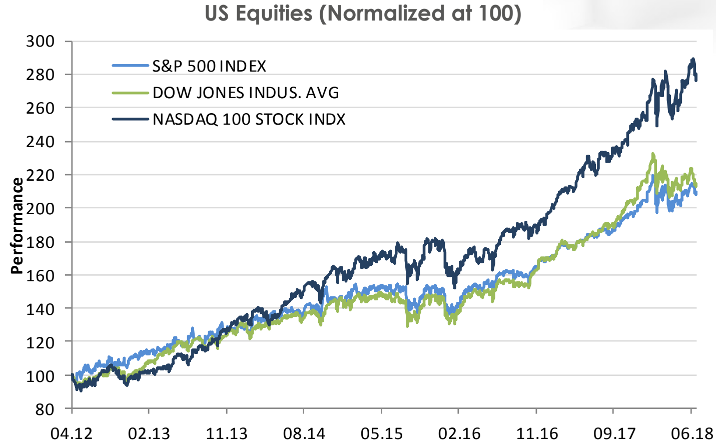
Price/Earnings Developed markets



Price/Earnings Emerging markets



US Equities (Normalized at 100)



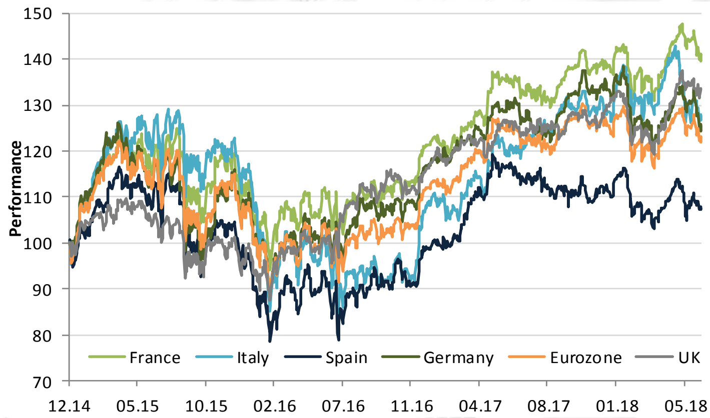
Graph sources: Bloomberg/BearBull Global Investments

Japanese stocks ended the fiscal year on a record performance at end-March 2018 for the second time in a row. The auto sector and semi-conductors topped the list of Nikkei shares, which posted an average increase of +35% or over 260 billion dollars, substantially surpassing the previous year's +18% increase. Stock dividends to be distributed could progress for the fifth consecutive year. However, earnings growth for the current fiscal year is expected to decline slightly by -2% due to the yen factor, rising commodities prices, and the introduction of tariffs by the US. Leading Nikkei companies are forecasting an exchange rate at 106 for the current fiscal year, which is significantly more conservative than the current rate of 110 and below our own forecast of a decrease to 115. Continued depreciation of the yen should thus support further increases in the Nikkei towards 24,000 over the next few months if the international stock market climate remains constructive.

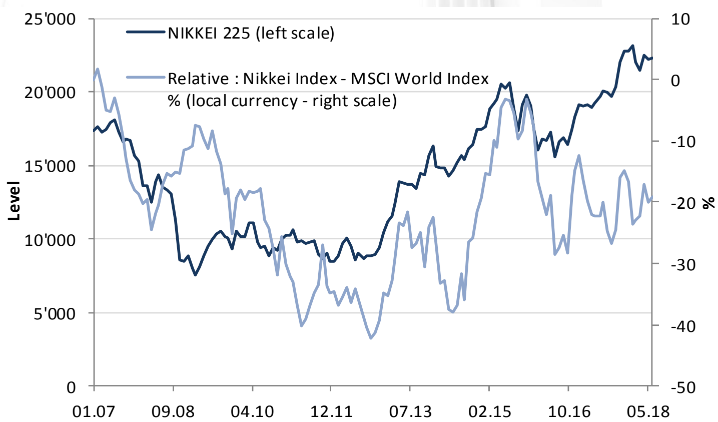
Risks of a trade war are overestimated in emerging markets: re-establish diversified positions

By attacking China directly on the tariffs issue, the US president naturally raised new questions with regard to the impact of an increase in duties on Chinese exports and growth, which also have direct repercussions on the growth outlook of emerging markets. It is true that China and emerging markets were the big winners of trade liberalisation and lower customs barriers. The risk of escalating tensions is at the centre of investors' current concerns, but we expect that reason will prevail in the negotiations process under way. Moreover, the rebalancing sought by the Trump administration could turn out to be less impressive than the president likes to claim. In our view, interest rate spreads are not reflecting current economic conditions and in particular the fact that emerging market companies are exhibiting solid fundamentals and less reliance on funding than previously in terms of rates in USD. The -10% drop of emerging markets over barely 15 days in June shows excessive pessimism on the part of investors worried about the potential outcomes of the trade war scenario on the prospects of emerging economies and corporate results. Emerging markets have been negatively impacted over the past weeks by Trump's tougher stance, but equity market valuations now seem especially attractive in the scenario that we anticipate, wherein the risks of a wholesale trade war will normalise. We recommend a positive reappraisal of exposure to diversified emerging equities.

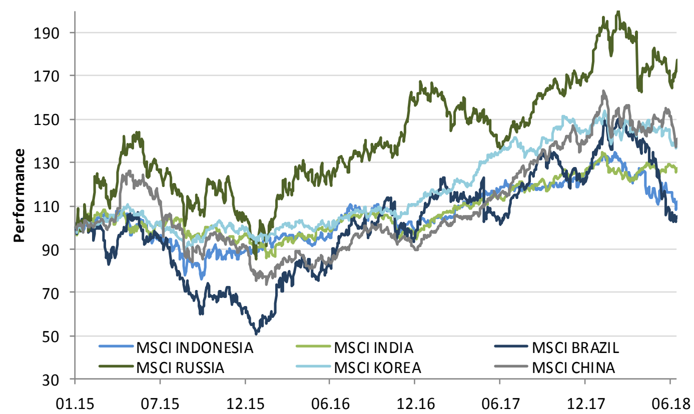
Performance of Stock markets (Normalized at 100)



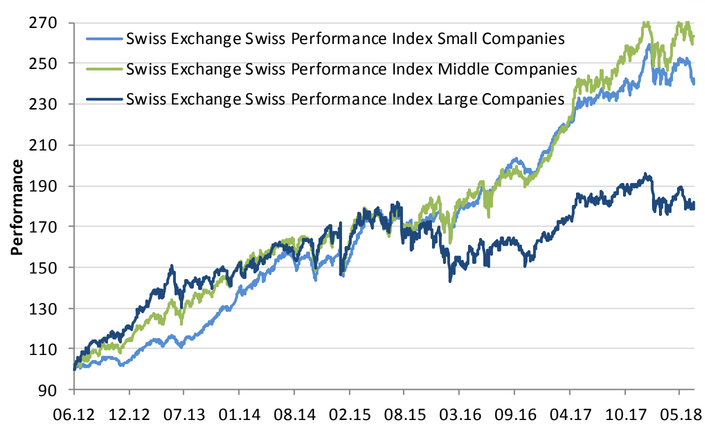
Japanese Equities VS MSCI World



Emerging Markets (Normalized at 100)



Swiss Equities (large - middle - small caps/Normalized at 100)



EQUITIES - BY REGION (local currency)

30.06.2018 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	9443.1	CHF	-0.1	1.6	1.3	-3.9	-3.9
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	2903.8	CHF	-0.7	0.3	4.1	1.2	1.2
EUROPE	STXE 600 € Pr	394.6	EUR	-1.3	-0.6	4.3	0.1	0.1
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	352.7	EUR	-1.7	-1.1	4.7	1.9	1.9
UK	FTSE All-Share Index	3595.9	GBP	-0.6	-0.2	9.1	1.7	1.7
USA	S&P 500 Index	2718.4	USD	-1.3	0.6	3.4	2.6	2.6
USA SMALL-MID CAPS	RUSSELL 2500	634.6	USD	-2.0	0.7	5.7	5.5	5.5
JAPAN	NIKKEI 225	22304.5	JPY	-0.8	0.6	4.1	-1.1	-1.1
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	903.3	JPY	-0.6	-1.0	1.2	-3.5	-3.5
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	539.1	USD	-1.9	-3.7	-3.5	-4.0	-4.0
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	1016.5	USD	-2.2	-5.7	-5.4	-6.7	-6.6
EMERGING	MSCI EM	910.4	USD	-1.5	-4.1	-7.9	-6.5	-6.6
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	4693.2	USD	-1.2	0.0	1.7	0.4	0.4

Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Equities - Sectors

- New sector rotation in Q3
- Revaluation prospects for financial stocks
- Increase exposure to defensive telecom sector
- Underweight technology stocks

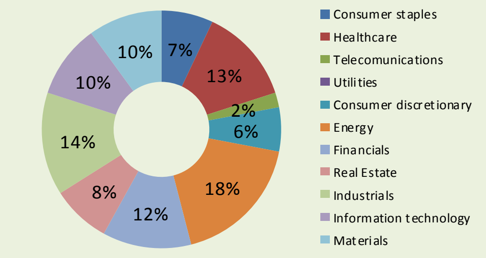
EQUITIES Sectors	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	↗	↗			■				
Healthcare	→	↗				■			
Telecommunications	↗	↗			■				
Utilities	→	→			■				
Consumer discretionary	→	→				■			
Energy	↗	↗					■		
Financials	↗	↗			■				
Real Estate	→	↗					■		
Industrials	↗	↗			■				
Information technology	↗	↗					■		
Materials	↗	↗					■		

EQUITIES - BY SECTOR

30.06.2018 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	200.9	USD	-1.9	1.2	4.2	6.2	6.2
CONSUMER STAPLES	MSCI WORLD/CON STPL	208.3	USD	-0.1	2.7	-0.5	-5.6	-5.6
ENERGY	MSCI WORLD/ENERGY	206.3	USD	1.3	1.3	13.0	7.1	7.1
FINANCIALS	MSCI WORLD/FINANCE	105.4	USD	-1.5	-1.8	-4.1	-5.8	-5.8
HEALTHCARE	MSCI WORLD/HLTH CARE	222.5	USD	-1.6	1.4	2.9	1.9	1.9
INDUSTRIALS	MSCI WORLD/INDUSTRL	196.5	USD	-1.2	-2.5	-2.1	-3.5	-3.5
MATERIALS	MSCI WORLD/MATERIAL	208.5	USD	-0.6	-1.5	1.7	-2.7	-2.7
REAL ESTATE	MSCI WORLD/REAL ESTATE	192.1	USD	0.1	1.6	3.4	-0.3	-0.3
TECHNOLOGY	MSCI WORLD/INF TECH	145.5	USD	-2.2	-0.5	5.9	9.6	9.6
TELECOMMUNICATION	MSCI WORLD/TEL SVC	71.1	USD	-0.7	0.7	-2.8	-8.3	-8.3
UTILITIES	MSCI WORLD/UTILITY	113.8	USD	1.8	2.1	2.7	1.2	1.2

International Equities allocation - sectors



Tactical Allocation

- Underweight digital stocks
- Overweight value stocks
- Overweight energy, materials, telecommunication, consumption and real estate

The returning uncertainty in the last quarter has undoubtedly contributed to a great disparity in sector performance. In the US for instance, twenty-seven sectors posted results exceeding +10%, while twenty-six were below -5%.

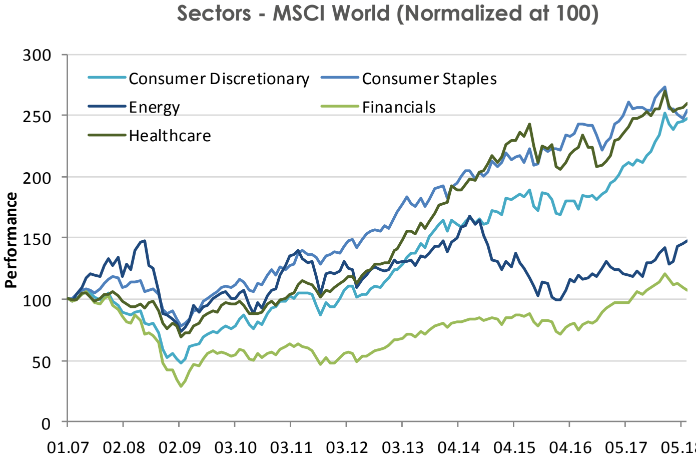
The second half of 2018 will likely be characterised by significant sector rotation in a context hopefully marked by easing trade tensions and strengthening global economic growth. However, this rotation will likely be rather defensive. Underperformance in underweight sectors in our strategy, including financials, consumer staples, telecoms and industrials may well cease and lead to better relative and absolute results.

We have thus modified our sector allocation through a number of defensive sector adjustments.

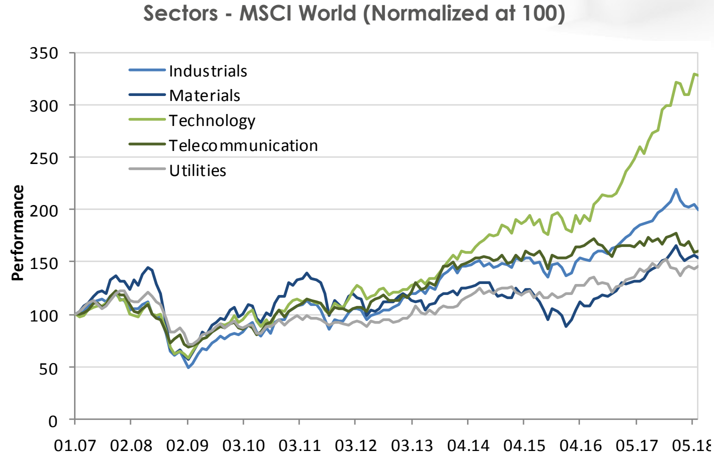
First of all, we are once again overweight the **financial sector** after keeping it underweight during the recent phase of earnings revisions. The sector will benefit from a relaxation of current regulations in the US. The **telecoms** segment has also gone from underweight to overweight. However, the biggest change relates to a return to previously underweight **consumer staples** and an increase in exposure to cyclical **industrial stocks**.

This rebalancing of our global sector allocation has therefore been carried out to the detriment of **consumer discretionary** and **technology stocks**. Overweight exposure to the energy sector has also been reduced by some profit-taking despite our continued bullish outlook on oil prices.

Sectors - MSCI World (Normalized at 100)



Sectors - MSCI World (Normalized at 100)



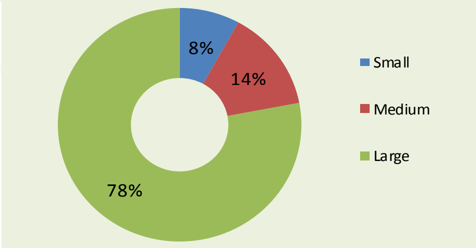
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Equities

- Lacklustre performance of Swiss equities, but not for long
- Rising earnings boosted by the franc's weakness
- Opportunities abound, time for a summer rally

Swiss Equities allocation - size



EQUITIES capitalization	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Small	↗	↗							
Medium	↗	↗↗							
Large	↗↗	↗↗							

Tactical Allocation

- Favor stocks sensitive to exchange rates and to European economic dynamics
- Increase exposure to « blue chips »

Lacklustre performance of Swiss equities, but not for long

The Swiss market has obviously not been immune to the risk of a large-scale trade war breaking out. The large multinationals on the Swiss market are exposed to international trade and to currency fluctuations. The threat of a setback in world trade is thus unnerving to investors just as the Swiss franc seems to be regaining ground against the euro. Swiss equities are thus struggling, posting an unusually poor performance in the context of more uncertain markets. The generally defensive nature of the Swiss market has indeed not played in its favour over the past several months, and the three main blue chips on the Swiss stock exchange were not sought after during this period due to less favourable fundamentals. Even if order books are looking good and PMI indices are pointing to favourable economic conditions, companies in the industrial and export sectors are still concerned about the effects of a stronger franc on their annual results. The SMI in particular has posted one of the poorest performances among European markets since the beginning of the year and is still hesitant to take into account the rather high rates of corporate earnings growth in 2018.

Rising earnings boosted by the franc's weakness

We believe that Swiss corporate earnings could rise by around +15% in 2018, in particular if the euro once again becomes more popular and inches up toward the 1.20 mark over the next few months. Despite rather favourable fundamentals, the Swiss market is once again lagging other developed markets due to a somewhat adverse flow of news with regard to its major constituent stocks.

The correction in Swiss equities in February and the recent weakness in the market at the end of the quarter significantly reduced the market's level of risk by correcting valuation levels in particular. Indeed, the Swiss market PE is now 16x 2018 expected earnings and 15x 2019 expected earnings. The SPI is thus currently trading at around 10,300 points, after having dropped 1,000 points from its January high (11,000) and returned to levels achieved at end of April 2017. However, the weakness of the franc is boosting corporate earnings growth, and companies are already benefitting from a favourable international and domestic context as well as from sustained organic sales and revenue growth. Earnings of Swiss companies should thus reach new highs in 2018.

Opportunities abound, time for a summer rally

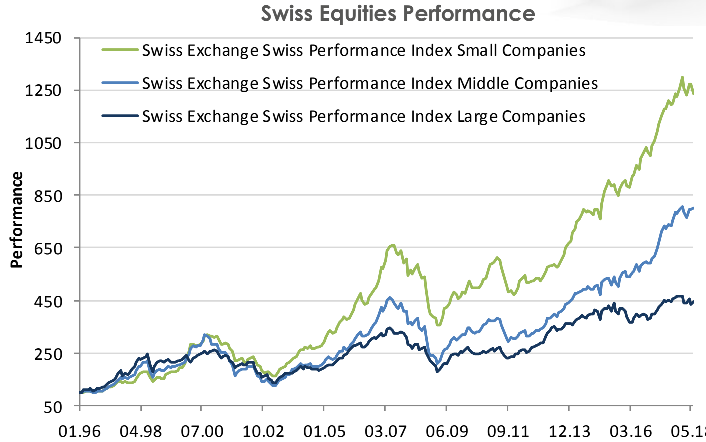
Valuations are once again reasonable, and average dividend yields are still high (3.4%) for companies in the SMI, both by historical comparison and relative to bond yields; they will thus bolster demand for Swiss shares. In April we noted that the correction of Swiss equities provided an opportunity for long-term investors to buy in, while not excluding that volatility may persist for a while longer, thus offering even better opportunities. We believe that Swiss equities have been indirectly impacted in the short term by the correction of the euro, European political risks, and the risk of a trade war. The influence of these factors will likely wane considerably over the next several months.

SWISS EQUITIES - Capitalization

30.06.2018 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	10327.3	-0.1	1.6	1.3	-3.9	-3.9
SPI SMALL COMPANIES INDX	27258.5	-0.7	-2.6	0.4	-1.6	-1.6
SPI MIDDLE COMPANIES IDX	16720.6	-0.8	0.7	4.6	1.0	1.0
SPI LARGE COMPANIES INDX	9485.1	0.1	1.9	0.7	-5.1	-5.1

Swiss Equities Performance

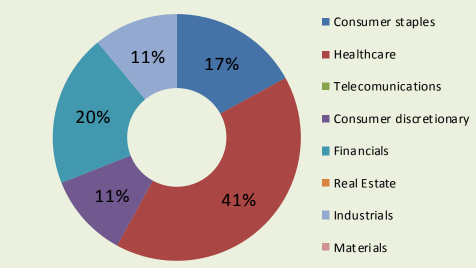


Graph sources: Bloomberg/BearBull Global Investments

Swiss Equities - Sectors

SWISS EQUITIES Sectors	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	↗	↗							
Healthcare	↗	↗							
Telecommunications	↗	↗							
Consumer discretionary	↗	↗							
Financials	↗	↗							
Real Estate	↗	↗							
Industrials	↗	↗							
Materials	↗	↗							

Swiss Equities allocation - sectors



Tactical Allocation

- Favor sectors and stocks sensitive to exchange rates
- Favor high-yield stocks
- Increase industrial sector

Reappraisal of risks favourable to the main blue chips

The growth potential of the largest Swiss blue chips has expanded after the volatility of the past few weeks, which led to a general weakness of the SMI. The Swiss market is made up of multinationals that generate almost 90% of their revenue outside of Switzerland. Donald Trump's threats regarding world trade have naturally affected most sectors of the stock exchange exposed to international markets. This factor significantly impacted the performance of our market, but we believe that the potential for price growth is in fact unchanged, if we assume that the risks of a trade war are already taken into account but are highly unlikely to materialise. Moreover, our forecast of an appreciation of the euro to 1.20 also points to a favourable exchange rate impact on annual results. The major players on the SMI will likely benefit more broadly from a change in risk perceptions and from the renewed interest of investors seeking exposure via safe bets with proven results over the long term. The healthcare and food sectors will benefit from this repositioning into Swiss stocks.

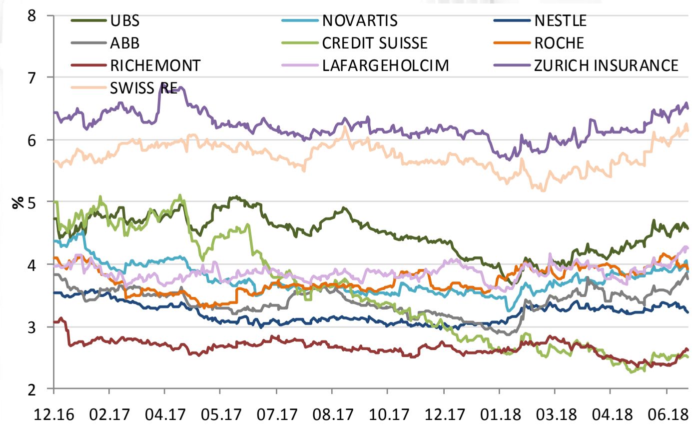
The exchange rate factor remains significant in H2

It is now likely that the euro-franc exchange rate will trend up toward 1.20 in H2 following the recent consolidation. The weakness of the franc will also manifest against the dollar and other currencies. We maintain our policy favouring stocks sensitive to exchange rates. We believe that this factor will likely once again be an important element in terms of evaluating the revenue and earnings growth potential of Swiss companies.

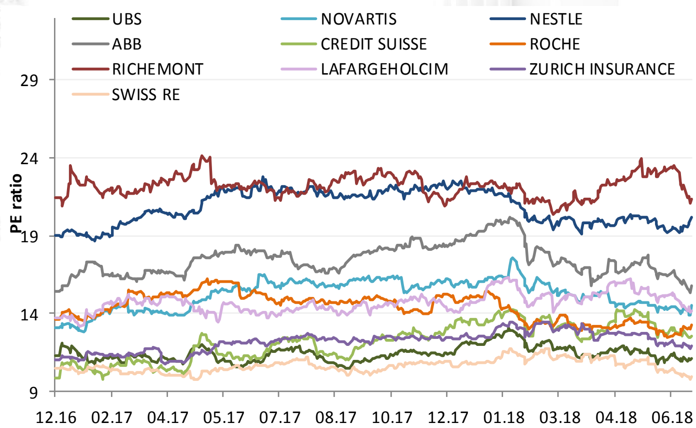
Continue to take advantage of high returns

Swiss stocks, that present high yield and growth characteristics, should also benefit from the relative attractiveness based on the low bond yields that will persist in 2018.

Dividend Yield



PE ratio

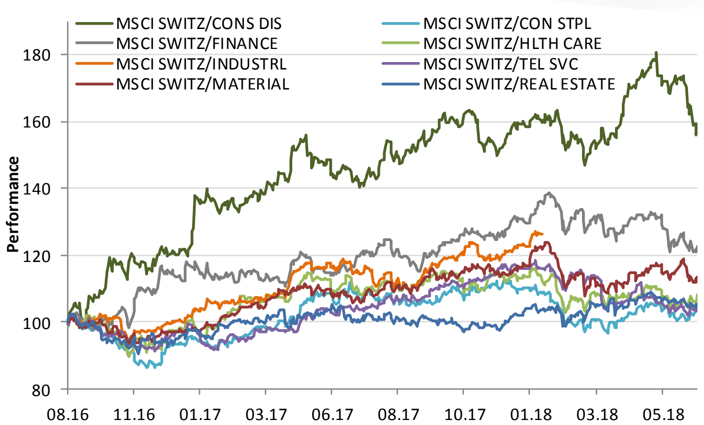


SWISS EQUITIES - BY SECTOR

30.06.2018 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	349.6	-3.1	-5.4	2.0	0.5	0.5
MSCI SWITZ/CON STPL	255.9	2.1	3.3	5.0	-4.8	-4.8
MSCI SWITZ/FINANCE	57.0	-1.3	1.3	-4.3	-5.6	-5.6
MSCI SWITZ/HLTH CARE	134.1	0.4	3.9	0.9	-4.5	-4.5
MSCI SWITZ/INDUSTRL	178.4	-1.1	-0.2	1.3	-8.0	-8.0
MSCI SWITZ/MATERIAL	282.6	0.0	0.7	1.7	-2.8	-2.8
MSCI SWITZ/REAL ESTATE	1053.8	-0.2	-0.9	-1.4	1.3	1.3
MSCI SWITZ/TEL SVC	83.8	-1.0	0.8	-1.8	-10.4	-10.4

Performance



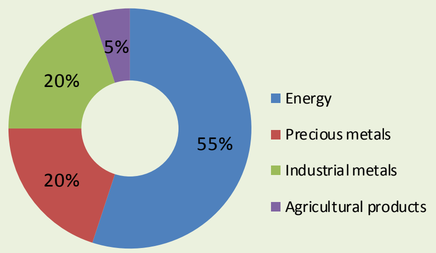
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Commodities

- Exceptional fundamentals, tactical overexposure
- The reduction in inventories favouring an increase in crude prices
- An increase in gold prices depends on an acceleration of inflation

Commodities allocation



COMMODITIES	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Energy	→	↗							
Precious metals	↗	↗↗							
Industrial metals	↗	↗↗							
Agricultural products	→	↗							

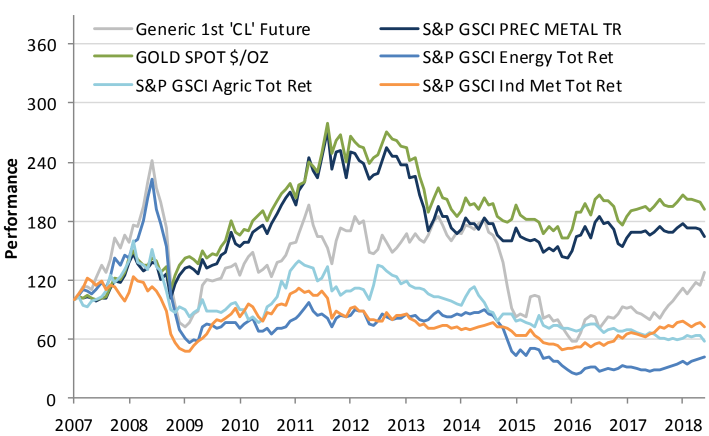
Tactical Allocation

- Large energy exposure
- Overweight precious metals
- Overweight industrial metals
- Include agricultural products

Exceptional fundamentals, tactical overexposure

Q1 2018 was exceptional for commodities as a whole, and they significantly outperformed equity markets thanks to a +10.36% progression against only +2.65% for the S&P500 and +0.43% for the MSCI World index. They also posted their first run of four consecutive quarters of growth since 2007 for total gains of +30.04%, an impressive relative performance of +19% over the MSCI World and +16% over the S&P500. This outperformance is not surprising; indeed, we noted several quarters ago already that regular improvement in the global growth outlook would have a positive impact on commodities markets. Global economic conditions are indeed excellent in 2018, and the global economy could post growth of above +4% if nothing happens to upset current trends. The major risk for this asset class in 2018 and 2019 is essentially related to President Trump's recent declarations regarding the issue of US trade imbalances and the use of tariffs to try to remedy the problem. An increase in customs duties on aluminium, steel, as well as on a larger assortment of goods would certainly have consequences in terms of the outlook for global growth and trade. Nevertheless, in the absence of a genuine trade war, we believe that the fundamentals of most commodities markets will support further price increases over the next several quarters. Overall, an increase in world demand will likely have an impact on prices, in particular if it takes places in a global context of stabilisation or very weak progression of production or supply. These specific circumstances are relevant with respect to the energy sector as well as the industrial and precious metals segments. Reductions in capex have been significant in the past few years, which points to an upcoming imbalance between supply and demand in many segments. Commodities generally enjoy better conditions at the end of an economic cycle and tend to outperform in those periods. Several changes have already taken place in 2018 with regard to inflation and inflationary expectations, and these trends will likely persist and support commodities prices. In sum, commodities will continue to benefit from positive fundamental factors probably at least in 2018 and 2019. While uncertainties often arise with regard to the pace of monetary policy normalisation and interest rate increases, we have to keep in mind the merits of commodities in terms of diversification in diversified portfolios. Indeed, the correlation between commodities and movements in inflation and interest rates is generally positive. Over the very long term, the annualised performance of commodities is around +7% in USD, but this compound annual result has largely been pulled downward in the past several years by the poor performances logged in 2008 (-49.65%) and 2014-15 (-58%). An investment in this asset class with a 10-year time horizon has yielded an annualised return of +7% for all rolling 10-year periods since 1970 except for the last four periods affected by the 2014-2015 slump. Including commodities in a diversified portfolio is thus optimal in the long term. In addition, in 2018 going overweight this asset class within a tactical allocation seems entirely appropriate and beneficial in terms of overall expected returns. Tactically, commodities will benefit from four positive factors in the next few quarters: the drop in investment since the financial crisis and its impact on the reduction of production capacity, monetary policy normalisation, the gradual disappearance of the output gap, and inventory reduction.

Commodities



Graph sources: Bloomberg/BearBull Global Investments

COMMODITIES (USD)

30.06.2018 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
	MSCI Daily TR Net World USD	5954.15	USD	-1.18	-0.05	1.73	0.43	0.43
GLOBAL	S&P GSCI Tot Return Indx	2821.7	USD	3.4	1.4	8.0	10.4	10.4
WTI CRUDE	Generic 1st 'CL' Future	74.2	USD	8.1	10.6	14.2	22.7	22.7
BRENT OIL	Generic 1st 'CO' Future	79.4	USD	5.1	2.4	13.0	18.8	18.8
NATURAL GAS	Generic 1st 'NG' Future	2.9	USD	-0.7	-0.9	7.0	-1.0	-1.0
OR	GOLD SPOT $/OZ	1253.2	USD	-1.3	-3.5	-5.4	-3.8	-3.8
ARGENT	Silver Spot $/Oz	16.1	USD	-2.1	-1.9	-1.5	-4.8	-4.8
AGRICULTURE	S&P GSCI Agric Indx Spot	285.7	USD	-2.0	-8.4	-3.2	1.3	1.3
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	369.2	USD	-2.1	-5.1	0.9	-6.3	-6.3

The reduction in inventories underlies the new imbalance favouring an increase in crude prices

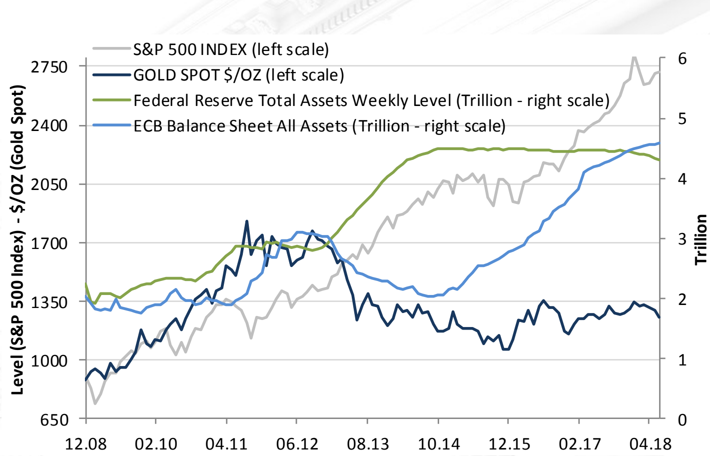
Energy sector fundamentals are growing progressively stronger, as shown by the increasingly visible key phenomenon of declining inventory levels. OECD stocks have indeed diminished by -6.9% since 2016 and have thus already corrected by almost half the excesses of the 2014-15 period. OPEC's actions sought in particular to reduce global supply by around 1.8 mbd to rebalance the market. The increase in crude prices to over $75 demonstrates the success of this operation, in spite of the opposing actions of the US, which increased oil production over the same period. The global supply of crude thus expanded slightly, but demand growth stabilised the market and reduced inventory levels. We believe that production will stabilise over the next several months, in particular due to the expected decrease in supply from Iran. However, at the latest OPEC meeting, several members implied that they might increase production slightly given the success of the policy carried out so far and the increase in demand. We estimate at 1 mbd the production potential that could soon be added to current production to compensate for the decrease in supply from Iran (-1.5 mbd) and Venezuela. The special circumstances of the US market suggests that the transport capacity of US pipelines is rather limited at this stage of production. That is, any potential increase in unconventional crude production in the Permian Basin would be difficult to transport to storage, refining, and export zones in particular. In this regard, we believe that US production will stabilise in 2018 and 2019 and will thus not contribute as before to supply growth and fulfilling the increase in the demand for crude. Sustained economic growth in 2018 and 2019 will thus likely lead to an imbalance in the market driven by demand exceeding global supply.

An increase in gold prices depends on an acceleration of inflation

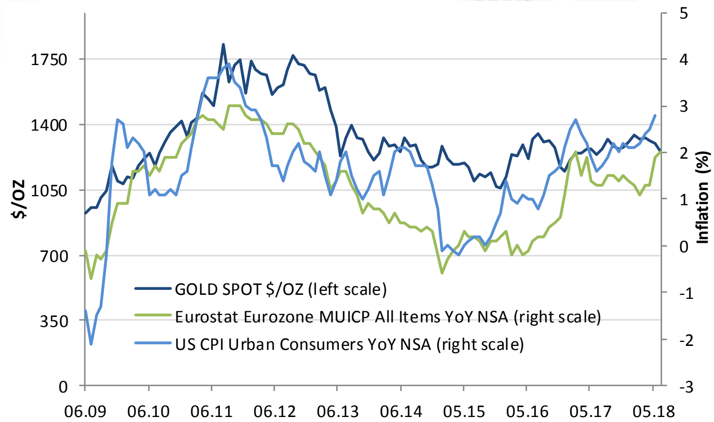
The escalation of trade tensions has not led to massive reinvestments in gold, which has not benefitted either from the political turbulence in Europe caused by the election of a Eurosceptic government in Italy. Indeed, investors seem confident that the various on-going crises will be resolved smoothly and have not felt the need to resort to gold as a store of value. Precious metal prices currently remain within a trading range pending more significant movements in inflation. Short-term fluctuations may also be driven essentially by movements in the dollar, as was the case over the past several weeks. The upswing in the dollar has indeed been accompanied by weaker gold prices. Will we necessarily have to wait for the dollar to fall to see gold appreciate? On the contrary, we believe this factor will become less important in the future and may be replaced by more traditional and lasting concerns overall as far as gold is concerned. Moreover, the negative correlation between gold and long-term US rates has not been a determining factor since the beginning of the year either. The inflation variable should thus become more significant as an explanatory factor with regards to market trends in precious metals. Indeed, inflationary pressures are starting to be felt in the US and in OECD countries, pushing down real returns. This trend will strengthen over the next few quarters and will bolster investment demand.

With regard to overall impact factors, we believe inflation will become significantly more important once inflation comes to substantially exceed central banks' targets, supporting increases in gold prices even in a context of pressure on rates and dollar revaluation. With respect to fundamental factors in the physical market, most factors also seem favourable. Global supply of physical gold remains restricted by limited production capacity and by a declining supply of recycled gold. On the demand side, central banks are still net buyers in 2018, and demand for jewellery will likely increase significantly in China and India as well as in the US. Investment demand will likely strengthen given the current financial, economic, and geopolitical context. Investment flows into physically-backed gold ETFs will likely increase and may return, in 2019 already, to the highs achieved in 2013.

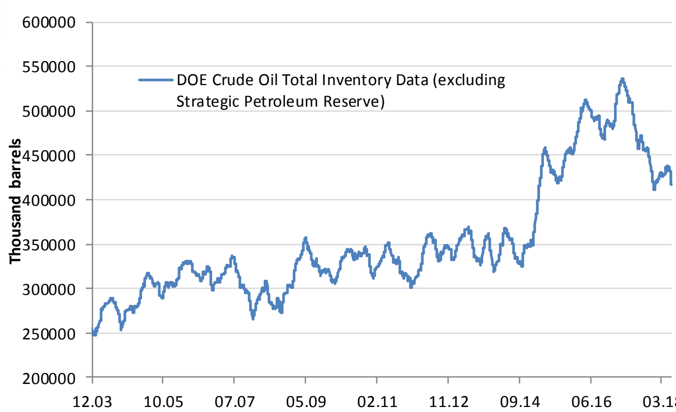
Gold and Global liquidity



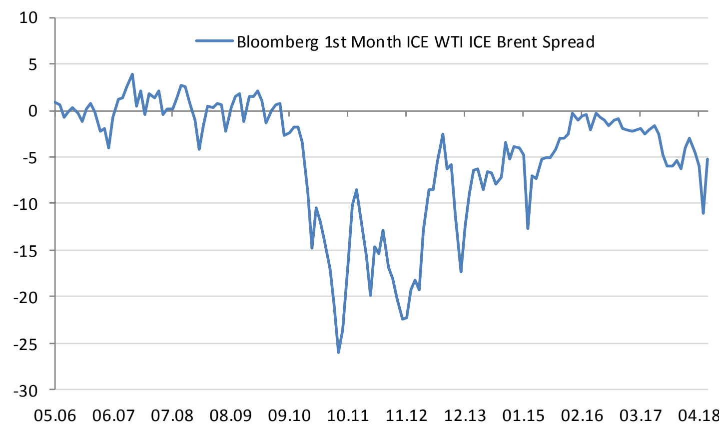
Gold and Inflation



Crude Oil Inventory (USA)



WTI - Brent Price Spread



Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Hedge Funds

- Alternative management not generating value

Private Equity

- Upswing in private equity in Q2

Alternative management not generating value

During the second quarter, the various alternative management strategies were not able to post significantly positive performances. Although the main global equity markets experienced a complicated quarter, the index for global equities rose by +1.73%, led by the outperformance of US companies over the period.

With regard to the different management styles, relative value arbitrage led the pack thanks to a quarterly result of +1.20% for a gain of +2.20% since the beginning of the year, whereas the equity hedge strategy (-0.92%) dropped by almost 100 basis points. Other strategies stagnated over the period with results of +0.33% and +0.22% for event driven and macro/CTA, respectively. Hedge funds, represented by the HFRX Global Index (+0.17%), went up very slightly overall.

An analysis by region highlights a single positive performance, achieved by Northern Europe (+1.08%), while the other segments ended up in the red.

Upswing in private equity in Q2

Investment in private companies had a favourable quarter, balancing the losses incurred between January and March.

In Europe, the performance in Q2 (+3.59%) pushed the index back into the black in 2018 (+0.72%).

The British private equity index ended the first six months in negative territory, despite a quarterly result of +4.64%.

In the US, private equity enjoyed a significant rebound in this quarter (+11.96%), after correcting considerably in Q1 (-5.11%). The quarterly appreciation of the dollar against the single currency (+5.47%) obviously pushed the performance up.

HEDGE FUND INDICES (USD)

30.06.2018 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1264.8	USD	-0.2	-0.2	0.2	-0.8	-0.8
EQUITY HEDGE	HFRX Equity Hedge Index	1273.9	USD	-0.7	-0.7	-0.9	0.2	0.2
EVENT DRIVEN	HFRX Event Driven Index	1590.9	USD	-0.4	-0.5	0.3	-4.5	-4.5
MACRO/CTA	HFRX Macro/CTA Index	1142.8	USD	0.7	0.1	0.2	-1.8	-1.8
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1210.9	USD	-0.2	0.4	1.2	2.2	2.2
LATIN AMERICA*	HFRX Latin America Index	2079.7	USD	-	-2.6	-8.1	-6.7	-6.7
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2444.1	USD	-	-1.5	-3.2	-2.4	-2.4
NORTHERN EUROPE*	HFRX Northern Europe Index	2015.8	USD	-	-0.2	0.9	0.7	0.7
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2727.2	USD	-	-1.8	-5.0	-3.2	-3.2
MULTI-REGION	HFRX Multi-Region Index	1368.8	USD	-0.3	-0.1	0.1	0.3	0.3

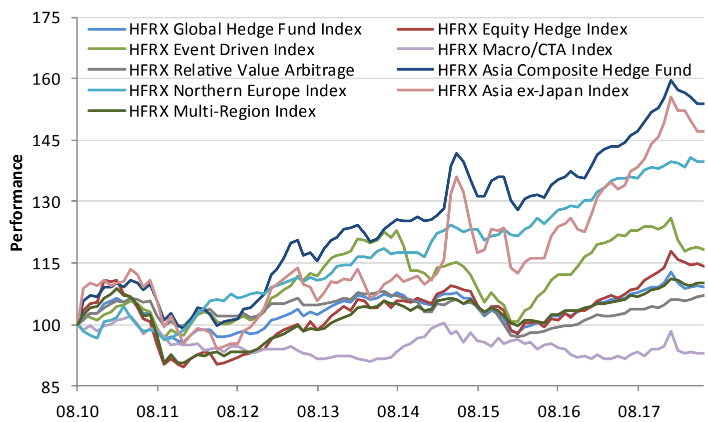
* Subject to one-month lag

PRIVATE EQUITY INDICES (EUR)

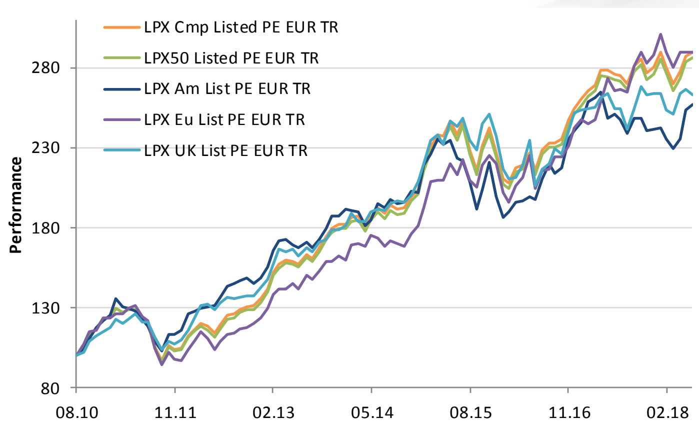
30.06.2018 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	240.9	EUR	-1.1	1.0	7.5	3.4	3.4
MAJOR COMPANIES	LPX50 Listed PE EUR TR	2266.8	EUR	-1.1	1.1	7.9	3.6	3.6
USA	LPX Am List PE EUR TR	341.3	EUR	-0.8	1.2	12.0	6.2	6.2
EUROPE	LPX Eu List PE EUR TR	926.2	EUR	-1.2	0.2	3.6	0.7	0.7
UK	LPX UK List PE EUR TR	293.9	EUR	-1.4	-1.2	4.6	-0.3	-0.3

Hedge funds



Private Equity



Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

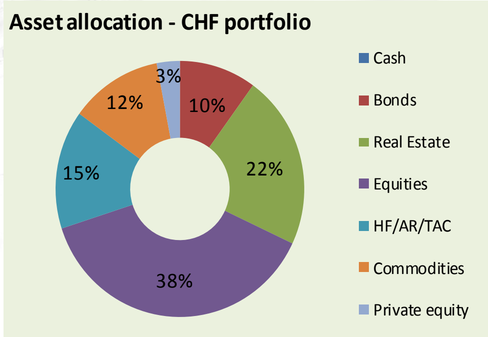
GLOBAL STRATEGY & ASSET ALLOCATION

Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

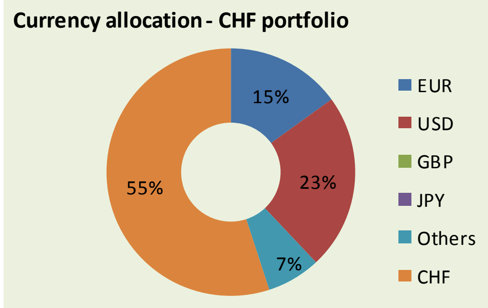
Diversified portfolio: Medium Risk - CHF

- Caution still advised in fixed income markets
- Real estate still the main alternative to bonds
- Earnings growth supports an overweight allocation
- Cycle remains favourable to commodities



Tactical Allocation

- Overweight equities again
- Overweight real estate, commo, currencies
- Underweight bonds



ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	↘	↘							
Bonds	↘	↘							
Real Estate	↗	↗							
Equities	↗	↗↗							
Hedge funds	↗	↗							
Commodities	↗↗	↗↗							
Private equity	↗	↗							

Asset allocation

Our investment strategy focuses on traditional liquid assets (cash and cash equivalents, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity).

Bonds

Barring any further political surprises, as the ECB puts an end to its interventions in September, long-term rates could enter a new phase of adjustment in Europe with knock-on effects in our country. On the international front, the normalisation of yields in the US is ahead of schedule and could ease up over the next few months. The acceleration in global growth will no doubt impact the outlook for inflation. We believe this factor will become more significant once inflation exceeds central banks' stated targets. Our bond strategy thus remains cautious. We maintain reduced exposure and stay overweight investments in US dollars.

Real estate

The real estate sector remains the main alternative to the absence of yield in fixed income markets. Indeed, real estate yields remain attractive, and the risks of capital losses on real estate assets linked to increases in interest rates do not seem significant in this initial phase of rate normalisation. We remain overweight Europe and Asia.

Equities

After the correction in equity markets in Q1, we determined that valuation levels were once again reasonable and warranted taking positions in the Eurozone and Switzerland in particular. We maintain this more opportunistic position, as equity market fundamentals remain favourable. Despite uncertainties related to the US administration's tougher stance on tariffs, corporate results are solid, and earnings growth should support further share price increases, justifying an overweight position.

Commodities

The escalation of trade tensions between the US and China constitute a new and potentially negative factor, mainly for industrial metals in H2, but we believe that fundamentals remain favourable overall in terms of a continuation of the upward trend seen over the past few quarters for commodities in general.

Crude prices will remain on the rise as well, thanks to the reversal of the imbalance between supply and demand and to the gradual reduction in inventories. Regarding precious metals, fundamentals are positive, but stronger inflationary pressures will likely be necessary to revive and maintain investors' interest in gold and silver. The bullish cycle in the commodities sector will likely continue in H2.

Currencies

The Swiss franc will remain weak. The recent correction of the euro is an opportunity to reposition in view of an appreciation to 1.20. We also recommend overweighting the US, Canadian, and Australian dollars.

Market performances - Q2 2018

		Q2 2018 local	Q2 2018 CHF	YTD local	YTD CHF
Exchange rates					
USD/CHF		3.8%		1.7%	
EUR/CHF		-1.6%		-1.1%	
GBP/CHF		-2.2%		-0.6%	
JPY/CHF		-0.3%		3.5%	
Equity markets					
World	MSCI World USD	1.7%	5.6%	0.4%	2.1%
Europe	DJ Stoxx 600	4.0%	2.4%	-0.3%	-1.5%
Eurozone	DJ Eurostoxx 50	1.0%	-0.6%	-3.1%	-4.2%
	MSCI Europe S.C.	3.4%	1.8%	0.4%	-0.8%
Germany	Dax 30	1.7%	0.1%	-4.7%	-5.8%
France	Cac 40	3.0%	1.4%	0.2%	-0.9%
United Kingdom	FTSE 100	8.2%	5.9%	-0.7%	-1.3%
Switzerland	SPI	1.3%	1.3%	-3.9%	-3.9%
	SMI	-1.5%	-1.5%	-8.2%	-8.2%
	MSCI Swiss S.C.	-4.3%	-4.3%	-6.3%	-6.3%
North America	SP500	2.9%	6.9%	1.7%	3.4%
	Nasdaq	6.3%	10.4%	8.8%	10.6%
	Tse 300	5.9%	8.0%	0.4%	-2.4%
	SP600 Small C.	8.4%	12.6%	8.7%	10.5%
Japan	Nikkei 225	4.0%	3.6%	-2.0%	1.4%
Emerging	MSCI EMF USD	-8.7%	-5.2%	-7.7%	-6.1%

		Q2 2018 local	Q2 2018 CHF	YTD local	YTD CHF
Interest rates (3 months)		*(level)*			
CHF		-0.73%			
EUR		-0.36%			
USD		2.34%			
JPY		-0.05%			
Bonds markets					
World	Citi Gr Global Govt.USD	-3.4%	0.4%	-0.9%	0.7%
Europe	Euro Ser-E Gov > 1	-0.9%	-2.4%	0.6%	-0.6%
United Kingdom	UK Ser-E Gov > 1	0.1%	-2.0%	0.2%	-0.4%
Switzerland	SBI Général AAA-BBB	0.1%	0.1%	-0.6%	-0.6%
	SBI Govt.	0.8%	0.8%	-0.8%	-0.8%
USA	US Ser-E Gov > 1	0.1%	3.9%	-1.1%	0.6%
Japan	Japan Ser-E Gov > 1	0.2%	-0.1%	0.6%	4.1%
Emerging	J.P. Morgan EMBI Global	-3.5%	0.2%	-5.2%	-3.6%
Miscellaneaous					
	LPP 25 Index	0.7%	0.7%	-0.5%	-0.5%
	LPP 40 Index	1.2%	1.2%	-0.4%	-0.4%
	LPP 60 Index	1.9%	1.9%	-0.2%	-0.2%
Real Estate CH	DB RB Swiss Real Est Fd	-0.5%	-0.5%	-2.0%	-2.0%
Hedge Funds	Hedge Fund Research USD	0.1%	4.0%	-1.1%	0.5%
Commodities	GS Commodity USD	8.0%	12.1%	10.4%	12.2%

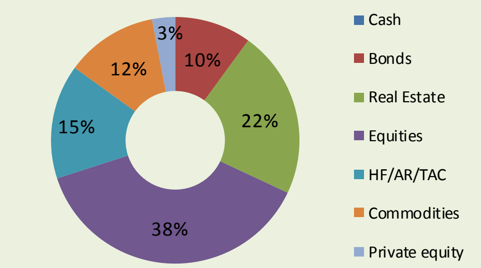
Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - EUR

- Remain cautious to the rise in long-term rates in the Eurozone
- Real estate establishes a bit more as a preferred alternative
- Stay overweight on equities
- Positive outlook for commodities

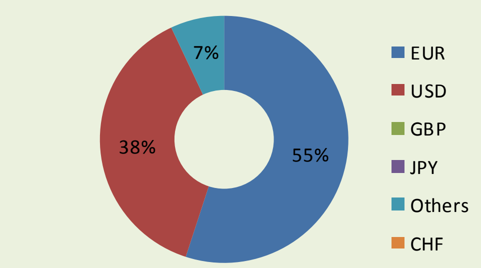
Asset allocation - EUR portfolio



Tactical Allocation

- Overweight equities again
- Overweight real estate, commo, dollar
- Underweight bonds

Currency allocation - EUR portfolio



ASSETS	Expected Return		ALLOCATION (EUR Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Cash	→	→							
Bonds	↘	↘							
Real Estate	↗	↗							
Equities	↗	↗↗							
Hedge funds	↗	↗							
Commodities	↗↗	↗↗							
Private equity	↗	↗							

Asset allocation

Our investment strategy focuses on traditional liquid assets (cash and cash equivalents, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity).

Bonds

Barring any further political surprises, as the ECB puts an end to its interventions in September, long-term rates could enter a new phase of adjustment in Europe with knock-on effects in other countries. On the international front, the normalisation of yields in the US is ahead of schedule and could ease up over the next few months. The acceleration in global growth will no doubt impact the outlook for inflation. We believe this factor will become more significant once inflation exceeds central banks' stated targets. Our bond strategy thus remains cautious. We maintain reduced exposure and stay overweight investments in US dollars.

Real estate

The real estate sector remains the main alternative to the absence of yield in fixed income markets. Indeed, real estate yields remain attractive, and the risks of capital losses on real estate assets linked to Increases in interest rates do not seem significant in this initial phase of rate normalisation. We remain overweight Europe and Asia.

Equities

After the correction in equity markets in Q1, we determined that valuation levels were once again reasonable and warranted taking positions in the Eurozone and Switzerland in particular. We maintain this more opportunistic position, as equity market fundamentals remain favourable. Despite uncertainties related to the US administration's tougher stance on tariffs, corporate results are solid, and earnings growth should support further share price increases, justifying an overweight position.

Commodities

The escalation of trade tensions between the US and China constitute a new and potentially negative factor, mainly for industrial metals in H2, but we believe that fundamentals remain favourable overall in terms of a continuation of the upward trend seen over the past few quarters for commodities in general.

Crude prices will remain on the rise as well, thanks to the reversal of the imbalance between supply and demand and to the gradual reduction in inventories. Regarding precious metals, fundamentals are positive, but stronger inflationary pressures will likely be necessary to revive and maintain investors' interest in gold and silver. The bullish cycle in the commodities sector will likely continue in H2.

Currencies

The euro has appreciated very much against most currencies. However, we believe that fundamentals improvement is already well integrated into current exchange rates. Stabilization should occur, especially against the US dollar and commodity-related currencies.

Market performances - Q2 2018

		Q2 2018 local	Q2 2018 EUR	YTD local	YTD EUR
Exchange rates					
USD/EUR		5.5%		2.7%	
CHF/EUR		1.6%		1.1%	
GBP/EUR		-0.7%		0.4%	
JPY/EUR		1.2%		4.6%	
Equity markets					
World	MSCI World USD	1.7%	7.3%	0.4%	3.2%
Europe	DJ Stoxx 600	4.0%	4.0%	-0.3%	-0.3%
Eurozone	DJ Eurostoxx 50	1.0%	1.0%	-3.1%	-3.1%
	MSCI Europe S.C.	3.4%	3.4%	0.4%	0.4%
Germany	Dax 30	1.7%	1.7%	-4.7%	-4.7%
France	Cac 40	3.0%	3.0%	0.2%	0.2%
United Kingdom	FTSE 100	8.2%	7.5%	-0.7%	-0.3%
Switzerland	SPI	1.3%	2.9%	-3.9%	-2.9%
	SMI	-1.5%	0.0%	-8.2%	-7.3%
	MSCI Swiss S.C.	-4.3%	1.0%	-6.3%	-3.8%
North America	SP500	2.9%	8.6%	1.7%	4.5%
	Nasdaq	6.3%	12.1%	8.8%	11.8%
	Tse 300	5.9%	9.7%	0.4%	-1.3%
	SP600 Small C.	8.4%	14.3%	8.7%	11.6%
Japan	Nikkei 225	4.0%	5.3%	-2.0%	2.4%
Emerging	MSCI EMF USD	-8.7%	-3.7%	-7.7%	-5.1%

		Q2 2018 local	Q2 2018 EUR	YTD local	YTD EUR
Interest rates (3 months)		*(level)*			
CHF		-0.73%			
EUR		-0.36%			
USD		2.34%			
JPY		-0.05%			
Bonds markets					
World	Citi Gr Global Govt.USD	-3.4%	-1.8%	-0.9%	0.1%
Europe	Euro Ser-E Gov > 1	-0.9%	-0.9%	0.6%	0.6%
United Kingdom	UK Ser-E Gov > 1	0.1%	-0.5%	0.2%	0.6%
Switzerland	SBI Général AAA-BBB	0.1%	1.7%	-0.6%	0.5%
	SBI Govt.	0.8%	2.4%	-0.8%	0.2%
USA	US Ser-E Gov > 1	0.1%	5.6%	-1.1%	1.6%
Japan	Japan Ser-E Gov > 1	0.2%	1.5%	0.6%	5.2%
Emerging	J.P. Morgan EMBI Global	-3.5%	1.8%	-5.2%	-2.6%
Miscellaneaous					
	LPP 25 Index	0.7%	1.8%	-0.5%	0.6%
	LPP 40 Index	1.2%	2.3%	-0.4%	0.7%
	LPP 60 Index	1.9%	3.0%	-0.2%	0.8%
Real Estate CH	DB RB Swiss Real Est Fd	-0.5%	-0.5%	-2.0%	-1.0%
Hedge Funds	Hedge Fund Research USD	0.1%	5.6%	-1.1%	1.6%
Commodities	GS Commodity USD	8.0%	13.9%	10.4%	13.4%

Graph sources: Bloomberg/BearBull Global Investments

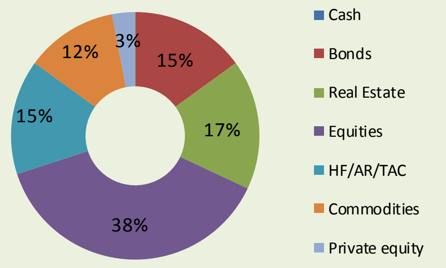
BearBull Global Investments Group

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - USD

- US bond market again relatively attractive
- Real estate establishes a bit more as a preferred alternative
- Stay overweight on equities
- Positive outlook for commodities

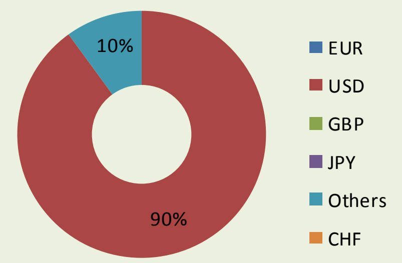
Asset allocation - USD portfolio



Tactical Allocation

- Overweight equities again
- Overweight real estate and commodities
- Concentrate on USD assets

Currency allocation - USD portfolio



ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (USD Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	→	→							
Bonds	↘	↘	■						
Real Estate	↗	↗						■	
Equities	↗	↗↗						■	
Hedge funds	↗	↗				■			
Commodities	↗↗	↗↗						■	
Private equity	↗	↗				■			

Asset allocation

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After the correction in equity markets in Q1, we determined that valuation levels were once again reasonable and warranted taking positions in the Eurozone and Switzerland in particular. We maintain this more opportunistic position, as equity market fundamentals remain favourable. Despite uncertainties related to the US administration's tougher stance on tariffs, corporate results are solid, and earnings growth should support further share price increases, justifying an overweight position.

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Currencies

After a period of weakness, the dollar trade weighted showed improvement. Differences in GDP growth and especially in interest rates, should work again to its benefit. We believe that the dollar could impose as the main currency sought.

Market performances - Q2 2018

		Q2 2018 local	Q2 2018 USD	YTD local	YTD USD
Exchange rates					
CHF/USD		-3.7%		-1.6%	
EUR/USD		-5.2%		-2.7%	
GBP/USD		-5.8%		-2.3%	
JPY/USD		-4.0%		1.8%	
Equity markets					
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United Kingdom	FTSE 100	8.2%	2.0%	-0.7%	-2.9%
Switzerland	SPI	1.3%	-2.4%	-3.9%	-5.5%
	SMI	-1.5%	-5.2%	-8.2%	-9.7%
	MSCI Swiss S.C.	-4.3%	-4.3%	-6.3%	-6.3%
North America	SP500	2.9%	2.9%	1.7%	1.7%
	Nasdaq	6.3%	6.3%	8.8%	8.8%
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Emerging	MSCI EMF USD	-8.7%	-8.7%	-7.7%	-7.7%

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JPY		-0.05%			
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	SBI Govt.	0.8%	-3.0%	-0.8%	-2.4%
USA	US Ser-E Gov > 1	0.1%	0.1%	-1.1%	-1.1%
Japan	Japan Ser-E Gov > 1	0.2%	-3.8%	0.6%	2.4%
Emerging	J.P. Morgan EMBI Global	-3.5%	-3.5%	-5.2%	-5.2%
Miscellaneaous					
	LPP 25 Index	0.7%	-0.9%	-0.5%	-2.1%
	LPP 40 Index	1.2%	-0.4%	-0.4%	-2.0%
	LPP 60 Index	1.9%	0.3%	-0.2%	-1.8%
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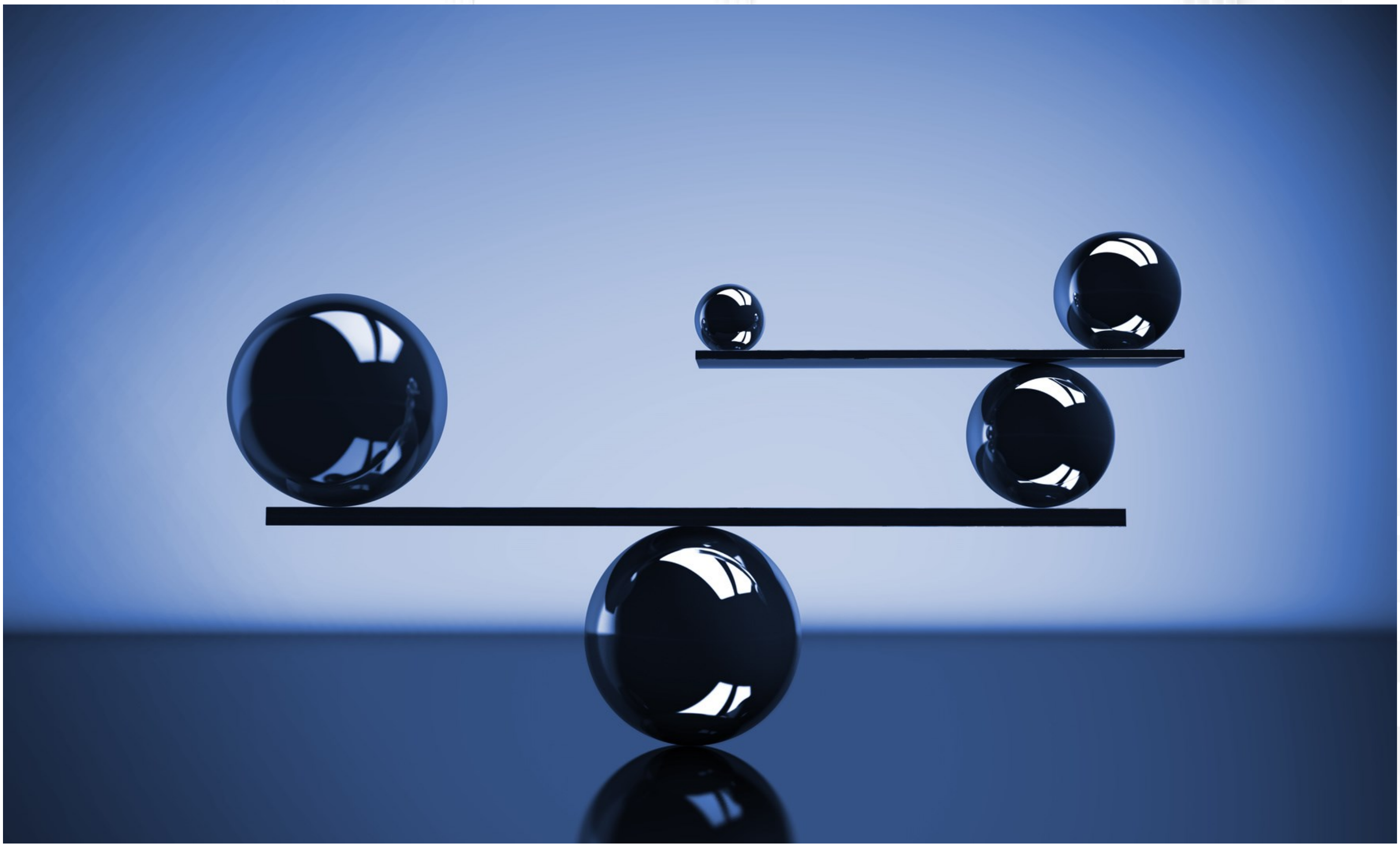
Hedge Funds	Hedge Fund Research USI	0.1%	0.1%	-1.1%	-1.1%
Commodities	GS Commodity USD	8.0%	8.0%	10.4%	10.4%

Graph sources: Bloomberg/BearBull Global Investments

INVESTMENT THEMES
FOCUS



Graph sources: Bloomberg/BearBull Global Investments

INVESTMENT THEMES:

Hedge Funds : Which outlook for 2018 after floundering for 10 years?

- Alternative investments are not the magic bullet investors were expecting
- Unsatisfactory performance still manifest in 2018
- Disappointing performance does not seem to be turning off investors
- Alternative investment fund selection is the key determinant of success

Alternative investments are not the magic bullet investors were expecting in terms of performance and asset de-correlation

Ten years ago, the onset of the financial crisis in the United States sent a shockwave through the global economy and financial markets. This crisis with no real precedent had myriad consequences, in terms of monetary policy in particular, as well as in terms of the performance of financial assets and investment strategies.

Over the past ten years, after a period of significant uncertainty, investors have gradually regained confidence in financial markets, and in the equities asset class in particular.

While annual gains posted between 2008 and 2012 erased the losses incurred in 2008, over the following years investors were able to achieve a 10-year rate of return of +5.0% per year globally (MSCI World equities) and +8.3% per year for the S&P500.

Over the same period, the performance of alternative investments remained negative, declining by -0.5% per year on average.

Many investors who had long believed in the anticipated merits of hedge fund de-correlation now have to face the objective reality that alternative investments did not provide the expected solution to the increase in the volatility of financial assets during this period.

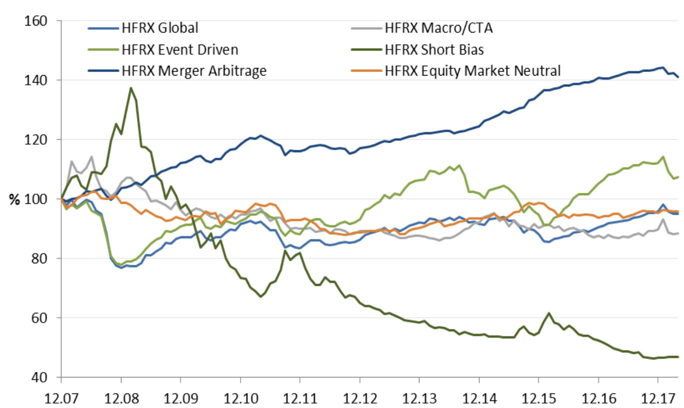
Moreover, this finding with regard to the hedge fund asset class overall is unfortunately corroborated by a more detailed analysis of the results of specific strategies within the sector. Indeed, just as the performance of the hedge fund universe as a whole, as measured by the HFRX Global index in USD, has slipped by -0.49% per year over the past ten years, the performance of the most popular strategies, such as global macro/CTA (-1.18% per year) or equity market neutral (-0.41% per year), has also been negative. Only the merger arbitrage strategy ultimately did well with a positive result of +3.39% per year, ahead of the event driven strategy, which inched up by a mere +0.68% per year.

Unsatisfactory performance still manifest in 2018

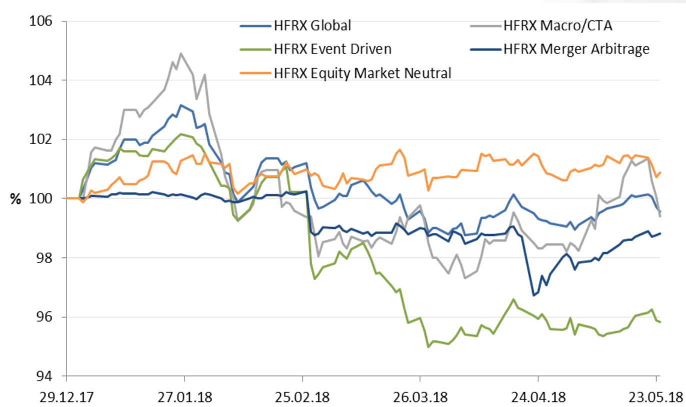
Over the first five months of 2018, the performance of hedge funds overall has not improved, providing scant hope of a revival of this asset class, even though volatility was sufficiently present in equity markets to enable active management of risks and opportunities. However, in the context of market fluctuations of over 10% between January highs and April lows, which should clearly have benefitted alternative investments, the Global HFRX index posted a very disappointing performance of -0.45% compared to gains of +2.8% for the S&P500 and +1.6% for the MSCI World equities index.

All strategies were down except for equity market neutral, up +0.94%.

Performance of hedge fund strategies



YTD performance of hedge fund strategies



Graph sources: Bloomberg/BearBull Global Investments

One could have hoped for better in terms of de-correlation.

Indeed, given that most strategies lost ground as equities were correcting, it appears that the correlation is in fact fully expressed in periods of decline, which is clearly contrary to the chief perceived advantage of hedge funds.

By comparison, our tactical international absolute return asset management approach in USD remained in positive territory over the entire period, achieving gains of +1.59%, similar to those of international equities, effectively showing an ability to limit risks and losses in periods of market decline and to take advantage of market rebounds while maintaining much lower levels of volatility. Over the long term this approach enables us to smooth out performance during less favourable periods and to participate in periods of growth by seizing on positive trends.

Disappointing performance does not seem to be turning off investors

The examples above thus show that the hedge fund asset class has not demonstrated any benefit in terms of de-correlation and portfolio diversification. Even when analysing the performance of long/short equities or market neutral equities strategies, most of the time we find directional biases such that the strategies actually implemented are clearly skewing upward. Global macro/CTA strategies, which had performed particularly well during the previous decade with gains of nearly +8%, as well as event driven strategies (+6%) both clearly outperformed other approaches, whose performance was barely positive. But these strategies have also lagged since 2008.

Is the underperformance of hedge funds over the past ten years due to a reduction in leverage?

Has the decline at any rate of the average leverage ratio of alternative investment funds curtailed their capacity to generate performance?

Even if it is difficult to effectively measure the impact of leverage on the performance of alternative funds, in the low interest rate environment of the past ten years the cost of leverage was prone to multiplying the potential effects of investment decisions and amplifying the performance of all strategies using it.

This has clearly not been the case, which further calls into question the average level of competence of current actors in this market. It seems like it has been a long time indeed since genuine talents and pioneers of alternative asset management were able to add real value relative to traditional asset management. While the latter seemed to be running out of steam and its capacity for action seemed to weaken, alternative asset management was able to develop dynamic, more aggressive and better performing asset management models. Certainly, delivering superior performance required higher levels of risk and volatility, but the ends often justified the means.

The industrialisation of alternative asset management and its massive development over the past ten years modified the DNA of the actors in the sector. While undoubtedly there are still actors delivering consistent performance that will continue to deserve the enthusiasm of investors seeking alternative performance, given the overall results achieved over the past ten years one can now very clearly call into question the assumption that alternative investments contribute to improving the risk/return relationship of diversified portfolios.

The improvement in overall returns and the decrease in the risk of portfolios that should have been achieved due to the lack of correlation with traditional asset classes have not been demonstrated.

Nevertheless, funds continue to flow into the sector with close to 10 billion in new funds invested in 2017 and around 1.1 billion in Q1 2018. Hedge funds continue to benefit from this quest for the holy grail. However, it appears that these funds have been flowing into rather smaller investment management firms (under 1 billion), which received close to 2.8 billion over the period, to the detriment of larger actors, which experienced fund withdrawals of close to 1.7 billion.

Disappointment is probably fuelling these withdrawals, while new investments are focused on potentially more innovative strategies upon which new hopes are pinned, yet to materialise.

Financial markets' special circumstances do not warrant resorting to hedge funds indiscriminately

Monetary policy will tighten gradually in the United States and other countries in 2018, after an initial period of normalisation. The high current valuation levels of equity markets and insufficient yields in capital markets could boost certain investors' interest in the hedge fund asset class.

An increasing number of investors could indeed be looking for alternative solutions in a context of low interest rates and perhaps already rather rich equity market valuations.

The impulse to give a more prominent role to hedge funds does not make sense unless it is implemented with even more discernment with regard to product selection than would be an equities strategy.

Indeed, in the latter case, passive exposure to equities is already sufficient to generate adequate positive long-term returns, which could be enhanced by an appropriate selection of individual securities or investment funds.

Alternative investment fund selection is the key determinant of success

This is unfortunately not the case in regard to alternative investments, whose overall performance, or that which would have been achieved via passive or index-linked management, has not generated results worthy of note in a decade. Hence, exposure to this asset class should be carefully crafted via a selection of specific funds. As we mentioned, there is no question that the mediocre results of these past few years are due to an absence of discernment and a failure to take positions diverging from the alternative investment indices.

A passive exposure to this asset class will thus not display the same characteristics as an appropriate and evolving selection among the various existing strategies (global macro/CTA, event driven, merger arbitrage, etc.). The same goes for fund selection with regard to the implementation of an alternative investment strategy.

Swiss institutional investors are disappointed but not quite burnt

In the context of pension fund management, institutional investors have introduced this asset class rather substantially into their investment policies, since the amendment of the pension law (OPP 2) in 2009 clearly identified alternative investments as an asset class sufficiently developed to make up a maximum of 15% of pension funds' assets. Rare are those pension funds today that can declare themselves satisfied with their decision to diversify into hedge funds since that date. The temptation remains in 2018 to attempt to more effectively exploit this opportunity, but it is not clear that all are perfectly aware of the performance actually achieved by this asset class overall.

Graph sources: Bloomberg/BearBull Global Investments

For a more comprehensive comparison, moreover, it should be noted that the results mentioned above were achieved by a group of hedge funds that was highly leveraged and whose performance in US dollars would have been more volatile and often more negative had they been expressed in Swiss francs.

However, in a low interest rate environment, the disappointment of institutional investors may not be sufficient to radically change their attitudes towards hedge funds.

We believe that the appetite for absolute return management and other genuine alternatives to traditional assets will likely grow over the next few years.

Non-leveraged tactical allocation management concepts will likely garner more interest, for instance, as will other alternative asset solutions such as private equity or commodities, whose performance in periods of economic expansion should be de-correlated and positive.

Graph sources: Bloomberg/BearBull Global Investments

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