

## Investment Strategy 2018 – Focus

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- The synchronised global economic upswing shall continue in 2018. The USA is expected to resume its role as the engine of the global economy. Europe has found its way back to attractive growth rates. The Swiss economy benefits from a nearly perfect environment. The stronger euro (EUR) and a more stable, US dollar (USD) have proved to support the domestic economy in Switzerland.
- The global recovery is also driven by the emerging countries, in particular by Asia.

### Economic growth gains on quality and dynamics, resulting in growth of corporate earnings

- The attractive economic growth should lead to higher interest rates, however, it is the policy of central banks to slow down this process. In the near future, only the US central bank (FED) will continue to hike interest rate.
  - The last 30 years were dominated by falling **interest rates** and was followed recently by a phase of relatively low interest rates. Overall, we expect low interest rates to remain with us for a longer period. In the fixed income market, we favour investments in corporate bonds (investment grade) with relatively short maturities. Furthermore, we increase the quality of fixed income investments in our portfolios.
  - We expect the **exchange rates environment** in 2018 to remain stable as major currencies have become more aligned with their respective purchasing power parities. The rapid recovery of the EUR compared to the USD and the Swiss franc (CHF) in 2017 is not expected to continue at the same pace in 2018. The Swiss franc remains a hard currency, supported by fundamentals like low inflation rates and a sustained financial policy by public authorities.
- **Equities** remain the most attractive investment class, but initial signs of overheating are apparent. Despite the fundamentally positive development, we are proceeding on the assumption that the equity rally is at an advanced stage and there is an increasing risk for corrections in 2018. The financial markets are currently ignoring a large number of risks in today's world. Structural problems remain in many instances unresolved.
  - The risk premiums for stock markets overall remain on an interesting level (cf. graph on the back). Compared to other asset classes, equities are still attractive.
  - Despite the price increases over recent years, it is still possible to find attractively priced equities (especially in the category of **value stocks**) with decent dividend yields, mainly in Switzerland and Europe. In the USA we have placed a strategic focus on growth stocks, in the technology sector.
  - We recommend investments in attractively valued **commodity equities** and in companies in the energy sector. Based on the global economic environment and the limited supply, we expect energy and commodity prices to go up. We continue to keep a certain amount of physical **gold** in our portfolios.

### Commodity stocks are attractive as only moderate commodity price expectations have been factored in

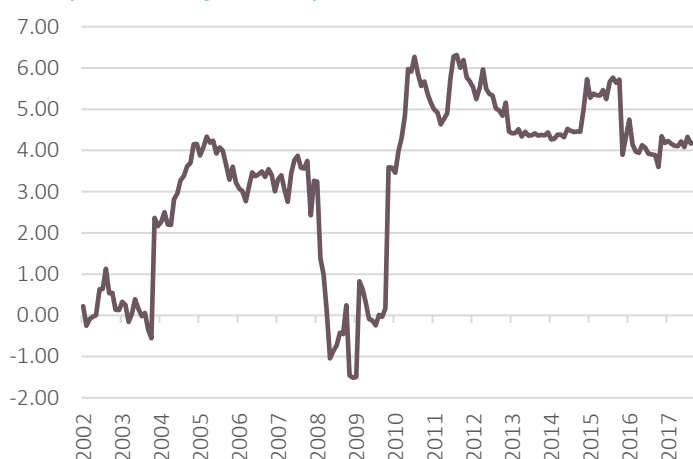
- Investments in private equity are suggested as an addition to the portfolio. Infrastructure and non-publicly traded bonds are part of the allocation in alternative investments. From a risk management perspective, we favour forms of collective investment vehicles (investment funds).

# Shares

## Profit evolution of key equity indices

Region	Index	30.11.17	Aggregated annual profits per equity index								P/E	
			2011	2012	2013	2014	2015	2016	2017E	2018E	2017E	2018E
USA	S&P500	2'648	94	99	106	113	109	112	135	148	19.6	17.9
Europa	EuroStoxx50	3'570	174	163	141	166	152	186	230	252	15.5	14.2
Germany	Dax30	13'024	535	439	520	589	487	704	884	974	14.7	13.4
Great Britain	FTSE100	7'327	509	333	398	292	182	260	491	521	14.9	14.0
Switzerland	SMI	9'319	382	388	446	477	338	365	487	566	19.1	16.5
Japan	Nikkei	22'725	383	502	736	879	897	885	1183	1330	19.2	17.1
China	Shanghai	3'317	186	183	204	209	196	203	228	257	14.6	12.9

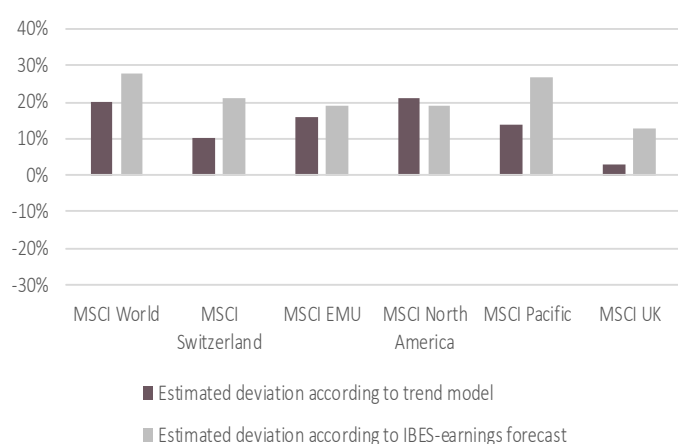
## Risik premiums of Swiss Equities vs. Bonds



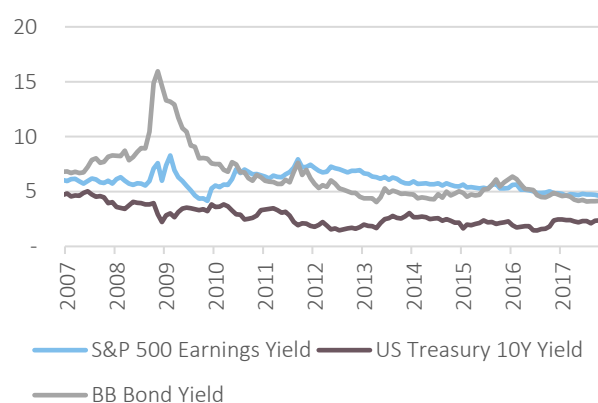
## MSCI World – Price / Sales



## Equities valuation – Current deviation from fair value



## USA – Comparison of Earnings Yield and Interest Rates



Sources: Bloomberg, ZKB/Swisscanto, Belvalor AG, data as of November 2017