MID-YEAR REVIEW INVESTMENT-THESES

2018

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DIEM CLIENT PARTNER
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MID-YEAR REVIEW INVESTMENT-THESES 2018

A self-critical review of **our theses from January**,

including our outlook for the second half of the year.

Equity markets

1. Equities could undergo a 20% correction at any time.

Volatility has in fact returned.

It is likely that rising inflation rates, further interest rate hikes and smouldering trade conflicts will continue to weigh on markets in the short term.

2. We consider excessive rises in inflation rates and overly restrictive monetary policy resulting from this to be a greater risk.

Central banks have indeed been even more restrictive.

The market will be negatively impacted by two potential interest rate hikes in the U.S. in the next six months.

Geographical regions

3. Due to the expansionary monetary policy of the ECB and relatively low valuations, following corrections, we continue to favour Europe.

Contrary to expectations, Europe was the clear loser.

We will buy European stocks in the event of setbacks in the coming months.

Sectors

4. In Europe, cyclical sectors are showing good earnings performance. In terms of defensive stocks, we favour health care.

Cyclical sectors have been among the winners in the first half year.

In the second half of the year, we will be more selective in the cyclical sector. In defensives, we are still favouring insurers and pharma.

5. In the U.S., we still like late-cyclical and internationally focused companies.

Technology stocks were by far the winners.

In the second half of the year, we will increasingly favour defensive companies. We will only buy cyclical stocks following market corrections.

6. Companies in the real asset sector traditionally generate good returns in a late-cyclical environment.

Energy stocks have proved good picks as expected.

We will continue to hold energy sector companies in our portfolio.

7. We prefer companies that represent value and are accordingly underrated. Excellent balance sheet quality is also becoming increasingly important in our stock selection.

"Value" was not in demand, but quality stocks were.

The quality aspect will become even more important in the second half of the year.

Bonds

8. Interest rates will continue to rise. We see the 10-year U.S. treasury yield at 3% at the end of the year.

Our forecast was correct; most interest rates have risen.

In terms of interest rates, we see continued upward pressure. Above all, more restrictive monetary policy should help interest rates to rise.

9. Our favourites in the bonds space continue to be hybrid securities with inflation protection.

Hybrid bonds have also lost in value.

Almost all bonds lost value in the first half of the year. In cross-comparison, hybrid bonds still offer solid yields.

Currencies

10. On the currency side, we expect the USD to decline relative to the EUR. The CHF is likely to trend weaker against the EUR and USD in the first half of the year.

As of the end of the first half of the year, the currency pairs had hardly moved.

We see the USD being weaker than the EUR at the end of 2018. The CHF will depreciate slightly against the EUR and USD.