Investment Strategy

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Graph sources: Bloomberg/BearBull Global Investments

INTRODUCTION

Letter to Investors - Investment Climate

- Economic growth more tentative in 2019
- Rising risks related to monetary policies and tightening liquidity
- Caution with regard to profits and PE ratios in 2019
- Financial outlook more uncertain in 2019
- Risks are multiplying and uncertainty is on the rise

The economic upturn forecast for Q2 turned out to be particularly robust in the US, exceeding even the most optimistic expectations. With GDP growth of +4.2%, the US economy did not disappoint and is on track to expand by up to +3.5% over the full year. While economic trends have been impressive in the US, they have weakened in the Eurozone, whose GDP progressed by only +2.1%. The crises in Italy and in emerging markets seem to have taken a more significant toll on the European economy; however, the latter's performance was likely impacted most heavily by Trump's threats. Indeed, it has been rather difficult for German manufacturers and households not to be concerned by the threats proffered. Confidence has thus slackened in Germany in particular, as well as in the EU overall. Thus, Brexit is no longer the main source of uncertainty, except of course for the UK, which remains in a negotiations deadlock a mere six months from the deadline. Inflationary risks seem to be diminishing, further delaying the next rate hikes. Thus, in the US Q3 was marked by sufficient optimism for financial markets to resume trending upward, reaching new highs. Nevertheless, a few worrying signs surfaced at quarter end. First, trade tensions reached a new level with the extension of tariffs to 200 billion dollars of Chinese imports, while the US president is preparing to implement the final phase of his plan to increase tariffs on a further 250 billion dollars, ultimately taxing all imports from China, likely as of the beginning of 2019. While the introduction of new tariffs did not initially seem like it would impact US fundamentals, a 25% levy on 550 billion dollars in imports is another matter. In addition to the potential impact on inflation, US corporate earnings could also be affected. Today we estimate that earnings growth will likely slow from +20% in 2018 to under +10% in 2019, but the additional tariffs could significantly reduce this forecast. Another source of increasing concern is related to the appraisal of US monetary policy. While up until now we could reasonably consider that such policy had been 'accommodating', Chairman Powell's latest declarations could portend a steeper and more restrictive rate normalisation trend. The bond markets reacted sharply at the end of the quarter, with long-term rates jumping up 30 bps towards our 10-year target of 3.5%. The correlation among interest rate markets was again verified in this case, as European and Swiss rates rose as well. Rising long-term US Treasury rates could well sound the death knell of the high yield segment. Twelve-month yields on cash reached 3%, possibly generating competition for other risky assets as well. However, the economic outlook for the end of the year will likely not yet be affected by the uncertainties mentioned above, although we wonder about their impact in 2019. Moreover, while global liquidity remained high in 2018, this factor may actually disrupt the outlook in the shorter term. Indeed, the Fed reduced its balance sheet, taking out 30 billion dollars in liquidity per month in 2018, and the ECB is planning on stopping its money injections by the end of December. A further rate hike in the US before the end of the year and two more hikes planned for 2019 could well start to worry investors. With regard to corporate earnings, the US market will see a sharp decrease in the growth rate of corporate earnings following the significant positive impact resulting from changes in tax regulations. It will be more difficult in 2019 to generate positive surprises, as we think it is logical that PE ratios in the US will shrink given the rising interest rate environment. However, it is probably too early to assert that these concerns will significantly affect the global economy over the next few months, although it must be noted that, in the current context, investor psychology is a key variable with regard to the stock market, and the optimism prevalent in Q3 could rapidly veer to cautiousness. The US market benefited substantially from a positive stock market climate bolstered by the certainty that the Fed would not threaten growth trends and that profits would soar in 2018. The 25% valuation premium with regard to to European equities will likely not last through 2019, instead becoming more favourable to the Eurozone, given that earnings growth will become more similar in the two economic zones. US tech stocks reacted more suddenly and negatively to the increase in long-term rates than other sectors over the last few days, but the adjustment in outlook is in fact affecting all sectors and markets, as positive correlations are increasing in the short term. The US bond segment seems to be the least risky in our view, in particular given the revaluation that is already well underway. Bond risks are centred on the Eurozone and in high yield markets, whose risk premiums have plummeted and whose relative levels are no longer attractive given the yields currently available on US government debt. The dollar will likely continue to benefit from this environment until the end of the year, but the prospects of rising rates in the Eurozone, assuming they are based on a serious economic upturn, should put somewhat of a brake on the weakness of the European currency.

Alain Freymond
Chairman
BearBull Global Investments Group

Graph sources: Bloomberg/BearBull Global Investments

BIG PICTURE

Key Convictions

- Limited economic risks in Q4
- US monetary policy still in normalisation phase
- Interest rates trending back up
- Increasing risks of trade war
- Weaker outlook for yields

Limited economic risks in Q4

We expect the strong performance of the US economy in Q2 (+4.2%) to be followed by a solid third quarter (+3.5%) and some deceleration at the end of the year, although growth in Q4 should remain robust and close to 3.5%. Momentum in the Eurozone has slowed somewhat, but we believe that the region will maintain its current growth rate from +2 to 2.5% at year-end. Consumption will continue to be a key source of support in both these regions. The Japanese economy had one of its best quarters in Q2 (+3%) but is unlikely to maintain this pace through the end of the year. Thus, the main developed economies should finish the year on a high note, which could lead to global economic growth close to +4%, as we had estimated at the beginning of the year. Moreover, the emerging markets crisis cannot overshadow the strong results obtained in China (+6.6%) and India (+8.2%), neither of which is showing any sign of slowing down. Both countries will contribute significantly to the health of the global economy in 2018. In our country, a virtuous circle seems to have been established, resulting in strong economic growth (+3.4% in Q2), which should be close to +3% for the full year. In the UK, Brexit continues to be the prime concern of politicians and population alike. Given the lack of visibility and absent an acceptable solution, most economic agents remain cautious, as reflected in GDP growth, which has steadily declined. Global GDP growth will likely slow down at the end of the year, but economic risks are limited.

US monetary policy still in normalisation phase

After two years of stabilisation of its balance sheet, the Federal Reserve has initiated a new phase in its monetary policy normalisation process, reducing the size of its balance sheet by approximately 30 billion dollars per month in 2018. This should add up to around 400 billion dollars taken out of the US economy by the end of 2018, while rates were raised three times by 0.25%. Up until now we had predicted that the Fed would not derail the US economy and would be particularly attentive with regard to pacing its rate hikes. However, Chairman Powell's latest comments have raised concerns that, in spite of the careful language emphasising the measured nature of the Fed's policy actions, the rate hikes planned for the end of the year and for 2019 could in fact be reinforced to take into account the current strength of the US economy. While US monetary policy is no longer accommodating according to the central bank's statements, it may be on track to be more than just normalising. The next three hikes will bring rates up to 3% in 2019, while the risks of a trade war persist and the economic outlook for 2019 is currently showing GDP growth back under 3%. Inflation is certainly not much higher than the Fed's target, but if CPI is confirmed at +2.7%, the bank could take a more aggressive stance. The increase of 10-year Treasury yields to over 3% also points to a change in risk perception. We reckon that, until the end of the year, monetary policy is still in a normalisation phase. However, we continue to pay close attention to any adverse development that could arise at the beginning of 2019.

Interest rates trending back up

Recent economic statistics continue to point to solid economic growth in Q3, sustaining the current upswing in interest rates. The likely slow-down expected at the end of the year could, however, weaken this trend somewhat before other factors intervene to further boost the upward trend. In the US, we were expecting growth to accelerate along with a concurrent normalisation of long-term rates with a 10-year objective of 3.5%. The increase in long-term yields from 2.8% to 3.2% over the past few weeks, after a long period of stabilisation will likely continue throughout the quarter. In the Eurozone, weaker growth led to slacker euro-denominated yields over the summer, which rebounded sharply in September. However, the European economy continues to grow at a sustained and satisfactory pace (+2.1%), which could also lead to higher government bond yields. The ECB's actions played a key role in maintaining borrowing costs close to zero in 2018, thanks to liquidity injections of 30 billion euros per month. The reduction of the asset purchase programme to 15 billion euros in Q4 and then to zero will undoubtedly result in some adjustment in European interest rates. We may have to wait until 2019 for a real upward trend to take shape, but we believe that this upward trend now has a longer way to go in the Eurozone than in the US. Switzerland will not be exempt from these trends, but the rise in rates should be hindered by short-term rates still fixed at -0.75%.

Increasing risks of trade war

President Trump had initially opened hostilities at the beginning of the year only on a specific front, limiting the action to steel and aluminium imports. This first salvo was considered by a very large majority of observers to be a political error, without much benefit, but also without great risk to world trade, since it involved only about 50 billion dollars in imports. Since this first phase, the US president has taken a second, more significant step, deciding to impose tariffs on close to 200 billion additional dollars in imports from China. These imports will have a more direct impact on US consumers, via likely increases in retail prices, and on US firms, via lower profits if they are not able to pass on rising costs to consumers. Hence, the economic risks of the trade war, which has taken a more serious turn, could increase further if the US president were to decide, likely in a few months, to extend the tariff increase to all Chinese imports. US manufacturers are voicing their concerns, in particular those firms that would be subject to retaliatory measures by China. Today, it seems increasingly likely that the trade war with China will escalate to this next phase. The risks to global trade are not likely to materialise in Q4, but rather over the course of 2019, in our view. The IMF is also worried and reduced its growth outlook for next year. We think three types of risk should be taken into account in this event: the risks that growth will slow, that inflation will rise, and that corporate earnings will decrease.

Graph sources: Bloomberg/BearBull Global Investments

Weaker outlook for yields

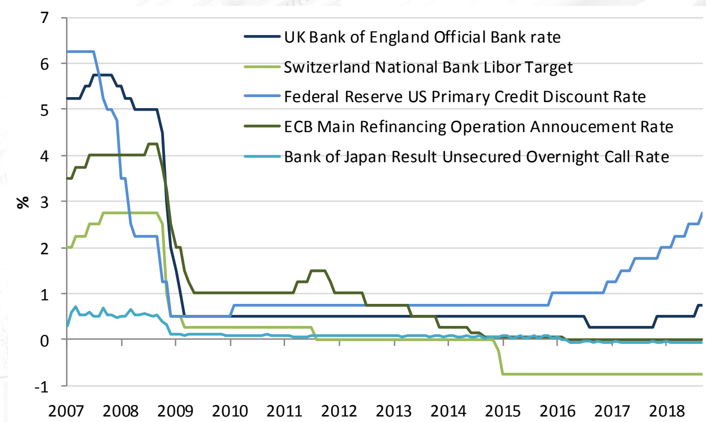
The economic context as this year comes to a close is positive and should thus not be the main source of uncertainty with regard to financial assets in the short term. We do not anticipate a recession or a significant economic slowdown, even in the light of the intensifying trade war mentioned above. However, we think that the yield potential and investment opportunities are somewhat weaker for most asset types. With regard to the bond market, the risks of rising interest rates are more evident and in particular more imminent. Thus, they are now having a more significant impact on the short-term outlook than several months ago, when ECB purchases, for instance, could push back to 2019 the risks of long-term rate adjustments in the Eurozone. Moreover, peripheral bond markets, which in the past few years had benefited from the repositioning of investors seeking returns, seem particularly risky today. The risk premium associated with high yield bonds in particular is close to that which prevailed when optimism was at hits highest in 2007 before the financial crisis broke out. US high yield appears to be surprisingly indifferent to the increase in US Treasury yields. However, the segment will likely see investors repositioning into risk-free or low-risk assets following the increase in 10-year US Treasury yields to above 3.2% for instance.

With regard to equity markets, the bull market is now in its tenth year, posting one of its strongest performances in decades. In the US, equity indexes have now risen more than in all other periods in which the Fed raised interest rates. And at +600%, the performance of the Nasdaq and of tech stocks is in line with the strongest bull markets of the past decades. Valuation measures such as PE ratios for this segment of the market as well as for equity markets more generally benefitted from an expansion phase as interest rates decreased. The upswing in rates will likely put an end to this phase and possibly lead to some initial PE contraction. Overall, corporate earnings are expected to rise by approximately +10% in 2019, which should help sustain a likely continuation of the positive trends in equity markets. However, risks are also increasing with regard to profit margins, which may suffer due to wage increases that might have to be granted given an increasingly tight labour market.

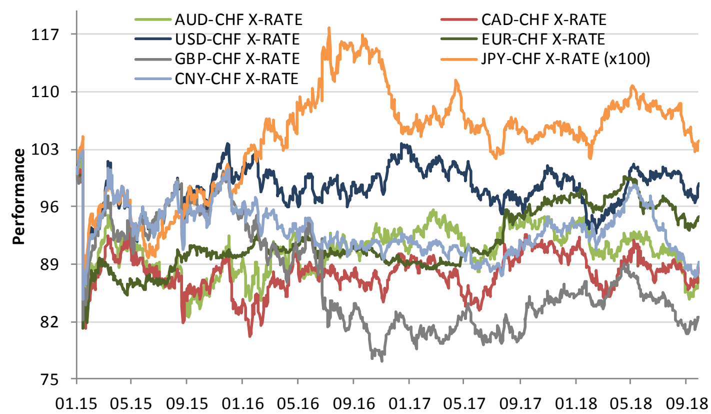
The upswing in interest rates is not likely to be substantial enough to significantly impact real estate prices. Investors' yield and diversification needs are still significant and will continue to favour real estate investments, but the potential for capital gains is shrinking, and expected returns could be limited to cash yields. Securitised real estate will not be able to dodge volatility, as it is not immune to the risk of a deterioration in financial and stock market conditions.

With regard to commodities, adjustments in supply and demand parameters usually work in favour of price increases over the following quarters. Oil prices, expected to rise in 2018, temporarily stabilised above $70/barrel, before continuing to increase. Industrial metals were disproportionately impacted by the trade tensions and the risks of a slowdown in China. Price corrections are providing investment opportunities. As for precious metals, a return of inflationary expectations is a necessary factor in terms of changing the outlook in favour of gold and silver.

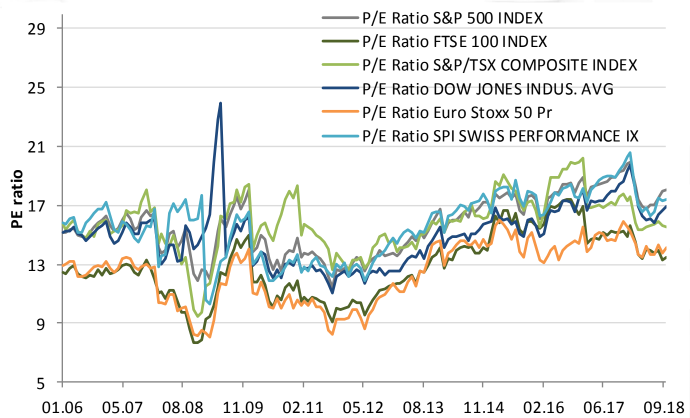
Central Bank rate (EUR, CHF, GBP, USD, JPY)



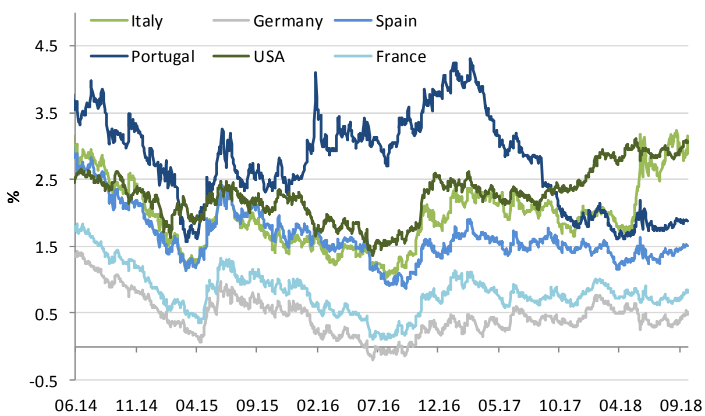
7 Major currencies against CHF (Normalized at 100)



Price/Earning Ratios in developed Markets



Government Bond yield (10 year)



Graph sources: Bloomberg/BearBull Global Investments

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MACROECONOMIC SCENARIO

Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Global Outlook

- US economy is doing well. Beware the adverse effects of tariffs
- More uncertainty for the Eurozone despite positive forecasts
- UK economy increasingly affected by Brexit uncertainty
- Bolstered economic conditions in Japan
- Virtuous circle in Switzerland

US economy is doing well. Beware the adverse effects of tariffs

After the rapid growth of GDP in Q2 (+4.2%), some are now wondering whether the US economy's long-term growth potential is not higher than before. The acceleration from +2.2% in Q1 to +4.2% is indeed remarkable, but it stems from policies whose impact should become less pronounced in 2019. Following less aggressive results in Q1, we had revised upward our outlook for H2, even though we thought it would likely be very challenging for the US economy to sustain a pace of growth exceeding +3% over the long term. The current economic cycle is indeed one of the longest we have seen, but it is still not presenting the classic signs of the end of a cycle (pressure on wages and inflation). The likelihood that the growth rate will exceed +3% is now higher, in particular because US consumers continue to buoy domestic demand and investment is bolstered by fiscal policy. Leading indicators for the manufacturing sector remain positive, but signs of weakness are visible in the service sector. Most indicators continue to point to a clear continuation of the economic expansion currently underway, but an increasing number of sectors are announcing a slowdown in the pace of expansion. The current situation thus seems slightly unstable, whereas certain elements appear to point to visible effects of the tariffs war initiated by the Trump administration. However, consumer confidence is at an 18-year high, and it would thus behoove us not to underestimate the impact of consumption on H2 GDP figures. The economy is strong and the main risk factor continues more than ever to be the showdown with China instigated by the US president. The intensification of the crisis between Washington and Beijing could well have even more significant effects and would end up having a considerable impact on US consumers by raising prices on consumer goods and diminishing consumers' purchasing power. Trump's strategy involves risks not only with regard to consumption but also to GDP growth, which do not yet seem to have been incorporated into the consensus forecast.

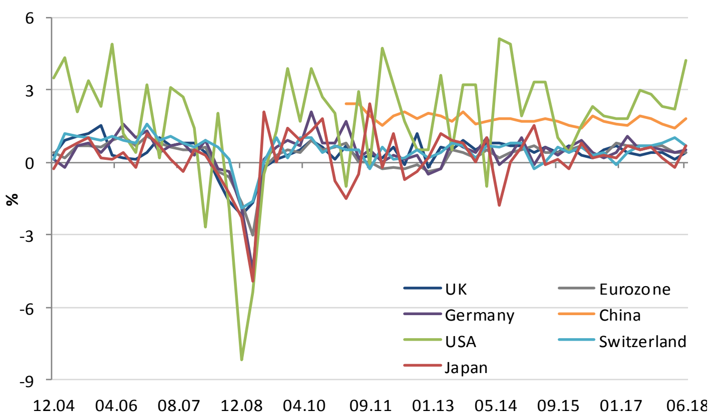
More uncertainty for the Eurozone despite positive forecasts

European GDP was impacted in Q2 by various factors that curbed the exceptional momentum seen in 2017. Since the beginning of the year, quarterly growth has stabilised at +0.4%, or +2.1% yoy, which is rather disappointing and well below US performance. The main contributors to GDP growth are still household consumption, corporate investment, public spending and inventory changes. In contrast, foreign trade penalised GDP growth, as exports grew less than imports. The strength of the euro was likely a key factor in the deterioration of the balance of trade that took place over the past few months.

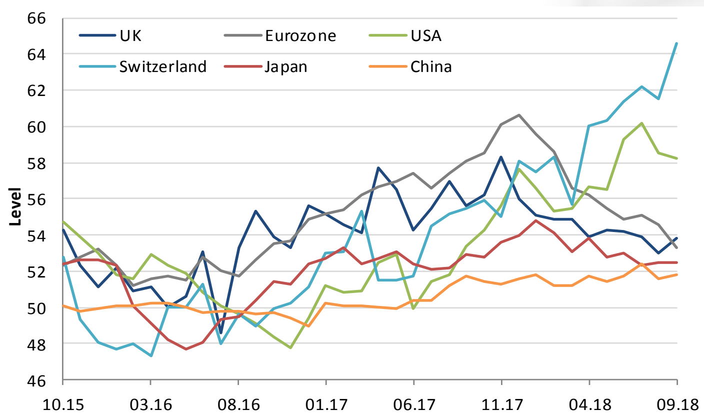
Nevertheless, it is conceivable that, despite the rising trade tensions between the EU and the US over the summer, the -10% correction of the euro from 1.24 to 1.14 against the dollar may have a positive impact on European exports going forward. However, in the short term it would seem that uncertainty continues to prevail, negatively affecting foreign demand. German growth remains a key component in terms of the positive performance of the European economy overall. The Eurozone's leading economy posted better results than any of the other 19 member states.

The relatively poor performances of France, Italy, and Ireland weighed on the overall results. Several months ago, we noted that we should remain positive but cautious with regard to economic forecasts for the Eurozone, given the significant deterioration of leading indicators and the emergence of new political risks. Even today, it is wise to remain cautious although the leading indicators fortunately remain positive, they have continued to decline and they still reveal no signs of pick-up in the pace of growth.

Quarterly GDP



Manufacturing PMI



Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

The growth forecasts for the Eurozone are thus much more uncertain today. At its last meeting, the ECB also announced in this context that it was revising its GDP growth outlook for 2018. The revision is minor, as the forecast decreased from +2.1% to +2%, or just 0.1% less growth than initially projected. The bank justified its decision based on the risks of a decrease in foreign demand, while noting that the risks affecting growth prospects could still be deemed balanced overall.

UK economy increasingly affected by Brexit uncertainty

Annualised GDP growth stabilised at +1.2% in June, a result similar to that posted in March 2018. The British economy thus continues to struggle and could rapidly find itself in an even more difficult situation, with no prospects of an upturn anytime soon. The latest figures for industrial production are not showing any improvement, as it progressed by only +1.1% (annualised), after having reached an expansion rate of +3% in March.

In the manufacturing sector, production is following the same trend and records a sharp drop which was not showing any sign of reversing. GDP growth was thus mainly supported by an increase in consumption (+0.4%). Fortunately, domestic demand can count on increasing consumption again, but if Brexit-related uncertainty ends up more significantly impacting consumer morale, consumers may decide to save a little more than usual and stop GDP growth. Thus, UK growth continues to lag behind, even though economic indicators are suggesting that the Q2 upswing is still on-going. The British economy is still on a decelerating trend, which could lead to a drop in overall growth to under +1.5% over the full year.

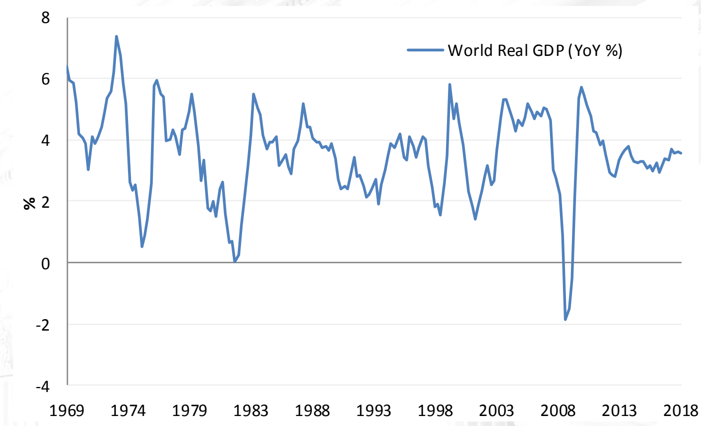
Just months away from the Brexit deadline and still without visibility on the potential outcome of the process, it is difficult not to consider the risks and damage to the economy that could arise if an agreement is not reached. The manufacturing PMI posted a relatively unexpected increase in September. The purchasing managers index progressed to 53.8 after declining for three months, which is a positive surprise. However, caution is advised in the current context, even though export orders were up slightly in September and industrial production increased significantly. Manufacturers remain cautious absent further visibility on the Brexit issue. Growth prospects for the British economy remain rather limited in the current environment. An upturn at the end of the year seems unlikely.

Bolstered economic conditions in Japan

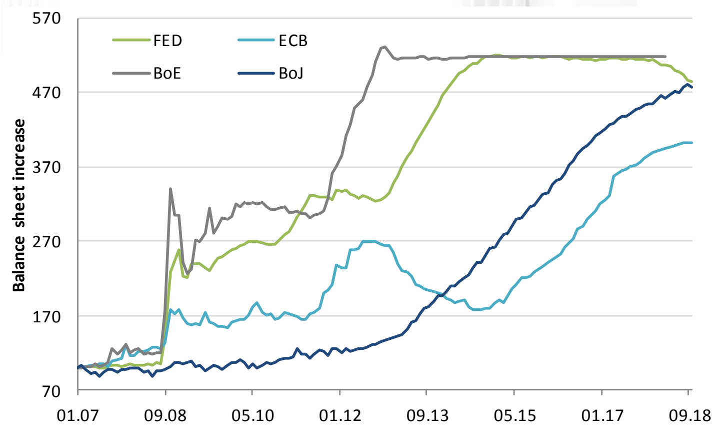
Japanese GDP recorded an unexpected (+3% at annual rate) and welcome surge after a weak Q1. Japan's economic performance was thus variable over the first half of 2018. One can thus legitimately wonder whether this latest growth spurt, which far exceeded expectations, will prove lasting or whether it is just a flash in the pan. The +0.7% growth rate in Q2, or +3% annualised, is the highest since the beginning of 2016. Few forecasters are thus likely to bet on a continuation of this elevated pace of growth for the entire year, especially since trade tensions between China and the US are intensifying and Japan is not immune to a possible decrease in economic activity in China and Asia.

We mentioned that the depreciation of the Japanese currency is likely to be the key factor in a potential upturn in the economy and the stock market, this one thus weakened appreciably in Q2 and then more significantly, reaching 115 yen to the dollar at the end of September, close to the high end of our forecast range of 110 to 115.

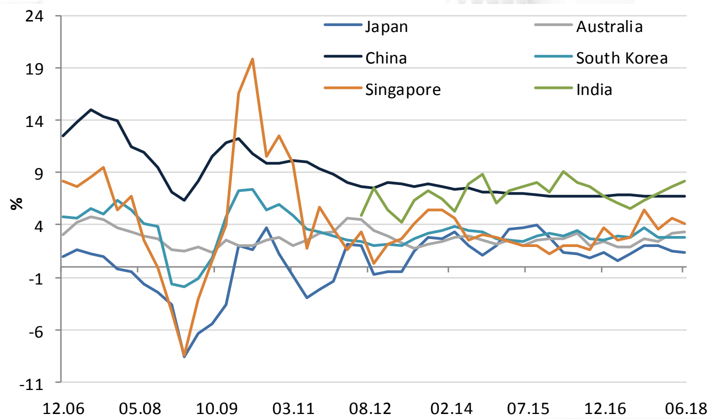
World Real GDP Growth



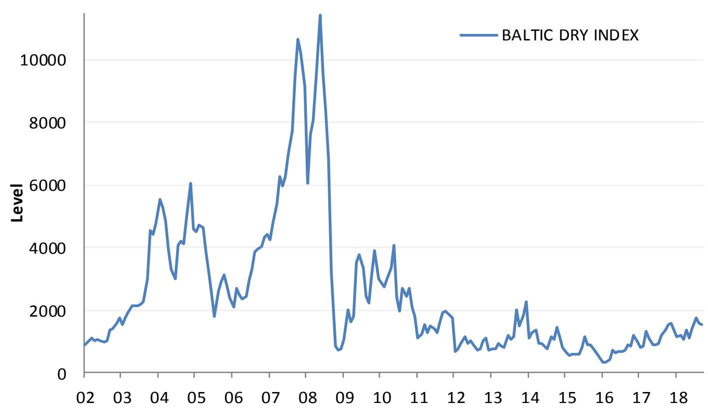
Balance sheet increase



GDP Growth rates in Asia



Baltic Dry Index



Graph sources: Bloomberg/BearBull Global Investments

However, the monetary factor is certainly not the only element supporting the more positive developments in GDP figures. Investment spending contributed favourably, progressing by +3.1%, a much higher rate than in Q1. This new trend is encouraging, as it also shows a positive evolution in industry confidence, despite leading indicators that are still not very optimistic.

The substantial rise in consumption may be the most interesting development in terms of the dynamics in place in Q2. Indeed, after having slowed down early this year, the contribution of private consumption, up +0.7%, was particularly noteworthy. Thus, as consumption represents approximately 60% of Japan's GDP, a lasting improvement in trends in this segment would have a significant impact on GDP growth in H2.

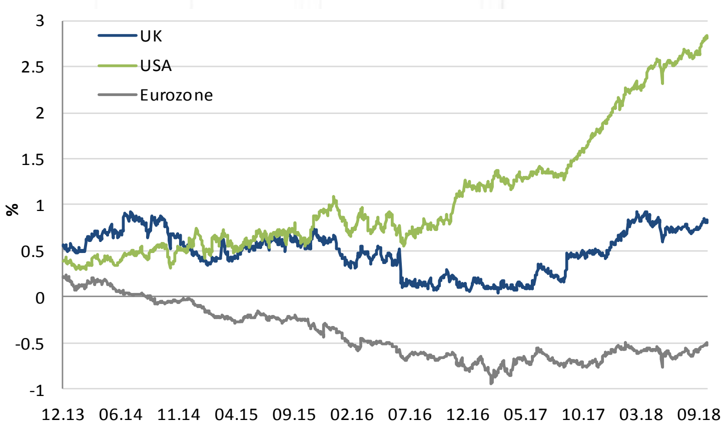
We believe it is quite likely that these positive trends in domestic demand will persist in H2. Household spending is expected to rise thanks to increases in wages. Initially, the yen's appreciation substantially dampened Japanese export growth but then the nearly -10% drop has strengthened the competitiveness of Japanese products and services, as indicated by the increase in overall exports (+6.6% in August) both to Asia (50% of exports) and to the US. The depreciation of the yen will likely continue and boost the upswing in the Japanese economy over the coming months. GDP growth should still benefit from an increase in external demand and a new dynamics of consumption.

Virtuous circle in Switzerland

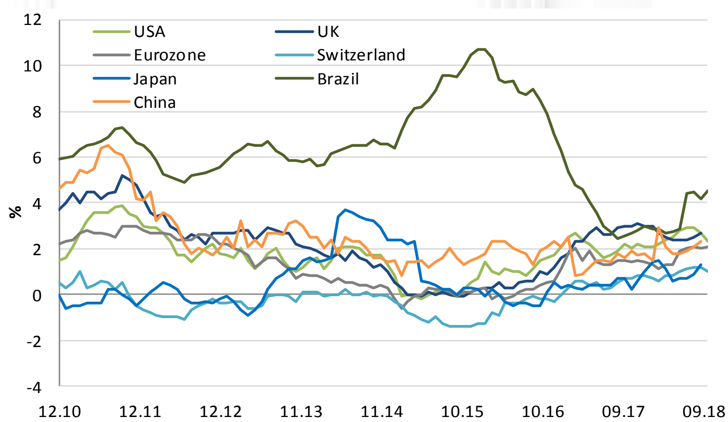
The latest GDP growth figures have been the strongest since 2010. The surprising +3.4% rise in Q2 marks the fifth consecutive quarter of above-average expansion. It was therefore quiet a surprise, as our economy now appears to be growing at a pace both clearly superior to its long-term trend and faster than that of the Eurozone countries (+2.1%). Even though this exceptional momentum will likely weaken in the next few quarters, the developments mentioned above are encouraging and will have a positive and significant impact on economic performance in 2018. In this context, SECO analysts have already revised 2018 expectations to +2.9%, a sharp increase from their previous forecast of +2.4%.

We expect current economic trends to persist, bolstered by solid global economic conditions and a weaker Swiss franc, leading to GDP growth of +3% for the year. Indeed, at the end of the year the Swiss economy will likely benefit from a combination of positive trends in industry, consumption, investment, and exports, which will help achieve these results. We continue to anticipate, in our main scenario, that the favourable economic conditions currently in place will persist and boost foreign trade over the next few months. Moreover, in spite of the recent strength of the franc against the dollar and the euro in particular, we expect that the average exchange rate will not penalise the competitiveness of Swiss exports, which should benefit more broadly from the global upturn. Swiss GDP could see growth of +3% in 2018 and +2.2% in 2019.

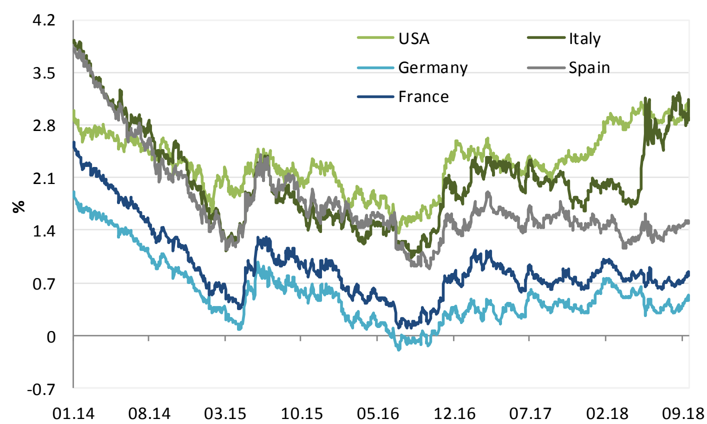
2-year Government Bond yield



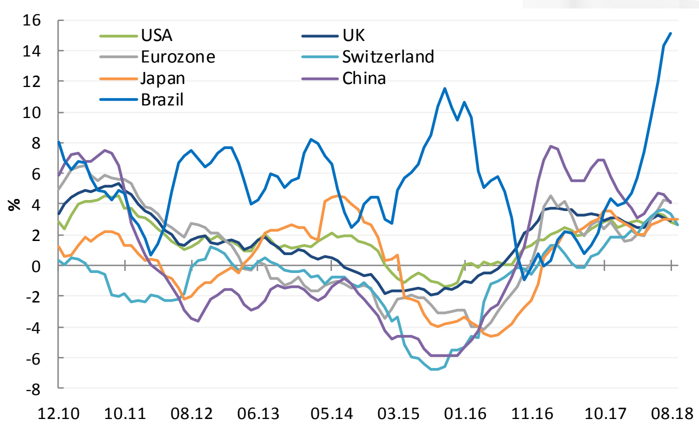
Inflation - CPI Indices



10-year Government Bond yield



Inflation - PPI Indices

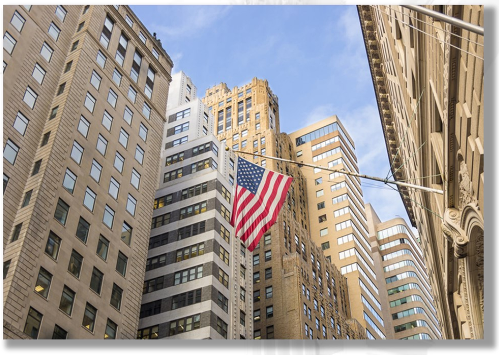


Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United States

- Eighth rate hike by the Fed, moving towards the 3.1% fed funds target for 2019
- Fed remains confident, not worried about inflation
- Growth will inevitably decelerate
- Trade tensions already affecting US foreign trade?
- Relative attractiveness of dollar decreases
- Keep an eye on profits and equity valuations



Eighth rate hike by the Fed, moving towards the 3.1% fed funds target for 2019

At its last meeting, the FOMC unanimously decided to raise rates by 0.25%. The fed funds rate hike was expected and did not have any major impact on financial markets. The Federal Reserve thus increased its rates for the eighth time in a process described, since the beginning, as rate normalisation and not monetary tightening. Until this last hike, the US central bank was still regularly using the term ‘accommodating’ to describe its monetary policy. However, this time the bank aimed to send a new signal, without actually precisely characterising the state of its monetary policy.

Thus, the Fed is conveying increasingly clearly that the normalisation process is well underway and that rates are gradually nearing the levels expected given the current growth context. The bank still seems to be committed to managing monetary policy with a steady hand, minimising any risk to current economic growth to avoid stoking concerns of excessive action.

Current economic conditions are thus benefitting from a convergence of positive factors, which could sustain GDP growth above its normal capacity for several more quarters. Thus, the current normalisation could lead to another rate hike before the end of the year, followed by two further increases in 2019.

The fed funds rate should thus have reached 2.4% by the end of 2018, 3.1% by the end of 2019, and 3.4% in 2020.

This decision was generally expected and thus did not surprise the markets. Hence it is unlikely to have any major impact on the investment climate.

The Fed will be particularly attentive to risks of derailment of current growth trends and to the knock-on effects of tougher foreign trade conditions. In this context, we believe that the Fed is unlikely to overreact to potential accelerations of inflation or economic growth.

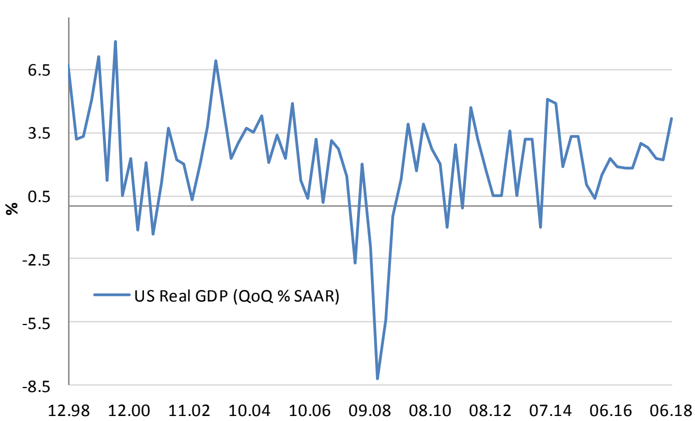
The Fed remains confident, not worried about inflation

The Federal Reserve further raised its GDP growth outlook from +2.8% to +3.1% in 2018 and from +2.4% to +2.5% for 2019, without significantly changing its assessment of current and future economic conditions, however. US growth is still considered strong, in particular following the release of Q2 figures.

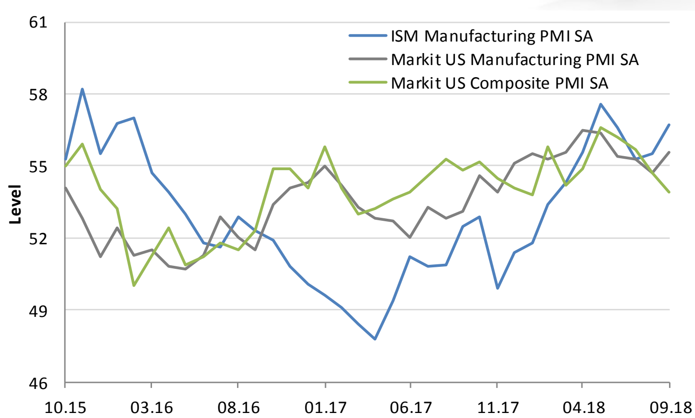
No change in the inflation outlook either. According to the Fed, the strength of the job market is unlikely to have a major impact on inflation, which is now deemed to be nearing its target. However, an increase of inflation above the 2% target is considered likely in the short term and probably acceptable, as it is unlikely to spiral up further.

Monetary policy is thus in a phase of normalisation, in a context of historically low unemployment. For now, the labour force participation rate is not increasing, and if the current full employment situation were to lead to a decline in growth to below its potential, the Fed could be inclined to slow its rate normalisation process in 2019.

Quarterly US Real GDP Growth

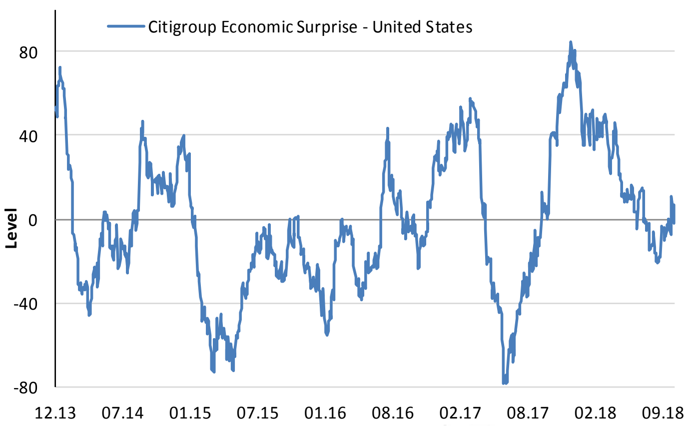


PMI Indices

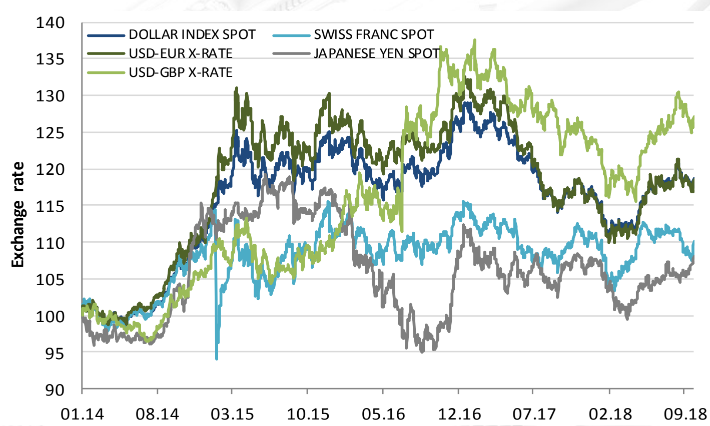


Graph sources: Bloomberg/BearBull Global Investments

Citigroup economic surprise index USA



Dollar trade-weighted index and currencies



Growth will inevitably decelerate

After the rapid growth of real GDP in Q2 (+4.2%), some are now wondering whether the US economy's long-term growth potential is not higher than before. The acceleration from +2.2% in Q1 to +4.2% is indeed remarkable, but it stems from policies whose impact should become less pronounced in 2019. Following less aggressive results in Q1, we had revised upward our outlook for H2, even though we thought it would likely be very challenging for the US economy to sustain a pace of growth exceeding +3% over the long term. The current economic cycle is indeed one of the longest we have seen, but it is still not presenting the classic signs of the end of a cycle (pressure on wages and inflation).

The likelihood that the growth rate will exceed +3% is now higher, in particular because US consumers continue to buoy domestic demand and investment is bolstered by fiscal policy.

Leading indicators are ambiguous, but consumer confidence it sky high

Leading indicators for the manufacturing sector remain positive, but signs of weakness are visible in the service sector.
The manufacturing PMI had in fact declined in Q3, partially offset by an increase to 55.6 in September. With regard to the manufacturing ISM index, the signal is more positive, as the index remains at a 20-year high and is not showing signs of potential weakness stemming from Hurricane Florence or the trade tensions.

The services PMI is painting a less positive picture of the next few months, following a sharp drop between May and September (from 56.8 to 52.9). Most indicators continue to point to a clear continuation of the economic expansion currently underway, but an increasing number of sectors are announcing a slowdown in the pace of expansion. The current situation thus seems slightly unstable, while certain elements appear to point to visible effects of the tariffs war initiated by the Trump administration.

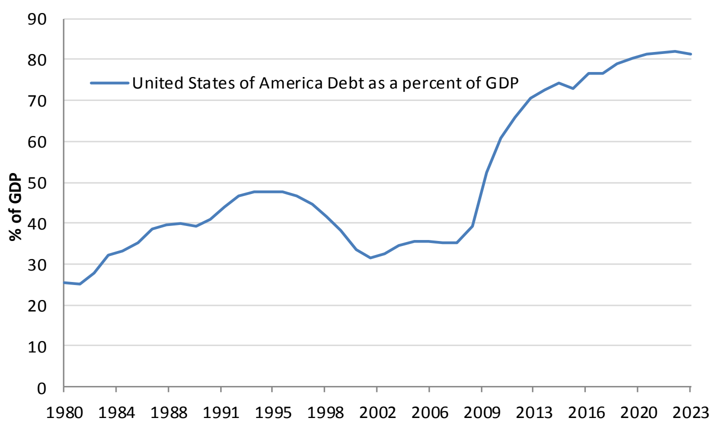
However, consumer confidence is at an 18-year high, and it would thus behoove us not to underestimate the impact of consumption on H2 GDP figures.

Are trade tensions already affecting US foreign trade?

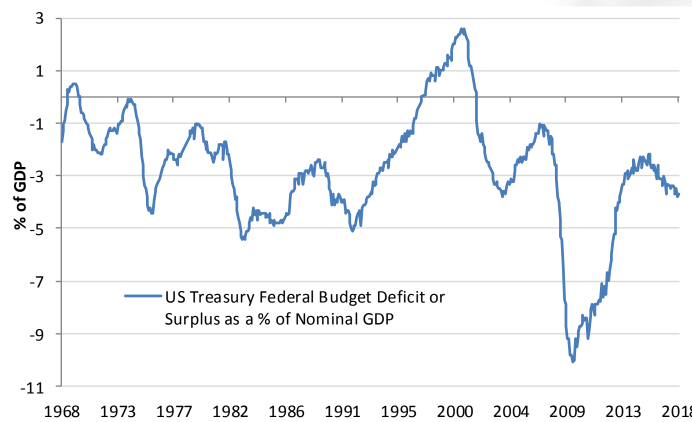
As we have mentioned numerous times, the main risk factor with regard to the US economy continues more than ever to be the showdown with China instigated by the US president. The latest available foreign trade figures show that the trade deficit, contrary to expectations, actually grew to 75.8 billion dollars in August, its worst showing in the past six months.

The decrease in food, industrial materials, and vehicle exports was cited by the Department of Commerce as the main contributor to this decline. The DHL Global Trade Barometer also fell to its lowest level since 2016, indicating a deterioration in international trade over the next few months. In the meantime, the WTO also downgraded its outlook for world trade.

Debt (% GDP)

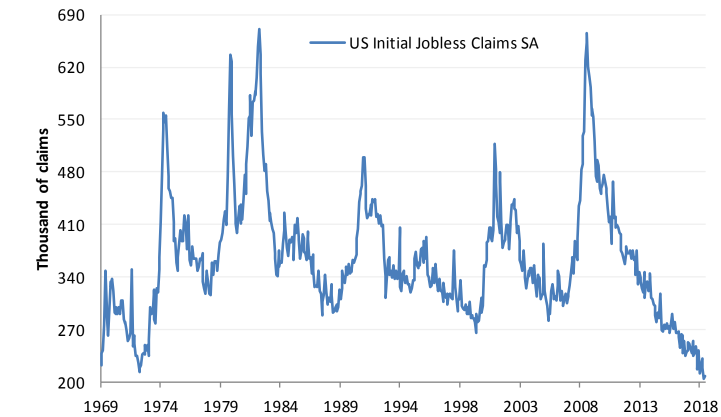


Deficit/Surplus

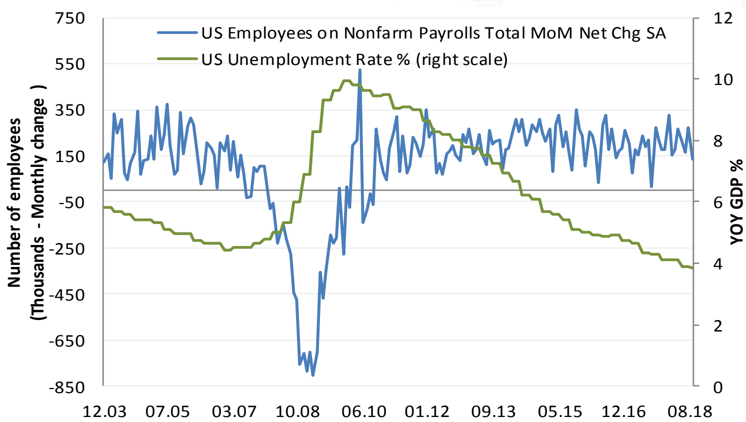


Graph sources: Bloomberg/BearBull Global Investments

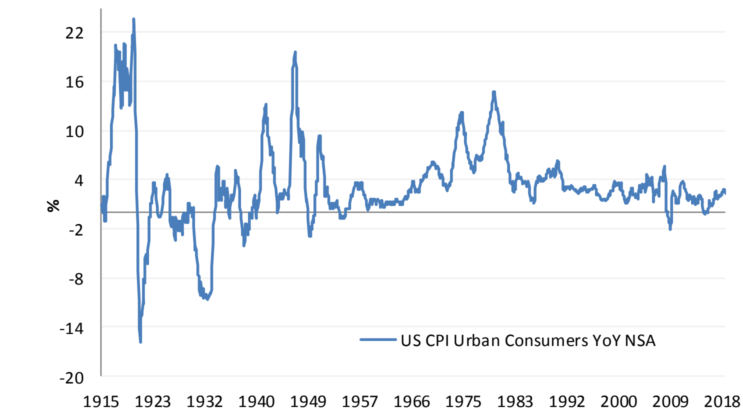
US Jobless Claims



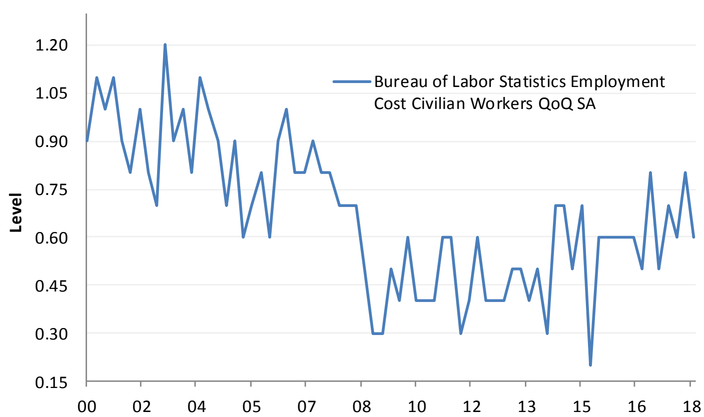
Non-farm Payrolls (MoM) and Unemployment rate



US Inflation (1914-2018)



Employment Cost Index



Graph sources: Bloomberg/BearBull Global Investments

The intensification of the crisis between Washington and Beijing could well have even more significant effects at the beginning of 2019, should all the measures proposed by President Trump ultimately be implemented. Recall that the first phase in the showdown targeted 50 billion dollars in imports from China, of which only a small portion impacted US consumers.

The second wave of tariffs, introduced a few weeks ago, targets an additional 200 billion in imports, of which a substantial portion will impact consumers. Trump announced that, if China was not more conciliatory after this second wave of tariffs, he would extend tariffs to all Chinese imports and would reserve the right to increase the additional tariffs by 10% to 25%, a move which would end up having a considerable impact on US consumers by raising prices on consumer goods and diminishing consumers' purchasing power.

Trump's strategy involves risks not only with regard to consumption but also to GDP growth, which do not yet seem to have been incorporated into the consensus forecast.

Slight pressure expected on long-term rates

Unexpectedly, the pace of inflation dropped slightly, slipping from +2.9% in July to +2.7% in August. In parallel, inflationary expectations also fell somewhat from +3% to +2.8% yoy. As for the longer term, the expected inflation rate over 5-10 years declined from +2.6% to +2.4%. The production capacity utilisation rate remains high (78%), while unemployment lingers at 3.9%, likely its quasi full employment rate.

The next upswing in inflation should subsequently be bolstered by pressure in the job market, which seems to be slow to materialise, even though the market is nearing full employment. Amazon's recent decision to raise the minimum hourly wage of its employees by +20% may be one of the first signs that businesses are struggling to find employees at this point in the cycle, which may herald the trend mentioned above. The increase in the hourly wage rate, up +2.9% in August, is thus somewhat troubling and, in our view, supersedes the risks of a surprise upswing in inflation.

As predicted, long-term rates increased to 3%, and we currently believe that they are likely to exceed this level eventually. Inflation, likely the main catalyst of the increase, is currently not high enough to trigger a further increase in 10-year rates. However, in the slightly longer term, the growth in budget deficits or a change in China's attitude toward financing the US deficit could contribute to a rise in long-term rates. The latter should increase to somewhere between 3% and 3.5% in the medium term.

Relative attractiveness of the dollar decreases

Policies carried out have been favourable to dollar denominated investments and to inflows into the US. The dollar is still benefitting from rather attractive yield spreads with respect to most currencies. However, we are approaching an inflection point in interest rates that could be less favourable to the dollar. By 2019, yield spreads will likely shrink due to rising interest rates in the Eurozone and in other developed and developing countries.

In the meantime, funds could once again start to flow into impaired emerging market assets and into the Eurozone, whose equity markets are attractively valued. We maintain our bullish forecast with regard to the dollar/Swiss franc exchange rate, which could reach 1 to 1.05 francs. The US currency will likely very gradually lose some of its sheen compared to the euro and to emerging market currencies, as the stock market climate improves at the end of the year.

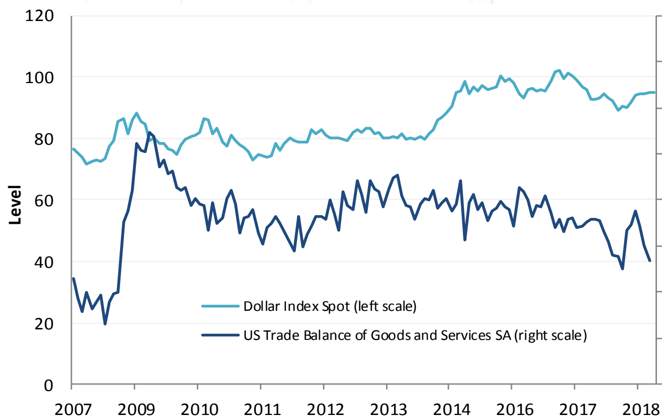
Keep an eye on profits and equity valuations

US corporate earnings grew by 65 billion dollars in Q2, a substantial increase compared to the 26.7 billion posted in Q1. Financial firms posted earnings of 16.5 billion dollars following a loss of 9.3 billion in Q1. The earnings growth of non-financial firms jumped from 32.3 billion to 53 billion dollars within a single quarter. The earnings growth of firms in the S&P500 certainly helped drive the index up. However, while tariffs are being implemented left and right, it is important to note that US firms are not immune to the risks caused by this showdown.

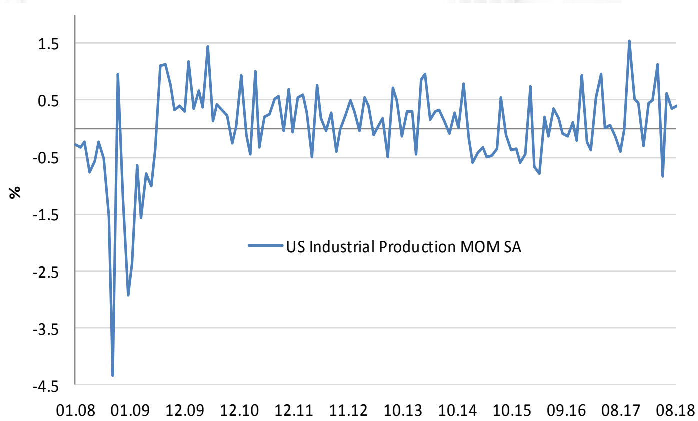
Indeed, we estimate that a 25% increase in tariffs on Chinese goods would have an impact of -7% on US corporate earnings. Assuming stable PE ratios, corporate earnings growth would be 0% in 2019, a scenario that does not seem to be incorporated into share prices at all. If we assume that, when interest rates are rising, PE ratios have a tendency to contract, then a -10% drop in the PE of the S&P500, namely from 18x to 16.2x, could cause a drop in the index of over -10%.

In this context, the risks with regard to the US market are not nil. However, in the short term, we are giving current trends the benefit of the doubt, while recommending that investors become increasingly attentive to potential risks of disappointment with regard to corporate earnings announcements and the introduction of tariffs.

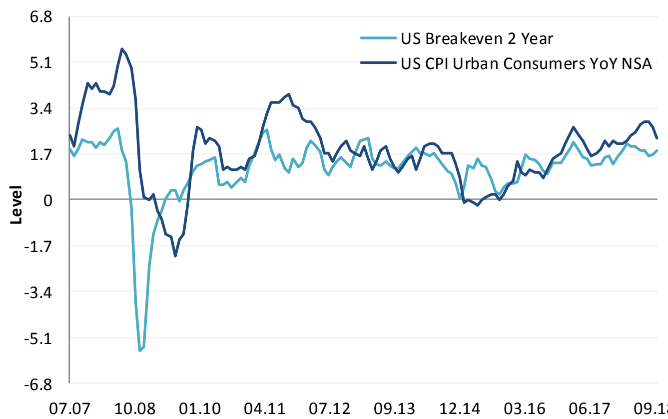
US Trade Balance of Goods and Services



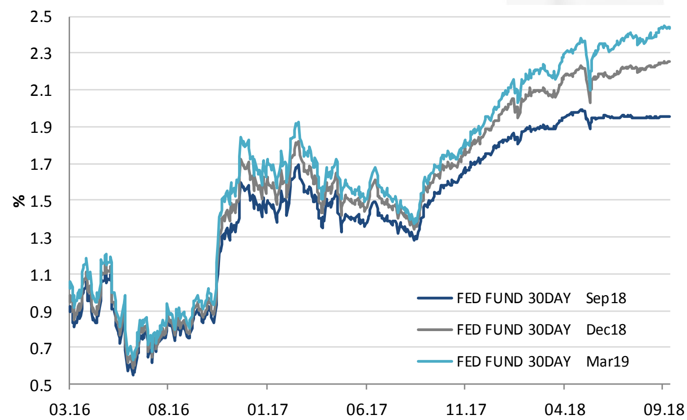
US Industrial Production



US Expected Inflation and CPI

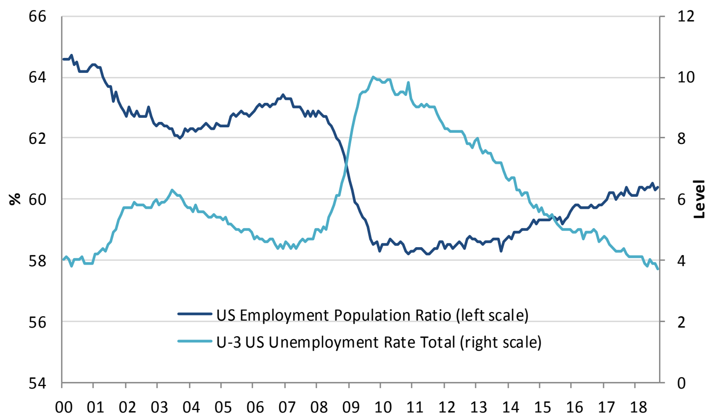


Fed Funds Futures

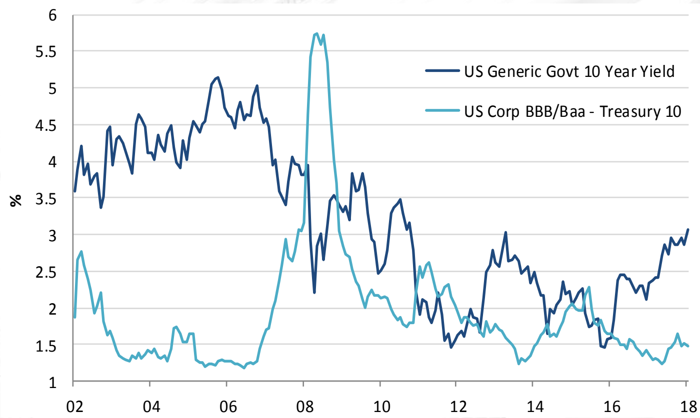


Graph sources: Bloomberg/BearBull Global Investments

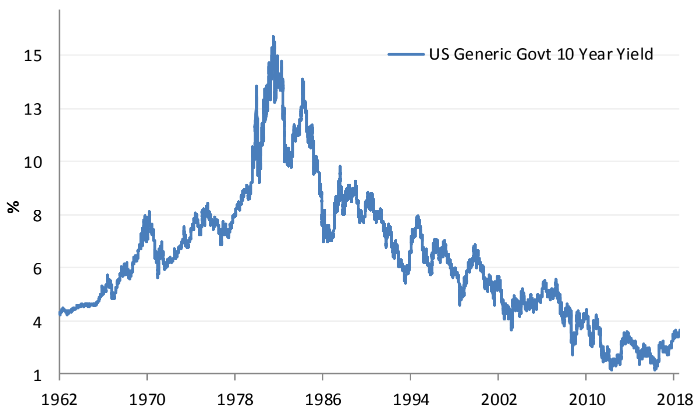
US Unemployment rate and Employment Population Ratio



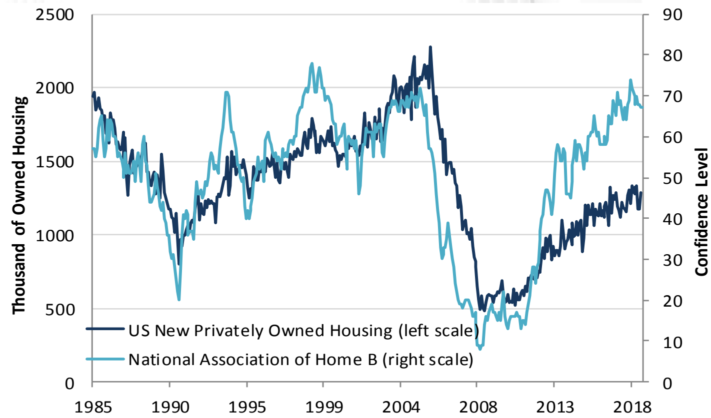
Yield spread Us Treasury - BBB 10 year



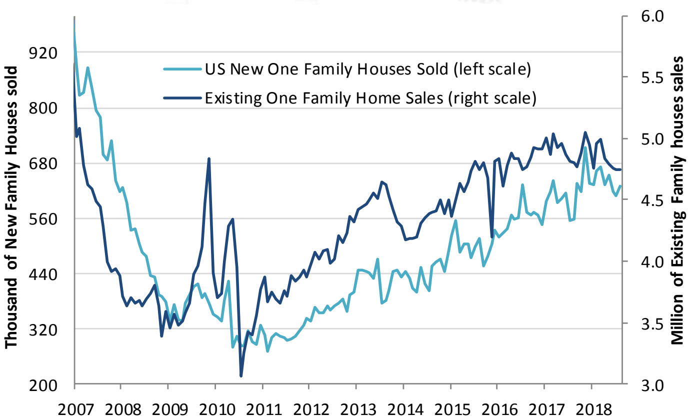
US Government Bonds 10 year yield



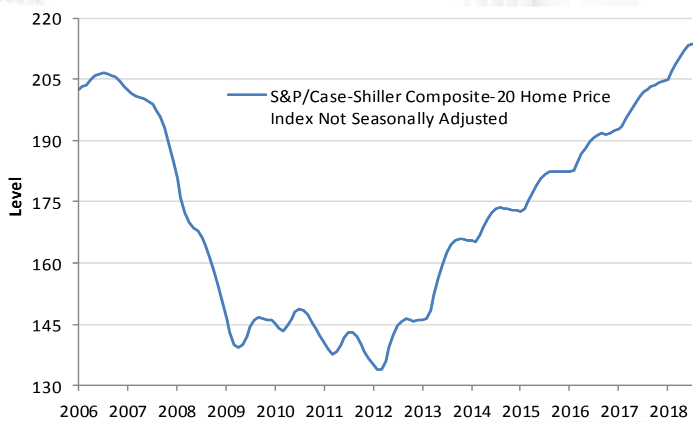
US New Privately Owned Housing and NAHB USA



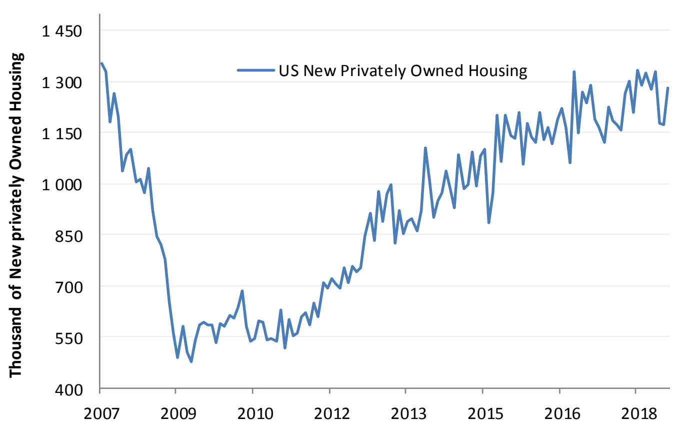
Sale of US New and Existing Family Houses



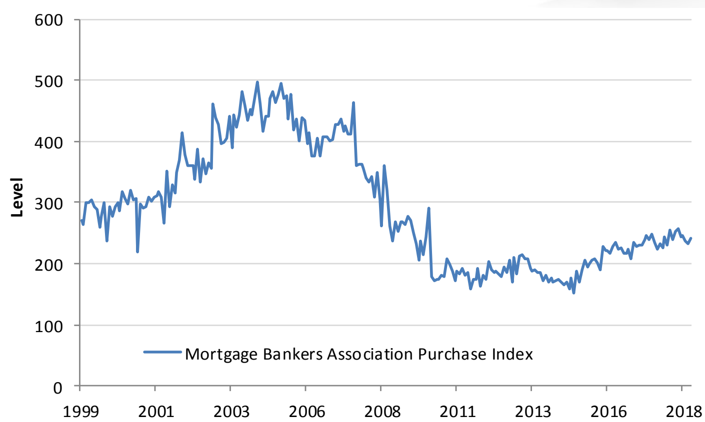
Real Estate Prices - S&P Case-Shiller Index



Housing Starts



New Mortgage Applications - MBA



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Switzerland

- GDP growth exceeds +3% in 2018
- Switzerland not immune to the risks of a trade war
- Foreign trade expected to expand
- Swiss franc temporarily stronger due to acceleration of growth
- Yield curve is steepening

Exceptional and unexpected economic upturn in Switzerland in Q2

The State Secretariat for Economic Affairs (SECO) published domestic growth figures that surprised observers and highlighted the exceptional upturn in economic activity in Q2 2018. Indeed, real GDP posted a notable further increase of +0.7% in Q2 2018, bringing growth to +3.4% yoy. These results are quite remarkable and constitute the country's best economic performance since 2010 as well as the fifth consecutive above-average quarterly expansion.

Switzerland's nominal GDP clocked in at CHF 172.8 billion in Q2, namely almost CHF 6 billion more than for the same period in 2017 (CHF 166.3 billion).

The Swiss economy thus not only confirmed the strong results of the past several quarters but clearly surprised economists, who were expecting much lower growth of around +2.4%.

It was indeed quite the surprise, as our economy now appears to be growing at a pace both clearly superior to its long-term trend and faster than that of the Eurozone countries (+2.1%).

GDP growth could exceed +3% in 2018

Even though this exceptional momentum will likely weaken in the next few quarters, the developments mentioned above are encouraging and will have a positive and significant impact on economic performance in 2018. In this context, SECO analysts have already revised 2018 expectations to +2.9%, a sharp increase from their previous forecast of +2.4%.

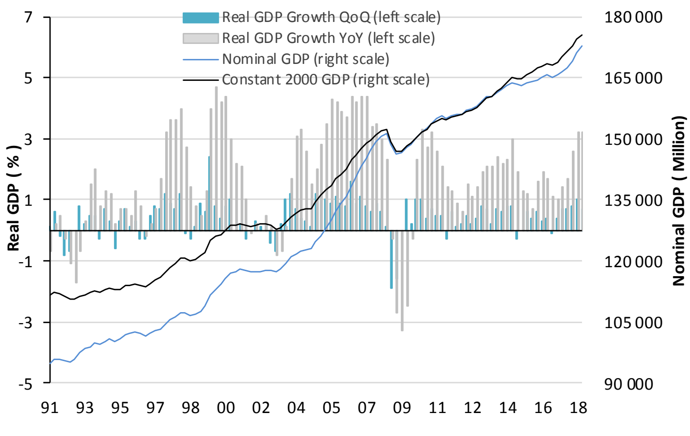
As Q3 comes to a close, we expect current economic trends to persist, bolstered by solid global economic conditions, leading to GDP growth of +3% for the year. Indeed, at the end of the year the Swiss economy will likely benefit from a combination of positive trends in industry, consumption, investment, and exports, which will help achieve these results.

We continue to anticipate, in our main scenario, that the favourable economic conditions currently in place will persist and boost foreign trade over the next few months. Moreover, in spite of the recent strength of the franc against the dollar and the euro in particular, we expect that the average exchange rate will not penalise the competitiveness of Swiss exports, which should benefit more broadly from the global upturn. Swiss GDP could see growth of +3% in 2018 and +2.2% in 2019.

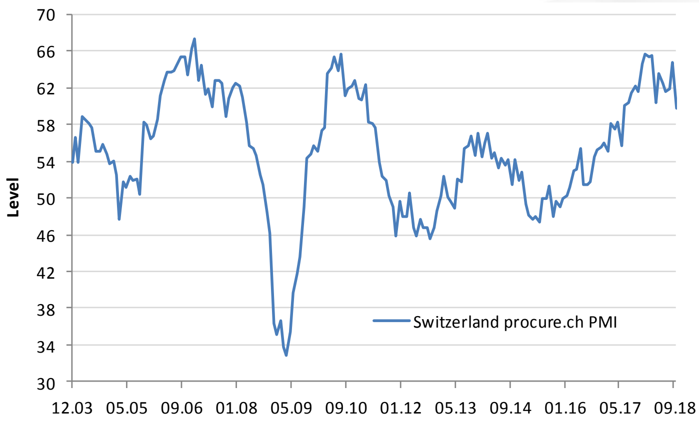
Strong momentum in Q2: +0.7%

Real GDP further expanded by a notable +0.7% in Q2. Three years after the change in the SNB's monetary policy and the shock of the dramatic appreciation of the Swiss franc, our country is experiencing a particularly prosperous period on the economic front, involving all business sectors. The manufacturing industry (+1.5%) was the strongest contributor to GDP growth, thanks to favourable trends in external demand. The energy sector had an exceptional quarter, and momentum in the construction sector (+0.8%) accelerated once again. A healthy job market and an unemployment rate at a 10-year low certainly contributed to the positive trend in consumption, whose +0.3% growth rate was nevertheless slightly below average.

Nominal GDP - Nominal and Real GDP Growth rate

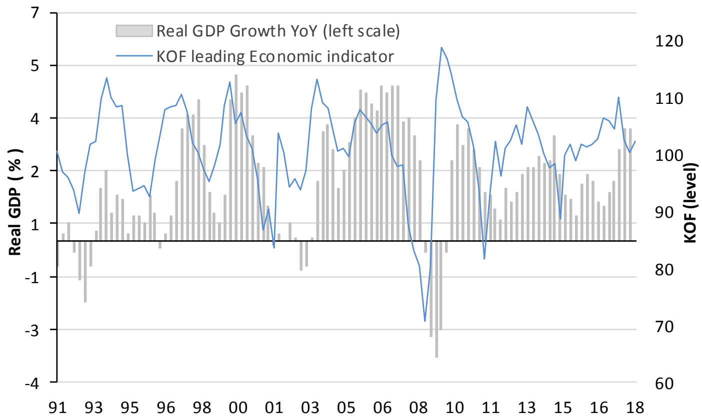


Swiss Purchasing Manager Index (PMI)

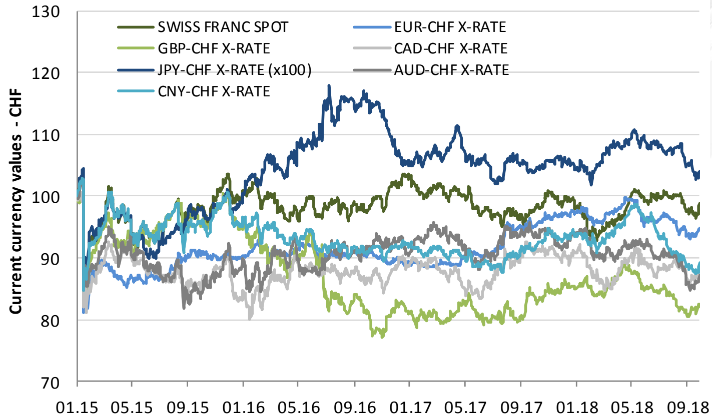


Graph sources: Bloomberg/BearBull Global Investments

Real GDP Growth YoY - KOF leading economic indicator



CHF Exchange rate (Normalized at 100)



Final domestic demand ended up being somewhat less dynamic. Investment in capital goods declined slightly (-0.3%), admittedly following several quarters of sustained growth. With regard to services, the leisure sector surged up +10.1%, while hotels and restaurants (+1.4%) also posted positive results, besting the healthcare sector (+0.5%). Exports of goods contributed once again very positively to GDP growth, after two relatively lacklustre quarters, with an above average increase of +2.6%. Having withstood the appreciation of the franc, the Swiss economy is now benefitting from the normalisation of the exchange rate.

Switzerland not immune to the risks of a trade war between Beijing and Washington

Rising tensions with regard to international trade are still the main risk for the Swiss economy. Order books are full, bolstering the outlook for the manufacturing sector. In parallel, the consumption climate is improving, which should also boost domestic demand. The risks that could threaten and call into question the positive outlook for the Swiss economy today are in our view primarily related to a significant change in the outlook for global growth resulting from an intensification of the risks of a protracted trade war. Switzerland is not a direct target of the actions of the US president, who is primarily going after China. However, a lasting crisis between Beijing and Washington would inevitably affect investors' perceptions and their outlook on global economic growth. An escalation of tariff hikes between the two powers would have repercussions on trade levels, inflation, and consumption. The risks of an economic slowdown at this point in the economic cycle could thus significantly affect the global outlook, and hence Swiss exports in particular. In the current context, even if it is certainly not clear that the worst will come to pass, it must be acknowledged that the crisis is more likely to intensify than to be resolved over the next few months. The risks for the Swiss economy are thus above all tied to how the negotiations between the two partners progress.

We believe that resolving the tensions is of course desirable and rational. However, at this stage we do not exclude the possibility that the situation will deteriorate prior to that, calling into question the outlook for Swiss GDP in 2019.

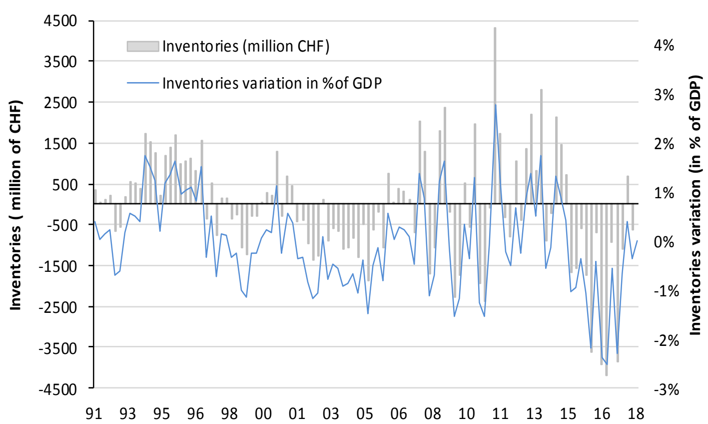
Leading indicators pointing toward growth in the manufacturing sector

The KOF index has continued to decline since its November 2017 high (110.3), which had marked the highest degree of optimism since 2010, coming in at 100.3 in August. The manufacturing PMI index confirms the significant upturn in the industry, nearly reaching (64.8) its 10-year high (65.6). The new orders index underscores the excellent outlook for the next few months, progressing from 61.9 to 67.6. With regard to services, the leading indicator decreased from 63.9 to 58.2, suggesting a loss of momentum in the sector, which seems to be affecting the level of activity as well as new orders, sales, and prices. Three years after the SNB abandoned its exchange rate floor, the manufacturing sector is thus once again doing well, but given the risks mentioned above, caution is advised, and a decrease in the intensity of activity in the next several months is to be expected.

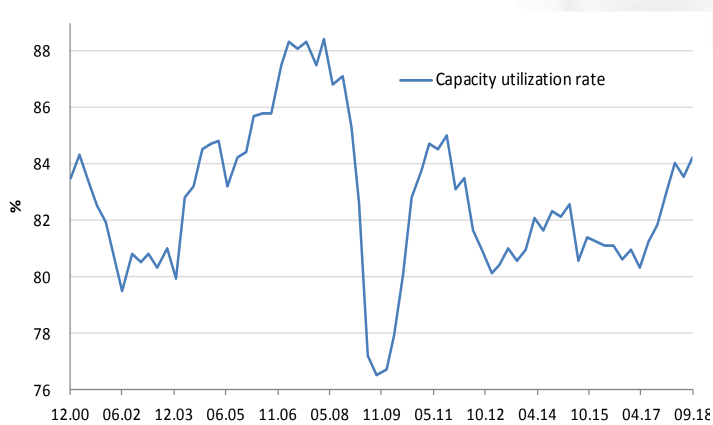
Upswing in confidence to boost private consumption

The unemployment rate in Switzerland has remained stable (2.4%) for several months, even as economic activity is intensifying and as Swiss businesses are announcing plans to hire more staff. Pressures are likely to materialise in the job market, which would perhaps finally result in an increase in nominal wages. These are positive factors in terms of household confidence in our country and especially with regard to consumption, which remains a significant component of GDP. The trend in private consumption will thus likely continue to be favourable, boosting GDP. Public consumption spending will remain volatile in 2018, but the federal government's and cantons' budgets are reasonably solid, and the debt-to-GDP ratio (34%) is low by international comparison, which provides some leeway for public spending to contribute positively to GDP.

Inventories - variation in % of GDP



Capacity utilization rate



Graph sources: Bloomberg/BearBull Global Investments

Foreign trade expected to expand

Since its January 2017 high, the monthly foreign trade surplus (2.13 in August) stabilised between CHF 2 and 3 billion, without showing clear signs of an increase for now. However, we expect that the improvement in global economic conditions and a weaker franc are likely to finally bring about an upswing in exports. The watchmaking sector, however, is growing at a somewhat slower pace, with exports up +5.5% yoy in August. Overall, after two rather more difficult quarters, exports of goods were back up by +2.6%. This trend will likely strengthen over the next few months, boosting GDP growth.

Swiss franc temporarily stronger due to acceleration of growth

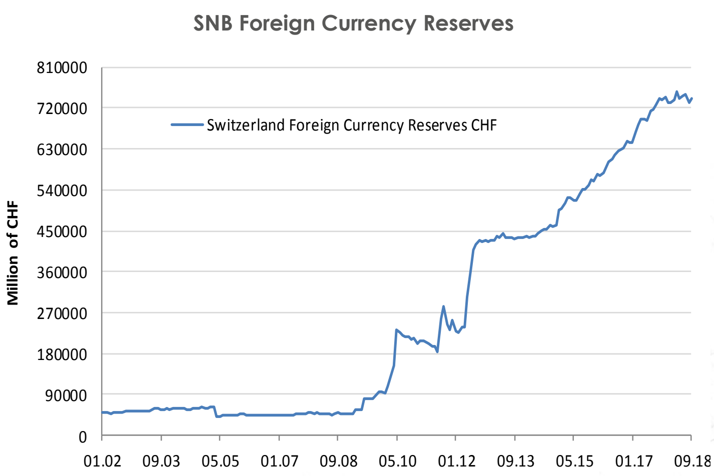
Our long-term forecast in January 2015 for a return to a EUR/CHF exchange rate of 1.20 came true on 20 April 2018. We mentioned at the time that a push of the euro to 1.20 was likely in the long term, though certainly not tenable in the short term. Following the strong appreciation of the European currency, we were expecting a period of consolidation, before any upward trend in the exchange rate against the Swiss franc could materialise. The correction of the past few months occurred in an uncertain political context in the Eurozone, which led to an appreciation of the Swiss franc initially expected to be temporary. Given the particularly favourable economic conditions currently in place in our country, we consider that the GDP growth differential is for now favourable to the franc. It would thus now be imperative for economic growth in the Eurozone to be significantly higher than what it is currently to envisage a new phase of weakness of the franc. The interest rate spread between the franc and the euro has not changed significantly, and we continue to expect that the SNB will not increase its policy rates as fast as the ECB. In the meantime, the exchange rate will likely stabilise between 1.12 and 1.17 against the euro, as will the SNB's currency reserves, which decreased from 757 billion to 730.9 billion only because of the franc's appreciation.

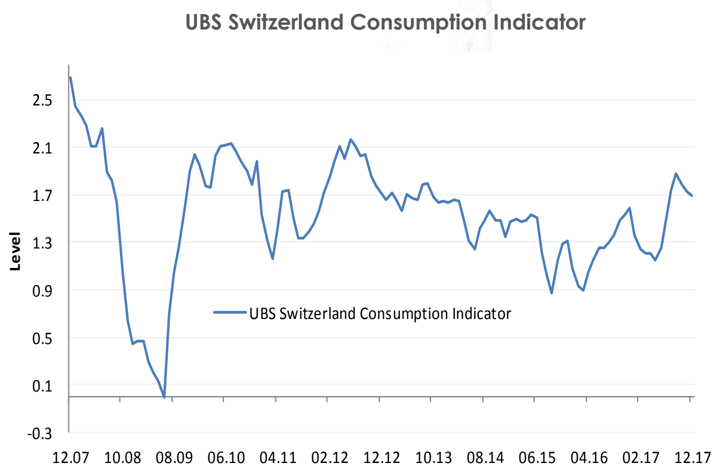
Yield curve is steepening

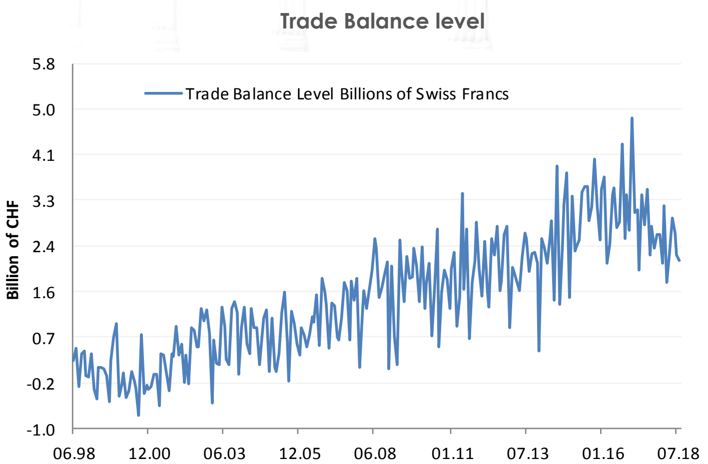
The normalisation of long-term rates in Switzerland started in summer 2016, but that first phase of adjustment rapidly stabilised at 0% for 10 -year government bond rates. The acceleration of the pace of GDP growth and the increase in inflation in Switzerland to over 1.3% yoy now indicate a more sensible normalisation of long-term rates. Last quarter we predicted the end of micromovements in long-term rates and an acceleration of the interest rate normalisation process, which now seems to be under way. Consequently, the yield curve will likely steepen further in 2019, as the SNB's monetary policy will remain unchanged and will maintain higher yields on the short end. The upward trend in Swiss long-term rates will thus likely strengthen slightly, while the yield spread with regard to German long-term rates should increase, due in particular to stronger economic momentum in Europe and to the scheduled termination of the ECB's bond-buying programme.

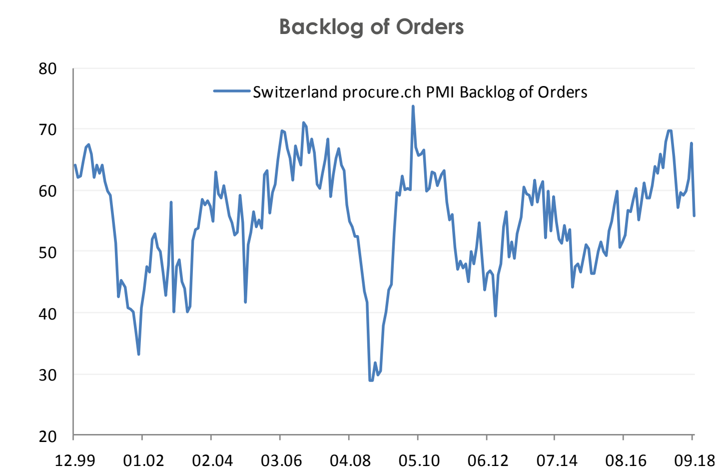
Bullish trend in Swiss equities continues

Following the drop in the equity markets in Q1, we noted that Swiss equities offered buying opportunities to long-term investors, while not excluding the possibility that volatility could persist for a while longer. Indeed, the price drop had significantly reduced market risk by correcting valuation levels. Since then, Swiss equities have posted an increase of about +6%, climbing back up to the 11,000 level on the SPI. The Swiss market's current PE of 15x expected 2019 earnings does not seem excessive. However, in the short term, the franc's appreciation is weighing on SPI share prices. Corporate earnings growth is unlikely to be affected by the recent exchange rate movements but should instead benefit from a favourable domestic and international environment. In 2018, Swiss corporate earnings are thus likely to reach new records, while average dividend yields remain high (3%), both by historical comparison and compared to bond yields. The bullish trend in Swiss equities will likely continue at a slower pace over the fourth quarter, unless the key risks mentioned above of an all-out trade war come to revive the threat of a recession, although the latter seems rather unlikely at this point.



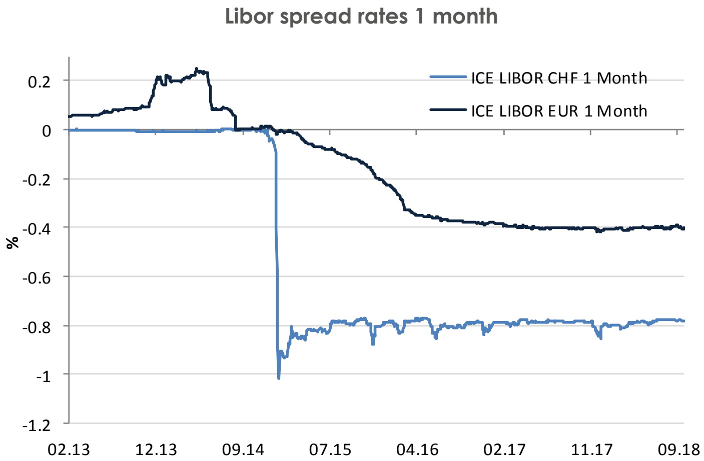


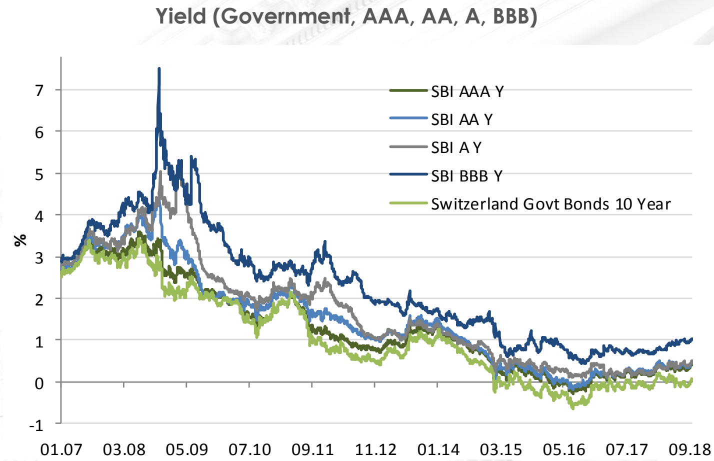


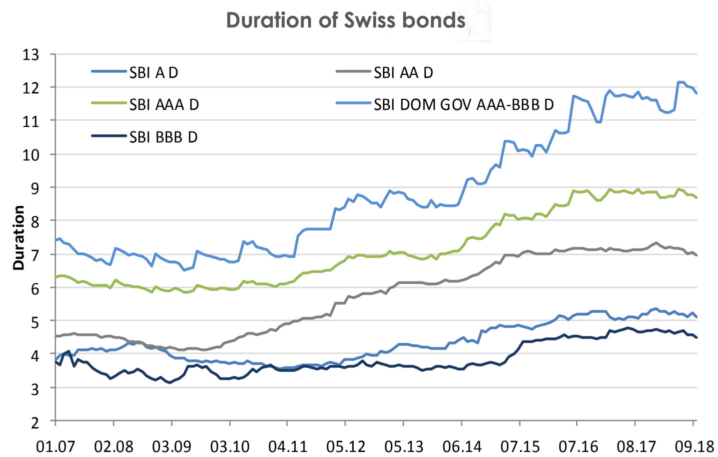


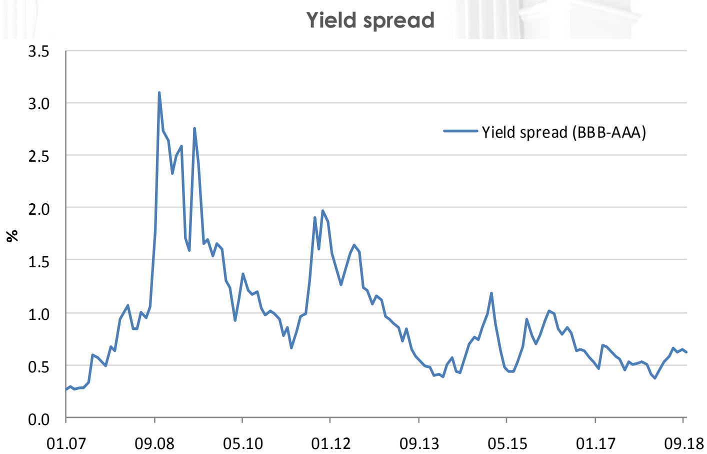
Graph sources: Bloomberg/BearBull Global Investments

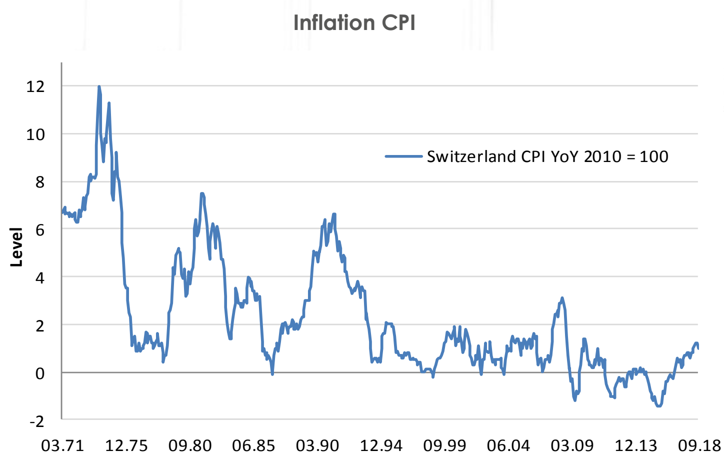
BearBull Global Investments Group

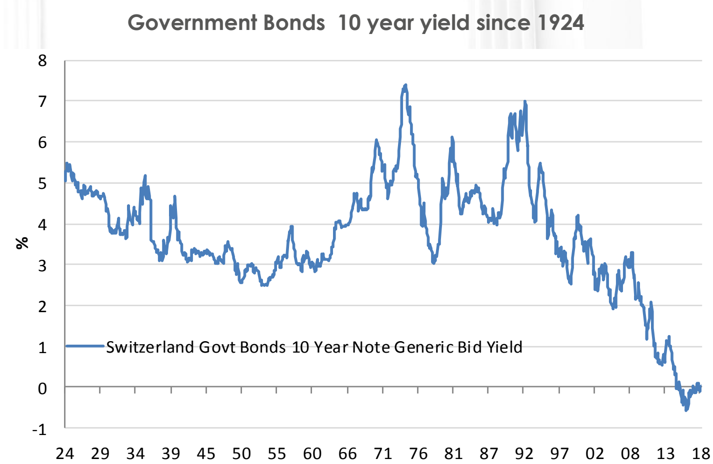


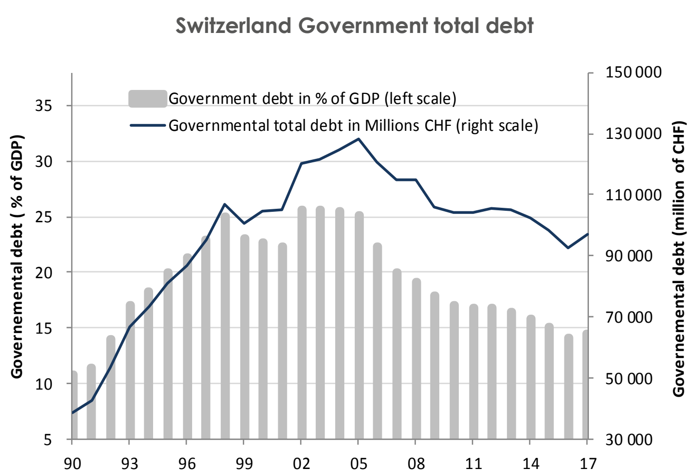


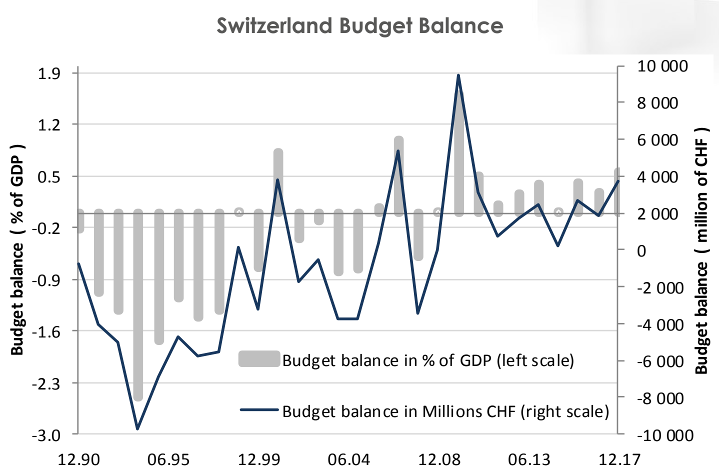












Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Eurozone

- GDP growth hampered by decline in foreign trade
- Leading indicators losing momentum
- Trump is the main cause of uncertainty
- ECB remains confident but postpones rate hike
- Pressure expected on long-term rates

GDP growth hampered by decline in foreign trade

European GDP was further impacted in Q2 by various factors that curbed the exceptional momentum seen in 2017. Indeed, in Q4 2017 the European economy was for a short time performing better (+2.7%) that the US economy (+2.5%). However, since the beginning of the year, quarterly growth has stabilised at +0.4%, or +2.1% yoy, which is rather disappointing and well below US performance. The main contributors to GDP growth are still household consumption, corporate investment, public spending and inventory changes. Capital investment was the largest contributor in Q2 (+0.3%) with an increase of +1.2%. The other three contributed +0.1% each.

In contrast, foreign trade penalised GDP growth, as exports (+0.6%) grew less than imports (+1.1%). The strength of the euro was likely a key factor in the deterioration of the balance of trade that took place over the past few months. In July, the trade surplus declined to 12.8 billion euros, posting a drop of -45% compared to the end of December (22.7 billion).

Nevertheless, it is conceivable that, despite the rising trade tensions between the EU and the US over the summer, the -10% correction of the euro from 1.24 to 1.14 against the dollar may have a positive impact on European exports going forward. However, in the short term it would seem that uncertainty continues to prevail, negatively affecting foreign demand. German growth remains a key component in terms of the positive performance of the European economy overall. Indeed, with a growth rate of +0.5%, the Eurozone's leading economy posted better results than any of the other 19 member states. The relatively poor performances of France (+0.2%), Italy (+0.2%), and Ireland (-0.6%) weighed on the Eurozone's overall results. Their lacklustre contributions could not be offset by the positive performances of smaller, more dynamic countries such as Luxembourg (+2%), Malta (+1.9%), Estonia (+1.4%) or Slovakia (+1.1%). Several months ago, we noted that caution was advised with regard to economic forecasts for the Eurozone, given the significant deterioration of leading indicators and the emergence of new political risks. Over the past few months, the European economy has had to contend with intensifying trade tensions with the US, the indirect effects of the Turkish crisis, as well as the Italian issue, which continues to be a concern.

Leading indicators losing momentum

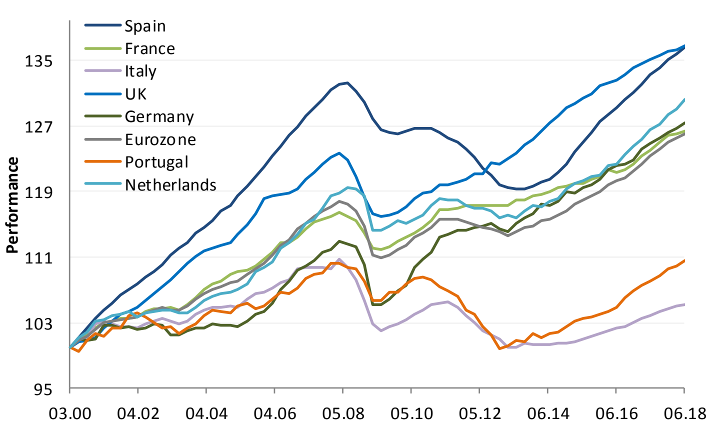
While leading indicators fortunately remain positive, they have continued to decline. They are thus providing no indication of a potential economic upturn or pick-up in the pace of growth. Indeed, the Markit composite PMI fell again in September, from 54.5 to 54.1, thus indicating a decelerating trend, confirmed by the new orders component, which also slid from 54.3 to 53.9. The outlook is somewhat more positive for services, whose leading indicator ticked up from 54.4 to 54.7. The economic performance of the Eurozone as a whole is closely tied to that of Germany. The steady fall in the German manufacturing PMI, which dropped sharply from 63.3 in December 2017 to 53.7, is thus concerning.

This negative trend is occurring in the context of increasing trade tensions, contracting industrial production, and decreasing orders. The trend is similar in the Netherlands and in Spain. The growth outlook for the Eurozone is thus significantly more uncertain today.

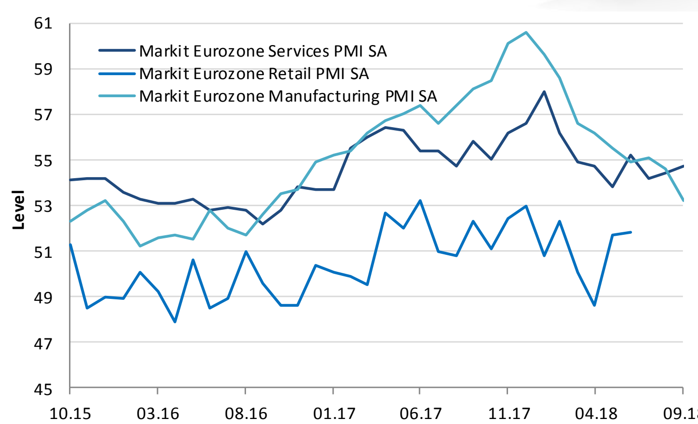
Trump is the main cause of uncertainty

Brexit is no longer a major source of concern for the Eurozone, having been overtaken by worries stemming from the Italian crisis and more particularly by the rising tensions between Washington and Brussels regarding the trade deficit, which is now clearly the main issue impacting the business climate and consumer sentiment.

GDP Growth - Eurozone

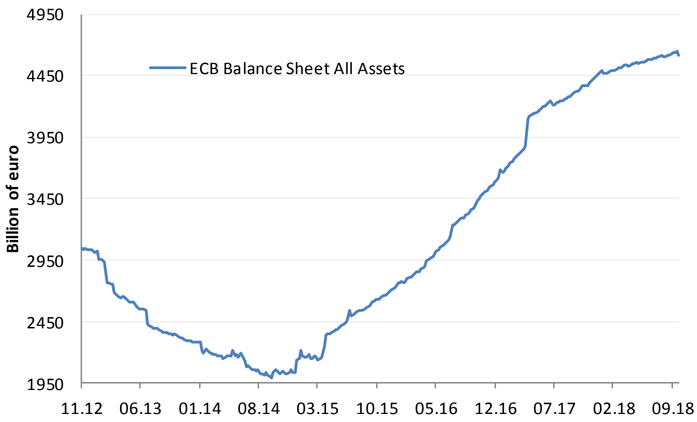


PMI (Manufacturing, Services and Retail) - Eurozone

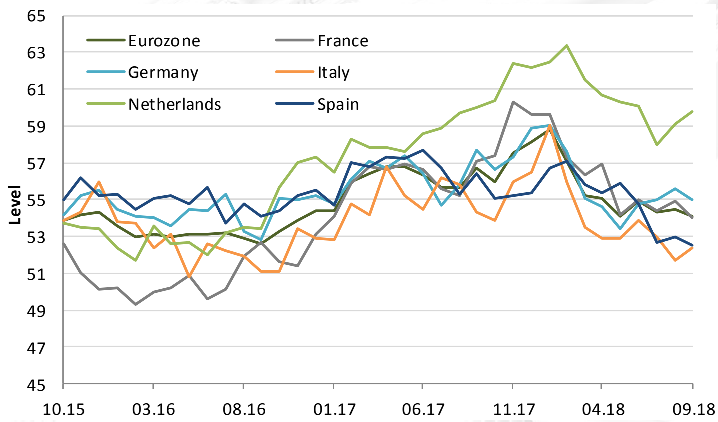


Graph sources: Bloomberg/BearBull Global Investments

ECB Balance Sheet



Composite PMI



And yet, the president of the European Commission had made concessions to Trump in an attempt to deescalate the trade war instigated by the US president. The EU had thus agreed to import more American soy and liquefied natural gas and to reduce customs duties on certain imported products.

However, these measures did not completely mitigate the risk of new tariffs on imports of European vehicles. Europe wants to avoid new tensions at all costs and is even willing to revisit the issue of US beef import quotas, settled over 30 years ago. The pressure exerted by Trump is considerable. Uncertainty thus persists, in spite of the concessions made, due to Trump's relentless insistence on considering the German trade surplus as almost on par with China's, leading to fears of further coercive measures.

Confidence put to the test

The European Commission's indicator measuring economic sentiment declined for the ninth consecutive month. Both households and manufacturers seem more and more concerned with regard to the trade dispute between the major economic powers. The decline in the industrial sentiment index was steepest in Germany and France, whose auto industries would likely bear the brunt of a trade war. Ultimately we have to look to the service sector to find any improvement in leading indicators, as consumer confidence also stalled, even though the unemployment rate continued to decrease. The emerging markets crisis and the situation in Turkey also weighed on overall sentiment. Indeed, Europe is likely more directly affected by a deterioration in emerging market fundamentals due to more significant economic ties.

Euro remains stable

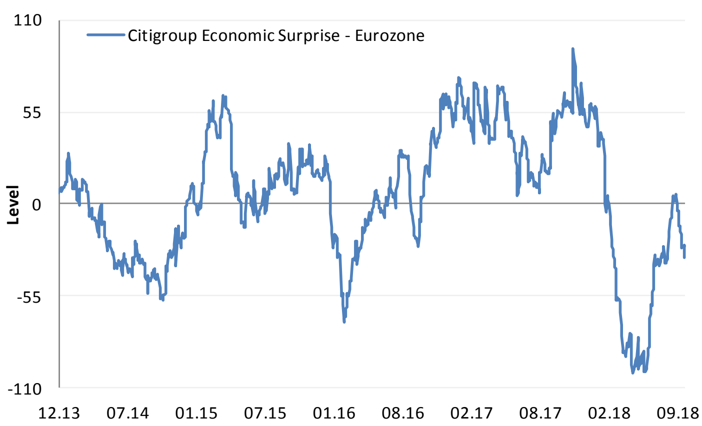
In the short term, the euro has been negatively impacted by the Italian crisis. However, it is mostly the increase in the interest rate spread against the US dollar and diverging economic performances that are weighing on the currency. Given the ECB was worried about the strength of the euro in the first part of the year, it must now be reassured by its recent weakness.

The euro will likely continue to stabilise against the dollar, while appreciating against the franc and once again approaching the CHF 1.20 level. The long-term interest rate spread should, in our view, increase at the beginning of 2019 in favour of the euro.

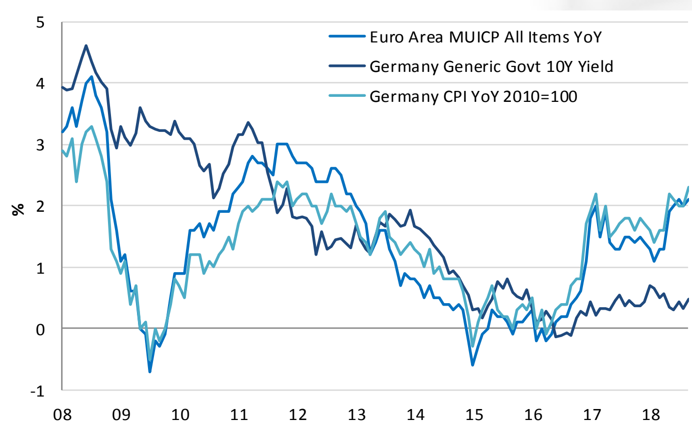
ECB remains confident but postpones rate hike

At its last meeting, the ECB announced that it was revising its GDP growth outlook for 2018. The revision is minor, as the forecast decreased from +2.1% to +2%, or just 0.1% less growth than initially projected. The bank justified its decision based on the risks of a decrease in foreign demand, while noting that the risks affecting growth prospects could still be deemed balanced overall. Moreover, the bank also confirmed that the risks tied to protectionism and the vulnerability of emerging markets have become more significant. At its September meeting, the ECB thus unsurprisingly kept its key rates unchanged at -0.4% on its deposit facility (banks' excess reserves) and 0.25% on its marginal lending facility, while confirming that it would likely not be raising its rates before summer 2019. However, the current economic slowdown could delay the next rate hike further, particularly if the global economy also experiences slower growth in the second half of 2019. As for quantitative easing, the current pace of 30 billion euros per month will be reduced to 15 billion per month until December, and then to 0 as of 2019. The ECB will then undertake, for a prolonged period of time, to reinvest the debt maturing after the termination of net purchases, in order to maintain favourable liquidity conditions and provide a high level of monetary support for as long as necessary.

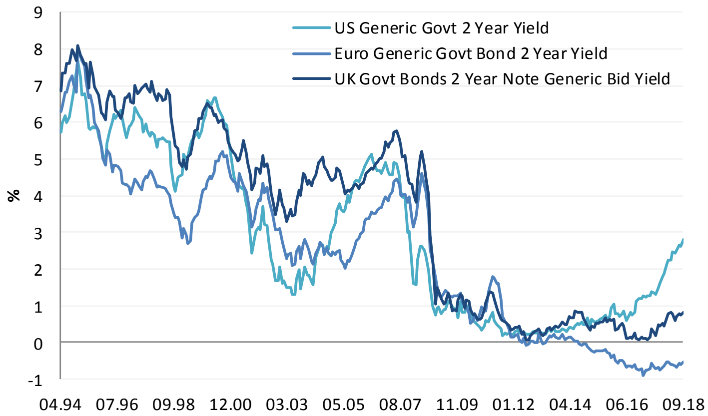
Citigroup Economic Surprise Index - Eurozone

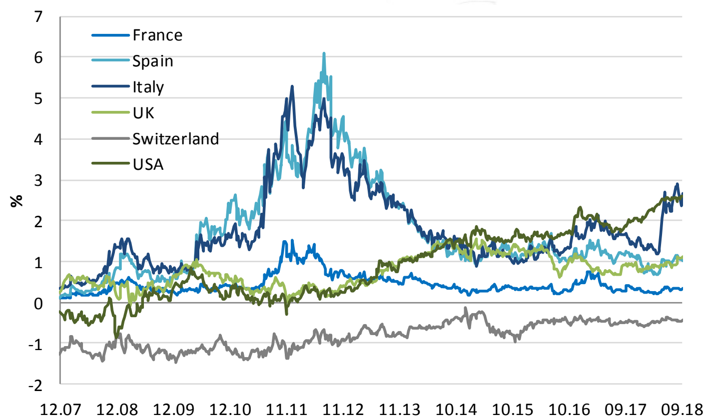


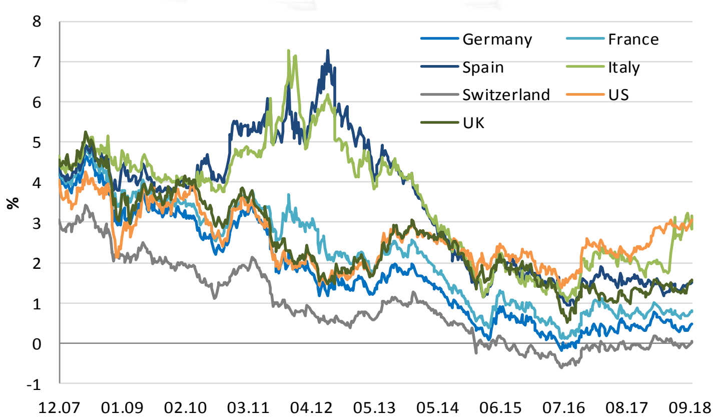
10 year Government Bond yield - CPI



Graph sources: Bloomberg/BearBull Global Investments







We expect that the ECB will not risk normalising its key rates before Q4 2019. A few more quarters of stronger economic growth and improvements in the job market are necessary before the ECB will take action. Moreover, inflation will have to be resilient in order to reassure the bank that modifying its position will not adversely affect economic growth and financial conditions. In addition, the ECB will likely wait for the euro to weaken and inflation to accelerate before raising its rates.

Pressure expected on long-term rates

The ECB is pointing to vigorous inflation in the Eurozone. President Draghi seems convinced that the job market will show increasing signs of upward pressure on wages, which will lead to an increase in underlying inflation over the next few months. It is indeed true that trends are positive and that wages have increased somewhat faster in Q2 (+2.2%). Unemployment has reached a 10-year low (8.3%), while the employment rate (67%) is at an all-time high.

Inflation reached +2.1% in September, which seems to confirm the ECB president's view, although its core component slowed down to +0.9% over the same period. We think this latest development somewhat contradicts the ECB's assessment and could contribute to delaying the next rate hike to year-end 2019. This development also affects the perception of long-term rates' normal levels, which is tied to inflationary expectations, the growth rate, and the ECB's quantitative policy. The change announced by the ECB will alter supply and demand dynamics going forward.

ECB asset purchases had been absorbing almost all net new issuance of sovereign bonds in the Eurozone; the termination of these purchases will boost yields. Given the favourable economic context, the fall in demand will undoubtedly result in an increase in long-term rates at the beginning of 2019. The 10-year German Bund yield has exceeded 0.55% and will thus now react more sharply to any inflation news. After a long phase of consolidation around 0.5% for 10 year terms, German government bond yields will likely tighten once again and rise back up to 0.75%-1% at the beginning of 2019. The Italian crisis remains a factor, likely temporary, that could hamper or interrupt this trend.

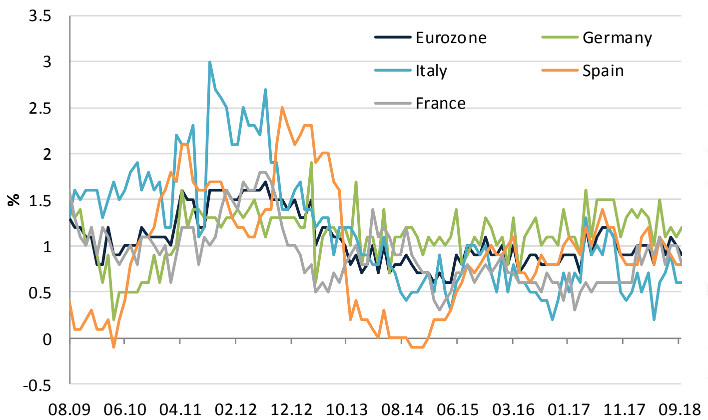
The depreciation of the euro against the dollar is also an important variable with regard to evaluating the appreciation potential of long-term rates. We now think that this factor is no longer an impediment to the logical adjustment of the yield curve in the Eurozone. Even though the ECB's decision is not a surprise, we believe that its true impact will only be felt over the next several months. Only then will investors fully take into account the risk of price corrections. We recommend not waiting to further reduce exposure to euro bond risk.

Why are European equities underperforming US shares?

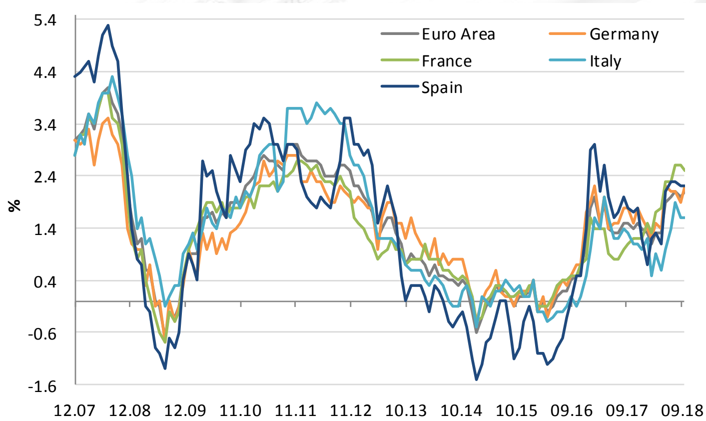
The valuation of European equities has remained persistently lower than that of US equities, without resulting in arbitrage or share price revaluations. Still today, the European market's overall PE (13.8x 2018 earnings) remains very attractive compared to the US's (18x 2018 earnings). This 25% valuation differential is considerable, and we are thus trying to determine how much longer the US market may benefit from this premium, having posted an outperformance of around +17% to date in 2018. European shares retain a valuation and yield (3.6% against 1.9%) advantage; while investors should thus be returning, Euro shares also present several drawbacks. US corporate earnings growth is benefiting from supportive fiscal policies, whose impact is being felt mainly in 2018, and which doubled growth prospects (+23%) compared with 2017 (+12%). Eurozone earnings growth had been higher in 2017 (+15%) without resulting in net arbitrage. The growth differential is clear in 2018 (Eurozone growth below +10%) but should even out in 2019 and 2020, as forecasts for both markets are similar (+10%). This factor likely worked in favour of US equities. The prospects for emerging markets and the latter's sometimes chaotic stock market performance have been stronger sources of uncertainty and risk in Europe.

Graph sources: Bloomberg/BearBull Global Investments

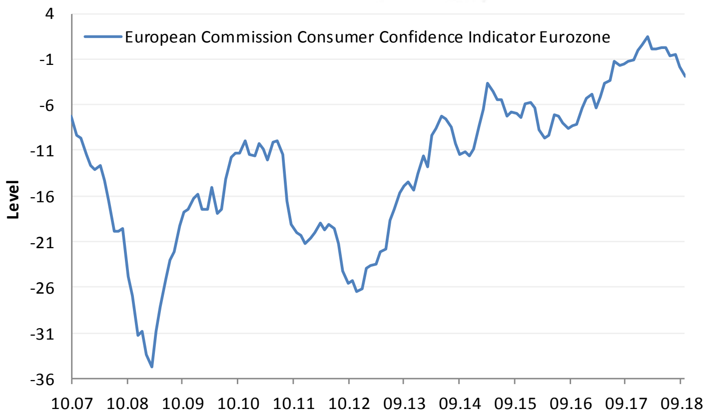
Eurostat CPI - Core Inflation (Eurozone, YoY)



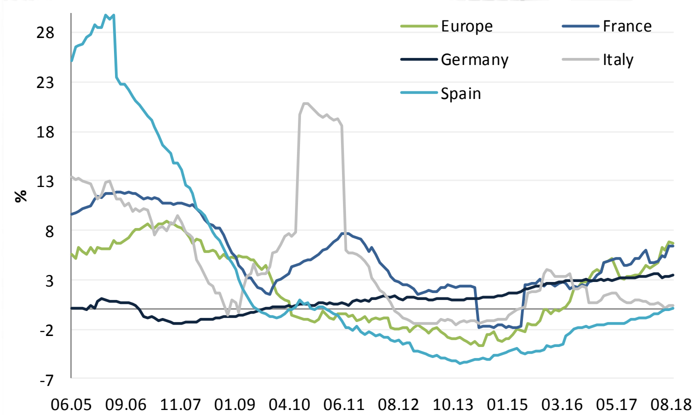
Eurostat CPI - all items (Eurozone, YoY)



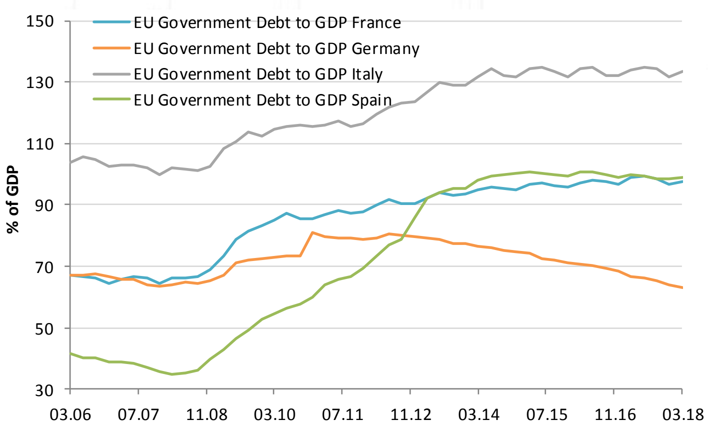
Consumer Confidence - Eurozone



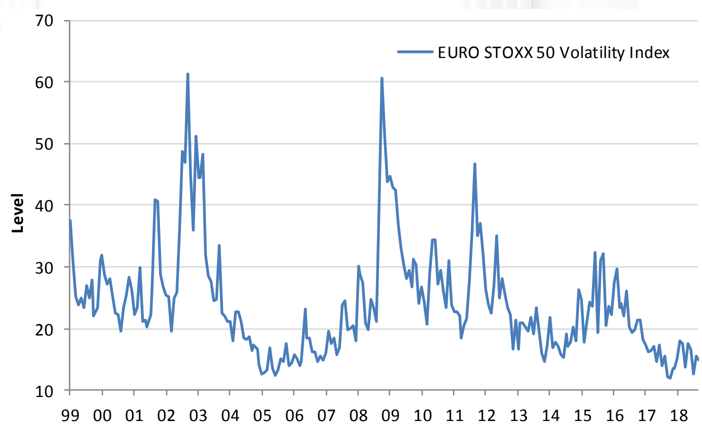
Loans to households (Eurozone - YoY)



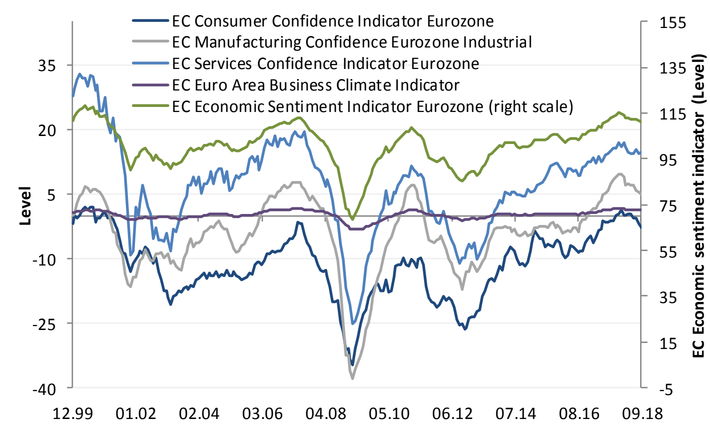
EU Government Debt



Euro Stoxx 50 Volatility Index



Economic Confidence Index



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United Kingdom

- Theresa May further weakened by the EU's rejection of the Chequers plan
- The pound remains hostage to the political situation
- GDP growth better than expected in Q2 (+0.4%)
- Dim prospects for faster year-end GDP growth
- Period of inaction for the BOE

Theresa May further weakened by the EU's rejection of the Chequers plan

European leaders rejected the Chequers plan, further weakening Theresa May, who will have a very difficult time uniting her party behind her at the next Conservative Party conference. A mere six months from the deadline, confusion reigns, and positions are becoming more entrenched. Former foreign affairs minister Boris Johnson will likely harden his stance and try to impose the hard line he has always aimed for. The prime minister, on the other hand, is in an inextricable situation, because she has only a small majority in Parliament, which could be insufficient if a portion of her MPs rebel. While she may claim that her proposal is the only one ensuring cross-border trade and keeping the Irish border open, it will be enormously difficult to convince her party that her proposal is in the national interest. Nevertheless, she will have to revise her proposal quickly in order to present a new, acceptable version of it at the European summit on 18-19 October. This will be hard to achieve without appearing to be making concessions to the EU.

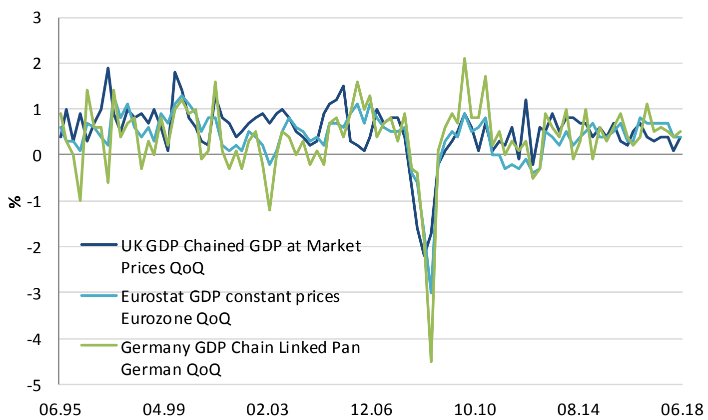
Tensions are rising among conservatives. The various factions are girding for battle in what now seems to be shaping up as one of the turning points of the Brexit saga. It may still be a little early to fear a sudden overthrow of the prime minister, as it seems that at this stage no one really wants to take up the challenge of replacing Theresa May in terms of managing the Brexit process. However, we are nearing the point where the party could come to blows not so much with regard to the form that Brexit might take but indeed regarding the issue of organising another referendum to break the deadlock besetting British politics since the 23 June 2016 vote. Theresa May committed to leading the UK toward a withdrawal from the EU. She is likely looking for the best way possible to reach this goal. But the right wing is only interested in discussing a hard Brexit without concessions, as had been 'promised' to the people during the referendum. Now, an increasingly large segment of the party seems willing to consider rethinking the very concept of Brexit. The Europhile wing of the party will thus make its voice heard and will likely not hesitate to propose a more pragmatic approach given the complexity and the astronomical cost of leaving the EU.

The option of a new referendum is making headway as a means of breaking the deadlock

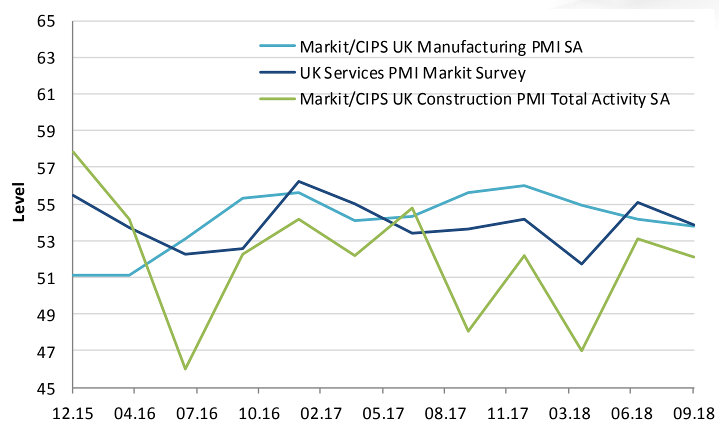
Theresa May remains opposed to the organisation of another referendum; however, polls show that the population would vote differently today given the uncertainty that has been weighing on the future of the UK and on the country's economic prospects over the past two years, and as the risks of a 'no deal' have intensified with the rejection of the Chequers plan. The number of people who support staying in the EU has indeed increased over the past few months, while the proportion of Brexit supporters has dropped from 52% in 2016 to only 41% today. A recent YouGov poll suggested that 45% of people polled are favourable to another vote, while only 34% seem to be opposed. "What the people have done only the people can undo" – perhaps a useful maxim over the next few months in terms of justifying a complete reversal in attitude, which could well offer a simple solution to the conundrum British politicians have been puzzling over for months without finding an acceptable solution.

Part of British civil society has already taken a position on the issue and wishes to organise another referendum. Figures such as the very charismatic Labour mayor of London, Sadiq Khan, are lending their support to the idea of another vote, a notion also supported by Tony Blair (Labour) and John Major (Conservative). The leader of the Liberal Democrats, Vince Cable, supports the idea as well, stating that Brexit is not inevitable and could be stopped.

Quarterly GDP Growth - UK

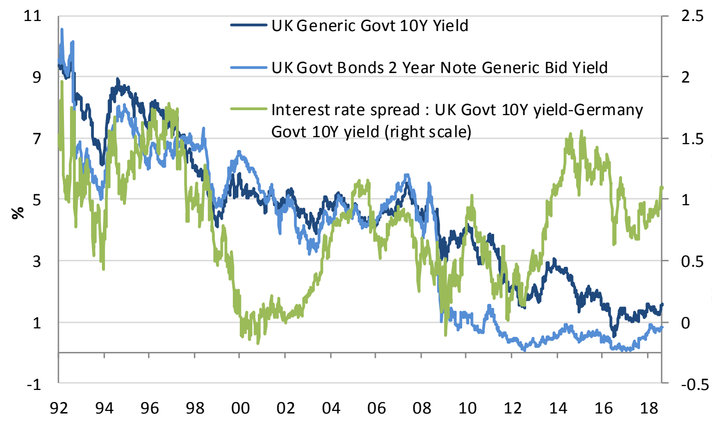


Manufacturing, Services and Construction PMI - UK

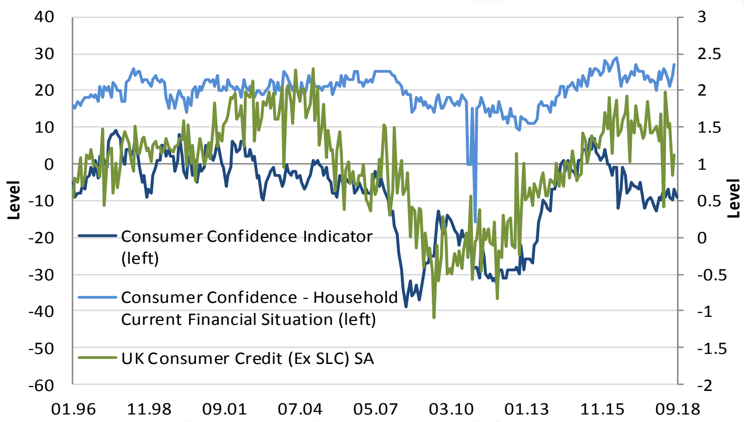


Graph sources: Bloomberg/BearBull Global Investments

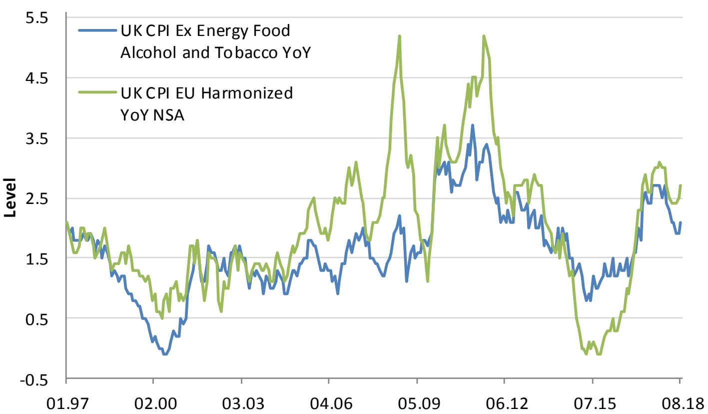
UK Government Bonds - 10 year and 2 year yield



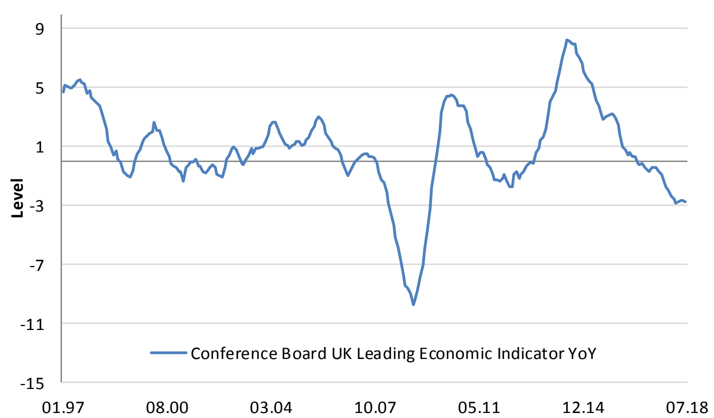
Consumer Confidence



Inflation CPI



UK Leading Economic Indicator



Graph sources: Bloomberg/BearBull Global Investments

Within the Labour Party, moreover, Jeremy Corbyn has radically changed his position. He now appears to be open to another referendum, no doubt influenced by the YouGov poll showing that 86% of the members of his party are favourable to this proposal and that 93% of them would vote to stay in the EU.

With regard to the majority party, Conservative Europhiles now deem that the time has finally come to make their voice heard and to venture giving the British people another chance to vote on Brexit.

While they have not clearly stated their position on the matter, it would seem that most European leaders would welcome and support a second vote.
Thus, it is no longer improbable that this solution would make head-way and become ever more popular over the next several months in an attempt to reverse the UK's fate. Brexit may no longer be inevitable!

But the clock is ticking, and it may not be easy to organise another referendum before the 29 March deadline. Further pressure will likely be required in order to truly be able to envisage this outcome politically. And it may even be necessary to extend the deadline specified in Article 50 and push back the exit date in order to implement this process.

The crisis persists. Conservatives have struggled to come to an agreement, which could force, if pressed, the organisation of new elections or the emergence of a middle way. The latter seems to be preferred by an increasing proportion of the population, which seems to be more and more ready to put an end to the unending political psychodrama playing out since the 2016 vote.

The pound remains hostage to the political situation

The pound is no longer suffering major blows, despite the lack of concrete progress on defining the post-Brexit trade framework. We continue to believe that the pound has entered a stabilisation phase against most major currencies, after having experienced its historic drop following the Brexit vote.

We had predicted that the exchange rate would stabilise in H1 2018, as indeed it did after the negotiation process resumed in December 2017. We had then forecast further depreciation resulting from the return of uncertainties linked to the likely absence of an agreement only months away from the Brexit deadline. The predicted increase in volatility essentially occurred in July and August via a correction, albeit limited, of the pound to a rate of 1.10 against the euro.

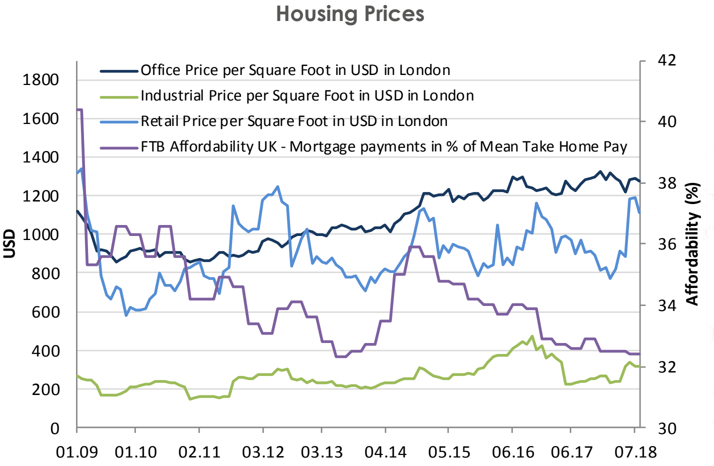
We believe the pound will likely continue to fluctuate within a relatively narrow band of 1.12 to 1.15 over the next few months, supported in particular by the slightly better economic performance in Q2.

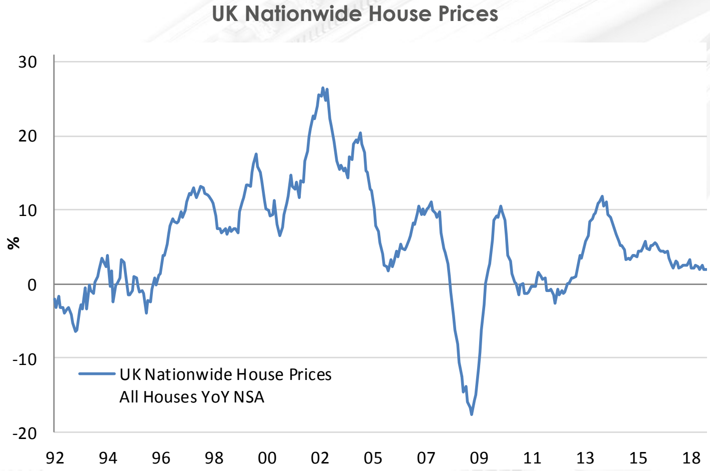
GDP growth better than expected in Q2 (+0.4%)

We were expecting British GDP to grow slightly faster in Q2 than in Q1, based on more promising leading indicators and on improvements in household and business confidence. The published GDP growth rate for Q2 did turn out to be somewhat better, mostly because of the relative strength of the service sector. The +0.4% growth rate exceeded the figure for Q1 (+0.1%), mirroring the quarterly growth trends of 2017.

Annualised GDP growth stabilised at +1.2% in June, a result similar to that posted in March 2018.

The British economy thus continues to struggle and could rapidly find itself in an even more difficult situation, with no prospects of an upturn anytime soon. The latest figures for industrial production are not showing any improvement. Industrial production progressed by only +1.1% (annualised), after having reached an expansion rate of +3% in March.





In the manufacturing sector, production is following the same trend, posting an annualised growth rate of +1.1% in July, a sharp drop from its March 2018 rate of +2.5%. This trend was not showing any sign of reversing or any indication of a potential surprise upswing in September akin to that of industrial production.

The current account deficit grew more rapidly than expected, reaching 20.3 billion pounds, or 3.9% of GDP. Investors are increasingly worried about the outcome of Brexit and are pondering the rationale of financing the British public deficit if the UK leaves the EU. Foreign investors reduced their positions in British government debt by 17.2 billion pounds in July, one of the most substantial withdrawals in the past few years.

The trade balance has grown and is thus weighing on GDP growth. Investments dropped by -0.7% after falling -0.5% in Q1. GDP growth was thus supported by an increase in consumption (+0.4%). Fortunately, domestic demand can count on increasing consumption again this quarter, but if Brexit-related uncertainty ends up more significantly impacting consumer morale, consumers may decide to save a little more (+3.9%) than usual. The savings rate is low in the UK; it could thus easily rise, correspondingly reduceing households' consumption capacity.

Dim prospects for faster year-end GDP growth

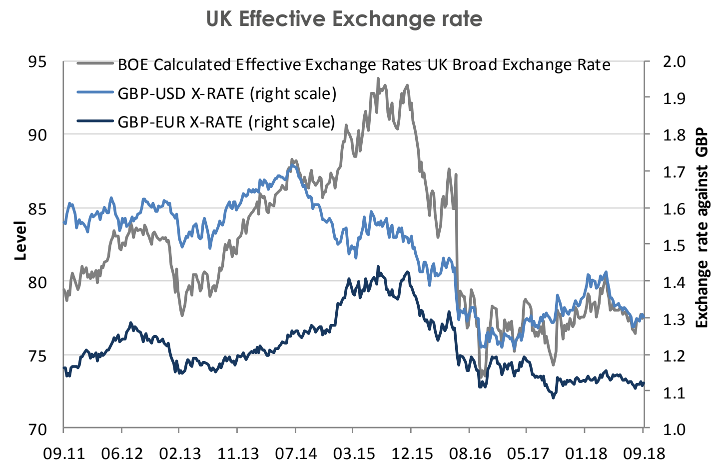
UK growth continues to lag behind that of other European countries, even though economic indicators are suggesting that the Q2 upswing is still on-going. The British economy is still on a decelerating trend, which could lead to a drop in overall growth to under +1.5% over the full year. Just months away from the Brexit deadline and still without visibility on the potential outcome of the process, it is difficult not to consider the risks and damage to the economy that could arise if an agreement is not reached.

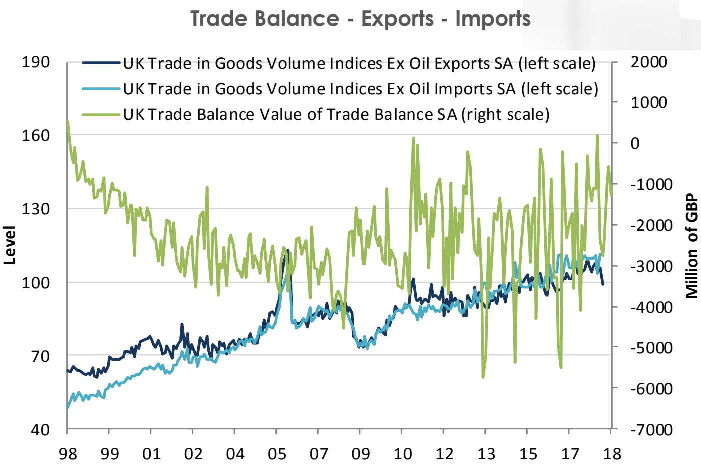
The manufacturing PMI posted a relatively unexpected increase in September. The purchasing managers index progressed to 53.8 after declining for three months, which is a positive surprise just a few months from the Brexit deadline. However, caution is advised in the current context, even though export orders were up slightly in September and industrial production increased significantly. Manufacturers remain cautious absent further visibility on the Brexit issue.

Growth prospects for the British economy remain rather limited in the current environment. An upturn at the end of the year seems unlikely.

New period of inaction for the BOE

We were expecting a modest rate hike in the second half of the year, which occurred in August with the BOE raising its rates by 0.25%. Monetary policy should now remain stable and follow the strategy delineated by the BOE, which left rates unchanged at its last meeting on 12 September. The BOE deems that inflation trends are encouraging and predicts that inflation will gradually return to the bank's 2% target level. The British monetary authorities seem relatively satisfied with recent economic developments and thus decided to keep the key rate at 0.75%. Members of the Monetary Policy Committee (MPC) appear unanimously convinced of the rationale of the strategy in place, which is unlikely to lead to any further rate hikes in 2018, but which could imply two hikes in 2019. Economic projections are in line with expectations, in particular with regard to GDP growth, still deemed to slightly exceed the British economy's potential, thereby suggesting moderate inflationary pressures over the next few months. MPC members are confident in a favourable Brexit outcome and are expecting potential positive surprises with regard to growth that would justify their planned rate hikes for 2019.





Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Japan

- Unexpected and welcome surge in Japanese GDP after a weak Q1
- Pace of growth to remain sustained in Q2
- Bilateral negotiations to avoid the worst
- Corporate earnings on the rise
- Inflation is benefitting from the yen's weakness

Unexpected and welcome surge in Japanese GDP after a weak Q1

We had forecast a slump in Japan's economic performance in Q1, which was confirmed with the announcement of a -0.2% decline in real GDP over the quarter, due in particular to a challenging monetary context marked by a 10% appreciation of the yen against the dollar. We had also noted that monetary factors would remain important with regard to GDP growth in Q2 and for the rest of the year. We mentioned, in particular, the need for a further depreciation of the yen against the dollar toward the 110-115 zone, which would help the Japanese economy avoid a technical recession and resume a reasonable pace of growth in the second half of 2018. The yen thus weakened appreciably in Q2 and then more significantly, reaching 115 yen to the dollar at the end of September, close to the high end of our forecast range of 110 to 115.

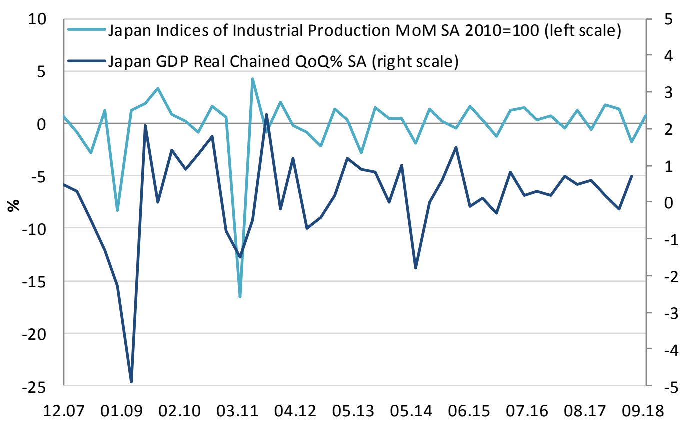
Japan's economic performance was thus variable over the first half of 2018. One can thus legitimately wonder whether this latest growth spurt, which far exceeded expectations, will prove lasting or whether it is just a flash in the pan. The +0.7% growth rate in Q2, or +3% annualised, is the highest since the beginning of 2016. Few forecasters are thus likely to bet on a continuation of this elevated pace of growth for the entire year, especially since trade tensions between China and the US are intensifying and Japan is not immune to a possible decrease in economic activity in China and Asia.

We mentioned that the depreciation of the Japanese currency is likely to be the key factor in a potential upturn in the economy and the stock market. However, the monetary factor is certainly not the only element explaining the more positive developments in GDP figures recently. Investment spending contributed favourably, progressing by +3.1%, a much higher rate than in Q1. This new trend is encouraging, as it also shows a positive evolution in industry confidence, despite leading indicators that are still not very optimistic. Over the quarter, the substantial rise in consumption may be the most interesting development in terms of the dynamics observed in Q2. Indeed, after having slowed down in Q1 (-0.1%), the contribution of private consumption, up +0.7%, was particularly noteworthy. Thus, as consumption represents 60% of Japan's GDP, a lasting improvement in trends in this segment would have a significant impact on GDP growth in H2. We believe it is likely that these positive trends in domestic demand will persist in H2. The yen's appreciation substantially dampened Japanese export growth in Q1. The latter plunged from +9.4% yoy at the end of December to only +2.1% at the end of March. However, exports were up +6.7% (annualised) at the end of June – a significant upswing and another positive trend arising in the context of the yen's depreciation mentioned above and which we believe is likely to persist in H2.

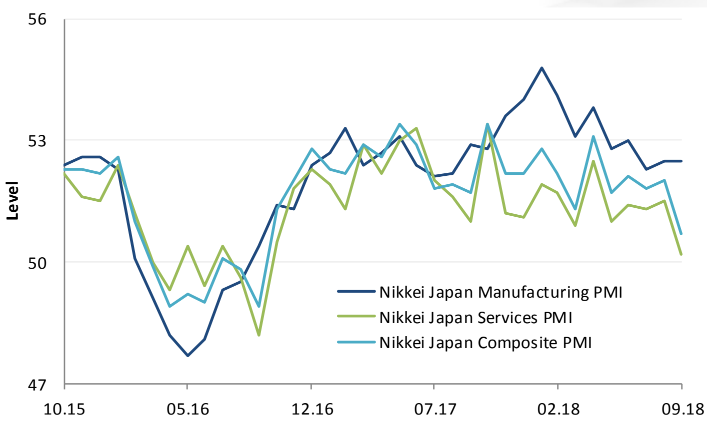
The pace of growth should remain sustained in Q2

Trade tensions certainly remain one of the main sources of uncertainty in terms of evaluating the macroeconomic outlook for the remainder of the year and for 2019. The Japanese economy is of course not immune to these tensions' potential side-effects, which would undoubtedly impact the country if the crisis were to deepen. Moreover, the US president could very well want to seize upon Japan's trade surplus, which would create renewed uncertainty regarding the Japanese export sector. That said, with three months to go until the end of the year, it seems that the key parameters with regard to Japanese exports and foreign trade will remain favourable. The correction of the yen has strengthened the competitiveness of Japanese products and services, as indicated by the increase in overall exports (+6.6% in August) both to Asia (50% of exports) and to the US.

GDP and Industrial Production

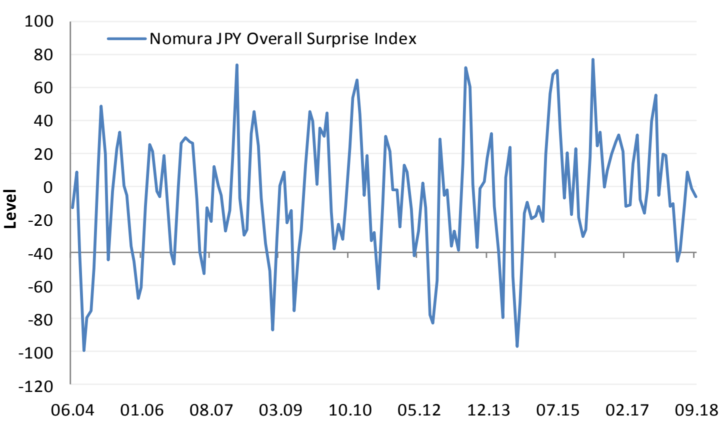


Composite, manufacturing and Services PMI - Japan

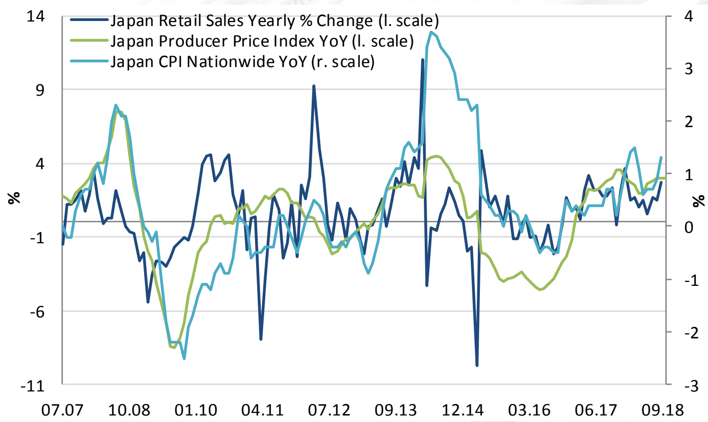


Graph sources: Bloomberg/BearBull Global Investments

Economic Surprise Index



Inflation (CPI and PPI) and retail sales



However, the trade balance has deteriorated, in spite of the progression in semi-conductor, vehicle and ship sales, due to the steeper rise in imports (+15.4%), which essentially resulted from the increase in energy prices. The trade balance thus posted a deficit of 4 billion dollars for the second consecutive month. These developments should diminish the risk of the US president stepping up the pressure, especially since Japan's imports from the US rose by +21.5% yoy.

Bilateral negotiations to avoid the worst

The Japanese economy can thus, for now, once again count on a slightly weaker yen to the dollar. It may also be able to count on the negotiation process finally undertaken with the current US administration, which looks like it has a good chance of leading to an acceptable compromise for Japanese industry. Prime Minister Shinzo Abe has indeed agreed to start talks with the Trump administration with regard to initiating new bilateral negotiations with the US. Even if the US does not seem inclined to grant significant concessions, the news still had an immediate positive impact on share prices in the auto sector, targeted by the US, which the latter faults for producing only 50% of vehicles produced on American soil.

Corporate earnings on the rise

Japanese corporates will likely benefit from the favourable macroeconomic context as well as from the depreciation of the yen. However, the Bank of Japan's latest Tankan survey actually indicated a decrease in the confidence of large manufacturing firms, although average exchange rate forecasts for the end of the year (107.4 yen) were well below current levels (114 yen). This gap, if it should persist as we believe it will, should lead to upward revisions in Japanese corporate earnings. The government is still hoping that corporate earnings growth will be transmitted to consumers via gradual increases in wages. It is thus likely to rejoice at the yoy earnings growth of +17.9% posted at the end of June after a particularly anaemic, and worrisome, first quarter (+0.2%). Consumption will benefit from this positive factor, likely in the second half of the year. Household spending is expected to rise thanks to increases in wages. GDP growth will thus likely continue to benefit from rising domestic demand and from new momentum in consumption. The depreciation of the yen will likely boost the upswing in the Japanese economy at the end of the year.

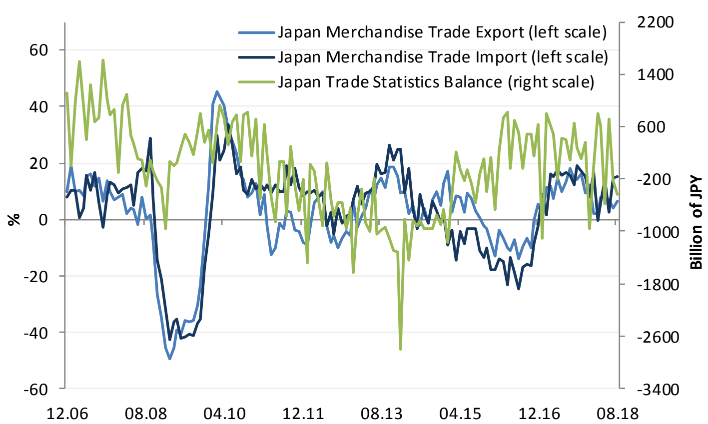
Tentative increase in household spending

Growth in household spending was of course weak (+0.1%) in July, but it did have the merit of interrupting a series of five consecutive decreases in consumption. Japanese consumers thus remain particularly cautious, even though the unemployment rate continues to be very low (2.4%). However, retail sales did rise by +0.9% in August. Wages are growing slightly more rapidly, as indicated by the June figures, which show a monthly increase of +3.3%, the highest in the past ten years. Even faster growth will likely be required, however, for a more marked and lasting trend to take hold. However, the job market situation is continuously improving, and the positive trends in corporate earnings will likely lead to a sharper increase in wages, which is still a prerequisite for any improvement in consumer confidence.

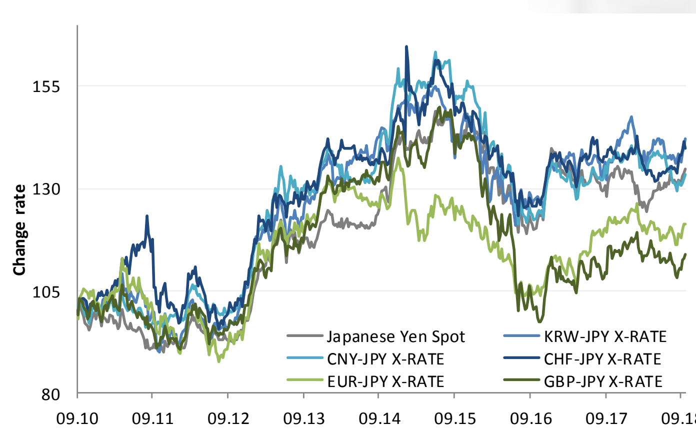
Inflation is benefitting from the yen's weakness

A welcome upturn in price indices occurred in Q2. The pause in price increases lasted only as long as the yen was strengthening. Inflation (CPI) passed the 1% bar again, clocking in at 1.3% in August. A weaker yen was the prerequisite for an upswing in prices, but we are still a ways from the BOJ's target (2%), and production prices are not exhibiting sufficient momentum to allow for hopes of a more robust overall trend. However, the current context is clearly not favourable to the bond market, which still fails to offer attractive prospects to foreign investors.

Trade Balance (Billion of yen)



Exchange rate (Normalized at 100)



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

China

- Chinese GDP growth remains strong
- PBOC policy adjustment in response to risk of slowdown
- Impact of trade tensions may be overestimated
- Increasing internationalisation of the yuan

Chinese GDP growth remains strong

Industrial production continued to increase (+6.5% yoy) in August and is still not showing any signs of slackening in response to the on-going trade tensions. Retail sales progressed at the swift and steady pace of +9%, indicating that consumption remains solid. On the other hand, fixed investments grew at their slowest pace since 1999, and growth in infrastructure investment in particular has slowed down sharply since its highpoint of +20% at the beginning of 2017, progressing by a mere +4.2%. The Chinese government will be supporting these sectors over the next few quarters, and the decline is thus likely to stabilise. The Chinese economy has thus far managed to avoid a sharp deceleration. The central bank has the means to ease credit and thus reduced the reserve requirement rate (RRR) three times in 2018 from 17% to 14.5%. In the short term, the anticipated slowdown is not materialising, and the forecast for Q4 is still for a growth rate of +1.5%. The Chinese economy is thus expected to expand by +6.6% in 2018, slowing down to +6.3% in 2019.

PBOC policy adjustment in response to risk of slowdown

Inflation remains moderate in China, in spite of a slight uptick in the CPI index (+2.3%) and production prices (+4.1%) over the past few months, to which food and energy prices, rent increases in Beijing, and a weaker currency all contributed. Inflation remains below the PBOC target of +3%, which will not affect monetary policy in the short term. Inflationary pressures thus remain weak, which also gives the PBOC more leeway to adjust its policy based on developments in the trade war. The central bank already reduced the RRR four times as a result of rising uncertainty tied to the trade tensions. The finance minister could announce other measures such as corporate tax cuts and other fiscal measures to support the economy for instance. Lowering key rates, still at 4.35% in spite of the +2.3% inflation rate may also be considered.

Slowdown in growth of Chinese current account and trade surpluses

China revised its current account surplus down from 5.8 to 5.3 billion dollars for Q2 and announced a slight decrease of its trade surplus to 27.9 billion dollars in August. Chinese export growth decelerated to +9.8%, which nevertheless remains a solid result. The decline in export growth compared to July (+12.2%) remains modest and does not foreshadow a collapse anytime soon. Imports, on the other hand, rose sharply (+17.7%), but at a slower pace than in the previous month (+27.3%). However, the current trend will likely persist given the decline in external demand.

Leading indicators reflect rising uncertainty

Western observers' concern with regard to the impact on the Chinese economy of the arm-wrestling contest between Washington and Beijing does not seem to be entirely shared by Chinese decision-makers, for now at any rate. Leading indicators are indeed exhibiting a certain equanimity. The services index, for example, indicated a further increase in confidence in September, as the Caixin services PMI rose from 51.5 to 53.1.

With regard to the manufacturing index, optimism is rather more measured, as the index has continued to decline since February, reaching the critical threshold of 50. The decrease in this index is corroborated by the decrease in the Chinese manufacturing PMI from 51.3 to 50.8, although in fact it is related to a general trend affecting Asian and European economies. Uncertainty is obviously also present in China and will remain so until the positive effects of the government's pro-growth measures become visible.

YoY GDP Growth

PMI and Industrial Production

Graph sources: Bloomberg/BearBull Global Investments

Real Estate, Infrastructure and Industrial Investments (YoY)

Exports and Imports (YoY)

Impact of trade tensions may be overestimated

The trade war is now solidly entrenched, and the likelihood of seeing it resolved before the end of the year appears rather slim. It is now increasingly likely that the US president will play his strategy to its endpoint, with the single-minded aim of taxing all Chinese imports. In an increasingly near future, all 550 billion dollars in imports to the US from China will be hit by a 25% tariff increase, while the 60 billion dollars in imports to China from the US will be subject to an additional tax of approximately 10%.

Given the relatively low substitutability of the goods imported by the US, we can assume that these price increases will not have a major impact on imports overall in either economy and hence on these economies' respective growth rates. Indeed, it is likely that the additional tariffs collected by the two governments will be reinjected into their respective economies one way or another. The impact on growth, estimated to be around -0.25% in the US and less than -0.05% in China, while relatively low in the absolute, may in fact be overestimated. Ultimately, the impact of this trade war on the Chinese economy in particular may well be rather small.

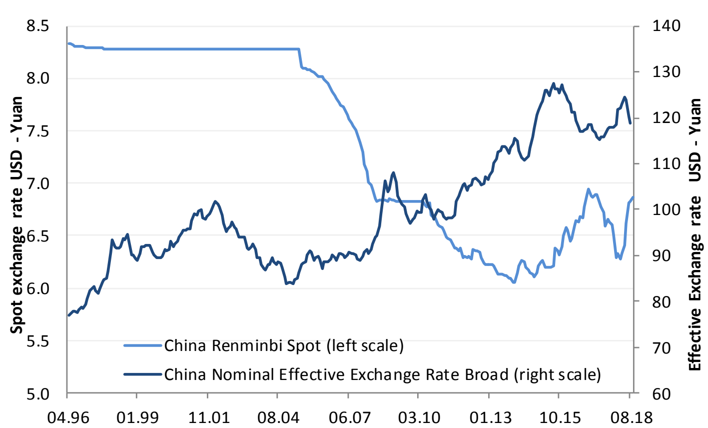
Increasing internationalisation of the yuan

Two years ago, we wrote that the IMF had lent credibility to the yuan by adding the Chinese currency to its special drawing rights (SDR) basket (10.92% allocation). The yuan thus became a central bank reserve currency just like the dollar, the euro, the yen, and the pound. We also discussed the impact of this decision on demand for the yuan and on global perceptions of the Chinese currency.

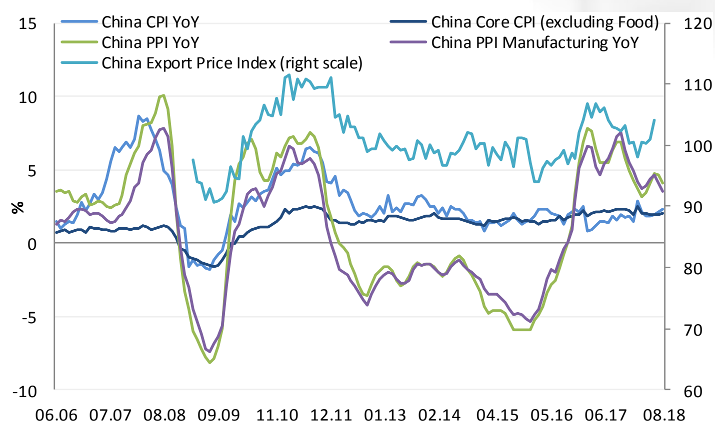
A recent IMF report noted that the proportion of reserves held in yuan of the 149 central banks that provide a detailed breakdown of their currency reserves has grown to 1.84%. The recent +32.6% increase in yuan-denominated reserves is significant and places the yuan ahead of the Australian dollar for the first time in central bank reserve currency statistics. Political pressure by the US in attempting to deal with its trade deficit could of course have a negative impact on the Chinese currency in the short term. However, this activity by the central banks attests to their growing confidence in the yuan, which is thus not expected to weaken over the next few years. Hence, demand for the yuan could increase with the internationalisation of the Chinese currency beyond central banks.

China is making a concerted effort to move forward with opening up its financial markets, and the country's significant role in global trade will ensure that demand for the yuan will grow due to investment and transaction needs. The yuan thus has considerable internationalisation and appreciation potential, which will hinge on the attractiveness of yuan-denominated assets.

Effective Exchange rate and USD/Yuan



Inflation CPI - Core CPI



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United Arab Emirates

- U.AE Cabinet Approves USD 49.01 billion Budget 2019-2022
- Growing government spending to offset weaker private consumption
- Sharp increase in oil production
- New UAE law enables federal government to issue sovereign bonds
- Dubai real estate sales fell 20% during the first nine months of 2018

U.AE Cabinet Approves USD 49.01 billion Budget 2019-2022

The UAE cabinet approved a higher zero-deficit budget of Dh180 billion (USD 49.01 billion) for the next three years and Dh60.3 billion (USD 16.42 billion) for 2019, which is the largest in the history of the country. Higher oil revenues have enabled the government to increase spending for the well-being of the citizens and residents. This is an increase of 17.3 per cent to last year's Dh51.4 billion (USD 13.99 billion) budget. As per His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE, 59 per cent of the budget will be for education and social development. During the Cabinet meeting, a new federal law was adopted to open up the space sector to investment, research and partnership building. In May, the UAE already announced new incentives to lure foreign investment, including 100 percent ownership of companies and 10-year visas for professionals and investors.

Growing government spending to offset weaker private consumption

The sharp increase in government expenditure is meant to offset slowing economic activity and declining private consumption. In fact, the employment component of the latest Emirates NBD UAE PMI fell below the neutral 50.0 level in August and September, as more firms surveyed reported job shedding than those reporting hiring while no growth has been recorded on wages during the same period. On the other hand, private consumption contracted –1.3% in 2017 and expected to contract further this year while households face rising fuel and living costs with little prospect of salary increase. Private sector investment is also likely to remain soft as private sector growth slowed to 0.6% in 2017 from 8.8% in 2016 according to official statistics.

Sharp increase in oil production

UAE crude production rose to 2.87mn b/d in September according to Bloomberg estimates, with average year-to-date flat from last year. If the UAE maintains its oil production at current pace, average oil production would be 1% higher than last year, offering a welcomed support to the country's GDP growth. The market consensus expects the UAE to increase oil production in 2019, contributing to faster GDP growth next year.

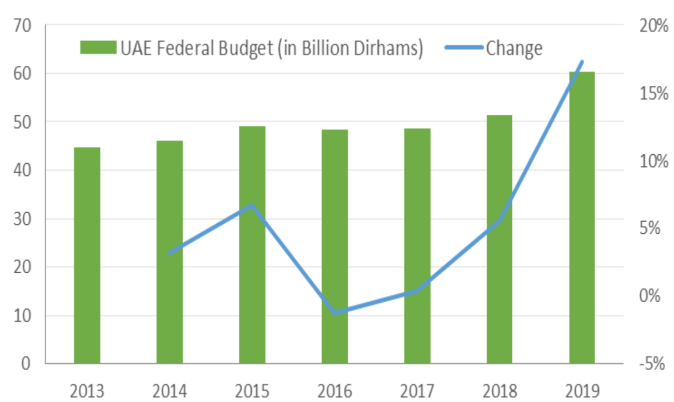
New UAE law enables federal government to issue sovereign bonds

The United Arab Emirates has taken a major step towards deepening its financial markets by issuing a law permitting the federal government to begin issuing sovereign debt. So far, several of the seven emirates in the UAE, including Abu Dhabi and Dubai, already sell bonds in International markets. Allowing the central government to issue bonds could benefit the poorer emirates as the federal bonds would carry higher credit ratings than those emirates could achieve individually. On the other hand, Banks in the UAE will be able to buy government bonds in dirhams or foreign currencies, giving them highly-rated assets with which they can manage their liquidity and obey to global Basel III regulatory standards for banks.

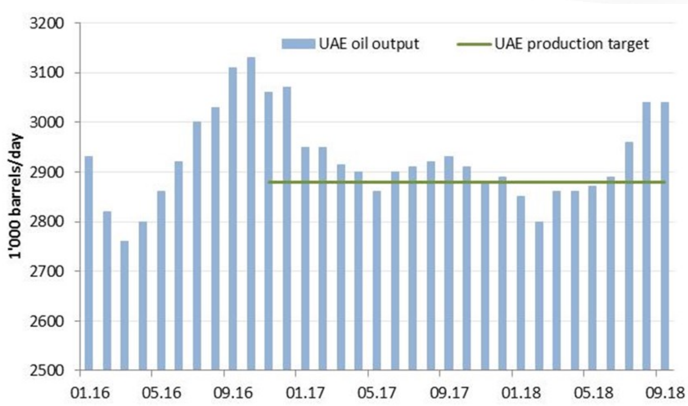
UAE yield curve and secondary market for government debt

The UAE central bank will use the sovereign bonds to help manage the interbank money market, while the bonds will support the creation of a secondary market in government debt. This will develop a UAE dirham yield curve serving as a reference for local companies to issue debt. This long-awaited law, which was in preparation for several years, also provides for the central government to establish a Public Debt Management office. The office will propose policies in coordination with the UAE central bank, monitor risks linked to debt, set short and long-term targets and advise on investing any public debt surplus.

UAE Federal Budget (in Billion Dirhams)



UAE oil production and OPEC target



Graph sources: Bloomberg/BearBull Global Investments/UAE Central Bank

Dubai real estate sales fell 20% during the first nine months of 2018

Dubai Land Department (DLD) has recorded real estate deals worth AED 162 billion (USD 44.1 billion) during the first nine months of 2018. The figures represent a fall of more than AED 40 billion (20 percent) compared to the same period last year (AED 204 billion) although the total number of transactions rose by over 2,000 to 39,802.

According to the latest report issued by the DLD's Department of Real Estate Studies & Research, the first nine months of 2018 saw 25,473 sales transactions worth more than AED 56.6 billion, about 11,000 mortgage transactions worth over AED 86 billion, and 3,486 other transactions valued 19,3 billion. In total investments came from 163 nationalities. The top 10 investors by nationality was topped by Emiratis and Indians, followed by Saudis, Pakistanis and Brits. Residents from China, Egypt, Jordan, Canada, and Russia Rounded out the list.

Further Decrease in Rental Rates, Sales Prices across Dubai

This year has been a critical time for Dubai's real estate market as sale prices continue to soften along with the extensive rental declines across the country. According to the latest report by Asteco, apartment and villa rental rates continued to follow the downward trajectory observed over the previous quarters. Apartment rental rates declined by 3% over the third quarter and 11% compared to the same period last year. Similarly, villa rental rates dropped 2% over the third quarter and down 9% compared to Q3 2017. Decrease in rental values comes as direct result of high handover volumes and growing economic uncertainties resulting in many residents downsizing or seeking for better value-for-money options in less established neighborhoods. Meanwhile, according to the latest UAE Real Estate market report by Asteco, residential sales price declines in Dubai have been more pronounced than rental rates with corrections of 4% over the third quarter of 2018. On annual basis, apartment sales prices in Dubai were down by 14% whilst villa sales rates dropped by 13%.

Office rental rates also declined by 4 per cent in the previous quarter and 13 per cent since Q3 2017. This is more noticeable in Business Bay (-14% Y-o-Y), Jumeirah Lake Towers (-13% Y-o-Y) and even the Dubai International Financial Centre (DICF) (-9.0% Y-o-Y). Without further stimulation and incentive on behalf of the government, one can expect this trend to continue until the early 2019.

In an increasingly challenging real estate market, some of the largest developers have launched new initiatives to stimulate demand such as rent-to-own schemes and crowd funding. In addition, both real developers and real estate professionals have become increasingly vocal in urging the UAE Central Bank to lower the prevailing loan-to value (LTV) ratios to facilitate access to property to those whom cannot afford the current equity requirement of at least 25% of the asset value.

Time to rethink the UAE mortgage cap?

The UAE mortgage cap was first introduced in October 2013 as the Central Bank of the UAE issued a new set of regulations on mortgage lending to banks and other financial institutions in an effort to curb speculation. As result the government capped mortgages to 75 per cent of the valuation for the first purchase for expatriates and 80 per cent for UAE nationals. In addition, for properties valued in excess of AED 5 million, the loan-to-value was capped at 65 per cent for expatriates and subsequent properties LTV was capped at 60%. UAE nationals fares slightly better with a LTV cap at 65%.

In addition, the move came with Dubai's Land Department decision to double the transaction fee on sold homes to 4 percent in an effort to curb speculation and to make it tougher for "property flippers" to make a quick return.

The continued drop in both rental values and sales prices naturally leads most market participants to ask for the LTV caps and transfer fees to be revised in light of new market realities. In the mean time, most would argue that doubling of transaction charges alongside the implementation of the mortgage cap helped to prevent another property crisis as the one the UAE witnessed in 2009 where property prices fell 50 to sometimes 65% within a year.

In our view, the implementation of the mortgage cap also resulted in pushing potential buyers away from secondary market to the primary market leading to a sharp decline in ready-built properties in favor of off-plan developments. In fact, in order to boost sales many developers offered increasingly attractive payment plans whereby 50 per cent during construction and 50 percent upon handover is the most common. For most residents willing to get onto the property ladder with lower deposits, off-plan could seem the best, if not the only option. But looking at the track record of most developers, with increasingly aggressive payment plans offered to lure investors, it is likely that in an environment of rising interest rates most will struggle delivering on their promises both in terms of quality and deadline. Indeed, legislation in the UAE has come a long way to offer additional protection for investors, but still class action lawsuits are still illegal in the UAE. Therefore if the developer does not deliver what it has promised, each investor will end up on its own to fight its case.

Therefore, increasing prevailing mortgage caps and reducing transfer fees for both private and/or institutional investors (real estate funds and REITs) can indeed bring a welcomed boost to the property market and result in positive economic growth to the country as a whole. Maybe its time to see a mortgage cap at 75 percent to 80 percent for all residents up to 10 million AED?

Dubai and Abu Dhabi Sales Prices evolution

	Y-o-Y	Since Peak	Since Market Low
% Change	Since Q3 2017	Q2 2014	Q3 2011
Dubai Apartment Sales Prices	-14%	-28%	31%
Dubai Villa Sales Prices	-13%	-30%	18%
Dubai Office Sales Prices	-13%	(Q1 2015) -21%	(Q2 2012) 23%
	Y-o-Y	Since Peak	Since Market Low
	Since Q3 2017	Q4 2015	Q3 2012
Abu Dhabi Apartment Sales Prices	-8%	-20%	28%
Abu Dhabi Villa Sales Prices	-4%	-5%	33%

Graph sources: Bloomberg/BearBull Global Investments /Asteco UAE Real Estate Report Q3 2018

UAE Mortgage Regulations

	UAE National	Non UAE National
First Property (Built)	Property valued at AED 5 Million or less: LTV = 80%	Property valued at AED 5 Million or less: LTV = 75%
	Property valued at more than AED 5 Million: LTV = 70%	Property valued at more than AED 5 Million: LTV = 65%
Second or subsequent Properties (Built)	LTV = 65% (irrespective of value of property)	LTV = 60% (irrespective of value of property)
Property bought off plan	LTV = 50% (irrespective of value of property)	LTV = 50% (irrespective of value of property)

Source : UAE Central Bank,

MACROECONOMIC SCENARIO

Emerging Markets

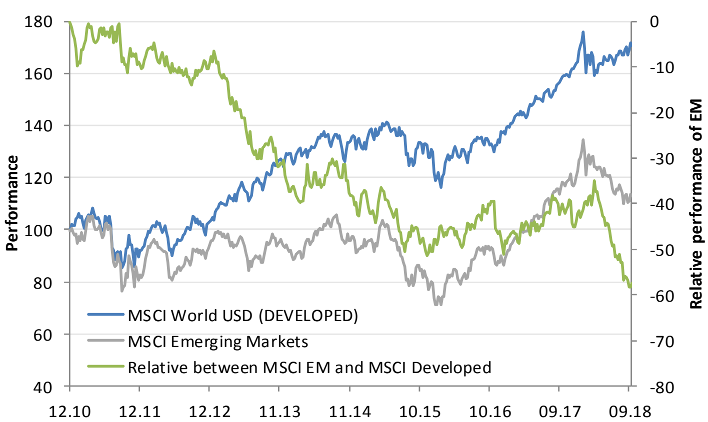
- Indian economic growth increased over + 7% in 2018
- Turkish inflation is strongly accelerating in September
- Emerging currencies are depreciating against the U.S. dollar

Economic situation by country

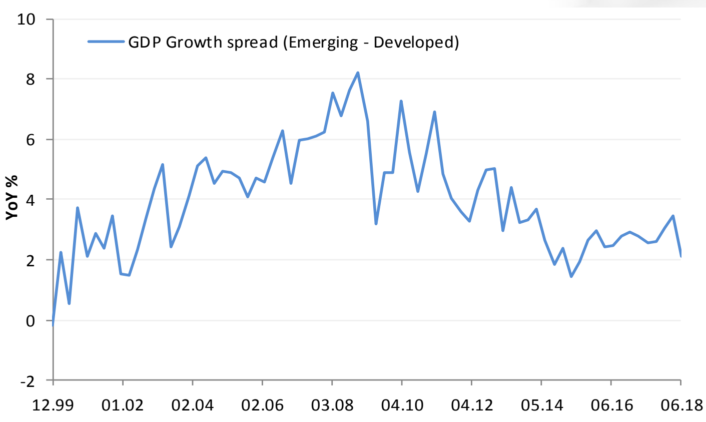
Brazil – Recent economic indicators seem to be pointing to an upturn in the Brazilian economy, though at a more gradual pace than expected at the beginning of the year. The global outlook remains challenging, involving among others a reduction in risk appetite as regards emerging economies. The main risks continue to stem from interest rate normalisation in some advanced economies and uncertainty with regard to international trade. Inflationary expectations for 2018 and 2019 as captured by the Focus survey are around 4.1%. Expectations for 2020 remain around 4.0%, while for 2021 they slide back down to 3.9%. The central bank's monetary policy committee (Copom) is emphasising that risks related to its baseline scenario exist in both directions. On the one hand, the economic slowdown could lead to a lower inflation rate than expected. On the other hand, thwarted expectations regarding the pace of reforms and necessary adjustments to the Brazilian economy could affect risk premiums and broaden inflation's trajectory over the horizon relevant to monetary policy management. Given its baseline scenario, the balance of risks, and the large range of information available, the Copom unanimously decided to keep its Selic rate at 6.50%. The committee believes this decision reflects its baseline scenario with regard to future inflation and the balance of associated risks and is fully compatible with the convergence of inflation toward its objective by 2019. The Copom highlighted that further reforms and necessary adjustments to the Brazilian economy are key to maintaining low inflation in the medium and long terms, reducing the structural interest rate, and ensuring a lasting economic upturn. The committee further reiterated that economic conditions still call for an expansive monetary policy, entailing interest rates below the structural level. Monetary policy will change gradually if the inflation outlook starts to worsen. In the Copom's view, its current baseline scenario and the balance of risks call for maintaining the Selic rate at its current level. The committee emphasises that next steps in carrying out monetary policy will continue to depend on the health of the economy, the balance of risks, and the inflation forecast and expectations.

Russia – On 14 September 2018, the Board of Directors of the Bank of Russia decided to raise its key rate by 0.25% to 7.50%. Changes in external conditions since the board's previous meeting significantly increased the risks of inflation. The Bank of Russia is forecasting annual inflation of 5-5.5% for 2019, dropping back down to 4% in 2020. This forecast takes into account the bank's decisions with regard to the key rate and the termination of currency purchases in the domestic market. The bank will consider whether it needs to further raise its key rate, taking into account actual inflation and economic growth as compared to forecasts as well as risks tied to international events and to the reaction of financial markets. Consumer prices rose at an annualised rate of 3.1% in August, slightly above the upper end of the Bank of Russia's forecast range. According to the bank's estimates, most annual inflation indicators that reflect more lasting changes in prices are rising. The depreciation of the rouble is tied to capital outflows resulting from changes in international economic conditions. At the same time, the current account balance remains high due to the stability of the prices of Russian export goods, substantially exceeding the repayment amount due on Russia's external debt over the next few months. In this context, the bank's decision to halt foreign currency purchases on the domestic market is aimed at decreasing exchange rate volatility and its influence on inflation over the next quarters. Inflation will likely come it at 3.8-4.2% at the end of the year and reach 5-5.5% by the end of 2019. Annual inflation will slow to 4% in Q1 2020, once the effects of the depreciation of the rouble and the increase of the VAT start to be felt. Estimates for Q2 2018 show that annual GDP growth clocked in at 1.9%, matching the Bank of Russia's expectations. The bank kept its annual GDP growth forecast unchanged at 1.5-2% for 2018. The economic growth forecast for 2019-2021 was updated to take into account developments in the global economy and the estimated impact of the budgetary and structural measures to be implemented by 2024. GDP growth should come in between 1.2% and 1.7% in 2019. Growth rates could be higher in the following years as planned structural measures are progressively implemented.

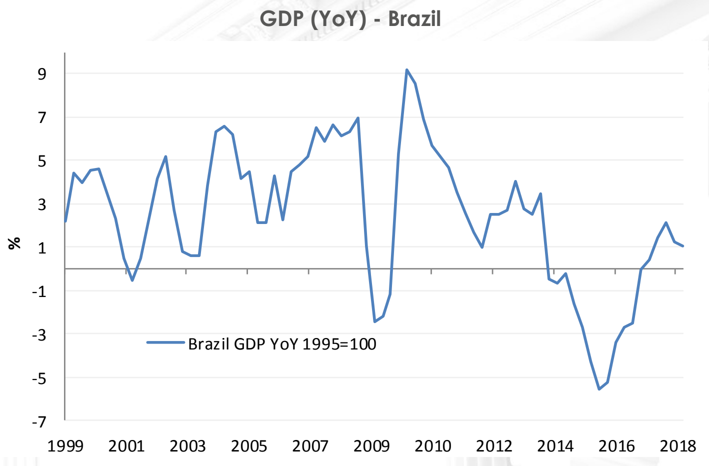
Emerging and Developed Markets - Performance



GDP Growth spread



Graph sources: Bloomberg/BearBull Global Investments



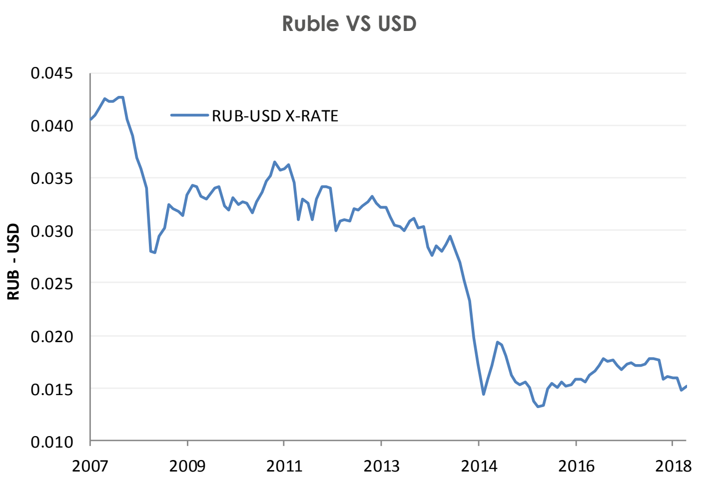
India – The IMF predicts that India will likely grow by +7.3% in 2018-2019, at a faster pace than last year (+6.7%) but not as fast as what was forecast at the beginning of the year. Indeed, last April, the IMF had predicted that the Indian economy would expand by +7.4%. This figure was revised downward due in particular to the recent increase in oil prices and to monetary policy tightening internationally. In 2020, GDP will likely expand by approximately 7.4%, thanks to an upswing following shocks related to demonetisation, the tax on goods and services, and improvements in the private consumption and investment climate. Thus, India is quickly becoming the fastest-growing economy worldwide in 2018, taking China's place, the latter having taken first place in 2017. China's growth forecast has been reduced, as a result in particular of the impact of the trade war between Washington and Beijing pertaining to Chinese exports, hampering the growth of external demand.

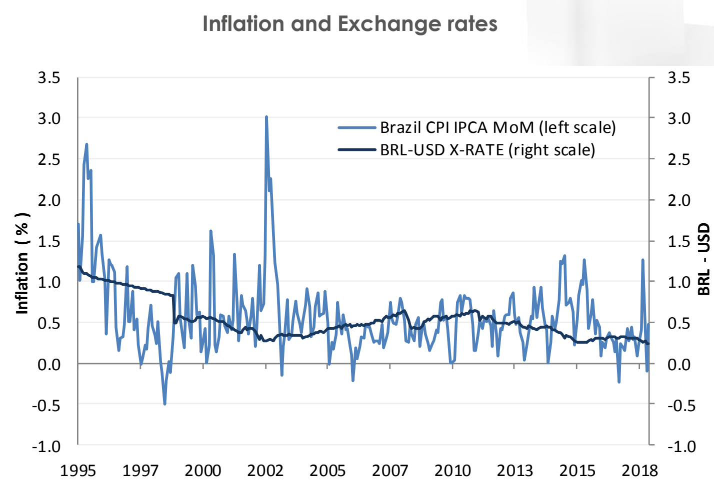
However, the recent increase in oil prices and the depreciation of the rupee will likely affect the inflation forecast for India and require some monetary policy tightening. The IMF warned that inflation in India is expected to reach 4.7% in 2018-2019, against 4.5% in 2016-2017, due to the increase in the price of fuel and the acceleration of demand. The IMF recommended that India review its forecasts, taking into account a scenario involving high and still growing inflation due to the significant depreciation of its currency.

However, the Reserve Bank's monetary policy committee has decided to keep its rates unchanged at 6.5%, expecting inflation to be manageable and preferring to implement "calibrated tightening" of its monetary policy.

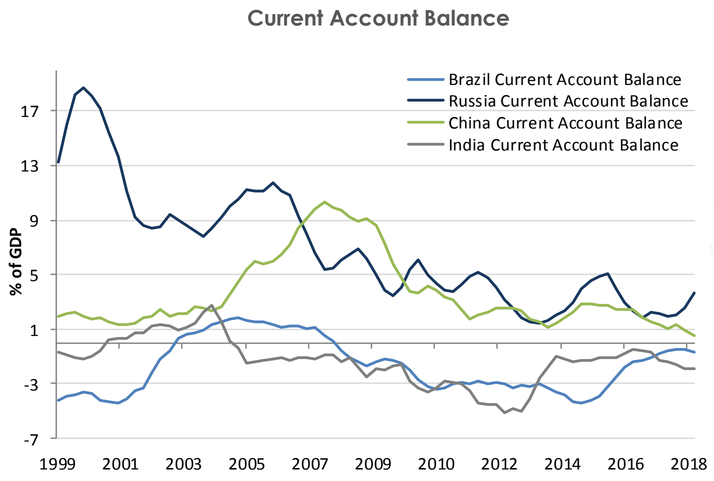
South Africa – The South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) believes that risks affecting the inflation outlook are rising. The committee remains concerned with the increasing risks weighing on inflation, mainly related to exchange rates, the increase in oil prices, and the possibility of an increase in electricity prices. The SARB has forecast a rise in inflation reaching highs close to the upper end of its target range. Inflation will thus likely maintain an average of 4.8% in 2018 before climbing to 5.7% in 2019 and dropping back to 5.4% by 2020.The MPC believes that the risks affecting the growth outlook are having a slightly negative impact on GDP.

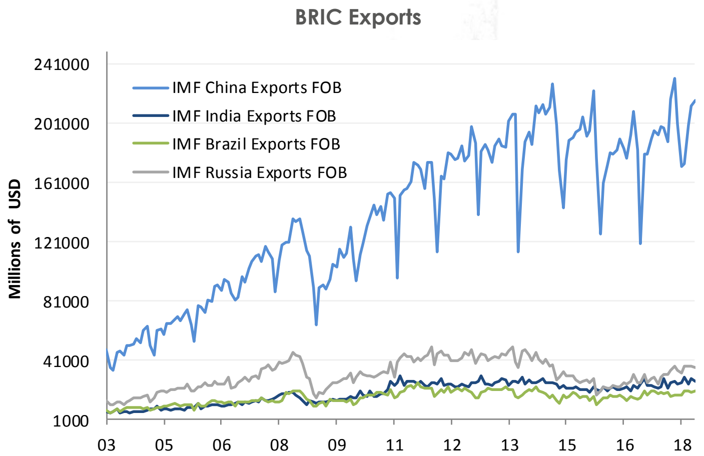
The committee still considers that the issues currently faced by the economy are essentially structural, and thus cannot be resolved only through monetary policy actions. The domestic economy has entered into technical recession following two consecutive quarters of economic contraction. Indeed, on a quarterly basis, GDP shrank by -0.7% in Q2, while GDP growth for Q1 was revised down from -2.2% to -2.6%. Nevertheless, on an annual basis, GDP grew by +0.8% in Q1 and +0.4% in Q2. The SARB is now forecasting an average growth rate of +0.7% for 2018 (vs. its July forecast of +1.2%). The forecast for 2019 and 2020 remains unchanged at 1.9% and +2.0%, respectively. The MPC thus decided to keep rates unchanged at 6.5% and to continue to label its monetary policy as accommodating.

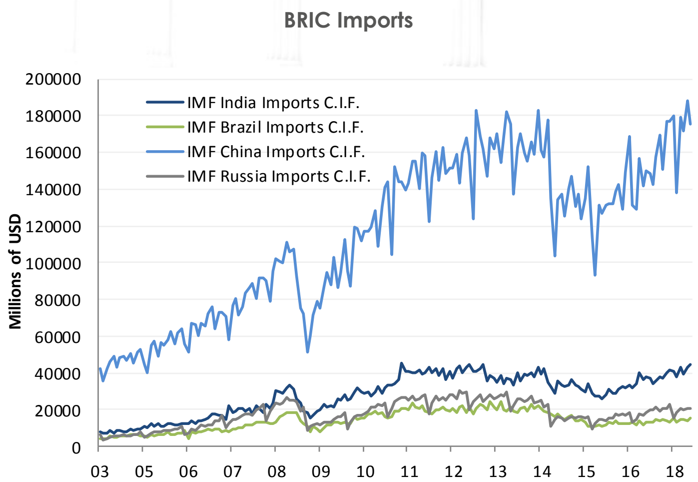




Graph sources: Bloomberg/BearBull Global Investments







Colombia – In August inflation came in at 3.1%, similar to the previous month but lower than in August 2017. The food products and goods and services most affected by the exchange rate are the components of the consumer price index (CPI) that are contributing to keeping inflation close to its 3% target.

Other significant components, such as non-tradables and regulated goods, are pushing inflation up. Inflationary expectations have changed slightly, though they remain above 3.0%. Analysts expect inflation to reach 3.2% and 3.3% by December 2018 and 2019, respectively. Economic indicators available for Q3 seem to suggest that economic growth continued to progress slowly, although still faster than in Q1.

In light of these intermediate data, the central bank maintained its growth forecast for 2018 at 2.7%. However, the bank believes that production capacity underutilisation is persisting and will be more pronounced than in 2017 by the end of the year. In this context and given its assessment of economic conditions and the balance of risks, the central bank deemed it appropriate to keep its interest rate unchanged at 4.25%.

Indonesia – Indonesia's central bank raised its key rate by 50 bps to 5.75% in Q3 in an effort to counter the depreciation of the local currency against the dollar. As for GDP growth, it came in at +5.27% in Q2, while inflation passed back under the +3% bar (+2.8%) in September.

Mexico – Mexico's key rate remained unchanged between June and September at its highest level since 2009 (7.75%). The Mexican economy expanded much faster than in the previous quarter, with a growth rate of +2.6% at the end of H1.

Taiwan – The Central Bank of Taiwan left its key rate unchanged at 1.375% on 27 September 2018, in keeping with market expectations. The bank stated that an accommodating monetary policy would continue to help ensure price and budget stability and promote economic growth.

Turkey – On 13 September 2018, the Central Bank of Turkey raised its key rate by 625 basis points to 24%, surprising the markets, which were expecting a 425 bps hike. This decision brought rates up to their highest level since 2004, in an effort to tackle the considerable rise in inflation (24.52% in September) and avoid a monetary crisis following the significant depreciation of the Turkish lira.

Romania, Czech Republic, Poland, Hungary – The Romanian economy grew slightly faster in Q2 (+4.1%) than over the first three months of the year (+4%). Although inflation remained above +5% in September (+5.03%), the central bank expects inflation to decline towards its 3.5% target at the end of the year. Key rates remained unchanged over the quarter (2.5%).

The Czech National Bank raised its key rate by 25 bps in September (1.5%), its fourth hike since the beginning of the year. Inflation remained above +2% in September (+2.3%), while GDP growth slowed over the second quarter (+2.4%).

While key rates remained unchanged (1.5%) in Poland, GDP growth stayed above +5% in Q2 (+5.1%). The annual inflation rate as of 30 September (+1.9%) continued to be bolstered by the increase in fuel prices, while the core inflation rate, which excludes food and energy, remained low (+0.8%).

The Hungarian economy (+4.8%) grew slightly faster than in Q1 (+4.4%). Inflation (+3.6%) will likely remain above 3% in the short term and reach the 3% target in the second half of the year. As for key rates, they remained unchanged over the quarter (0.9%), thus maintaining the same level since May 2016.

Graph sources: Bloomberg/BearBull Global Investments

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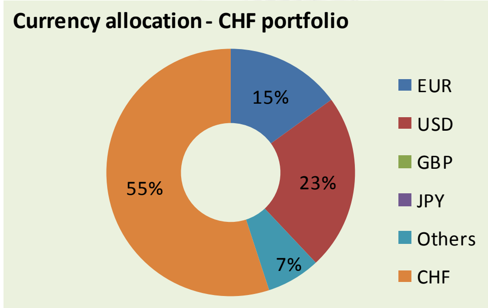
PROSPECTS AND STRATEGIES

Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Currencies

- The increasing pace of growth is temporarily lending strength to the Swiss franc
- Still some stability for the Euro
- US dollar comparatively less attractive
- The yuan is increasingly international



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

Tactical Allocation

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

The increasing pace of growth is temporarily lending strength to the Swiss franc

Our long-term forecast in January 2015 for a return to a EUR/CHF exchange rate of 1.20 came true on 20 April 2018. We mentioned at the time that a push of the euro to 1.20 was likely in the long term, though certainly not tenable in the short term. Following the strong appreciation of the European currency, we were expecting a period of consolidation, before any upward trend in the exchange rate against the Swiss franc could materialise. The correction of the past few months occurred in an uncertain political context in the Eurozone, which led to an appreciation of the Swiss franc initially expected to be temporary.

Given the particularly favourable economic conditions currently in place in our country, we consider that the GDP growth differential is for now favourable to the franc. It would thus now be imperative for economic growth in the Eurozone to be significantly higher than what it is currently to envisage a new phase of weakness of the franc.

The interest rate spread between the franc and the euro has not changed significantly, and we continue to expect that the SNB will not increase its policy rates as fast as the ECB. In the meantime, the exchange rate will likely stabilise between 1.12 and 1.17 against the euro, as will the SNB's currency reserves, which decreased from 757 billion to 730.9 billion only because of the franc's appreciation. The Swiss franc should weaken against the Euro, hitting 1.20 in 2019. It should also weaken against the US dollar, and head back above one-to-one in the coming months.

Still some stability for the Euro

In the short term, the euro has been negatively impacted by the Italian crisis. However, it is mostly the increase in the interest rate spread against the US dollar and diverging economic performances that are weighing on the currency. Given the ECB was worried about the strength of the euro in the first part of the year, it must now be reassured by its recent weakness. The euro will likely continue to stabilise against the dollar, while appreciating against the franc and once again approaching the CHF 1.20 level.

The long-term interest rate spread should, in our view, increase at the beginning of 2019 in favour of the euro. In the meantime, the ECB is very much forced to admit that favourable growth forecasts for the Eurozone are not, unfortunately, immune to the global slowdown and the rise in uncertainty. Volatility may increase amidst a political context in Europe which remains uncertain between the German elections, the Italian crisis, and the Brexit issue.

US dollar comparatively less attractive

Policies carried out have been favourable to dollar-denominated investments and to inflows into the US. The dollar is still benefitting from rather attractive yield spreads with respect to most currencies. However, we are approaching an inflection point in interest rates that could be less favourable to the dollar. By 2019, yield spreads will likely shrink due to rising interest rates in the Eurozone and in other developed and developing countries. In the meantime, funds could once again start to flow into impaired emerging market assets and into the Eurozone, whose equity markets are attractively valued.

We maintain our bullish forecast with regard to the dollar/Swiss franc exchange rate, which could reach 1 to 1.05 francs. The US currency will likely very gradually lose some of its sheen compared to the euro and to emerging market currencies, as the stock market climate improves at the end of the year.

Graph sources: Bloomberg/BearBull Global Investments

Yen still a little weaker in 2019

For several quarters we had been arguing that a weak yen was an essential prerequisite for any upturn in economic activity in Japan. A weak yen would provide a shot in the arm to the Japanese economy, enabling a more sustained pace of growth.

We estimated that a 10% depreciation against the dollar, whereby the exchange rate would increase from around 105 in March to 115 in Q2, would be sufficient to contribute to an upturn. In our March analysis, we noted that the strength of the yen was in part linked to its status as a safe haven in an uncertain context and predicted an increase of the exchange rate back to 110-115 once financial market volatility decreased. Monetary policy still aims at weakening the yen, but available means remain limited.

We continue to believe that investors will abandon the yen due to an utterly unfavourable interest rate environment and to rate spreads that will continue to penalise the Japanese currency. The implementation of monetary policy normalisation and the likelihood of further increases in long-term rates in the US will likely weigh more heavily on the value of the yen in 2018 and 2019. After reaching our objective of 115, the yen will likely stabilise before continuing to depreciate in 2019.

The pound sterling remains hostage to the political situation

The pound is no longer suffering major blows, despite the lack of concrete progress on defining the post-Brexit trade framework. We continue to believe that the pound has entered a stabilisation phase against most major currencies, after having experienced its historic drop following the Brexit vote. We had predicted that the exchange rate would stabilise in H1 2018, as indeed it did after the negotiation process resumed in December 2017.

We had then forecast further depreciation resulting from the return of uncertainties linked to the likely absence of an agreement only months away from the Brexit deadline.

The predicted increase in volatility essentially occurred in July and August via a correction, albeit limited, of the pound to a rate of 1.10 against the euro.

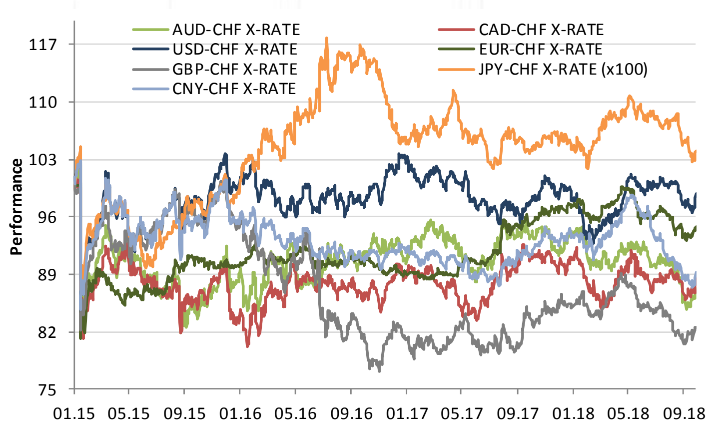
We believe the pound will likely continue to fluctuate within a relatively narrow band of 1.12 to 1.15 over the next few months, supported in particular by the slightly better economic performance in Q2. Changes in the British pound are very much linked to the current political situation surrounding Brexit. We believe that the likelihood of an agreement with the EU in October is still very low.

The yuan is increasingly international

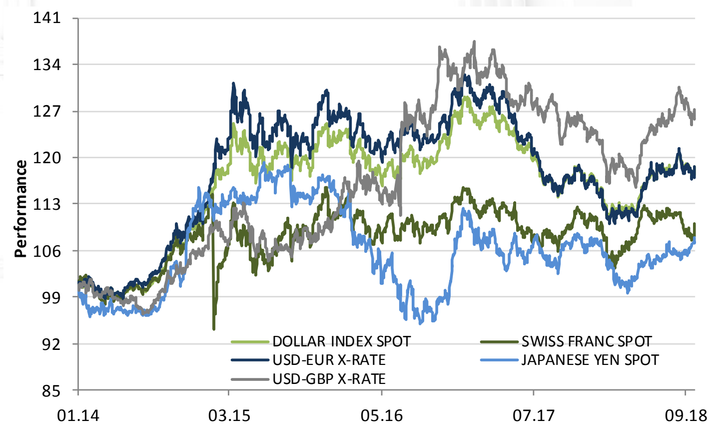
Two years ago, we wrote that the IMF had lent credibility to the yuan by adding the Chinese currency to its special drawing rights (SDR) basket (10.92% allocation). The yuan thus became a central bank reserve currency just like the dollar, the euro, the yen, and the pound. We also discussed the impact of this decision on demand for the yuan and on global perceptions of the Chinese currency.

A recent IMF report noted that the proportion of reserves held in yuan of the 149 central banks that provide a detailed breakdown of their currency reserves has grown to 1.84%. The recent +32.6% increase in yuan-denominated reserves is significant and places the yuan ahead of the Australian dollar for the first time in central bank reserve currency statistics. Political pressure by the US in attempting to deal with its trade deficit could of course have a negative impact on the Chinese currency in the short term.

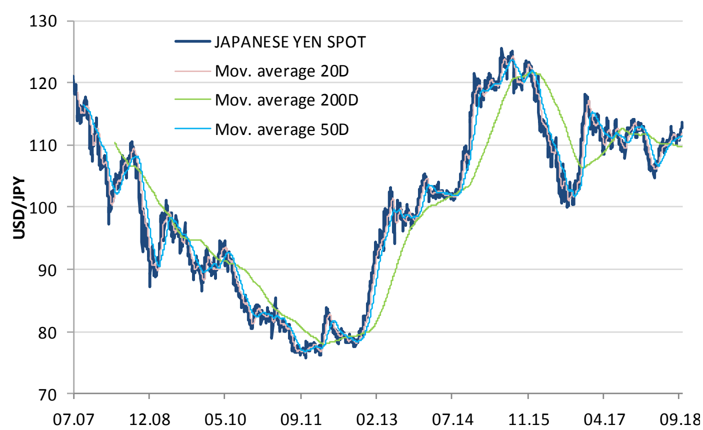
7 currencies against CHF (Normalized at 100)



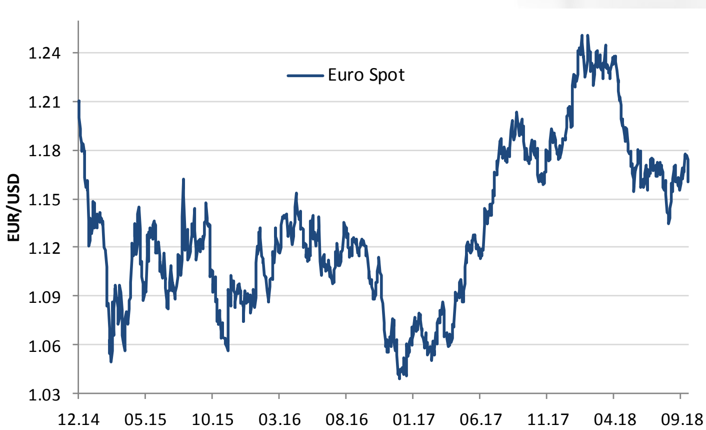
Dollar Trade-weighted index & cross rates (Normalized at 100)



JPY/USD



EUR/USD



Graph sources: Bloomberg/BearBull Global Investments

However, this activity by the central banks attests to their growing confidence in the yuan, which is thus not expected to weaken over the next few years. Hence, demand for the yuan could increase with the internationalisation of the Chinese currency beyond central banks.

China is making a concerted effort to move forward with opening up its financial markets, and the country's significant role in global trade will ensure that demand for the yuan will grow due to investment and transaction needs. The yuan thus has considerable internationalisation and appreciation potential, which will hinge on the attractiveness of yuan-denominated assets.

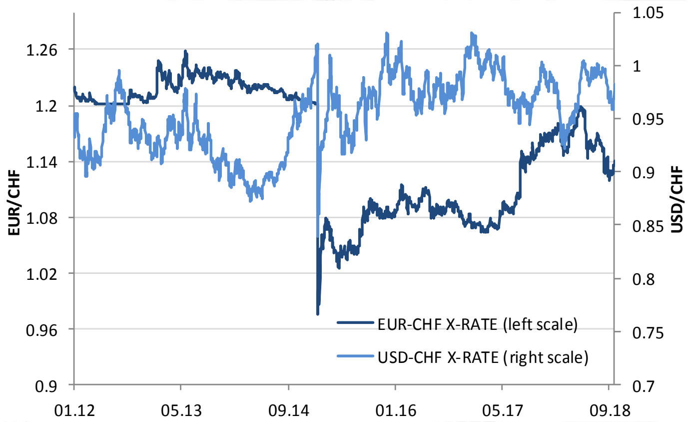
In 2018, volatility was once again high for the yuan. After a first phase of appreciation of nearly +5% against the US dollar in the 1st quarter, the yuan has slid more than -10% against the US dollar since March amidst more intense economic pressure. It is now once again close to the rate seen at the end of December 2017, at around 7 yuan to the US dollar.

CURRENCIES

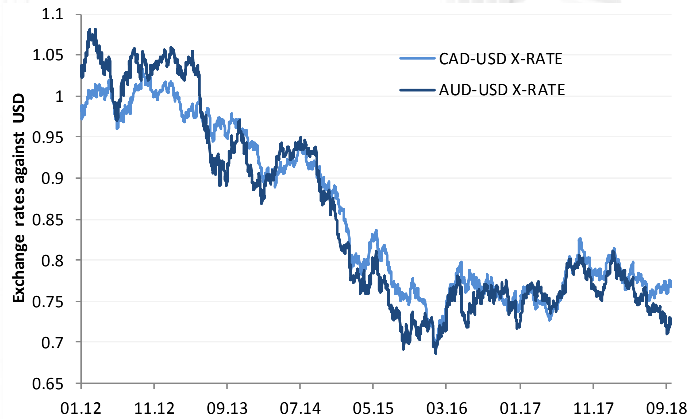
30.09.2018

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.2	-1.2	0.0	-0.3	-5.4	-3.3
CHF-USD X-RATE	1.0	-2.3	-1.3	1.2	-2.3	-0.7
GBP-USD X-RATE	1.3	-0.3	0.5	-0.9	-7.3	-3.6
JPY-USD X-RATE	0.0	-1.0	-2.3	-2.5	-6.2	-0.9
CAD-USD X-RATE	0.8	0.0	1.0	2.2	-0.8	-2.6
AUD-USD X-RATE	0.7	-0.9	0.5	-1.6	-6.0	-7.5
RUB-USD X-RATE	0.0	1.3	2.8	-3.3	-12.2	-12.1
CNY-USD X-RATE	0.1	-0.2	-0.5	-2.9	-8.4	-5.2
INR-USD X-RATE	0.0	-0.4	-2.4	-5.3	-10.5	-12.0
BRL-USD X-RATE	0.2	0.0	0.1	-3.4	-17.5	-18.2
AGAINST SWISS FRANC						
USD-CHF X-RATE	1.0	2.4	1.3	-1.2	2.4	0.8
EUR-CHF X-RATE	1.1	1.2	1.4	-1.4	-3.1	-2.6
GBP-CHF X-RATE	1.3	2.1	1.9	-2.0	-5.1	-2.8
JPY-CHF X-RATE (x100)	0.9	1.4	-1.0	-3.6	-4.0	-0.1
CAD-CHF X-RATE	0.8	2.5	2.4	0.9	1.6	-2.0
AUD-CHF X-RATE	0.7	1.4	1.8	-2.8	-3.8	-6.8
RUB-CHF X-RATE	0.0	3.8	4.3	-4.3	-10.0	-11.4
CNY-CHF X-RATE	0.1	2.2	0.8	-4.1	-6.2	-4.5
INR-CHF X-RATE	0.0	1.5	-1.5	-6.9	-8.8	-11.8
BRL-CHF X-RATE	0.2	2.1	1.3	-4.7	-15.7	-17.7

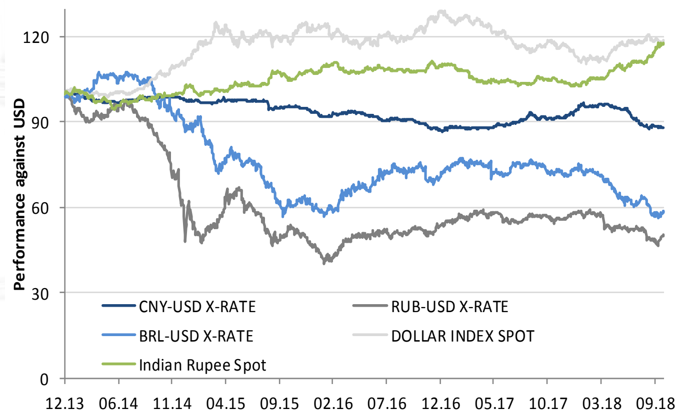
EUR/CHF - USD/CHF



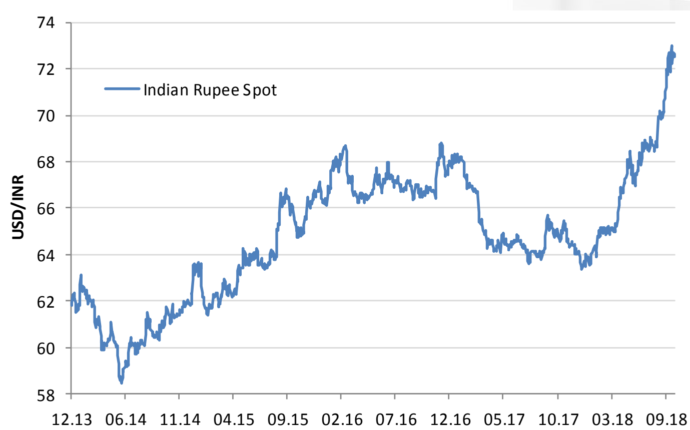
CAD/USD - AUD/USD



Emerging Currencies VS USD (base 100)



Indian Rupee

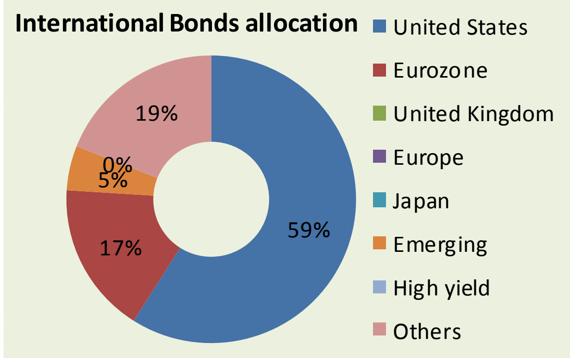


Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Bonds

- US market offers very attractive opportunities
- Long-term interest rates in the Eurozone likely to tighten
- Adjustment of long-term rates in the UK
- Prospects still poor in Japan
- Favour the US market over the Eurozone and avoid high yield



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

Tactical Allocation

- Reduce exposure to Eurozone
- Overweight US bonds
- Diversify risks through an exposure to CAD and AUD
- Sell high yield bonds

US market offers very attractive opportunities

Exceptional GDP growth of 4.2% casts doubts on the evolution of monetary policy. Until this last hike of 0.25% in key rates, the US central bank maintained that its policy remained accommodative. In its last decision released at the end of September, however, this time the bank aimed to send a new signal, without actually precisely characterising the state of its monetary policy. Thus, the Fed is conveying increasingly clearly that the normalisation process is well underway and that rates are gradually nearing the levels expected given the current growth context. The bank still seems to be committed to managing monetary policy with a steady hand, minimising any risk to current economic growth to avoid stoking concerns of excessive action.

The Federal Reserve is confident and further raised its GDP growth outlook from +2.8% to +3.1% in 2018 and from +2.4% to +2.5% for 2019, without significantly changing its assessment of current and future economic conditions, however. US growth is still considered strong, in particular following the release of Q2 figures. No change in the inflation outlook either.

According to the Fed, the strength of the job market is unlikely to have a major impact on inflation, which is now deemed to be nearing its target. However, an increase of inflation above the 2% target is considered likely in the short term and probably acceptable, as it is unlikely to spiral up further. Unexpectedly, the pace of inflation dropped slightly, slipping from +2.9% in July to +2.7% in August. In parallel, inflationary expectations also fell somewhat from +3% to +2.8% yoy. As for the longer term, the expected inflation rate over 5-10 years declined from +2.6% to +2.4%.

The production capacity utilisation rate remains high (78%), while unemployment lingers at 3.9%, likely its quasi full employment rate. In our opinion, the next upswing in inflation should subsequently be bolstered by pressure in the job market, which seems to be slow to materialise, even though the market is nearing full employment.

Amazon's recent decision to raise the minimum hourly wage of its employees by +20% may be one of the first signs that businesses are struggling to find employees at this point in the cycle, which may herald the trend mentioned above. The increase in the hourly wage rate, up +2.9% in August, is thus somewhat troubling and, in our view, supersedes the risks of a surprise upswing in inflation.

As predicted, long-term rates increased to 3%, and we currently believe that they are likely to exceed this level eventually. Inflation, likely the main catalyst of the increase, is currently not high enough to trigger a further increase in 10-year rates. However, in the slightly longer term, the growth in budget deficits or a change in China's attitude toward financing the US deficit could contribute to a rise in long-term rates.

BOND INDICES (local currency)

30.09.2018 — Total Return Performance

	Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %
SWISS BONDS	SBI AAA-BBB	134.6	CHF	-0.1	-0.8	-0.8	-0.7	-1.3
UE BONDS	Barclays EuroAgg	247.6	EUR	-0.3	-0.3	-0.8	-1.1	-0.5
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	143.2	EUR	-0.2	0.1	-0.5	-1.1	-0.8
US BONDS	JPM U.S. Aggregate Bond Index	621.8	USD	0.2	-0.7	0.1	0.0	-1.7
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USDA1	8.4	USD	0.3	0.0	0.4	0.4	0.3
EMERGING BONDS	JPMorgan Emerging Markets Bond	531.8	USD	0.8	1.8	2.6	-1.7	-3.6
INTERNATIONAL BONDS (DIVERSIFIED) - USD	JPM Global Aggregate Bond Index	556.5	USD	-0.4	-0.8	-0.6	-3.1	-2.4
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	JPM Global Aggregate Bond Index	629.2	EUR	0.8	-0.6	-0.7	2.4	1.0
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	141.2	CHF	1.7	0.6	-1.2	0.1	-2.5
CONVERTIBLE BONDS (UE)	Exane Europe Convertible Bond	7784.5	EUR	-0.2	-0.2	0.9	2.5	0.7
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	145.6	USD	-0.4	0.3	2.4	0.8	0.7
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	14.7	USD	0.1	0.2	1.7	1.9	1.3

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

Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

The strength of the US economy is reviving expectations of key rate and long-term rate normalisation. For several months, yields on 5-, 10-, and 20-year maturities had converged towards 3%, resulting in a flattening of the yield curve and eliminating the risk premium on longer maturities. As we ponder what an appropriate level for long-term rates should be given the strong growth environment and with inflation exceeding the Fed's target, uncertainty is rising and pushing long-term rates slightly higher. In the short term, the risk premium on long-term rates will likely reconstitute, which could drive 10-year rates up to between 3-3.5%.

The latest developments in the US bond market are particularly interesting. Yields observed all along the government and corporate yield curves are offering real investment opportunities. We think that the increase in government bond yields currently offers an excellent opportunity to diversify into the fixed income segment. Indeed, current yields protect the investor from a potential continuation of the recent upward trend, which is not the case in the Eurozone for example. The US market will thus likely fairly rapidly benefit from the renewed interest of investors seeking quality yields in a safe currency and see a risk transfer and an inflow of funds coming from the European market.

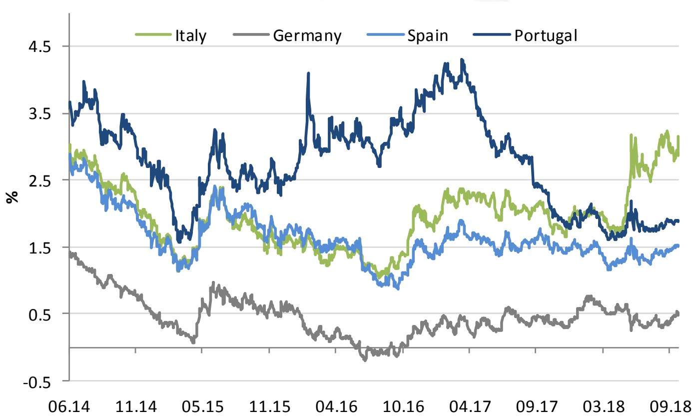
With regard to credit default risk, in this context we recommend rapidly reducing exposure to the US high yield market, which is exhibiting significant risks of imbalance and price corrections as risk premiums readjust. The increase in yields on investment grade issuances will likely attract funds that were until now invested in the more risky segment of the market. Thus, the current risk premium, which is at a 10-year low and close to levels observed just before the 2007-2008 financial crisis, could undergo a significant and brutal readjustment.

Long-term interest rates in the Eurozone likely to tighten

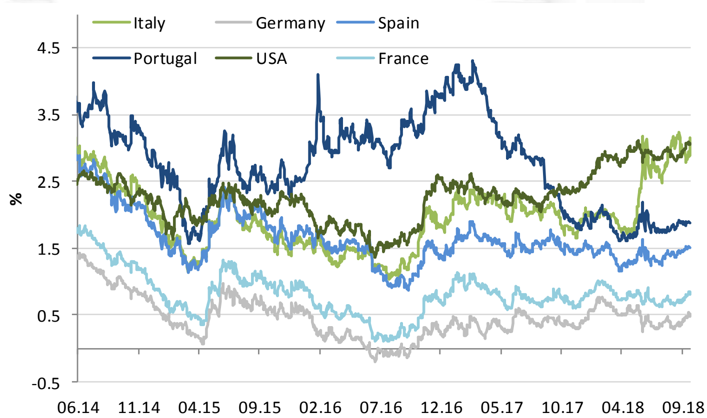
The ECB is pointing to vigorous inflation in the Eurozone. President Draghi seems convinced that the job market will show increasing signs of upward pressure on wages, which will lead to an increase in underlying inflation over the next few months. It is indeed true that trends are positive and that wages have increased somewhat faster in Q2 (+2.2%). Unemployment has reached a 10-year low (8.3%), while the employment rate (67%) is at an all-time high. Inflation reached +2.1% in September, which seems to confirm the ECB president's view, although its core component slowed down to +0.9% over the same period. We think this latest development somewhat contradicts the ECB's assessment and could contribute to delaying the next rate hike to year-end 2019. This development also affects the perception of long -term rates' normal levels, which is tied to inflationary expectations, the growth rate, and the ECB's quantitative policy. The change announced by the ECB will alter supply and demand dynamics going forward.

ECB asset purchases had been absorbing almost all net new issuance of sovereign bonds in the Eurozone; the termination of these purchases will boost yields. Given the favourable economic context, the fall in demand will undoubtedly result in an increase in long-term rates at the beginning of 2019. The 10-year German Bund yield has exceeded 0.55% and will thus now react more sharply to any inflation news. After a long phase of consolidation around 0.5% for 10 year terms, German government bond yields will likely tighten once again and rise back up to 0.75%-1% at the beginning of 2019. The Italian crisis remains a factor, likely temporary, that could hamper or interrupt this trend. The depreciation of the euro against the dollar is also an important variable with regard to evaluating the appreciation potential of long-term rates. We now think that this factor is no longer an impediment to the logical adjustment of the yield curve in the Eurozone. Even though the ECB's decision is not a surprise, we believe that its true impact will only be felt over the next several months. Only then will investors fully take into account the risk of price corrections. We recommend not waiting to further reduce exposure to euro bond risk.

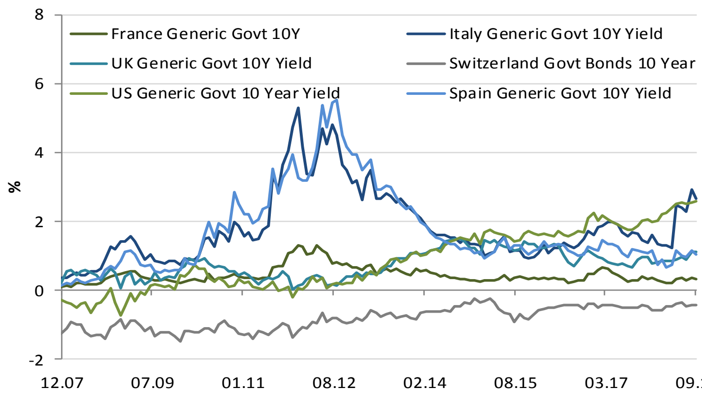
European Bonds (10 year yield)



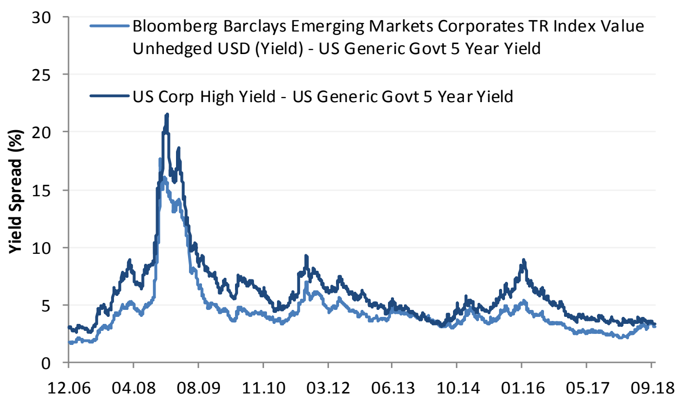
10 year yield



Risk premium over Bund



Risk premium over Treasury



Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

Adjustment of long-term rates in the UK

The latest inflation figures for August were somewhat surprising to observers. The +2.7% increase in the CPI was indeed much larger than expected. This increase is of course not welcome, as it will offset the rise in nominal wages and will thus not lead to a rise in purchasing power. Moreover, the production price index also rose by +2.9% yoy last month, against a yoy increase of +3.1% in July, with a deceleration in materials and fuel prices (input costs). Price index growth is thus not yet showing the hoped-for signs of subsiding, both with regard to the CPI and PPI.

We continue to predict that inflation will stabilise above the BOE's 2% target, and we continue to pay attention to the risks of a potential long-term rate adjustment in the event of a still relatively unlikely upturn in economic activity. However, given the context we expect that the bond market will likely be more attentive to and impacted by domestic fundamentals and by Brexit-related uncertainties. We do not believe that the economic slowdown in the UK is sufficient to justify long-term rates being lower than inflation over the long-term, and we thus anticipate a steepening of the UK yield curve.

Prospects still poor in Japan

The upswing in the price indices in Q2 was welcome. Indeed, they slackened only for as long as the yen was appreciating. Inflation (CPI) rose above 1%, establishing itself at 1.3% in August. An upswing in prices was conditioned upon on a depreciation of the yen, but inflation is still far from the BOJ's target (2%), and production prices are not showing sufficient momentum to establish a more robust trend overall. However, the current context is clearly not favourable to the bond market, which still fails to offer attractive prospects to foreign investors.

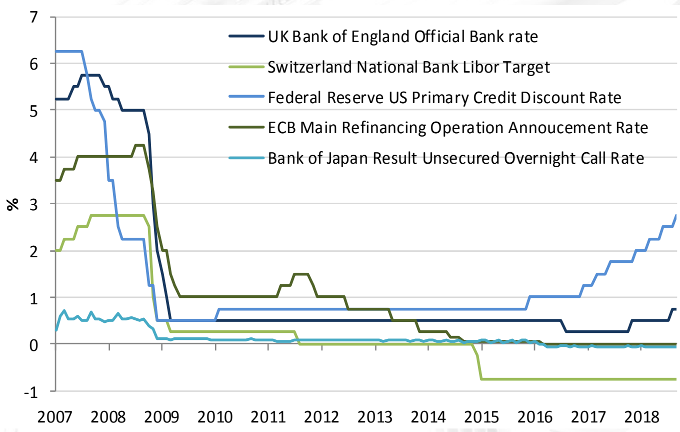
Favour the US market over the Eurozone and avoid high yield

As 2018 comes to an end, interest rate markets are presenting very different pictures. In the US, rising rates are pushing long-term yields above 3%, as we were expecting. We believe that the US economic context warrants this adjustment, which will likely subside and stabilise around 3.5%, in particular if US growth decelerates as expected in 2019. In the Eurozone, the ECB's European government bond purchases kept long-term yields low in 2018, but once the bank terminates purchases come 1 January 2019, sharp imbalances are likely to emerge. European countries' refinancing needs, which continue to be high, will come up against reduced investment demand.

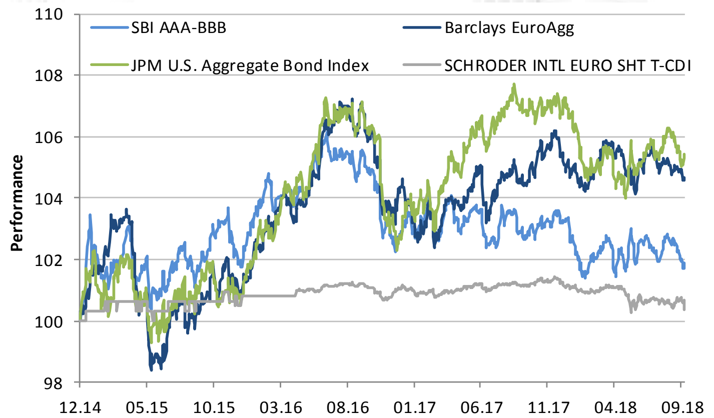
An adjustment shock with regards to yields may be unavoidable in order to rebalance the market. Thus, we think that the increase in yields on US government debt currently offers an excellent opportunity to diversify into the fixed income segment. Indeed, current yields protect the investor from a potential continuation of the recent upward trend, which is not the case in the Eurozone for example. The US market will thus likely fairly rapidly benefit from the renewed interest of investors seeking quality yields in a safe currency and see a probable risk transfer and inflow of funds coming from the European market.

With regard to credit default risk, in this context we recommend rapidly reducing exposure to the US high yield market, which is exhibiting significant risks of imbalance and price corrections as risk premiums readjust. The increase in yields on investment grade issuances will likely attract funds that were until now invested in the more risky segment of the market. Thus, the current risk premium, which is at a 10-year low and close to levels observed just before the 2007-2008 financial crisis, could undergo a significant and brutal readjustment.

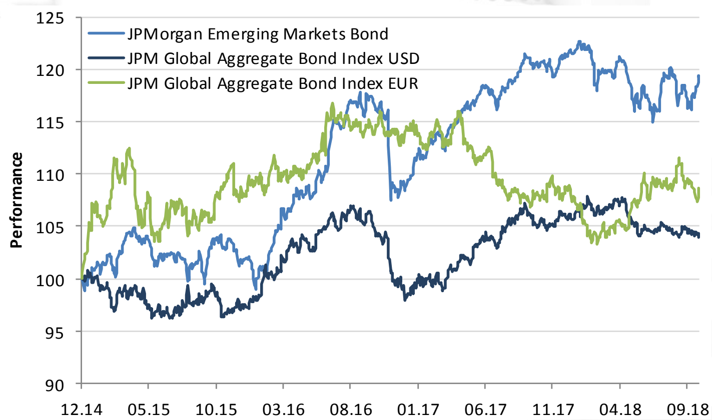
Central Bank rates (EUR, CHF, GBP, USD, JPY)



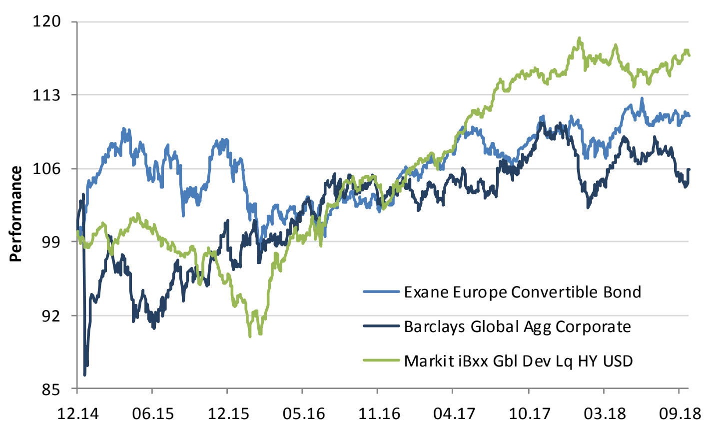
YTD Performance of Bond Indices 1- 5 years (Normalized at 100)



Emerging Bonds - Performance (Normalized at 100)



Eastern Europe Bonds - Performance (Normalized at 100)



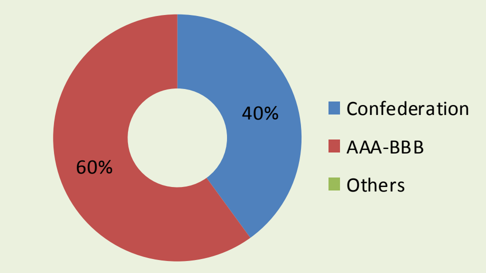
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Bonds

- Steepening of the yield curve
- ECB monetary policy will affect the Swiss market
- Stronger upward trend
- Real yields still negative in Switzerland

Swiss Bonds allocation



Tactical Allocation

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

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

Steepening of the yield curve

The acceleration of the pace of GDP growth (+3%) and the increase in inflation in Switzerland to over 1.3% yoy now indicate a more sensible normalisation of long-term rates. Last quarter we predicted the end of micromovements in long-term rates and an acceleration of the interest rate normalisation process, which now seems to be under way. Consequently, the yield curve will likely steepen further in 2019, as the SNB's monetary policy will remain unchanged and will maintain higher yields on the short end. The Swiss economy is currently benefiting from favourable dynamics and from a combination of factors that should continue to support positive trends in manufacturing, consumption, investment, and exports. The current health of the Swiss economy and the positive outlook on fundamentals will likely strengthen the pace of normalisation of yields in Swiss francs. Ten-year Swiss government rates are currently in the last phase of stabilisation, and slightly above zero (0.1%), before they start trending upward, which could take them up to 0.5% by the end of 2019. The SNB's key rates could remain unchanged at -0.75%, which would likely lead to one of the sharpest steepening ever of the yield curve in our country. Two related factors are still holding back the acceleration of this normalisation process: the monetary policies of both the SNB and the ECB.

ECB monetary policy will affect the Swiss market

The SNB's monetary policy is the main factor keeping long-term rates stable at the moment, via the pressure exerted by key rates on the short end of the yield curve. This factor should remain stable, as we do not expect the SNB to take action before the ECB, which in turn is unlikely to act before the end of 2019. The second factor is related to the ECB's monetary policy, which is hampering the rise of yields in euros via a similar action to that of the SNB (negative key rates) and in particular via its European government bond purchase programme.

The latter factor will likely disappear shortly and result in an adjustment of European yields possibly more brutal than what currently seems to be expected. The correlation among interest rate markets remains high overall, but for the Swiss market, expected developments in the European bond market in 2019 will likely be the primary adjustment factor. An increase in yields in the Eurozone would thus result in the normalisation of yields in Switzerland.

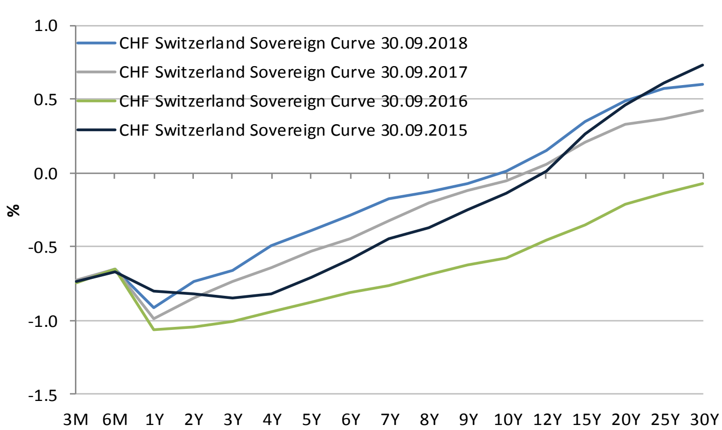
Stronger upward trend

Last quarter we predicted the end of micromovements in long-term rates and an acceleration of the interest rate normalisation process, which now seems to be under way. Consequently, the yield curve will likely steepen further in 2019, as the SNB's monetary policy will remain unchanged and will maintain higher yields on the short end. The upward trend in Swiss long-term rates will thus likely strengthen slightly, while the yield spread with regard to German long-term rates should increase, due in particular to stronger economic momentum in Europe and to the scheduled termination of the ECB's bond-buying programme.

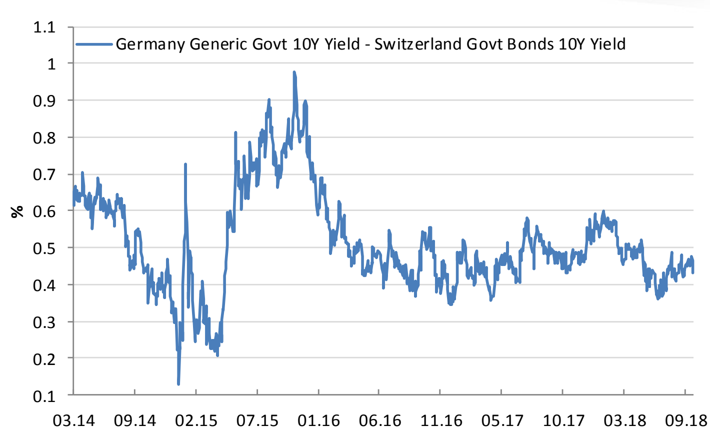
Real yields still negative in Switzerland

Real short-term yields sunk further into negative territory as inflation rose from 0.8% to 1% in 2018. However, the increase in 10-year nominal yields from -0.15% to +0.095% over the same period kept real long-term yields stable at around -1%. This situation remains abnormal; negative real interest rates are likely temporary and should gradually correct as long-term rates rise above the inflation rate. Nevertheless, they will likely remain negative for all of 2019. We are overweight high grade issuers and short maturities given a more competitive international context penalising high yield debt.

Switzerland Sovereign Yield Curve

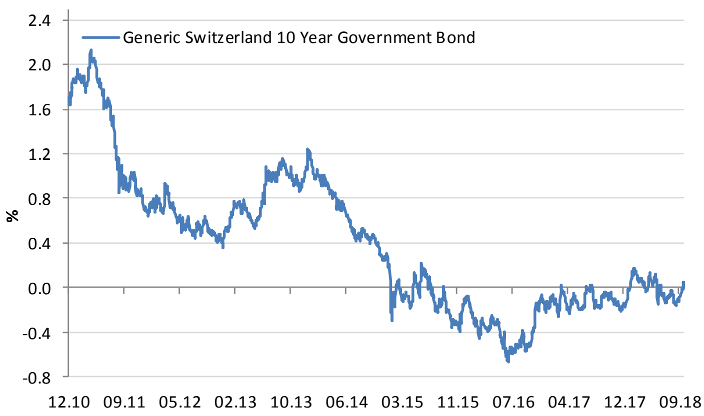


Long rates Yield Spread (German Bund - Swiss Confederation)

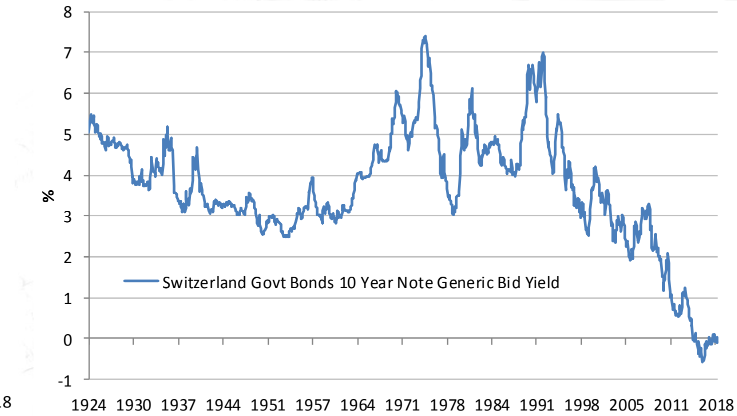


Graph sources: Bloomberg/BearBull Global Investments

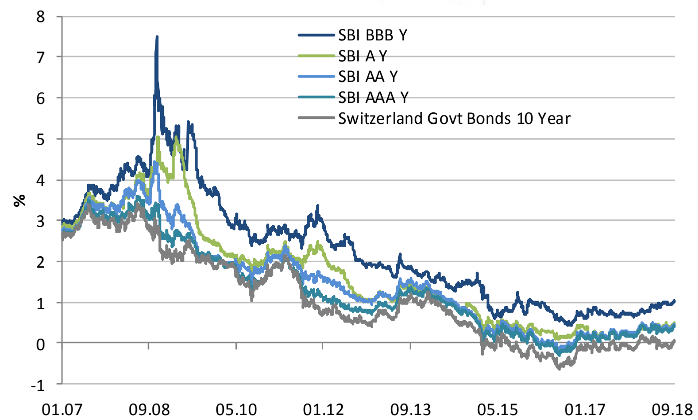
Switzerland Government Bond yield (10 year)



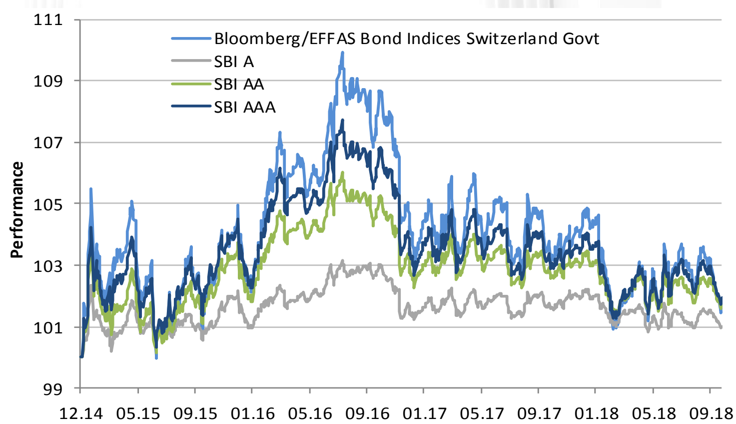
Switzerland Government Bond yield (10 year) since 1924



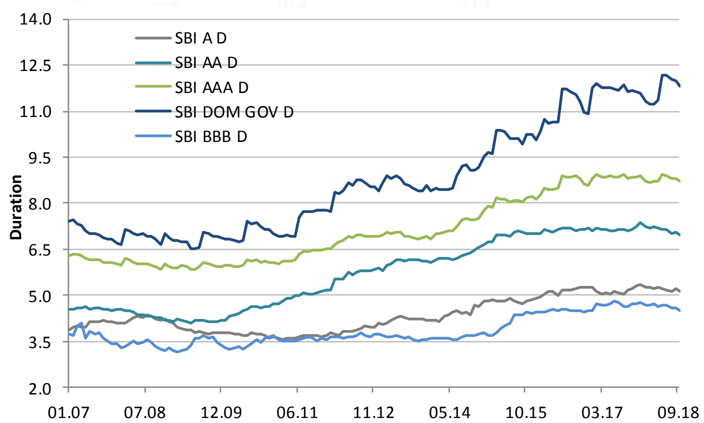
Yield by debtor type



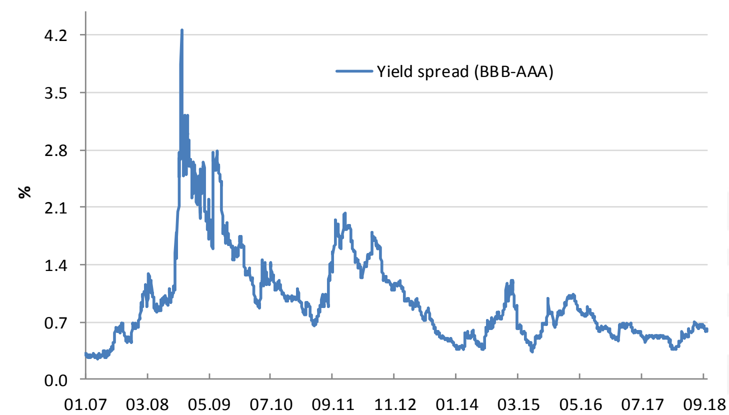
Performance of Swiss Bonds (Normalized at 100)



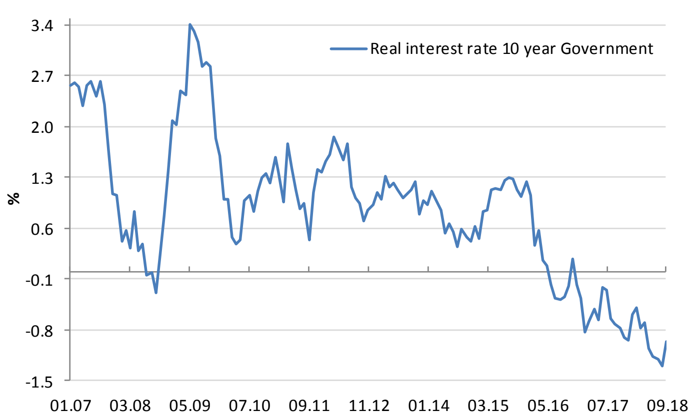
Duration of Bond Indices



Yield spread



Real Interest Rates



Graph sources: Bloomberg/BearBull Global Investments

SWISS BOND INDICES (CHF)

30.09.2018 Total Return Performance

ISIN	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	255.3	CHF	0.0	-1.3	-1.6	-0.9	-2.3
SBI A-BBB	135.1	CHF	-0.2	-0.4	-0.2	-0.6	-0.8
SBI AA-BBB	133.3	CHF	-0.2	-0.6	-0.5	-0.7	-1.0
SBI AAA-AA	133.9	CHF	-0.1	-0.9	-1.0	-0.8	-1.5
SBI BBB	146.8	CHF	-0.1	-0.2	0.0	-0.5	-0.6
SBI AAA-BBB	134.6	CHF	-0.1	-0.8	-0.8	-0.7	-1.3
SBI DOM GOV AAA-BBB 1-3P	69.2	CHF	-0.1	-0.3	-0.8	-1.7	-2.4
SBI DOM GOV AAA-BBB 3-7P	87.4	CHF	-0.2	-0.8	-1.2	-2.0	-2.4
SBI DOM GOV AAA-BBB 7+ P	123.3	CHF	0.0	-1.9	-2.4	-1.6	-4.4

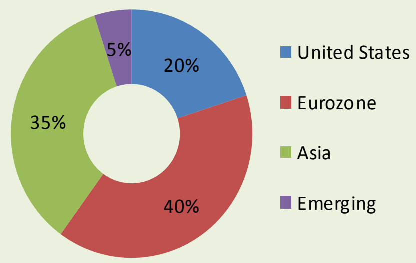
PROSPECTS AND STRATEGIES

International Real Estate

- Real estate prices continue to rise
- Japanese securitised real estate was the top performer
- The increase in US rates was not enough to punish real estate investments
- Negative real-terms interest rates continue to work in real estate's favour
- Asian real estate is standing strong and offering a new opportunity

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

International Real Estate allocation



Tactical Allocation

- Overweight Europe and Asia
- Cash 0%

Real estate prices continue to rise

In the United States, the pace of growth in real estate prices slowed again in July, sending overall growth of real estate assets to +5.9% year on year. It was the 4th consecutive month of slowing prices, suggesting waning buyer interest in a context of mortgage rate rises and high prices. However, demand remains robust thanks to a strong jobs market and high confidence.

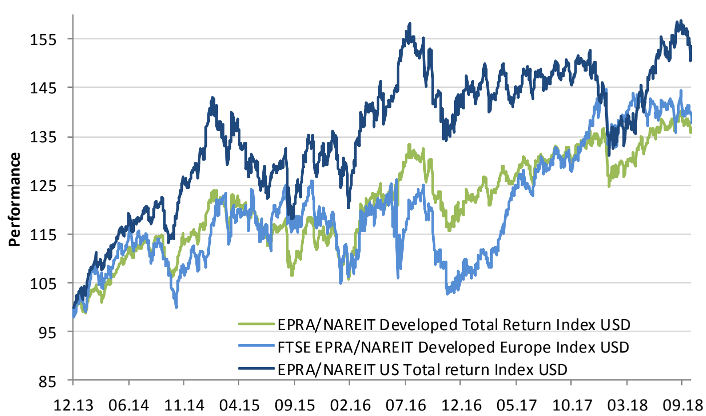
The US economic trend will remain strong, and will prop up continuing price rises, though at a much slower pace. The market is showing signs of running out of steam, but will once again benefit from rather weak inventories. In this context, investors are clearly justified in maintaining their exposure to the US real estate sector, though with smaller allocations. In Europe, real estate prices are not wavering, and continue with the upward trend that started in 2014. According to the Eurostat Index, house prices increased +4.3% year on year in the Eurozone and in the European Union as a whole in the 2nd quarter. The quarterly rise stands at +1.4% and shows no sign of any recent dip. The greatest year on year rises were seen in Slovenia (+13.4%), Ireland (+12.6%), and Portugal (+11.2%).

Only Italy (-0.2%) and Sweden (-1.7%) did not benefit from this. We have yet to see the trend weaken, potentially helped on its way by an improvement in economic conditions and in the labour market. Financing for mortgages in the EU and the Eurozone remains particularly attractive, and ECB monetary policy carries little risk of affecting conditions relating to access to the real estate market in the short-term. We are still prioritising this region in our allocation of real estate assets.

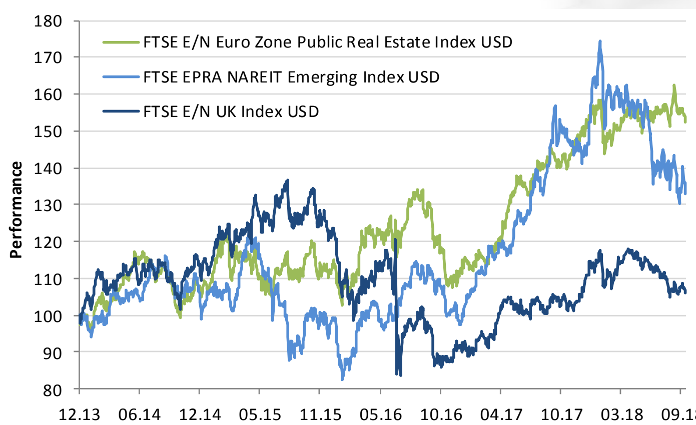
In the United Kingdom, Brexit continues to weigh heavily on investor sentiment and real estate prices. In July, London real estate prices posted their starkest drop since 2009. Across the country as a whole, growth still stands at +3.1% year on year, but this is the weakest growth since August 2013. The British market is still haunted by the spectre of Brexit, and has yet to present any opportunities to reposition.

We recommend avoiding this market for now, at a time when the Bank of England has said that real estate prices may plunge 25% in the pessimistic scenario of Brexit with no agreement.

EPRA Nareit - USA, Europe, Global (USD)



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



Graph sources: Bloomberg/BearBull Global Investments

In China, real estate prices started to rise again over summer; price growth year on year rose from +5.7% in June to +8% at the end of August in the seventy largest Chinese cities. However, the market situation is far from uniform. There is great variation between large urban centres and cities in the provinces. Understandably, concern in the country is rising, and starting to affect the balance of some real estate market segments. The real estate sector is particularly important for Chinese households, as it represents the main form of saving and investment.

The government has always been aware of the inherent risk of weakness in this sector and still has the means at its disposal to provide support. For the time being, we do not foresee any significant price correction, despite changes in forecasts linked to the trade tensions between China and the United States. It is, however, likely that prices will consolidate. In this context, we continue to prioritise the Chinese real estate market, mainly due to the valuation of securitised real estate, which is still very much affected by the risks set out above.

Japanese securitised real estate was the top performer

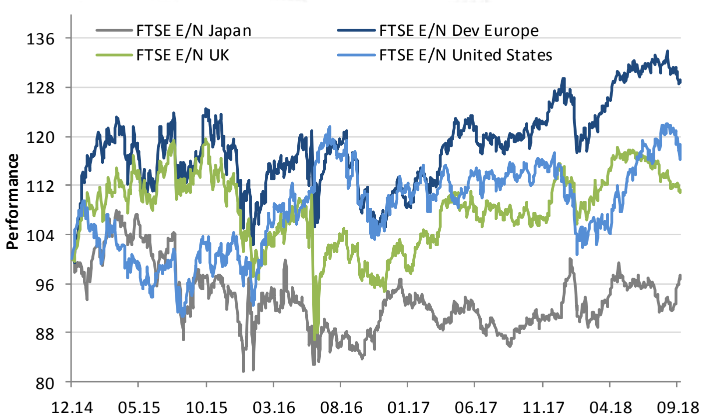
The US securitised real estate market could well have been the first affected by the interest rate rise in 2018, but that has clearly not been the case for now. It was the first market affected by the economic weakness in the 1st quarter, and recovered particularly well thereafter during the period of economic recovery and interest rate rises.

In local currency, US securitised real estate posted a satisfactory performance of +2.7% over nine months. The 1st quarter was very much favourable for the Asian market; thanks to a positive result, it clearly outperformed the Eurozone and the United States by nearly +20%, the latter two having remained negative in local currency.

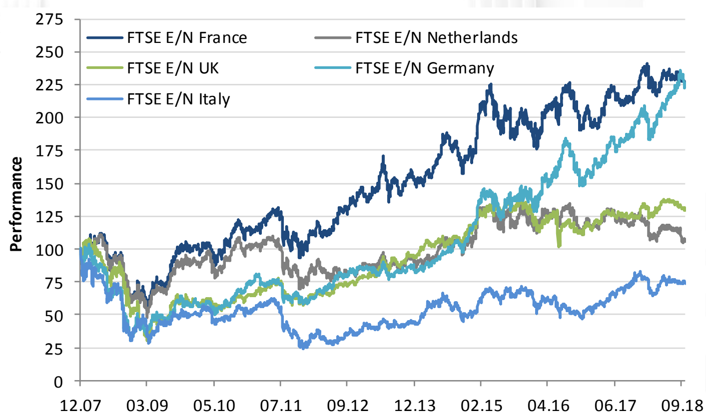
In June, the 2nd quarter bounce back in the US market enabled it to achieve similar performance to other regions, thanks to the -20% drop in Chinese assets. In the end, the 3rd quarter saw convergence of the Eurozone results (+2.35%) over nine months, and slight under-performance in Asia (-0.67%), due to uncertainty weighing heavily on emerging markets. We believe that the Australian securitised market has benefited from investors repositioning so as to reduce their risk linked to emerging markets and China in the Asia-Pacific zone. This helped Australia to achieve a relatively steady +5.65% rise in context of price contractions on residential real estate (-0.6%).

Chinese securitised real estate still managed to rise +2.3%, but this positive result masks the nearly -20% plunge in prices during the second half of June, and the subsequent stabilisation of the market in the 3rd quarter. Japan is propping up the performance of the whole Asia-Pacific zone thanks to its excellent +6.9% result in yen over nine months. Japanese securitised real estate is benefiting from investors repositioning in Asia onto a developed market, while land prices saw their first modest rise in 27 years in July, at +0.1%.

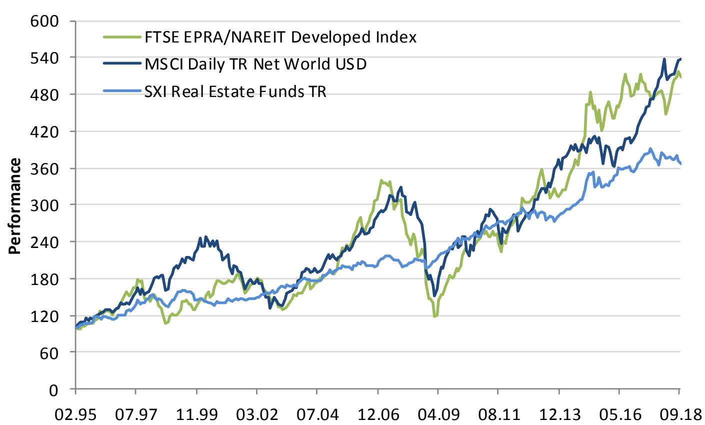
Real estate markets (local currency)



European real estate markets (local currency)



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



Graph sources: Bloomberg/BearBull Global Investments

INTERNATIONAL REAL ESTATE INDICES (local currency)

30.09.2018 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	2666.2	USD	-1.5	-2.4	-0.1	3.0	-0.8
DEVELOPED	EPRA/NAREIT Dev TR USD	5022.6	USD	-1.1	-2.0	0.5	5.6	0.8
DEVELOPED EUROPE	FTSE E/N Dev Europe	2192.3	EUR	-0.5	-3.0	-1.0	4.3	0.9
EUROZONE	FTSE E/N Euro Zone	2631.9	EUR	-0.4	-3.7	-0.7	5.6	2.3
USA	FTSE E/N United States	2913.7	USD	-1.1	-2.7	1.7	11.7	2.7
DEVELOPED ASIA	FTSE E/N Dev Asia	1517.9	EUR	0.7	0.1	-0.5	5.6	2.7

Risks of a slowdown remain slim

The international economy has stuck to a robust trend, despite trade tensions pointing to the risk of a slowdown in the not-too-distant future. Warnings from the IMF and other experts speaking of a likely slowdown in 2019 if the United States and China follow through on their clash about customs issues are probably overstated, and will specifically depend on what the governments will do with these duties.

Indeed, it is possible that they might not be all that negative for growth in the end if they are pumped back into the economy in the form of budgetary spending. Whatever the case may be, a slowdown would not have the same impact on the construction and real estate sector as a recession. As such, we believe that the global economic expansionary phase will continue and will be beneficial for real estate.

The increase in US rates was not enough to punish real estate investments

Over the first nine months of the year, rises in interest rates came first and foremost in the United States, while the Eurozone and Japan saw more minor movements. The Fed's normalisation of key interest rates went hand in hand with an acceleration in long-term yields in US dollars, and more generally speaking, the whole of the interest rate curve saw an adjustment.

For several quarters, we had been saying that the pace of normalisation would step up, and that ten-year Treasury rates would head north of 3% and then hit 3.5% once inflation figures exceeded the central bank's target. The 3rd quarter drew to a close in a context of recovery on long rates, which should push long-term yield towards 3.5% at the start of 2019. Nonetheless, the US securitised real estate market remains relatively calm in this context, posting +2.7% growth over nine months, which is slightly lower than dividend yield.

Often negative real-terms interest rates continue to work in real estate's favour

Recent developments in the United States have confirmed our forecast of a steady rise in inflation, which should remain above the Federal Reserve's target in the long-term. We still believe that the already-visible impact on the jobs market foreshadows an improvement in salaries and household income, which will in turn affect demand and prices. Changes in energy and commodity prices will continue to put pressure on prices, as will the rise in customs duties potentially.

In the United States, inflation still stood at +2.7% in August, then +2.3% in September, which is slightly under the twelve-month rates (2.9%) and ten-year rates (3%). Real-terms rates in the United States have therefore crossed a threshold and are once again just in the black. Nevertheless, we do not think it enough to punish the real estate market. In the Eurozone, twelve-month yields are still negative, and, at 0.5%, the ten-year yield of the German Bund is far off the +2% inflation seen in September. Real-terms yields are therefore clearly negative in the Eurozone; this is also the case, among others, in Japan. Regular rises in inflation will only strengthen this trend, which we believe will be beneficial for the sector. Real estate market performances should therefore be higher when real-terms interest rates are low and growth prospects are equal to or higher than their past average. As the global economic trend shores up, so too will rent growth forecasts rise, which will be positive for the valuation of real estate assets.

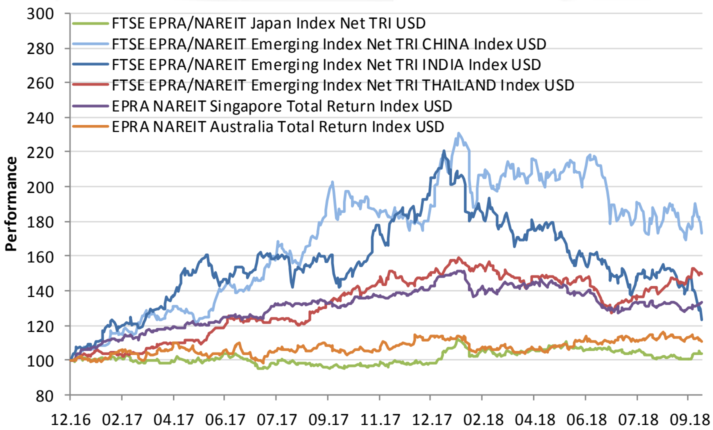
Asian real estate is standing strong and offering a new opportunity

In the end, Asian real estate stood quite strong in the face of pressure and threats from the US president which had rather worried Asian and emerging equity markets. Asian real estate only corrected –0.67%, thus hardly under-performing European (+2.35%) and US (+2.7%) assets. Their relative performance is better than the relative performance of Chinese (-9%) and Asian (-2.6%) equities compared to the developed markets of Europe (+1.3%) and the United States (+10.1%).

A trade war would have an impact on the various regional economic trends, and Asia would undoubtedly also be affected. However, Asian real estate can count above all on robust domestic investment demand, which would only be slightly affected by trade tensions. The Chinese market could see an increase in relocation activity in some industries, particularly towards Viet Nam. This has already been happening for a few years. Most segments, however, should not be affected. The Chinese authorities have taken measures to relax foreign investment restrictions, not without some success, and hope that this will compensate for any potential negative impact of relocation outside of China. The appetite of domestic investors remains high in China and in South-East Asia.

We believe that securitised Asian real estate should benefit from a change in regional risk analysis over the coming months, which should foster demand and price changes. The -20% fall in Chinese real estate assets has perhaps not yet finished, but it seems to have already sufficiently incorporated the increase in risk. Asian real estate is prioritised in our allocation.

Real estate markets (USD)



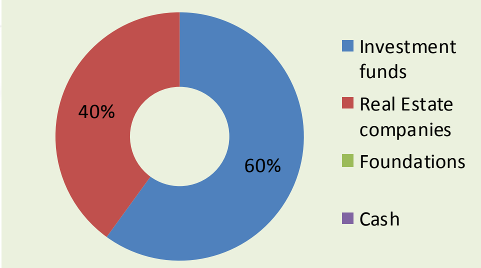
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Real Estate

- Real estate companies take the lead
- Attractive yields and sharp adjustment of premiums
- No major impact expected from rate increases

Swiss Real Estate allocation



Tactical Allocation

- Decrease Funds to 60%
- Increase exposure to Real Estate Shares to 40%

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

Real estate companies take the lead

After tumbling in February (-4%), real estate companies rapidly recovered lost ground with stock market gains of close to +5% in May, which then eroded away until all upside was wiped out by the end of September, for a net final result of +0.04% over 9 months. Real estate companies thus close the quarter unchanged in terms of share price, even though they spent most of the year in positive territory in terms of performance. Real estate funds, on the other hand, have so far this year been unable to generate positive results, finishing the quarter down -4.3%. Indeed, investment funds systematically underperformed real estate companies through the end of September. The correlation between investment funds and the Swiss equities market remains high, even though the performance of Swiss equities (+0.5%) was ultimately more similar to that of real estate companies, mostly as a result of the stock market rally in July. Over the next several months, we stay overweight real estate companies, while maintaining a large exposure to investment funds.

Attractive yields and sharp adjustment of premiums

Real estate companies are trading at around 16x current earnings, but a forward valuation of 20.6x expected 2019 earnings seems high by historical comparison in the absence of stronger earnings growth. However, real estate companies have a significant comparative advantage in terms of yield, since their average yield still exceeds 4%, thus offering excess yield of close to 1% compared to the average yield of investment funds, which has stabilised at 3%. In both cases, yield levels are attractive given the current level of Swiss-franc interest rates, which, despite a very slight increase, still remain just slightly above zero. Investment funds' average premiums have contracted since the highs of around 30% reached in 2017 and are currently at 17%. Average premiums are thus once again close to their 30-year average, which is a positive factor supporting the market. In contrast, real estate company premiums are currently still relatively high (18%) by historical comparison, although this puts them on a level playing field with real estate investment fund premiums.

No major impact expected from rate increases

Overall, the real estate segment was affected by the increase in bond yields in Swiss francs seen in January and September. However, real estate companies performed better in relative terms as yields stabilised. We still think that, with yields of 3% to 3.8% and similar premiums, real estate investments in general in Switzerland should not fear a moderate rise in interest rates. The impact of rising rates will be limited.

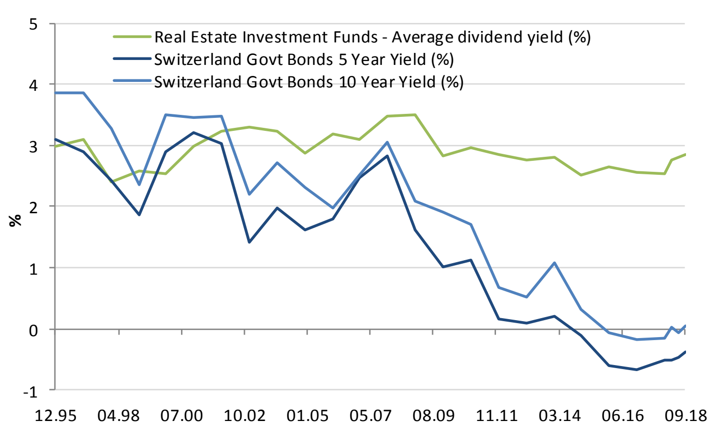
SWISS REAL ESTATE

30.09.2018 — Total Return Performance

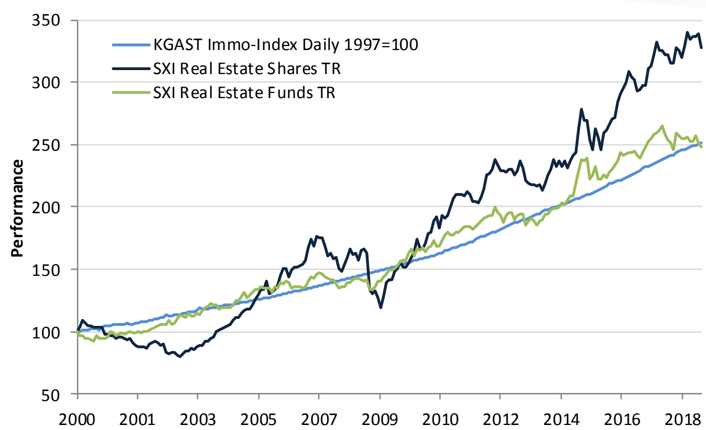
Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	365.1	-0.5	-1.3	-1.6	-2.1	-4.4
SXI Real Estate Idx TR	2441.7	0.3	-3.3	-1.9	0.3	0.0
KGAST Immo-Index*	281.6				2.3	3.3

* subject to one-month lag

Government and Real Estate Yield



Performance of Swiss Real Estate

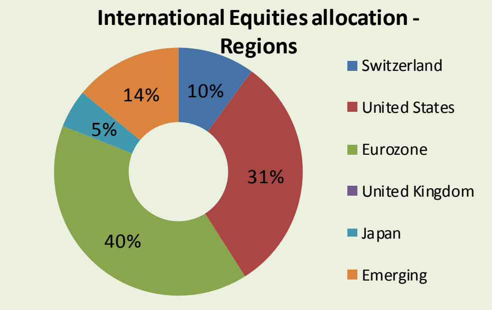


Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Equities - Regions

- Caution on equity valuations as rates rise
- Why are European equities underperforming US stocks?
- Nikkei soaring to new heights
- Decline in risk and attractive valuations for emerging equities



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

Tactical Allocation

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

Caution on equity valuations as rates rise

US corporate earnings grew by 65 billion dollars in Q2, a substantial increase compared to the 26.7 billion posted in Q1. Financial firms posted earnings of 16.5 billion dollars following a loss of 9.3 billion in Q1. The earnings growth of non-financial firms jumped from 32.3 billion to 53 billion dollars within a single quarter. The earnings growth of firms in the S&P500 certainly helped drive the index up.

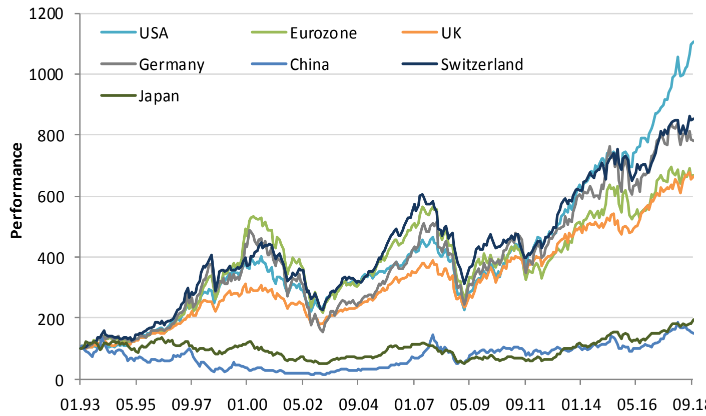
However, while tariffs are being implemented left and right, it is important to note that US firms are not immune to the risks caused by this showdown. Indeed, we estimate that a 25% increase in tariffs on Chinese goods would have an impact of -7% on US corporate earnings. Assuming stable PE ratios, corporate earnings growth would be 0% in 2019, a scenario that does not seem to be incorporated into share prices at all. If we assume that, when interest rates are rising, PE ratios have a tendency to contract, then a -10% drop in the PE of the S&P500, namely from 18x to 16.2x, could cause a drop in the index of over -10%.

Since our Q1 recommendation to seize the opportunity to reinvest in equity markets after the -10% drop in US share prices, the US market has surged by approximately +20% for the NASDAQ and over +10% for the S&P500. As we mentioned in previous analyses, one of the main risks with regards to the US market is that corporate earnings growth really has to deliver in order to justify the rather generous valuation levels. This factor will likely remain favourable in 2018, but organic earnings growth will likely slow in 2019, or even drop significantly in the extreme scenario wherein the US president's threats of increased tariffs are fully implemented. In a context of rate hikes and expected long-term rate increases to over 3% and perhaps even close to 3.5%, PE ratios' expansion phase will likely reverse and become another negative factor hampering the stock market. After the rise in US equity prices in Q3, we recommend caution regarding the relative prospects of US stock market indices.

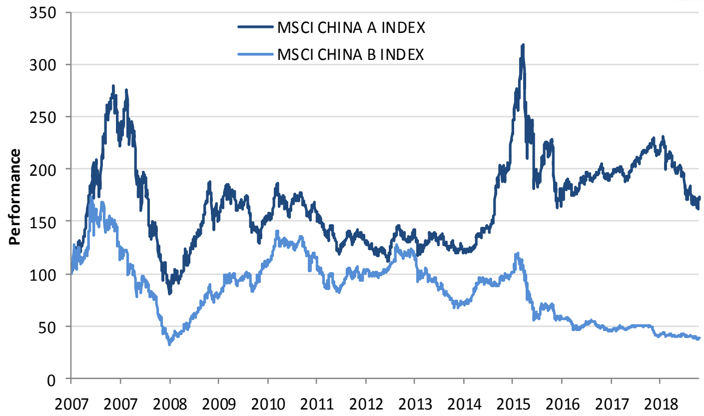
The risks of disappointment for 2018 are probably limited, but just a few weeks away from the end of the year, the outlook for 2019 seems less bright, both in the absolute and from a relative point of view. While the market overall does not seem to be on the cusp of a major correction, recent developments suggest growing investor vulnerability and complacency with regard to tech stocks and to the GAFA set in particular, which bodes ill for the medium term. Rising interest rates have not yet affected the market, but based on our forecast regarding continued increases, they will very likely have a significant impact in 2019.

In this context, the risks with regard to the US market are not nil. However, in the short term, we are giving current trends the benefit of the doubt, while recommending that investors become increasingly attentive to potential risks of disappointment with regard to corporate earnings announcements and the introduction of tariffs.

Long-term Performance (Normalized at 100)



Chinese Equities - A and B (Normalized at 100)



Graph sources: Bloomberg/BearBull Global Investments

Why are European equities underperforming US stocks?

The valuation of European equities has remained persistently lower than that of US equities, without resulting in arbitrage or share price revaluations. Still today, the European market's overall PE (13.8x 2018 earnings) remains very attractive compared to the US's (18x 2018 earnings). This 25% valuation differential is considerable, and we are thus trying to determine how much longer the US market may benefit from this premium, having posted an outperformance of around +17% to date in 2018. European shares retain a valuation and yield (3.6% against 1.9%) advantage; while investors should thus be returning, Euro shares also present several drawbacks.

US corporate earnings growth is benefiting from supportive fiscal policies, whose impact is being felt mainly in 2018, and which doubled growth prospects (+23%) compared with 2017 (+12%). Eurozone earnings growth had been higher in 2017 (+15%) without resulting in net arbitrage. The growth differential is clear in 2018 (Eurozone growth below +10%) but should even out in 2019 and 2020, as forecasts for both markets are similar (+10%). This factor likely worked in favour of US equities. The prospects for emerging markets and the latter's sometimes chaotic stock market performance have been stronger sources of uncertainty and risk in Europe.

Indeed, the relative exposure of US and European shares to this risk indicates that European firms are more invested and exposed than their American counterparts. Overall, Eurozone firms could be more affected by a slowing global economic cycle. The risk of contagion from emerging market crises to peripheral Eurozone countries and to the European banking sector as well as the risks related to the Italian crisis are also factors that have weighed on the risk outlook. However, the most crucial factor remains, in our view, the uncertainty related to the US's protectionist threats, which is probably the largest contributor to the widening of the European equity risk premium. European equities will likely benefit from a decrease in international tensions and from investor arbitrage related to their rather comfortable risk premium.

Caution maintained on UK equities

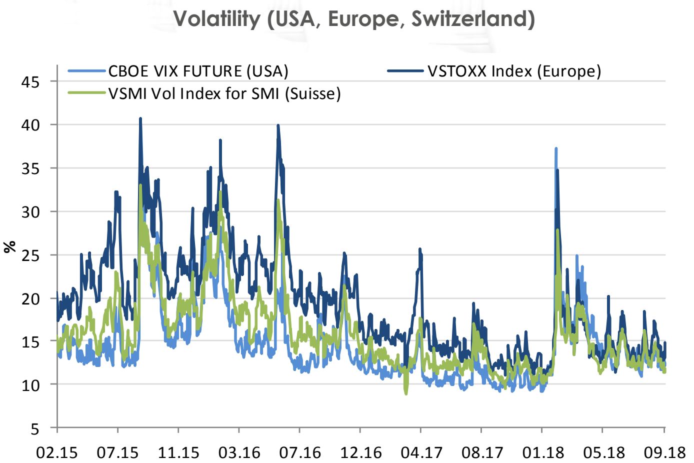
Given the uncertainties tied to the Brexit negotiations, the risk/return ratio expected with regard to the equity market remains unattractive. The pound, however, seems to be holding up despite these uncertainties. Nevertheless, we continue to advise caution with regard to UK equities, in spite of reasonable valuations and an attractive dividend yield.

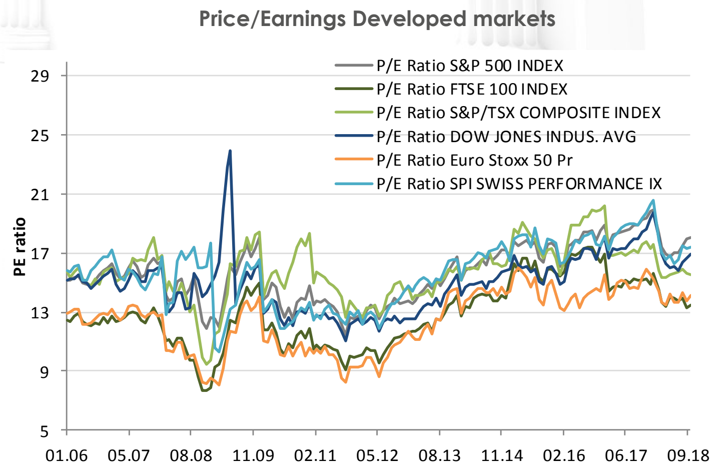
Nikkei soaring to new heights

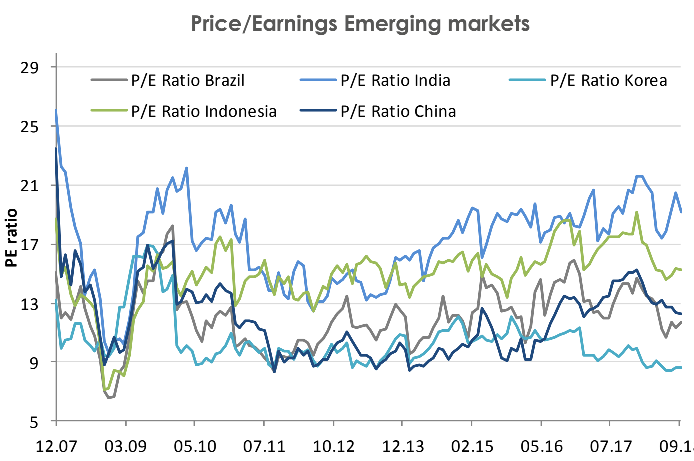
Japanese corporates will likely benefit from the favourable macroeconomic context as well as from the depreciation of the yen. However, the Bank of Japan's latest Tankan survey actually indicated a decrease in the confidence of large manufacturing firms, although average exchange rate forecasts for the end of the year (107.4 yen per dollar) were well below current levels (114 yen).

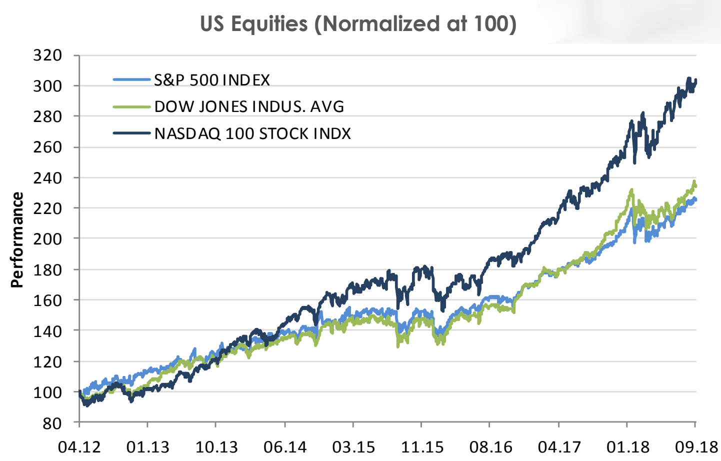
This gap, if it should persist as we believe it will, should lead to upward revisions in Japanese corporate earnings. The government is still hoping that corporate earnings growth will be transmitted to consumers via gradual increases in wages. It is thus likely to rejoice at the yoy earnings growth of +17.9% posted at the end of June after a particularly anaemic, and worrisome, first quarter (+0.2%).

Several months ago, following the correction in Japanese share prices in Q1, we noted that an acceleration in the pace of Japanese corporate earnings growth was possible in the context of a strengthening global business cycle, if the risks of a trade war did not intensify and especially if the yen underwent further, lasting depreciation.









Graph sources: Bloomberg/BearBull Global Investments

The 15% drop in share prices along with equity valuations of 17x earnings were already offering attractive repositioning opportunities. For the current fiscal, Japanese blue chips are valuing revenues and profits using an exchange rate estimate of approximately 107 yen. As we have seen, the yen is now trading at close to 115 yen to the US dollar.

We anticipate a stabilisation of the exchange rate by the end of the year at between 110 and 120 yen, which would thus ultimately significantly boost year-end corporate results. The current decline of the yen is thus no stranger to the improvement in investor sentiment and to investor interest in Japanese shares. The continued depreciation of the yen will thus likely boost the Nikkei beyond our 24,000 target, which has already been achieved, as long as the investment climate remains positive.

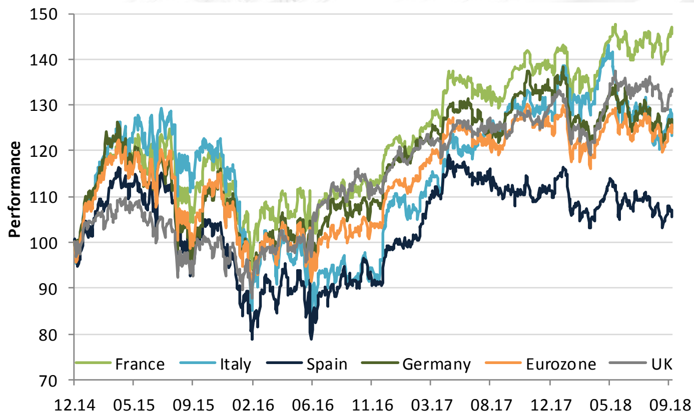
Decline in risk and attractive valuations for emerging equities

Emerging markets have largely borne the brunt of the intensifying tensions between the US and China since the end of January. After a barely positive first quarter (+1%), the shock was brutal in Q2 (-8.6%), and the downward spiral continued in Q3, although less dramatically, with a -2% correction. It is true that China and emerging markets were the primary beneficiaries of the liberalisation of global trade and the decrease in customs barriers. The risks of an all-out trade war have thus naturally been the key factor of uncertainty and correction in emerging markets.

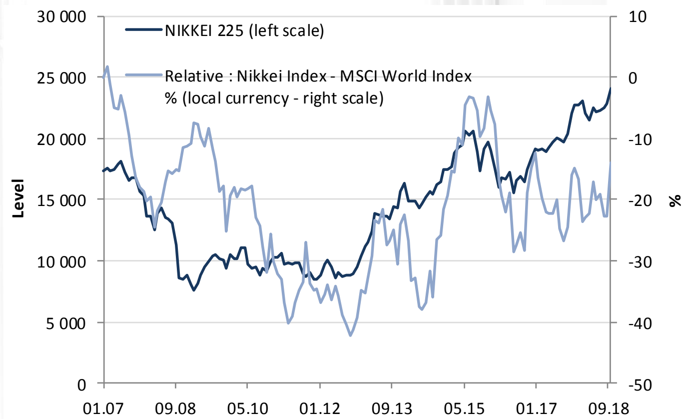
However, emerging economies' fundamentals remain relatively solid from our point of view. It is not clear either that the worse-case scenario will come to pass with regard to emerging markets' economic future, as the US finally came to an agreement with Mexico and Canada and emerging currencies' volatility has significantly decreased. The rise in dollar rates was also a key stress factor for emerging markets and in particular for countries with a significant current account deficit. The situation in Turkey and Argentina is unlikely to spread to other emerging markets. The economic growth outlook for China and India is thus not affected. These countries will contribute significantly to global growth, and earnings growth will likely also deliver in other emerging countries more generally.

With regard to valuations, most of these markets are now offering much more attractive levels than those that prevailed at the end of 2017. Uncertainty persists, but an improving investment climate will benefit emerging markets. As we see it, the risks of an all-out trade will abate, and we thus recommend a positive view of exposure to diversified emerging equities.

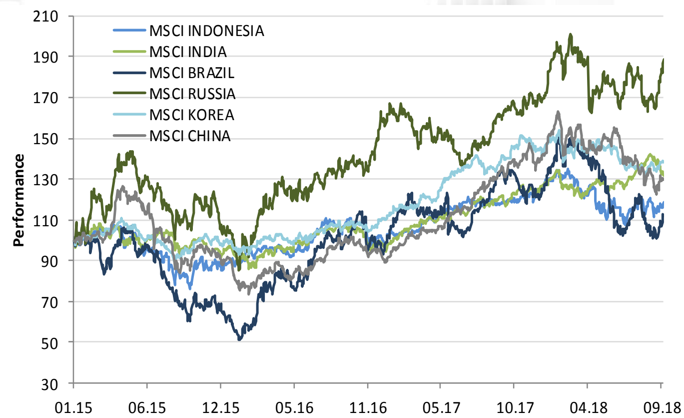
Performance of Stock markets (Normalized at 100)



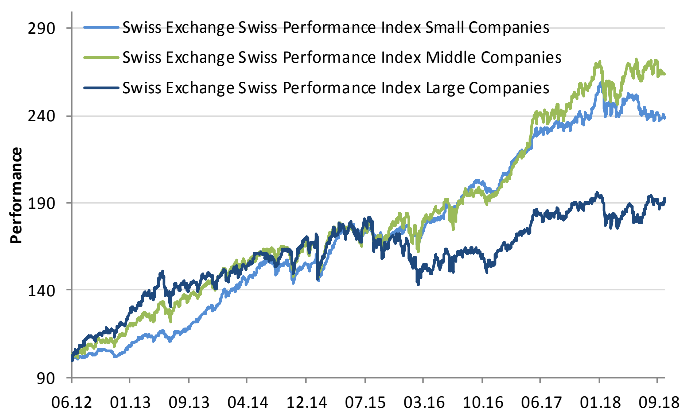
Japanese Equities VS MSCI World



Emerging Markets (Normalized at 100)



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



EQUITIES - BY REGION (local currency)

30.09.2018 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	9443.1	CHF	0.8	0.6	5.6	7.4	0.5
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	2903.8	CHF	-0.3	-2.4	1.1	5.3	1.3
EUROPE	STXE 600 € Pr	394.6	EUR	-0.2	0.3	2.2	6.2	1.4
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	352.7	EUR	-1.2	-1.9	-0.2	3.8	0.7
UK	FTSE All-Share Index	3595.9	GBP	0.0	0.7	0.3	8.6	0.8
USA	S&P 500 Index	2914.0	USD	-0.5	0.6	7.4	12.5	10.6
USA SMALL-MID CAPS	RUSSELL 2500	662.0	USD	-0.7	-1.5	4.3	12.0	10.4
JAPAN	NIKKEI 225	24120.0	JPY	1.6	6.1	11.3	14.1	7.7
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	939.4	JPY	1.5	5.2	6.5	5.9	0.4
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	525.9	USD	-0.7	-1.4	-0.5	-4.7	-5.2
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	969.4	USD	-1.1	-3.3	-3.7	-10.2	-11.0
EMERGING	MSCI EM	910.4	USD	-0.3	-0.5	-0.1	-8.7	-7.5
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	4693.2	USD	-0.6	0.6	5.3	7.7	5.4

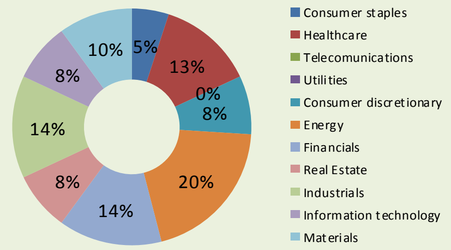
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Equities - Sectors

- Pressure on tech stocks
- Back into consumer discretionary
- Overweight energy
- Reduce exposure to tech

International Equities allocation - sectors



Tactical Allocation

- Underweight digital stocks
- Overweight value stocks
- Overweight energy, materials, consumer discretionary and real estate

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

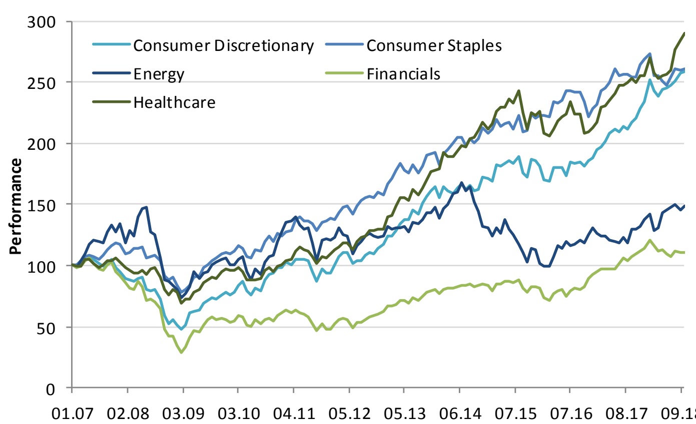
30.09.2018 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	200.9	USD	-0.1	0.5	4.9	10.0	10.9
CONSUMER STAPLES	MSCI WORLD/CON STPL	208.3	USD	-1.2	0.4	3.6	3.1	-3.0
ENERGY	MSCI WORLD/ENERGY	206.3	USD	1.2	3.0	2.4	14.0	8.1
FINANCIALS	MSCI WORLD/FINANCE	105.4	USD	-3.0	-0.5	3.1	-0.7	-3.2
HEALTHCARE	MSCI WORLD/HLTH CARE	222.5	USD	0.7	2.1	11.8	15.8	13.7
INDUSTRIALS	MSCI WORLD/INDUSTRL	196.5	USD	-1.4	1.6	7.0	5.0	2.5
MATERIALS	MSCI WORLD/MATERIAL	208.5	USD	-2.2	0.8	0.8	1.7	-3.2
REAL ESTATE	MSCI WORLD/REAL ESTATE	192.1	USD	-1.3	-2.2	-0.3	3.3	-1.2
TECHNOLOGY	MSCI WORLD/INF TECH	145.5	USD	0.9	-0.4	7.5	16.3	18.6
TELECOMMUNICATION	MSCI WORLD/TEL SVC	71.1	USD	-1.1	2.2	6.3	3.8	-2.7
UTILITIES	MSCI WORLD/UTILITY	113.8	USD	-0.9	-0.3	1.0	4.3	2.4

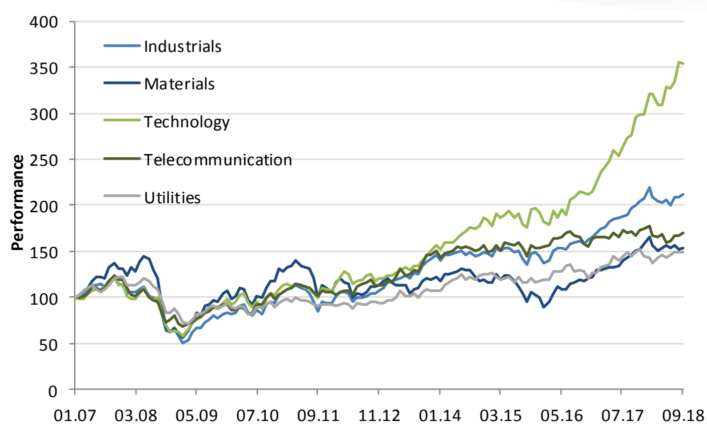
Risks are no less concentrated now than they have been in the past quarters. Apple and Amazon have a combined valuation of 2 trillion dollars, that is, close to half the size of the US Federal Reserve's balance sheet. These two stocks make up close to 10% of the S&P500 and are kicking off the fourth quarter with generous valuations and a loss of momentum in the market. Indeed, their share prices could follow a similar path over the next few months to that of other major tech stocks such as Google, Netflix, and Facebook, which experienced some – occasionally significant – profit-taking in Q3. In Q2 we had already downgraded our projections for this segment of the market, and we maintain our recommendation to stay away from or at least underweight these stocks until their valuations return to more reasonable levels.

We will likely remain underweight the **tech sector** until valuation levels improve and the Nasdaq potentially corrects. We remain overweight **financials**, and in particular US stocks; economic growth and rising interest rates in the US will boost the sector's earnings growth. We are once again overweight the **energy sector**, as cash flows have been growing significantly, and results will likely reflect the stabilisation of oil prices above $70/barrel. We are changing our allocation within the consumer sector, reducing exposure to **consumer staples** in favour of **consumer discretionary**. It is not implausible that **industrials** may experience some adjust-ments following the (modest) deterioration in the 2019 growth outlook. However, for now we are maintaining our constructive posi-tion in this sector.

Sectors - MSCI World (Normalized at 100)



Sectors - MSCI World (Normalized at 100)

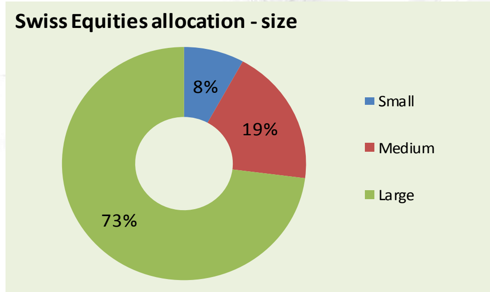


Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Equities

- Upward trend on Swiss equities continues
- No significant change in bottom up prospects
- The end of the year will save 2018's performance



Tactical Allocation

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

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

Upward trend on Swiss equities continues

Following the drop in the equity markets in Q1, we noted that Swiss equities offered buying opportunities to long-term investors, while not excluding the possibility that volatility could persist for a while longer. Indeed, the price drop had significantly reduced market risk by correcting valuation levels. Since then, Swiss equities have posted an increase of about +6%, climbing back up to the 11,000 level on the SPI. September's performance (+1.5%) was positive, but still not enough to post an overall positive result for the first nine months of the year. The SMI (Swiss Market Index) is down -3% three months shy of the end of the year, but just tips into the black when dividends are taken into account (+0.21%). However, from a valuation point of view, the Swiss market's current PE of 15x expected 2019 earnings does not seem excessive. However, in the short term, the franc's appreciation is weighing on SPI share prices. Corporate earnings growth is unlikely to be affected by the recent exchange rate movements but should instead benefit from a favourable domestic and international environment. In 2018, Swiss corporate earnings are thus likely to reach new records, while average dividend yields remain high (3%), both by historical comparison and compared to bond yields. The bullish trend in Swiss equities will likely continue at a slower pace over the fourth quarter, unless the key risks mentioned above of an all-out trade war come to revive the threat of a recession, although the latter seems rather unlikely at this point.

No significant change in bottom up prospects

Medium term prospects for Swiss equities remain relatively positive, in both a Swiss and an international context of sustained economic growth. Profit growth should be higher than that of the Eurozone and distributed across most sectors. Profit growth in the key sectors of health, finance and defensive consumption should sustain overall SPI (Swiss Performance Index) profit growth. Any drop in the market could most likely only be caused by negative developments on other equity markets. The risk of a rise in interest rates still seems low, and we believe that changes in the Swiss franc should still play a positive role over the coming months. An economic slowdown is indeed expected for 2019, but, for now, this should not affect the market. However, the rise in Swiss equities in the 3rd quarter could be followed by a temporary phase of consolidation, coinciding with US equities treading water. Our bottom up analysis of Swiss shares suggests a decrease in upward prospects for the three main SMI shares, with less than +7% growth. The other seventeen shares could still appreciate by around +13% compared to the end of September. As such, we are not seeing any real considerable change in growth prospects in September, despite a falling aggregate result. Overall, we are seeing twice as many decreases in prospective profit as increases.

The end of the year will save 2018's performance

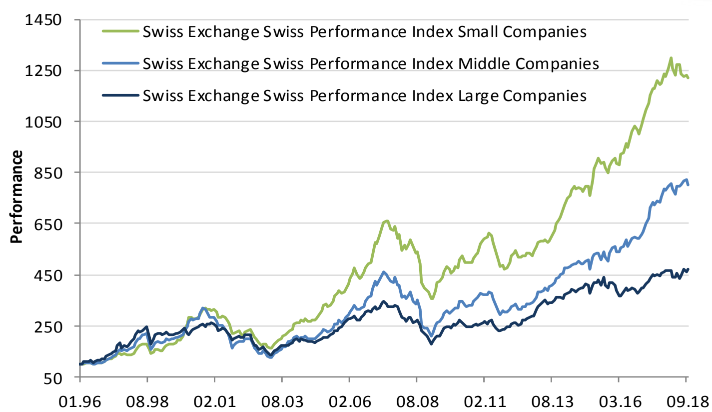
The last quarter should draw to a close with its total return just in the black for Swiss securities. After having hardly spent a month in growth territory in January, Swiss equities had to wait until the third quarter to leave the red. The performance of Swiss equities was rescued by a last-minute leap; as late as the 25th September, the result over nine months was still negative. Uncertainty has not, of course, disappeared, and there is still a risk that the last quarter may be affected by interest rate rises, the strength of the Swiss franc, and a less calm climate on stock markets just a few weeks away from the end of the year. Correlation between equity markets remains high. Despite positive fundamentals which should foster a positive performance in the 4th quarter, the risk that our forecast of the trend continuing will be counter -balanced by external factors cannot be excluded.

SWISS EQUITIES - Capitalization

30.09.2018 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	10807.8	0.8	0.6	5.6	7.4	0.5
SPI SMALL COMPANIES INDX	26861.4	-0.7	-0.9	-1.0	-0.4	-3.0
SPI MIDDLE COMPANIES IDX	16759.2	-0.2	-2.5	1.3	5.9	1.2
SPI LARGE COMPANIES INDX	10040.9	1.1	1.4	6.7	7.9	0.5

Swiss Equities Performance

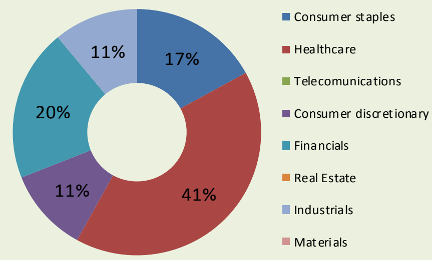


Graph sources: Bloomberg/BearBull Global Investments

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

- Decrease helth care sector
- Decrease consumer staples sector
- Increase consumer discretionary sector

Fewer blue chips and more medium caps

The next corporate earnings season should confirm that Swiss firms are benefitting from the improved economic environment. This quarter we are modifying our assessment of relative investment opportunities between blue chips and other stocks on the Swiss exchange. Three months ago, we noted that blue chips had a higher upside potential than other SPI stocks. This potential translated into outperformance, in particular for Novartis (+12.1%), Roche (+7.8%) and Nestlé (+6.4%) compared to the SPI (+4.65%). Today, blue chips' potential price growth is only of around +6%, while the rest of the SMI could still appreciate by +13%. Thus, absent revisions in the earnings growth outlook, we believe that the three major Swiss blue chip stocks will likely provide less upside over the next few months. We recommend repositioning into smaller caps.

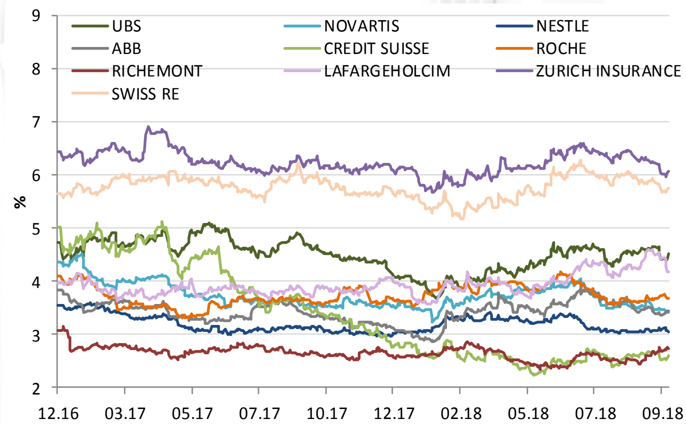
The exchange rate factor remains positive

The dollar and the euro weakened only marginally (-0.89% and -1.4%, respectively) over the quarter against the Swiss franc, which consequently strengthened only slightly. This should not affect SPI stocks' full-year results in Swiss francs. Stocks sensitive to the exchange rate will benefit from the stabilisation of the franc, in particular if, as we anticipate, the dollar heads back above parity and the euro tests the 1.20 mark again in 2019.

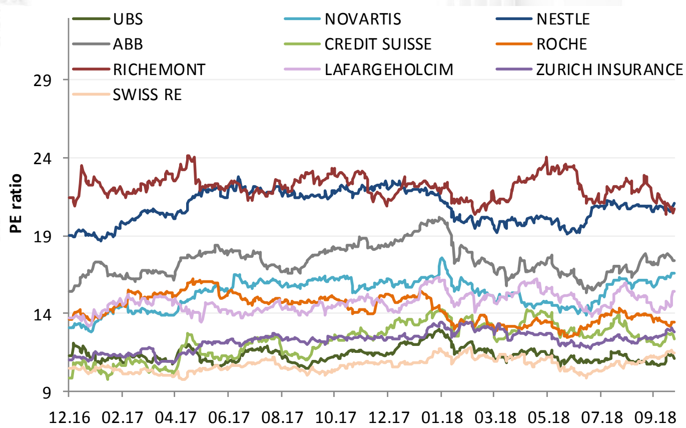
Continue to take advantage of high yields

Quality Swiss stocks with a high dividend yield are attractive from a relative point of view not only compared to other Swiss stocks but also by international comparison. The 3% average dividend yield of the Swiss market can be considered high.

Dividend Yield



PE ratio

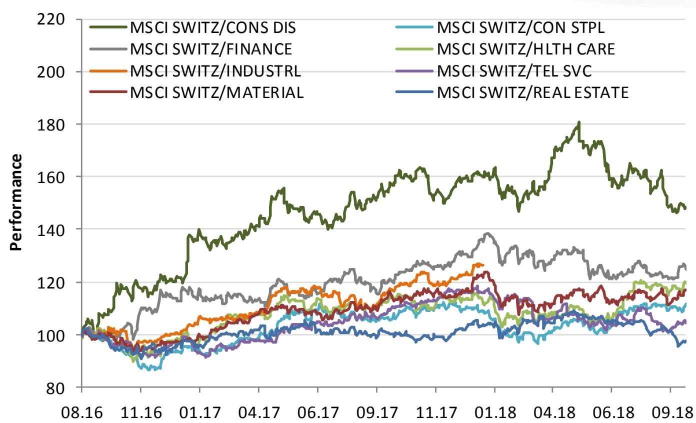


SWISS EQUITIES - BY SECTOR

30.09.2018 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	320.2	-1.2	-4.7	-5.5	-4.5	-6.4
MSCI SWITZ/CON STPL	272.3	1.6	0.3	5.7	13.4	1.3
MSCI SWITZ/FINANCE	58.0	-1.0	2.7	3.0	-1.3	-3.8
MSCI SWITZ/HLTH CARE	148.3	2.3	2.1	12.1	12.9	5.6
MSCI SWITZ/INDUSTRL	186.3	0.1	0.8	5.9	7.7	-3.8
MSCI SWITZ/MATERIAL	291.1	1.7	1.4	4.7	5.8	0.3
MSCI SWITZ/REAL ESTATE	973.7	1.0	-5.7	-7.0	-4.8	-6.4
MSCI SWITZ/TEL SVC	84.2	0.0	2.9	1.2	0.6	-9.9

Performance



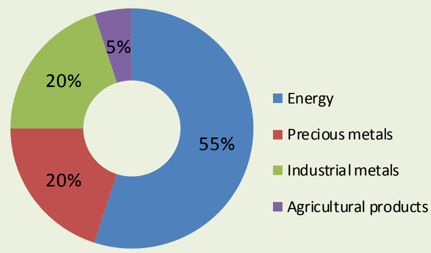
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Commodities

- Favourable outlook for commodities
- Inventory reductions likely to boost crude prices
- Outstanding fundamentals and technical overweight
- Increase in gold prices contingent on higher 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

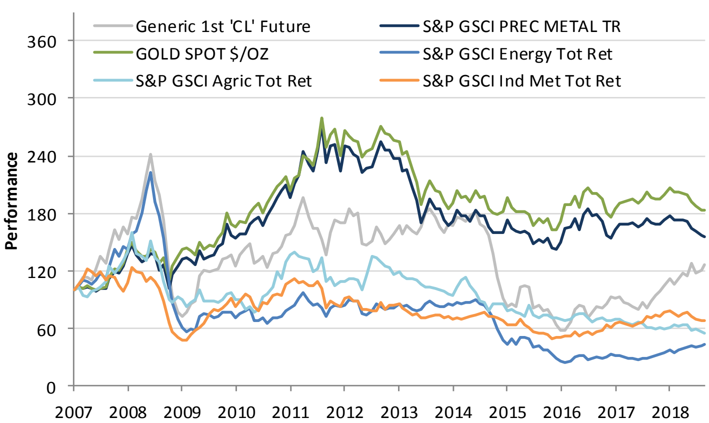
Favourable outlook

Consistent with our expectations, the S&P Goldman Sachs Commodities index increased by +11.84% over the first nine months of the year. Oil was obviously one of the strongest contributors to the index's performance, thanks to the +25% increase in crude prices and given the weight of the energy sector in the index. Other indices with less exposure to energy did not progress to the same extent due to the weaker results posted by the other sectors and commodities. In 2018, commodities have thus significantly outperformed equity markets as a whole (+5.4%) and are on the way to achieving their third consecutive year of positive growth, after a couple of difficult years in 2014-15. We had already noted that the economic cycle was becoming increasingly favourable to commodities and that continued global growth at a sustained pace would have a positive impact on prices in 2018. It is possible that growth will slow in 2019, but this will not change the favourable outlook for this asset class. Indeed, over the next quarters global supply will still be constrained by the past few years' decline in capex, while demand is likely to strengthen, barring a major global economic shock. We expect that imbalances will no doubt emerge, supporting prices in the industrial metals segment as well. Economic growth in China, even if it is decelerating slightly, will likely stay in the +6-6.5% range, which will continue to bolster global demand growth, particularly if global GDP growth remains close to +4%.

Note that from a statistics perspective, since 1970, the S&P Goldman Sachs Commodities index only posted results below plus or minus 10% in nine years. Over the past 48 years, commodities have thus posted results above +10% or below -10% forty times more often. Periods of price corrections never exceeded two years, except for the last period of 2013-2015, but in the latter case, prices dropped by only -1.2% in 2013. With regards to periods of growth, most bull markets lasted at least four years, with increases between +69% et +315% over the five following cycles: +320% (1970-1974), +115% (1976-1980), +315 % (1981-1990), +69% (1993-1996), +111% (1998-2000), and +134% (2001-2005). Since the financial crisis, bull markets have been shorter and less pronounced given the global recession, which was followed by a very gradual recovery of the global economy.

Today, the international economic cycle is more robust and should stay sufficiently solid in 2019 for the current positive commodities cycle to continue. The current cycle is only in its third year, with growth of +31%, which is barely half the growth posted during the least robust cycle (1993-1996) of the past 50 years. From a statistical point of view, the trend is thus very likely to persist and even amplify in 2019. On another front, the current period of interest rate adjustment and rising inflation is favourable to this asset class. Indeed, historically com modities have outperformed equities, bonds, and real estate in this type of configuration. Incorporating commodities in order to diversify risks and opportunities is currently especially timely, as tactically they may benefit from an exceptional combination of positive factors with regards to fundamentals. Over the very long term, commodities' annualised performance has been approximately +7% in USD, but this compounded annual result has been weighed down in the past few years by the poor performances of 2008 (-49.65%) and 2014-15 (-58%).

Commodities



Graph sources: Bloomberg/BearBull Global Investments

COMMODITIES (USD)

30.09.2018 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
	MSCI Daily TR Net World USD	6250.70	USD	-0.64	0.56	5.34	7.74	5.43
GLOBAL	S&P GSCI Tot Return Indx	2859.4	USD	2.7	3.9	3.0	10.9	11.8
WTI CRUDE	Generic 1st 'CL' Future	73.3	USD	3.5	4.9	-0.9	15.3	21.2
BRENT OIL	Generic 1st 'CO' Future	82.7	USD	5.0	6.8	7.0	21.4	23.7
NATURAL GAS	Generic 1st 'NG' Future	3.0	USD	1.0	3.2	5.1	11.5	1.9
OR	GOLD SPOT $/OZ	1192.5	USD	-0.5	-0.7	-4.0	-10.5	-8.5
ARGENT	Silver Spot $/Oz	14.7	USD	2.5	0.8	-7.5	-10.7	-13.5
AGRICULTURE	S&P GSCI Agric Indx Spot	277.0	USD	-1.6	-3.2	0.0	-6.6	-1.8
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	345.6	USD	-0.9	1.6	-4.8	-5.7	-12.3

An investment in this asset class with a 10-year time horizon has produced annualised returns of +7% over all rolling periods since 1970 except for the last four, which were affected by the 2014-2015 period. The inclusion of commodities in a diversified portfolio is thus optimal in the long term.

Fundamentally, commodities will further benefit from four support factors over the next several quarters, namely, the stabilisation of production capacity and supply following the drop in investments during the financial crisis, sustained demand, declining inventories, and an increase in investment demand.

The oil market remains imbalanced

Crude prices stayed steady over the past months and have stabilised above $70, as we expected. US production levels have stayed high, although they have stabilised since the beginning of the year at around 15.1 mdb (million barrels per day), while OPEC production has increased very slightly to 32.8 mbd. Global demand for crude will likely progress by around 1 mbd and contribute to declining inventories in Q4 2018 and at the beginning of 2019. Capacity constraints in the US will hamper the growth of US supply, which should actually remain more or less stable, particularly if we consider the risk that production will decline in the more mature oil fields of the Permian Basin. At the same time, OPEC production is unlikely to increase, both for political and technical reasons. We do not think that the supply shock following US sanctions can be absorbed by making use of unexploited capacity within OPEC. WTI prices will likely stay below Brent prices given the saturation of US refineries in terms of light crude and the ensuing necessity to export. After consolidating above $70, crude prices will likely progress further towards $80 in 2019.

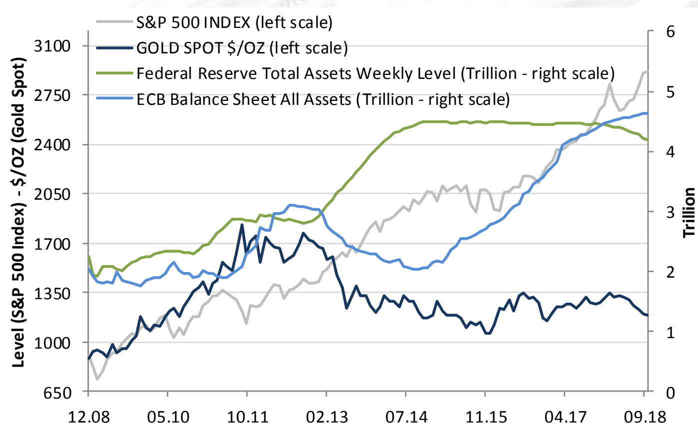
Industrial metals back on the rise

Since the risks of a trade war between China and the US first emerged, the general sentiment has gradually changed with regard to the economic growth outlook. Emerging markets' poor showing and the strong comeback of the dollar contributed to reinforce uncertainties regarding demand for industrial metals in the short term. After a positive first quarter, changes in the investment climate pushed the prices of base metals down, primarily in Q3. From our point of view, the market has significantly overestimated the risks of a decrease in demand, and the price drop of approximately -15% following these predictions does not correspond at all to the economic reality of the various physical markets. Demand for base metals in China will not change significantly in the most likely event of a simple deceleration of economic growth in the country. Indeed, the trade war will not significantly change the pace of growth in China, and the dollar effect will probably be limited in 2019. These factors will likely have a positive impact in Q4 2018 already. The outlook for base metals is positive for 2019 for aluminium and copper as well as for nickel and zinc.

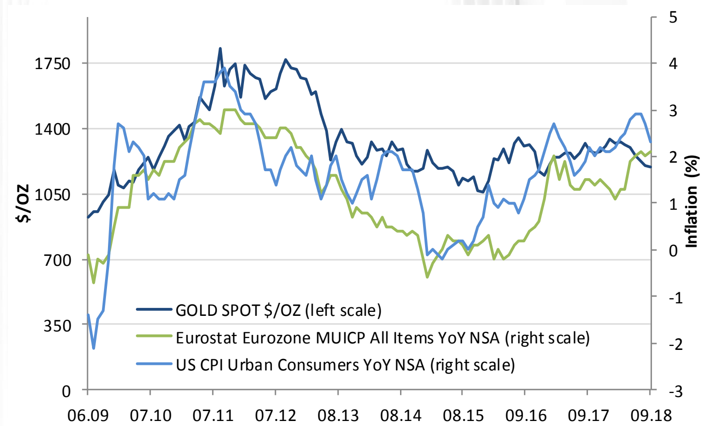
Gold technically a strong buy until inflation kicks in

Gold prices still seem not to want to react to factors other than the dollar and interest rates. However, this should change in 2019 once inflation rises further. In the meantime, supply and demand fundamentals will continue to be influenced more by the physical market than by investment demand in ETFs or paper gold. Demand for physical gold continues to come essentially from the jewellery sector (close to 60%). Indian demand, which makes up most of this sector, will likely grow by +25% in Q2, supporting prices. As for central banks, they have also been more active, accumulating physical gold reserves at a pace not seen since 2012. Around 193 tons have indeed been added to central banks' existing stocks according to the World Gold Council. For now, the inverse relationship that exists between gold prices and the dollar has rather held back increases in the former, but as the dollar's appreciation slows, this factor will have less of an impact. From a technical perspective, experts are suggesting that gold and silver are now strong buys. We continue to expect that the factor that will trigger an upward trend in gold and silver prices will be growth in investment demand. After having decreased for four months, we anticipate an increase in the demand for ETFs caused by an increase in the need to diversify portfolio assets in a period of rising inflation and as new risks are emerging in equity markets.

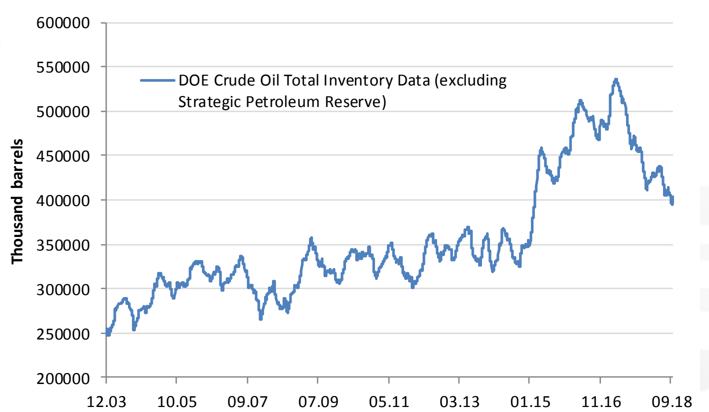
Gold and Global liquidity



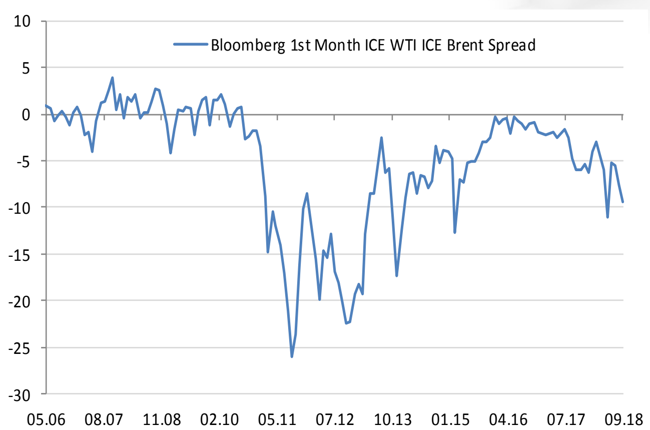
Gold and Inflation



Crude Oil Inventory (USA)



WTI - Brent Price Spread



Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Hedge Funds

- Widespread setback for alternative strategies in the third quarter

Widespread setback for alternative strategies in the third quarter

The various alternative strategies posted generally negative performances over the 3rd quarter. They very much trod water compared with the international equities index; it grew +4.98% over the period, having been particularly buoyed up by the positive quarterly performance of US equities (+7.71%).

Relative value arbitrage was the only management style which managed to close the quarter on a positive note (+0.50%). It is also the only strategy which finished in the black (+2.61%) as of the start of the year. At the other end of the scale, event driven management corrected -1.11% between June and September, leaving it at -5.52% over the first nine months of the year. Equity hedge and macro/CTA strategies also slid -1.37% and -0.07% respectively. Overall, the hedge funds on the HFRX Global Index slipped -0.2% over the third quarter.

Geographically, Asia excluding Japan fell -7.32% over the period, whilst Northern Europe (+0.96%) posted the best quarterly result.

Private Equity

- Pleasing private equity performances

Pleasing private equity performances

Private equity posted a very positive result (+5.09%) over the quarter, continuing the bounce back it started in the previous quarter.

With a +4.79% rise over the last three months and a cumulative result of +13.63% since the start of the year, the United States is really playing its cards right.

Europe (+3.67%) and the United Kingdom (+3.25%) both gained more than +3% between June and September, but ended the last nine months considerably behind the United States, with +3.77% and +2.52% respectively.

HEDGE FUND INDICES (USD)

30.09.2018 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1259.9	USD	-0.3	-0.7	-0.6	-0.2	-1.2
EQUITY HEDGE	HFRX Equity Hedge Index	1259.3	USD	-0.9	-1.6	-1.4	-2.2	-0.9
EVENT DRIVEN	HFRX Event Driven Index	1573.8	USD	-1.0	-0.5	-1.1	-0.8	-5.5
MACRO/CTA	HFRX Macro/CTA Index	1150.1	USD	1.5	-0.6	-0.1	1.0	-1.2
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1215.7	USD	-0.1	0.1	0.5	1.7	2.6
LATIN AMERICA*	HFRX Latin America Index	2025.7	USD	-	0.0	-2.2	-10.5	-9.2
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2354.8	USD	-	-1.0	-3.5	-6.7	-6.0
NORTHERN EUROPE*	HFRX Northern Europe Index	2043.1	USD	-	0.4	1.0	2.2	2.1
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2518.8	USD	-	-1.8	-7.2	-12.3	-10.6
MULTI-REGION	HFRX Multi-Region Index	1364.0	USD	0.0	-0.6	-0.5	0.0	-0.1

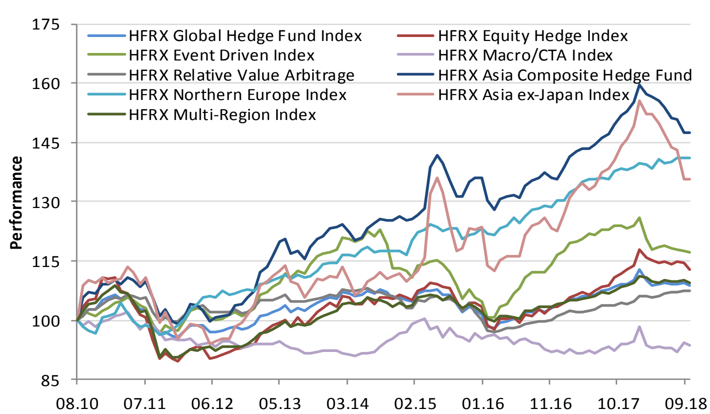
* Subject to one-month lag

PRIVATE EQUITY INDICES (EUR)

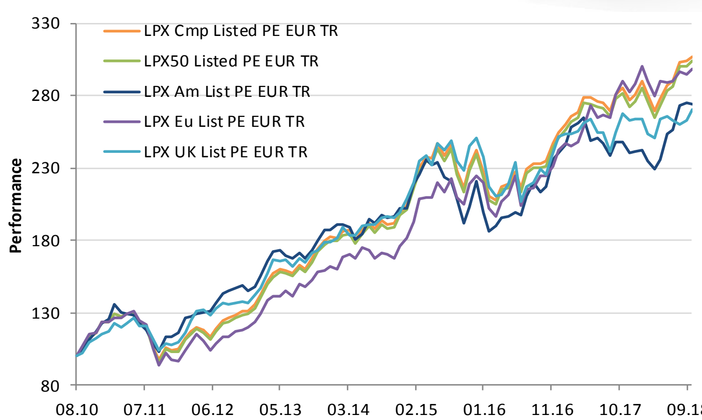
30.09.2018 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	255.4	EUR	-0.9	1.2	5.1	14.4	9.6
MAJOR COMPANIES	LPX50 Listed PE EUR TR	2406.4	EUR	-1.0	1.2	5.2	15.0	10.0
USA	LPX Am List PE EUR TR	365.0	EUR	-1.2	-0.2	4.8	19.4	13.6
EUROPE	LPX Eu List PE EUR TR	954.2	EUR	-0.2	1.2	3.7	7.2	3.8
UK	LPX UK List PE EUR TR	302.1	EUR	1.3	2.8	3.2	6.2	2.5

Hedge funds



Private Equity



Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY & ASSET ALLOCATION

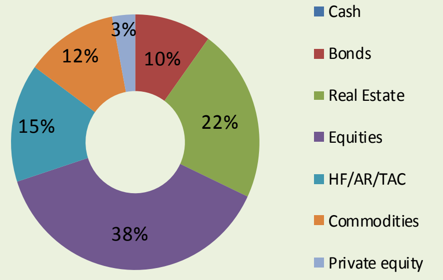
Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - CHF

- Overweight USD bonds
- Real estate yields remain attractive
- Buy equities on the dips
- Commodities outperformance

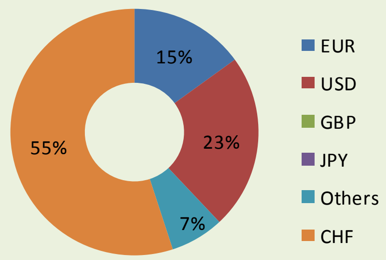
Asset allocation - CHF portfolio



Tactical Allocation

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

Currency allocation - CHF portfolio



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

Asset allocation

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

Bonds

Yields along the entire interest rate curve in the US are now offering genuine relative investment opportunities in the fixed income segment. Rates will likely continue to normalise in 2019, but most of the increase seems to have already taken place with the rise in 10-year Treasury yields to between 3.25% and 3.5%. These levels seem high enough already to compete in earnest with high yield investments, whose risk premiums are now too low too justify a significant allocation. Before global growth slows down, inflation is likely to rise a little further, accompanying the rise in bond yields. We recommend a cautious bond strategy and a reduced exposure overall, overweighting dollar investments.

Equities

Equity markets entered a new risk zone in September, in particular with the surge of the US market above the highs reached in January. Following this rise, valuations are once again somewhat too generous. After six months of steady growth, a return of volatility would likely constitute an opportunity to buy the dips. We recommend constructive exposure to and a reasonably overweight position in Swiss and international equities, as long as earnings growth is consistent with expectations.

Commodities

Commodities indices solidly outperformed equity market indices over the first nine months of the year. With a +11.8% increase, the S&P Goldman Sachs Commodities index in fact rose twice as much as the MSCI World index (+5.4%) and slightly more than the S&P500 (+10.5%).

Fundamentals remain solid, as we do not believe that the intensification of trade tensions constitutes a genuine threat to global growth and to the demand for commodities. Oil prices were a key contributor, while precious and industrial metals underwent significant corrections. These two segments will benefit from the likely increase in inflation and from a decline in fears tied to the trade tensions between China and the US.

Real estate

Real estate is still the main alternative to the rate markets. Yields are attractive, and the risk of price corrections caused by an increase in rates still seems low given that real returns are often negative. We are overweight Swiss real estate and, on the international front, Europe and Asia.

Currencies

As expected, the dollar was indeed among the most sought after currencies last quarter. While fundamentals are still in its favour, we believe the US currency will in fact start to stabilise over the next few months. After a short period of strength against the euro, the Swiss franc will likely also depreciate against the single currency.

Market performances - Q3 2018

		Q3 2018 local	Q3 2018 CHF	YTD local	YTD CHF
Exchange rates					
USD/CHF		-0.9%		0.8%	
EUR/CHF		-1.5%		-2.6%	
GBP/CHF		-2.2%		-2.8%	
JPY/CHF		-3.5%		-0.1%	
Equity markets					
World	MSCI World USD	5.0%	4.0%	5.4%	6.2%
Europe	DJ Stoxx 600	1.3%	-0.3%	0.9%	-1.7%
Eurozone	DJ Eurostoxx 50	0.1%	-1.4%	-3.0%	-5.5%
	MSCI Europe S.C.	-1.5%	-2.9%	-1.1%	-3.7%
Germany	Dax 30	-0.5%	-2.0%	-5.2%	-7.7%
France	Cac 40	3.2%	1.7%	3.4%	0.7%
United Kingdom	FTSE 100	-1.7%	-3.8%	-2.3%	-5.1%
Switzerland	SPI	4.7%	4.7%	0.5%	0.5%
	SMI	5.6%	5.6%	-3.1%	-3.1%
	MSCI Swiss S.C.	-2.9%	-2.9%	-9.1%	-9.1%
North America	SP500	7.2%	6.2%	9.0%	9.8%
	Nasdaq	7.1%	6.2%	16.6%	17.4%
	Tse 300	-1.3%	-0.4%	-0.8%	-2.8%
	SP600 Small C.	4.4%	3.4%	13.4%	14.3%
Japan	Nikkei 225	8.1%	4.4%	6.0%	5.8%
Emerging	MSCI EMF USD	-2.0%	-2.9%	-9.5%	-8.9%

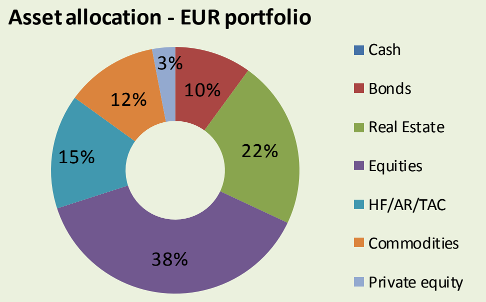
		Q3 2018 local	Q3 2018 CHF	YTD local	YTD CHF
Interest rates (3 months)		*(level)*			
CHF		-0.74%			
EUR		-0.35%			
USD		2.40%			
JPY		-0.05%			
Bonds markets					
World	Citi Gr Global Govt.USD	-1.6%	-2.5%	-2.5%	-1.8%
Europe	Euro Ser-E Gov > 1	-1.0%	-2.5%	-0.5%	-3.1%
United Kingdom	UK Ser-E Gov > 1	-1.8%	-4.0%	-1.6%	-4.4%
Switzerland	SBI Général AAA-BBB	-0.8%	-0.8%	-1.3%	-1.3%
	SBI Govt.	-1.5%	-1.5%	-2.3%	-2.3%
USA	US Ser-E Gov > 1	-0.6%	-1.5%	-1.7%	-0.9%
Japan	Japan Ser-E Gov > 1	-1.0%	-4.5%	-0.4%	-0.5%
Emerging	J.P. Morgan EMBI Global	1.9%	1.0%	-3.5%	-2.7%
Miscellaneaous					
	LPP 25 Index	0.0%	0.0%	-0.5%	-0.5%
	LPP 40 Index	0.6%	0.6%	0.2%	0.2%
	LPP 60 Index	1.4%	1.4%	1.2%	1.2%
Real Estate CH	DB RB Swiss Real Est Fd	-1.6%	-1.6%	-3.6%	-3.6%
Hedge Funds	Hedge Fund Research USD	-0.3%	-1.2%	-1.5%	-0.7%
Commodities	GS Commodity USD	1.3%	0.4%	11.8%	12.7%

Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

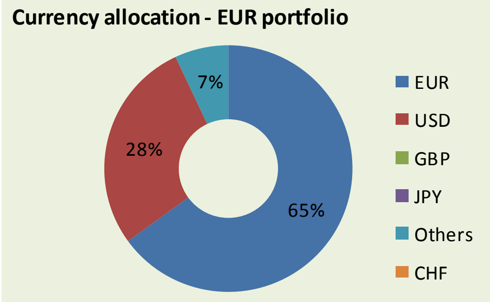
Diversified portfolio: Medium Risk - EUR

- Reduce risk in the Eurozone
- Real estate yields remain attractive
- Buy equities on the dips
- Commodities outperformance



Tactical Allocation

- Overweight equities again
- Overweight real estate and commodities
- Underweight bonds and decrease USD



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 mainly on traditional liquid assets (liquidities, bonds, equities, and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity).

Bonds

Yields along the entire interest rate curve in the US are now offering genuine relative investment opportunities in the fixed income segment. Rates will likely continue to normalise in 2019, but most of the increase seems to have already taken place with the rise in 10-year Treasury yields to between 3.25% and 3.5%. These levels seem high enough already to compete in earnest with high yield investments, whose risk premiums are now too low too justify a significant allocation. Before global growth slows down, inflation is likely to rise a little further, accompanying the rise in bond yields. We recommend a cautious bond strategy and a reduced exposure overall, overweighting dollar investments.

Equities

Equity markets entered a new risk zone in September, in particular with the surge of the US market above the highs reached in January. Following this rise, valuations are once again somewhat too generous. After six months of steady growth, a return of volatility would likely constitute an opportunity to buy the dips. We recommend constructive exposure to and a reasonably overweight position in Swiss and international equities, as long as earnings growth is consistent with expectations.

Commodities

Commodities indices solidly outperformed equity market indices over the first nine months of the year. With a +11.8% increase, the S&P Goldman Sachs Commodities index in fact rose twice as much as the MSCI World index (+5.4%) and slightly more than the S&P500 (+10.5%).

Fundamentals remain solid, as we do not believe that the intensification of trade tensions constitutes a genuine threat to global growth and to the demand for commodities. Oil prices were a key contributor, while precious and industrial metals underwent significant corrections. These two segments will benefit from the likely increase in inflation and from a decline in fears tied to the trade tensions between China and the US.

Real estate

Real estate is still the main alternative to the rate markets. Yields are attractive, and the risk of price corrections caused by an increase in rates still seems low given that real returns are often negative. We are overweight Swiss real estate and, on the international front, Europe and Asia.

Currencies

We were expecting the euro to weaken against the dollar, which it did over the quarter given the strength of the US currency against most other currencies. If fundamentals remain in the dollar's favour, we believe the US currency will start to stabilise in the next few months.

Market performances - Q3 2018

		Q3 2018 local	Q3 2018 EUR	YTD local	YTD EUR
Exchange rates					
USD/EUR		0.7%		3.4%	
CHF/EUR		1.6%		2.7%	
GBP/EUR		-0.7%		-0.3%	
JPY/EUR		-1.9%		2.5%	
Equity markets					
World	MSCI World USD	5.0%	5.7%	5.4%	9.1%
Europe	DJ Stoxx 600	1.3%	1.3%	0.9%	0.9%
Eurozone	DJ Eurostoxx 50	0.1%	0.1%	-3.0%	-3.0%
	MSCI Europe S.C.	-1.5%	-1.5%	-1.1%	-1.1%
Germany	Dax 30	-0.5%	-0.5%	-5.2%	-5.2%
France	Cac 40	3.2%	3.2%	3.4%	3.4%
United Kingdom	FTSE 100	-1.7%	-2.3%	-2.3%	-2.6%
Switzerland	SPI	4.7%	6.3%	0.5%	3.2%
	SMI	5.6%	7.2%	-3.1%	-0.5%
	MSCI Swiss S.C.	-2.9%	-2.3%	-9.1%	-5.9%
North America	SP500	7.2%	7.9%	9.0%	12.7%
	Nasdaq	7.1%	7.9%	16.6%	20.6%
	Tse 300	-1.3%	1.2%	-0.8%	-0.1%
	SP600 Small C.	4.4%	5.1%	13.4%	17.3%
Japan	Nikkei 225	8.1%	6.0%	6.0%	8.6%
Emerging	MSCI EMF USD	-2.0%	-1.3%	-9.5%	-6.4%

		Q3 2018 local	Q3 2018 EUR	YTD local	YTD EUR
Interest rates (3 months)		*(level)*			
CHF		-0.74%			
EUR		-0.35%			
USD		2.40%			
JPY		-0.05%			
Bonds markets					
World	Citi Gr Global Govt.USD	-1.6%	-0.1%	-2.5%	0.1%
Europe	Euro Ser-E Gov > 1	-1.0%	-1.0%	-0.5%	-0.5%
United Kingdom	UK Ser-E Gov > 1	-1.8%	-2.5%	-1.6%	-1.9%
Switzerland	SBI Général AAA-BBB	-0.8%	0.8%	-1.3%	1.3%
	SBI Govt.	-1.5%	0.1%	-2.3%	0.3%
USA	US Ser-E Gov > 1	-0.6%	0.1%	-1.7%	1.7%
Japan	Japan Ser-E Gov > 1	-1.0%	-3.0%	-0.4%	2.1%
Emerging	J.P. Morgan EMBI Global	1.9%	2.6%	-3.5%	-0.1%
Miscellaneaous					
	LPP 25 Index	0.0%	2.7%	-0.5%	2.2%
	LPP 40 Index	0.6%	3.3%	0.2%	2.9%
	LPP 60 Index	1.4%	4.1%	1.2%	3.9%
Real Estate CH	DB RB Swiss Real Est Fd	-1.6%	-1.6%	-3.6%	-1.1%
Hedge Funds	Hedge Fund Research USD	-0.3%	0.3%	-1.5%	1.9%
Commodities	GS Commodity USD	1.3%	2.0%	11.8%	15.7%

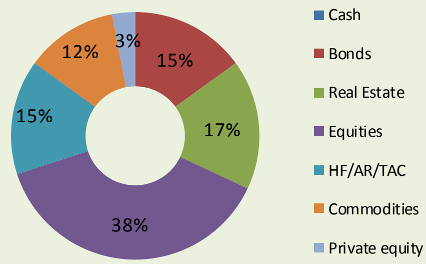
Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - USD

- Attractive returns in the United States
- Real estate yields remain attractive
- Buy equities on the dips
- Commodities outperformance

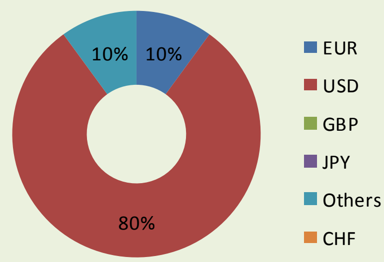
Asset allocation - USD portfolio



Tactical Allocation

- Overweight equities again
- Overweight real estate and commodities
- Avoid High Yield

Currency allocation - USD portfolio



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

Asset allocation

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

Bonds

Yields along the entire interest rate curve in the US are now offering genuine relative investment opportunities in the fixed income segment. Rates will likely continue to normalise in 2019, but most of the increase seems to have already taken place with the rise in 10-year Treasury yields to between 3.25% and 3.5%. These levels seem high enough already to compete in earnest with high yield investments, whose risk premiums are now too low too justify a significant allocation. Before global growth slows down, inflation is likely to rise a little further, accompanying the rise in bond yields. We recommend a cautious bond strategy and a reduced exposure overall, overweighting dollar investments.

Equities

Equity markets entered a new risk zone in September, in particular with the surge of the US market above the highs reached in January. Following this rise, valuations are once again somewhat too generous. After six months of steady growth, a return of volatility would likely constitute an opportunity to buy the dips. We recommend constructive exposure to and a reasonably overweight position in Swiss and international equities, as long as earnings growth is consistent with expectations.

Commodities

Commodities indices solidly outperformed equity market indices over the first nine months of the year. With a +11.8% increase, the S&P Goldman Sachs Commodities index in fact rose twice as much as the MSCI World index (+5.4%) and slightly more than the S&P500 (+10.5%).

Fundamentals remain solid, as we do not believe that the intensification of trade tensions constitutes a genuine threat to global growth and to the demand for commodities. Oil prices were a key contributor, while precious and industrial metals underwent significant corrections. These two segments will benefit from the likely increase in inflation and from a decline in fears tied to the trade tensions between China and the US.

Real estate

Real estate is still the main alternative to the rate markets. Yields are attractive, and the risk of price corrections caused by an increase in rates still seems low given that real returns are often negative. We are overweight Swiss real estate and, on the international front, Europe and Asia.

Currencies

As expected, the dollar was one of the main currencies sought over the quarter. If the fundamentals remain in its favour, we believe that it will enter in a phase of stabilization in the coming months. After a short period of strength against the euro, the Swiss franc may weaken against the single currency.

Market performances - Q3 2018

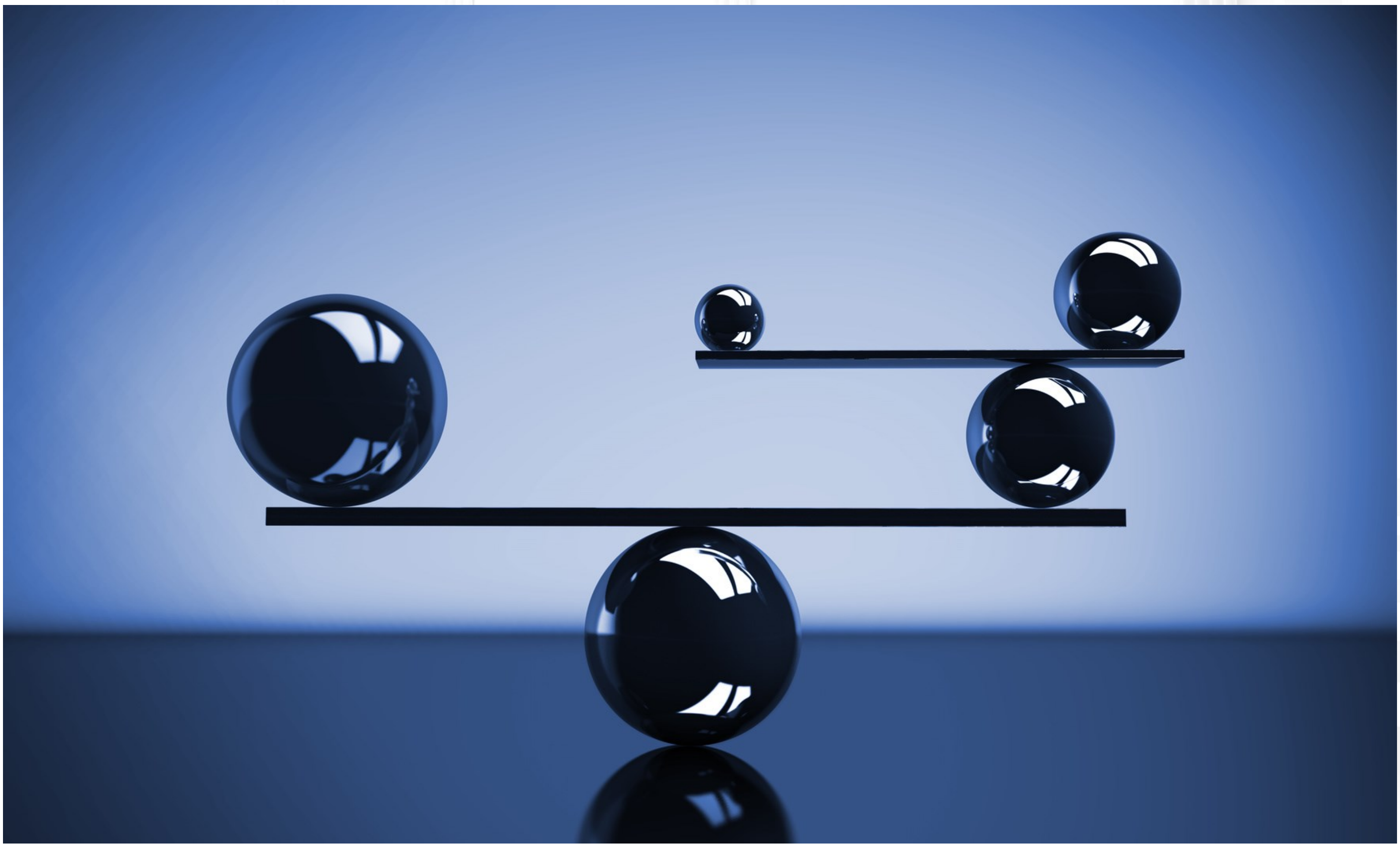
		Q3 2018 local	Q3 2018 USD	YTD local	YTD USD
Exchange rates					
CHF/USD		0.9%		-0.7%	
EUR/USD		-0.7%		-3.3%	
GBP/USD		-1.3%		-3.6%	
JPY/USD		-2.6%		-0.9%	
Equity markets					
World	MSCI World USD	5.0%	5.0%	5.4%	5.4%
Europe	DJ Stoxx 600	1.3%	0.6%	0.9%	-2.5%
Eurozone	DJ Eurostoxx 50	0.1%	-0.6%	-3.0%	-6.2%
	MSCI Europe S.C.	-1.5%	-2.1%	-1.1%	-4.4%
Germany	Dax 30	-0.5%	-1.2%	-5.2%	-8.4%
France	Cac 40	3.2%	2.5%	3.4%	0.0%
United Kingdom	FTSE 100	-1.7%	-3.0%	-2.3%	-5.8%
Switzerland	SPI	4.7%	5.6%	0.5%	-0.2%
	SMI	5.6%	6.5%	-3.1%	-3.8%
	MSCI Swiss S.C.	-2.9%	-2.9%	-9.1%	-9.1%
North America	SP500	7.2%	7.2%	9.0%	9.0%
	Nasdaq	7.1%	7.1%	16.6%	16.6%
	Tse 300	-1.3%	0.5%	-0.8%	-3.4%
	SP600 Small C.	4.4%	4.4%	13.4%	13.4%
Japan	Nikkei 225	8.1%	5.3%	6.0%	5.0%
Emerging	MSCI EMF USD	-2.0%	-2.0%	-9.5%	-9.5%

		Q3 2018 local	Q3 2018 USD	YTD local	YTD USD
Interest rates (3 months)		*(level)*			
CHF		-0.74%			
EUR		-0.35%			
USD		2.40%			
JPY		-0.05%			
Bonds markets					
World	Citi Gr Global Govt.USD	-1.6%	-0.7%	-2.5%	-3.3%
Europe	Euro Ser-E Gov > 1	-1.0%	-1.7%	-0.5%	-3.8%
United Kingdom	UK Ser-E Gov > 1	-1.8%	-3.1%	-1.6%	-5.1%
Switzerland	SBI Général AAA-BBB	-0.8%	0.1%	-1.3%	-2.1%
	SBI Govt.	-1.5%	-0.6%	-2.3%	-3.0%
USA	US Ser-E Gov > 1	-0.6%	-0.6%	-1.7%	-1.7%
Japan	Japan Ser-E Gov > 1	-1.0%	-3.6%	-0.4%	-1.3%
Emerging	J.P. Morgan EMBI Global	1.9%	1.9%	-3.5%	-3.5%
Miscellaneaous					
	LPP 25 Index	0.0%	-0.7%	-0.5%	-1.2%
	LPP 40 Index	0.6%	-0.1%	0.2%	-0.5%
	LPP 60 Index	1.4%	0.7%	1.2%	0.4%
Real Estate CH	DB RB Swiss Real Est Fd	-1.6%	-1.6%	-3.6%	-4.3%
Hedge Funds	Hedge Fund Research USI	-0.3%	-0.3%	-1.5%	-1.5%
Commodities	GS Commodity USD	1.3%	1.3%	11.8%	11.8%

Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

INVESTMENT THEME FOCUS



Graph sources: Bloomberg/BearBull Global Investments

INVESTMENT THEME

ESG Equity Investments: Sustainably higher performance

- Sustained over-performance of BBGI ESG investments in Swiss equities
- Long-term commitment to sustainable finance
- Effective ESG methodology and investment process
- Constant monitoring of ESG controversies in order to react quicker
- A rare, high-performance model

Sustained over-performance of BBGI ESG investments in Swiss equities

Over the first nine months of the year, BBGI ESG investments in Swiss equities once again proved that sustainable investments can achieve excellent results, often better than traditional strategies. Our ESG investments in Swiss equities, following "core" (20 assets), "medium" (40 assets) and "broad" (60 assets) approaches, out-performed both the SMI and SPI indices. The total return performance of the core approach, investing only in the 20 SMI blue chips posted +1.56%, compared to +0.52% for the SMI. The medium and broad approaches also easily surpassed the SPI (+0.21%), with +2.26% and +1.39% growth respectively. In the longer term, over the last ten years, the core ESG approach has been level with the SMI index, posting annualised +6.5% performance, which is identical to the SMI. The other two approaches, medium and broad, had much higher performance, posting +8.5% and +8.0% annualised growth, compared to only +6.5% for the SPI index.

This will not surprise those investors who are convinced of the potential and actual merits of sustainable investments, and will certainly make happy reading for anyone who wishes to commit to ESG investments today so as to bring their investment policy into line with their convictions and environmental, social and governance concerns.

These sustained results show that it is entirely possible to optimise the combination of ESG criteria and financial performance, and even earn profit sometimes higher than that of traditional indices. We will look into greater detail as to the how this was made possible, mainly thanks to the combination of optimised diversification and an inclusive ESG approach.

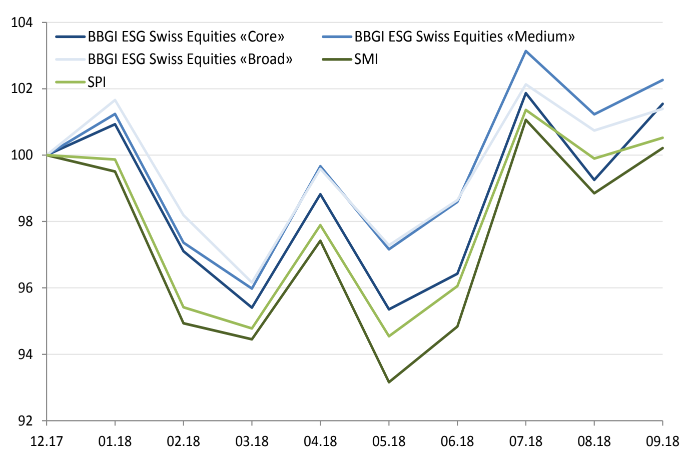
Long-term commitment to sustainable finance

Behind the first SRI (socially responsible investment) concepts in Switzerland, BBGI Group management has always been sensitive to the issue of sustainable finance. Today, the SRI market is progressing rapidly thanks to renewed interest from institutional investors, as well as increasingly from private investors. The Eurosif Institute, which publishes a comprehensive biennial study on the segment, reported +42% growth in the sums invested in the various SRI strategies in Europe from 2013 to 2015. In Switzerland, too, the rise in sustainable investments has been exceptional; the Swiss Sustainable Finance Institute estimated their growth at +82% in 2017.

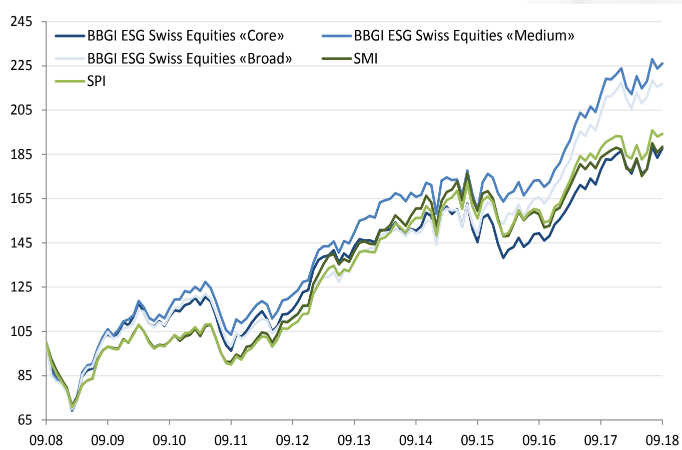
In this rapidly developing sector, our BBGI ESG Swiss Equities management approaches reflect our long-term commitment to offering solutions which are high performance and consistent, both from the point of view of environmental, social, and governance (ESG) concerns and financially.

Our different BBGI ESG Swiss Equities approaches are based on a specific number of relative criteria, themselves based on the generally accepted ESG risk criteria. Our inclusive methodology also allows us to incorporate specific concerns and investors' sensibilities in the specific implementation of the investments. The right to vote is offered to complement our socially responsible management approaches, either in line with specific objectives, or even more simply, according to our own voting guidelines.

Performance evolution (YTD)



Performance evolution (10 years)



Graph sources: Bloomberg/BearBull Global Investments

By investing more sustainably, investors enjoy two-fold added value. Our solutions significantly reduce the risk of ESG investments in terms of environmental, social, and governance concerns.

In terms of performance, the investments made optimise the diversification of investments and the distribution of risk, for results which are often higher than benchmark indices. Including ESG criteria in traditional financial analysis has led to long-term out-performance over the last ten years as compared to the traditional indices of the Swiss market, for similar volatility.

In this "Investment Topic" document, we are explaining the ESG Swiss equities concept, but our sustainable development approaches cover a broader spectrum, also including international equities, alternative energy investments, and investments to promote companies whose carbon risk is more limited, for example.

Choosing an inclusive approach

We have chosen an inclusive approach in our BBGI ESG Swiss Equities investment concepts because of its proven advantages. As such, our solutions clearly stand out from what is already on offer. Indeed, the vast majority of sustainable investments in Switzerland today automatically exclude economic practices or sectors which are deemed damaging (negative screening). However, excluding assets limits diversification of investments, curtailing expectations for portfolios, and potentially affecting performance.

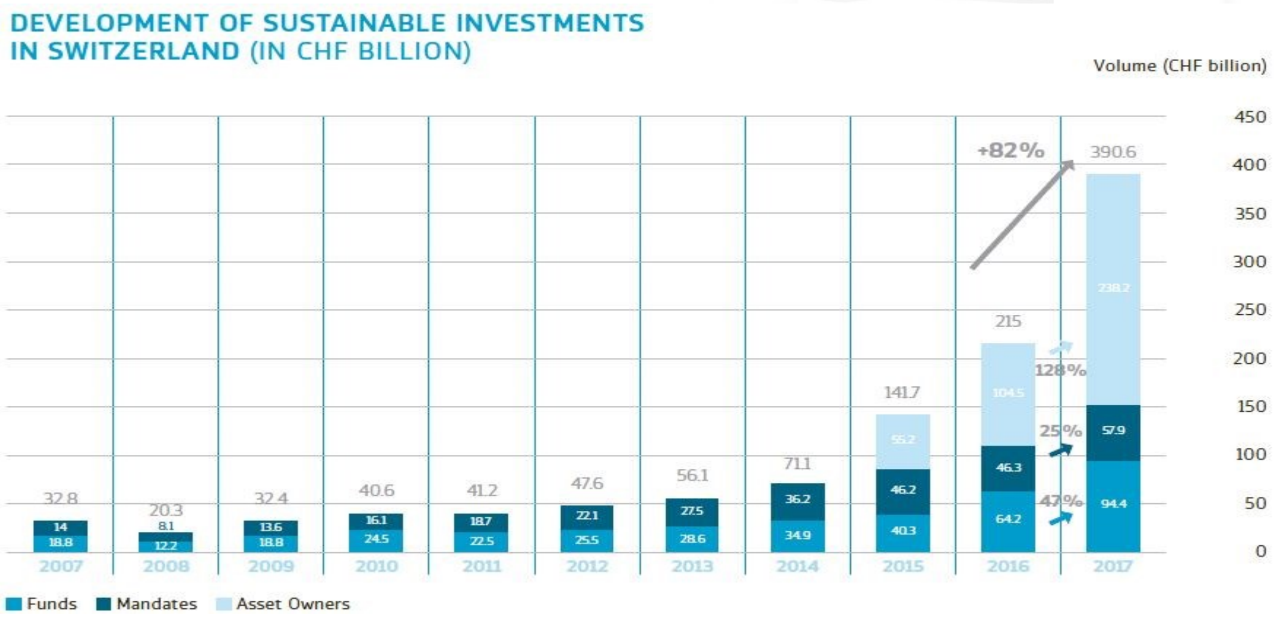
We believe that incorporating ESG criteria should include selecting stable assets, with controlled levels of risk as regards the environment, and social and governance criteria. That is why our investment process implements an inclusive approach, which directly incorporates ESG criteria in traditional financial analysis. As such, taking into account environmental, social and governance risks no longer excludes any asset at the outset, rather, it is one aspect to consider in order to improve the sustainability of the portfolio in order to achieve a consistent result, both from financial and non-financial standpoint.

Effective ESG methodology and investment process

The level of ESG risk has an essential impact on determining each company's exposure within the portfolio. The risk of high concentration on very big caps is optimised by assigning each group and each company within a stock market capitalisation group maximum and minimum weightings. Allocations per asset or per company are decided based on neutral weightings for each group of stock market capitalisations. The assets are under- or over-weighted compared to other companies in the same stock market capitalisation group, taking into account their environmental, social, and governance risks. The more a company makes an effort and achieves lower ESG risk, the greater weighting it has in the portfolio. Conversely, a company with high ESG risk will be placed on minimum weighting. By keeping high ESG risk companies at minimum weighting, we are maintaining a dialogue. We vote on companies' behalf for best practices in terms of good governance and point out any potential gaps directly via the vote.

We have chosen an accessible, clear and understandable method, setting enough objective criteria to evaluate the environmental, social, and governance risks of companies making up the portfolio. This approach enables companies to stand out in different ways to improve their overall ESG score. These criteria must make clear the absolute score of each company, whilst also giving a comparative relative view of other companies. Equally, we also believe it is important to be able to follow how their scores change over time.

Transparency is one of the main factors in managing environmental, social, and governance risks. Without transparency, the public struggles to work out where companies stand, and what efforts they are making to address ESG concerns, and so cannot vote with their feet. In the second stage of the process, the results of each company are compared to those of a group of similar companies within the same industry (GICS classification, level 3) based on an initial selection of 2059 global assets. If the results are better than the median, the company will receive "positive points". The data collected are also compared historically to see if the company has decreased or increased its ESG risk over the last three years. The grade is adapted depending on these results. Each company is thus compared to the other companies in the same industries based on criteria chosen in order to be able to provide a tailor-made ESG report.



Graph sources: Bloomberg/BearBull Global Investments/SSF

Constant monitoring of ESG controversies in order to react quicker

It is also important to have a yardstick and an alert tool in order to be able to react relatively quickly should a controversy emerge. We decided to put in place an active monitoring process for ESG controversies for each company in the investment universe. This process gives us quicker reaction times by acting as a firewall to prevent ESG risks, which are then often reflected in the financial performance of the companies in the portfolio. This monitoring is based on reliable sources and then verified by a team of analysts. Any controversies found are analysed and may lead to a decision to change the weighting of company which is the focus of considerable controversy. In extreme cases, if it is in investors' interests, a decision may be taken to fully liquidate the investment. As such, this short-term monitoring complements our long-term general view of the company from the ESG rating. The evaluation and opinion of the company are then directly incorporated in financial analysis.

A rare, high-performance model

ESG investments are riding high. Demand is propped up above all by institutional investors who represent nearly 85% of the demand for ESG products. In Switzerland, the latest market studies show a drop in the predominance of exclusive approaches, and a +90% increase in approaches including ESG criteria. In terms of distribution by asset class, sustainable investments in equities only represent 27.7% of all sustainable investments.

The issue of climate change is also becoming increasingly important for investors. The Paris Climate Change Agreements and the Sustainable Development Goals (SDGs) have certainly also started to influence product supply. A growing number of investors are concerned by climate change; more than 80% of participants in the study run by Swiss Sustainable Finance indicated their interest in environmentally friendly investments, as well as investments which take the carbon footprint into account.

A University of Zurich study on banks' sustainable investment products suggests that increasing numbers of banking institutions are discovering the concept of sustainable development and are creating products bearing a "sustainable development" hallmark. From their study of the major management banks, the two researchers concluded that the range of products was still limited and not very effective, underscoring that "the products that are truly worth considering, strategically well thought-through, and which have a significant positive effect are still rare".
As such, this study suggests that the demand for high-performance management products has not been satisfied, and that improvements can be made.

This situation can perhaps be explained by the likely low level of real commitment of some service providers, and their very probable lack of experience in the field. The increasing pace of development on the market in terms of investor demand was not anticipated by the financial sector. Too late, it has seized on this "new" market, adapting its products to demand without any well thought-through strategy, to paraphrase one of the University of Zurich researchers.

However, our commitment in this field is long-standing, as shown by the past performances of our various management models incorporating ESG or climate criteria. We have successfully demonstrated that our ESG approaches for Swiss and international equities, as well as our international "clean energy" concept, and our international "low carbon" concepts stood out from existing products due to their superior design and results. In this field, investors must remain vigilant and select management products and partners for their commitment, experience, and long-term results.

Graph sources: Bloomberg/BearBull Global Investments

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