Edwards Wealth Management AG
Switzerland

MORA wealth management

Investment Policy

August 2019

Our market view in a nutshell – August 2019

- The **Fed met expectations and lowered the deposit rate for the first time since 2009**. Although it is not clear at the moment if what Chairman Powell described as a **"mid-cycle adjustment"** will not end with the Fed joining other major central banks in the race to the bottom of interest rates

- The **trade dispute** is not making things easier for the Fed, as the "on and offs" of the negotiation are **causing bouts of volatility in financial markets**, as well as a **deterioration of business confidence**, particularly in the manufacturing sector which is perceived as most affected

- The Chinese authorities have reacted to the latest tariff threats by **allowing the Yuan to depreciate at its lowest level since 2008**. It is important to remember that it was the decision of the Chinese authorities to allow the Yuan to depreciate in 2015 that caused the collapse of commodity prices, and put the global economy on the brink of a recession. Although **our base scenario remains that an agreement will be reached** before the US elections next year, there is still a risk of miscalculation by either party

- With geopolitics dominating the headlines, the **start of the reporting season** has attracted less attention. In general, companies have surprised on the upside, but **earnings growth remains weak, with the S&P 500 reporting a second quarter of negative growth**. However, earnings are expected to grow at around 10% by 2020, which combined with the greater attractiveness of stocks against bonds, due to the decrease in yields of the latter, makes us remain positive for the asset class

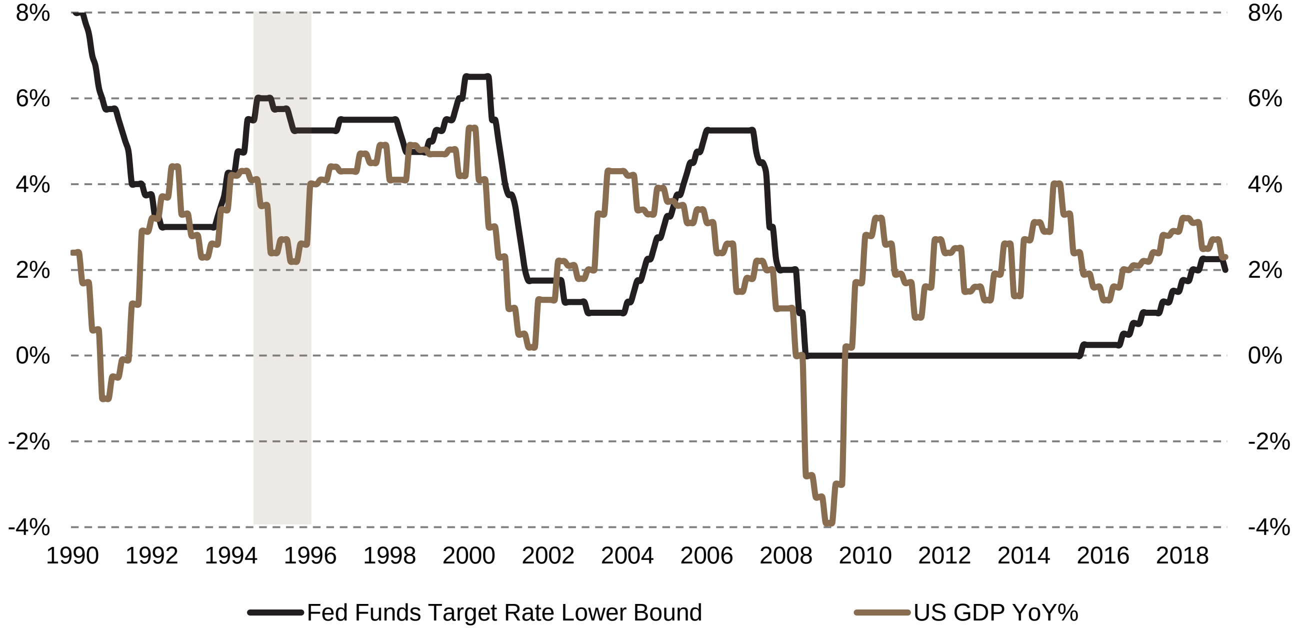
- **Narrowing interest rates differentials** between the US and the rest **will start to dent on the strength of the US dollar**. With current fundamentals, we see the USD as fairly valued, as verbal intervention by the US administration managed to curb its appreciation as the Fed raised rates. But if the Fed would now cut rates aggressively, one would expect the dollar to depreciate from current levels

EWM Investment Policy

Asset Class		View	Rationale
Fixed Income	US Treasuries	+	Treasuries offer protection from a slowdown in growth, but we believe that current long-term yields are unattractive, preferring shorter maturities
	US Credit	+	Corporate debt and High Yield currently offer the best combination of risk and return. We prefer medium maturities as the yield curve has flattened considerably and there is little term premium to compensate for taking interest rate risk
	European Sovereign	–	High quality debt in Euros presents a very unattractive combination of risk and return as current yields offer very little cushion to weather potential interest rates increases
	European Credit	=	In European credit we only see value in subordinated debt, asset-backed securities and short-duration high yield
	Emerging Markets	+	Emerging Markets currencies and spreads have adjusted significantly to a stronger dollar and the uncertainties around global growth. With the Fed signaling being closer to the neutral rate, we deem current levels to offer fair value
Equities	US	+	After the recent market corrections and the increase in corporate earnings, valuations have improved. We have therefore increased our exposure to US equities, mostly through quality and growth oriented companies
	Europe	=	From a relative valuation perspective, we like European stocks as they trade at lower multiples, and we expect profits to pick up as economic activity accelerates
	Japan	=	Japanese stocks are the cheapest in developed markets, but have suffered recently due to sluggish growth, and concerns about global trade
	Emerging Markets	=	Emerging markets have corrected sharply since the beginning of the year affected by a strong dollar and trade concerns. We deem the correction suffered has been excessive, and continue favoring India, Frontier Markets and Brazil within EM
	Sectors & Themes	+	Amongst others, we favor Biotechnology and Healthcare
Alternative Investments	Multi-Strategy Hedge Funds	–	Multi-strategy / multi-manager hedge funds with daily liquidity are having a disappointing performance, particularly when compared with other less risky alternatives, like short-term corporate bonds
	Commodities	–	In the present late-cycle environment, with inflation pressures remaining subdued, we see limited upside for commodities
	Private Equity	=	Investing in late-stage private equity provides access to the asset class with liquidity provision up to a certain degree

\+ Overweight – Underweight = Neutral

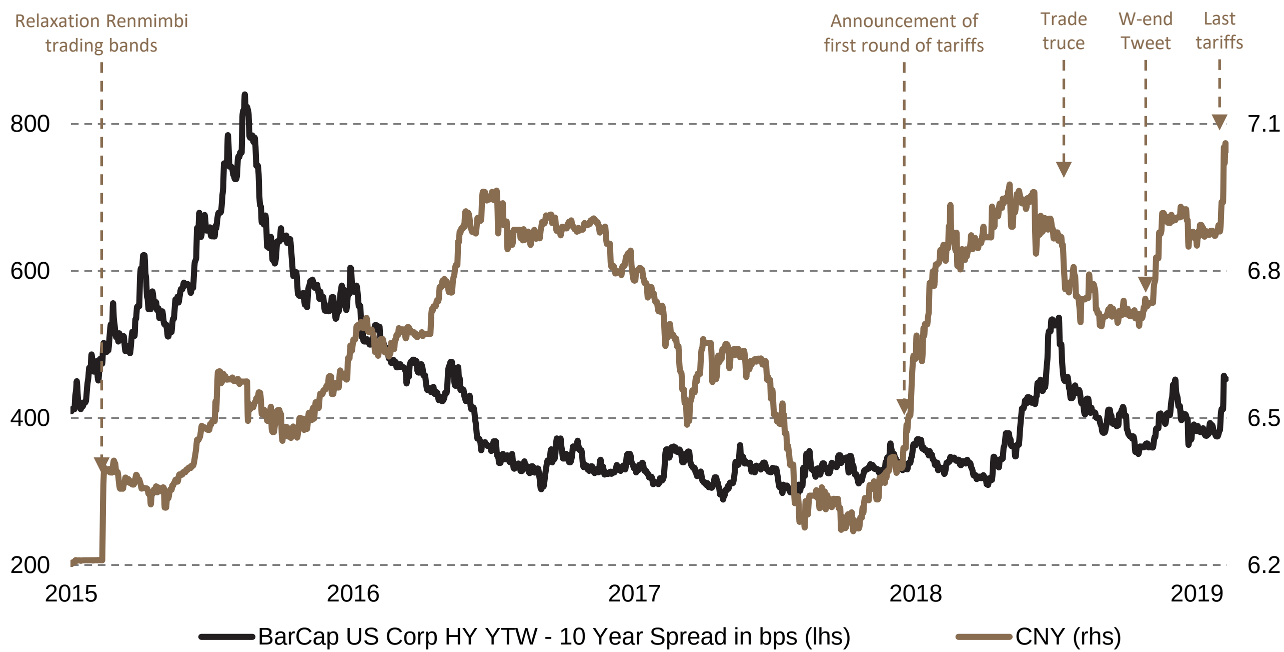
Mid-cycle adjustment?



- The Fed has presented a change in monetary policy as a **"mid-cycle adjustment"** similar to that which took place in **1995-96**. The main difference is that at that time the Federal Reserve rates were at 6%, while in the current adjustment cycle they had only reached 2.5%
- This illustrates how **difficult the monetary policy normalization process will continue to** be in a context of lukewarm economic growth, low inflation and greater financialization of the economy. In fact, **bond markets seem to be pricing a Fed capitulation**, which will have no choice but to follow other central banks implementing negative interest rates

Source: Bloomberg (Quarterly data 1995 – 2019)

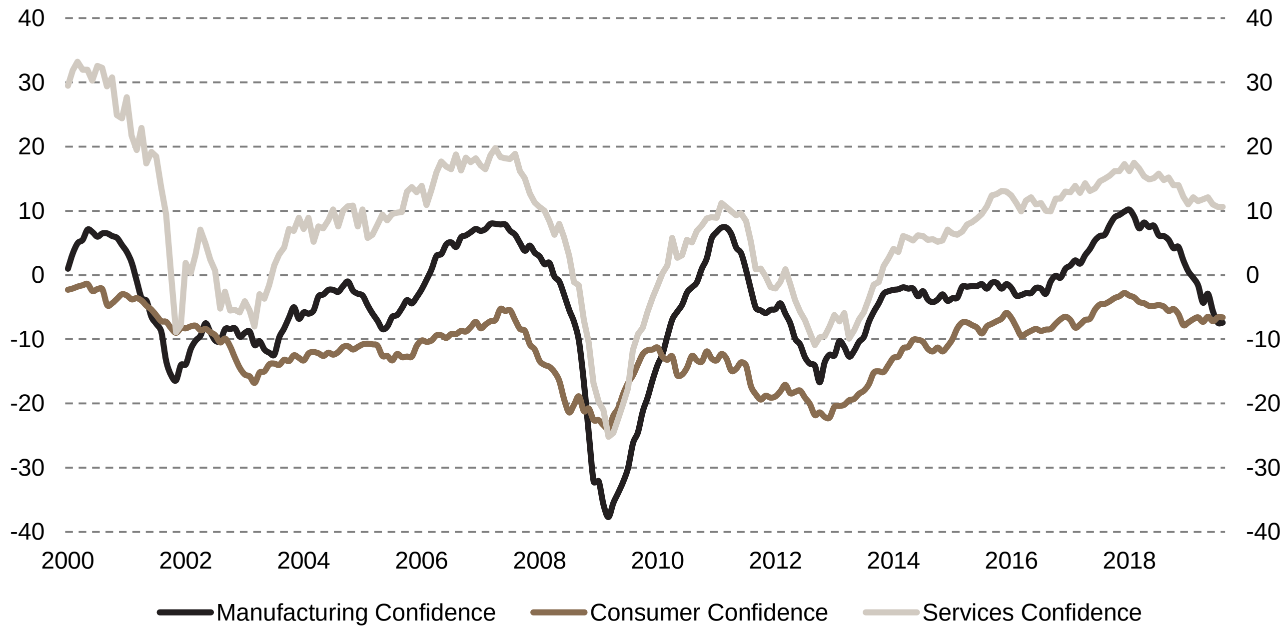
Trade war is now a currency war



- The **weakening of the Chinese Yuan in 2015 created shockwaves** in financial markets, as investors anticipated a competitive devaluation in order to avoid a hard landing of the Chinese economy, which would result in a **global deflationary shock**
- **This concern has resurfaced after Pres. Trump started the trade war** with China threatening to impose tariffs on Chinese imports. This was followed by market turmoil, commercial truce, tweets and the latest round of tariffs

Source: Bloomberg

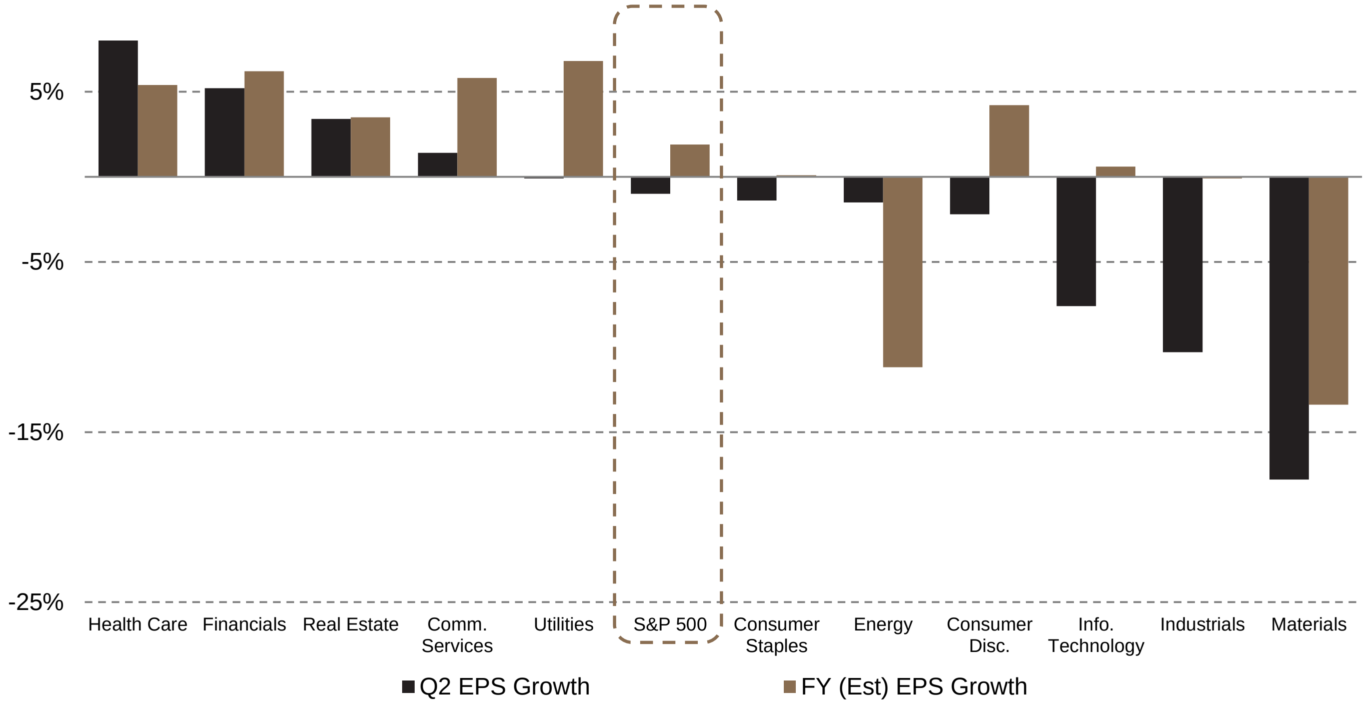
Industrial recession



- **Trade concerns are weighing on the manufacturing sector**, in particular in those countries most dependent on the export sector. **In Germany the economy is flirting with recession** at the moment, and it is expected that Q2 GDP figures will show that the economy shrank in the three months to June
- **Consumers and the service sector are proving more resilient**, but the risk of a contagion is increasing

Source: Bloomberg

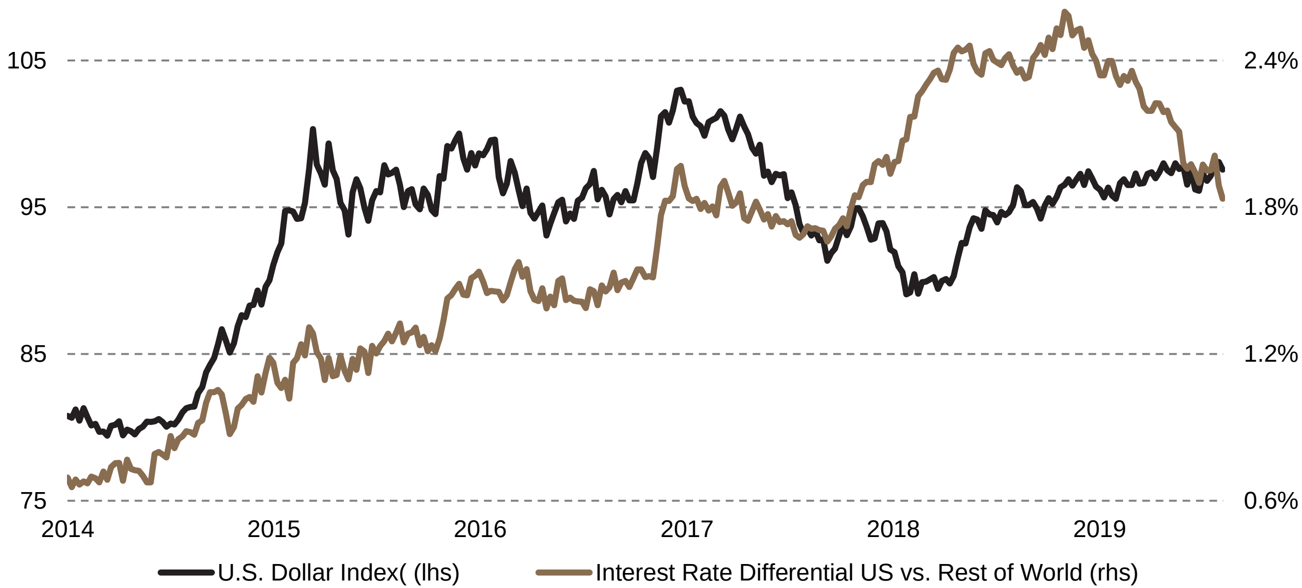
Equities supported by lower rates, not earnings



- With 70% of the companies in the S&P 500 having reported results, **76% of them positively surprised the market**. This corresponds to an overall **decrease in earnings of -1.0%** which, if confirmed, will be the first time since 2016 that the index decreases two consecutive quarters
- **For the entire calendar year, earnings are expected to show a modest growth of around +2%**. This should have had an impact on valuations, but the sharp decline in bond yields has cushioned this effect, allowing for higher multiples

Source: Bloomberg

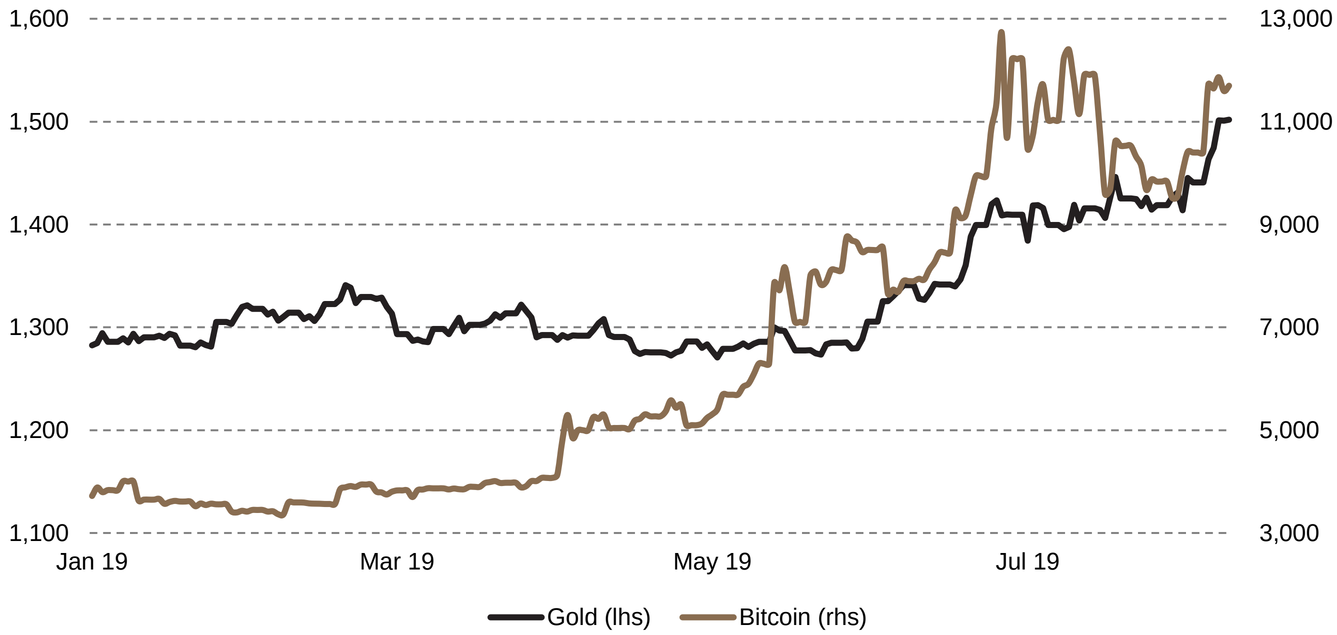
The USD is losing support from fundamentals



- The Fed’s policy U-turn makes us question whether it will join other major central banks in their **race to the bottom in interest rates**
- This would translate into **lower interest rate differentials and a weaker US dollar**. At the moment, it is too early to know, given that **market anticipation of new interest rate cuts can be unfounded** as long as the US economy remains in good shape

Source: Bloomberg

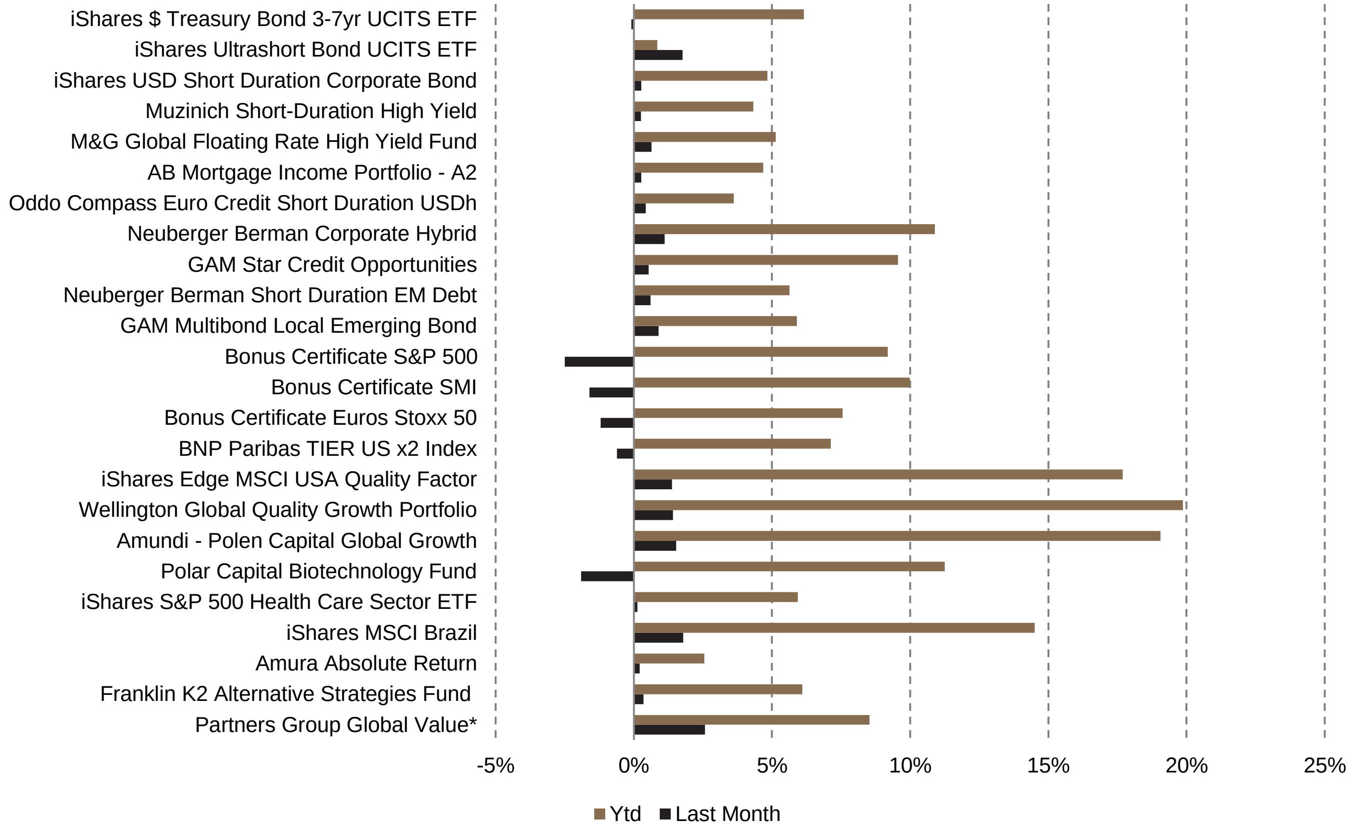
Central banks increasingly questioned



- **Unorthodox monetary policies** such as QE and negative interest rates, although they are aimed at supporting the growth of the economy, are increasing discontent among the population
- If the Fed would embark on a journey towards negative interest rates, **demand for alternative currencies could soar**. We have seen that in the recent **rally in gold and cryptocurrencies**. This could pave the way for the introduction of Libra, which could seriously threaten the effectiveness of monetary policy going forward

Source: Bloomberg

Model portfolio evolution



Source: Bloomberg ,as of August 1, 2019
* Fund publishes monthly NAV with a 1 month of delay

Investment scenarios

	Scenario 1 Recession by political/policy accident	Scenario 2 Goldilocks	Scenario 3 New regime
Drivers	• Global economic slowdown caused by political accidents or policy errors (Trade war with China, EU breakup, a too aggressive Fed, etc.) • Deflationary scenario due to a combination of low growth and structural factors, although the rise of protectionism would be inflationary • The Fed will have to reverse curse, which would be complicated if inflation is rising	• The fiscal stimulus in the US provides a short-term impulse to the global economy, but not enough to attain a higher growth trajectory • Inflation, particularly in the US will pick-up, but remains subdued globally due to structural factors (demographics, low aggregated demand, deleveraging) • The Fed will continue its normalization path	• Growth concerns dissipate, with economic activity accelerating in US, Europe and Japan • Inflation in the US increases, as a consequence of president Trump's fiscal stimulus, and pulls other developed economies off deflation • The Fed will have to step up the pace of rate increases and/or reduce balance sheet
Market impact	• Correction in credit due to a rise in defaults and a widening of corporate spreads • Correction in equities due to lower projected earnings, though low rates will offer support • Sovereign and IG credit to profit due to flight to quality and the continuation of an ultra-loose monetary policy globally • USD neutral to weak as flight to quality is counterbalanced by low interest rates • Commodities will fall	• Equities appreciate moderately, with Europe and Japan catching up with the US • Credit spreads remain stable as the credit cycle is further elongated • Sovereigns suffer as monetary policy is progressively normalized • USD appreciate moderately due to higher interest rate differentials • Commodity prices will rise in the short-term, normalizing once the impulse vanishes	• Impact on equities will depend on how much real economic growth is sustained, and how accommodative the Fed remains • Sovereign and IG bonds will face steep losses due to higher rates, particularly if long-term inflation expectations rise • Corporate credit will correct moderately if inflation comes together with higher growth • The USD will appreciate, particularly against those currencies facing deflation • Commodities will gain from higher inflation
Probability	40% (+5%)	40% (-5%)	20%

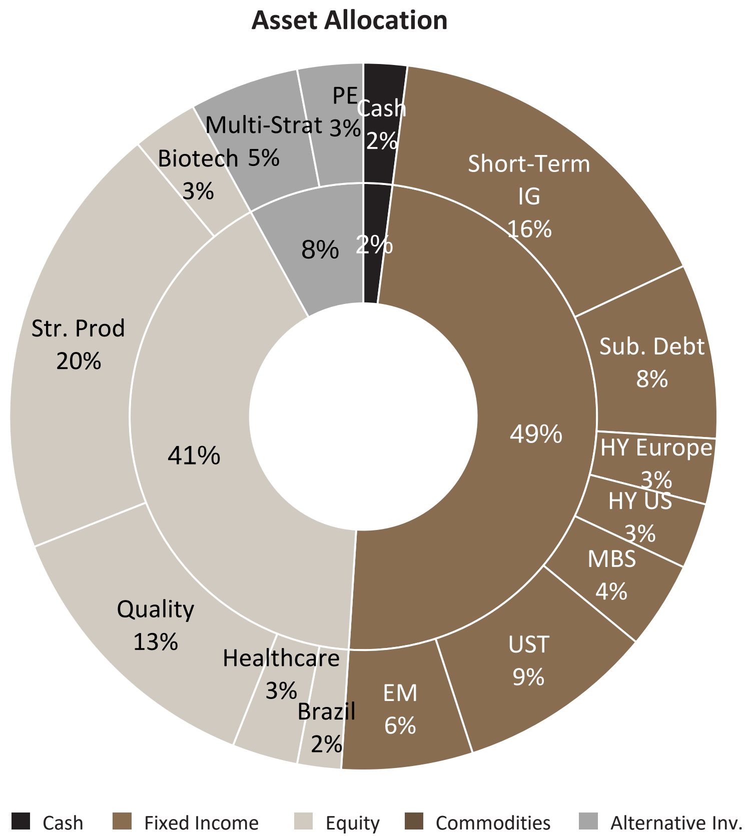
Short-term catalyzers

Fiscal stimulus in the US, improvement in macro-data globally, lower geopolitical tensions

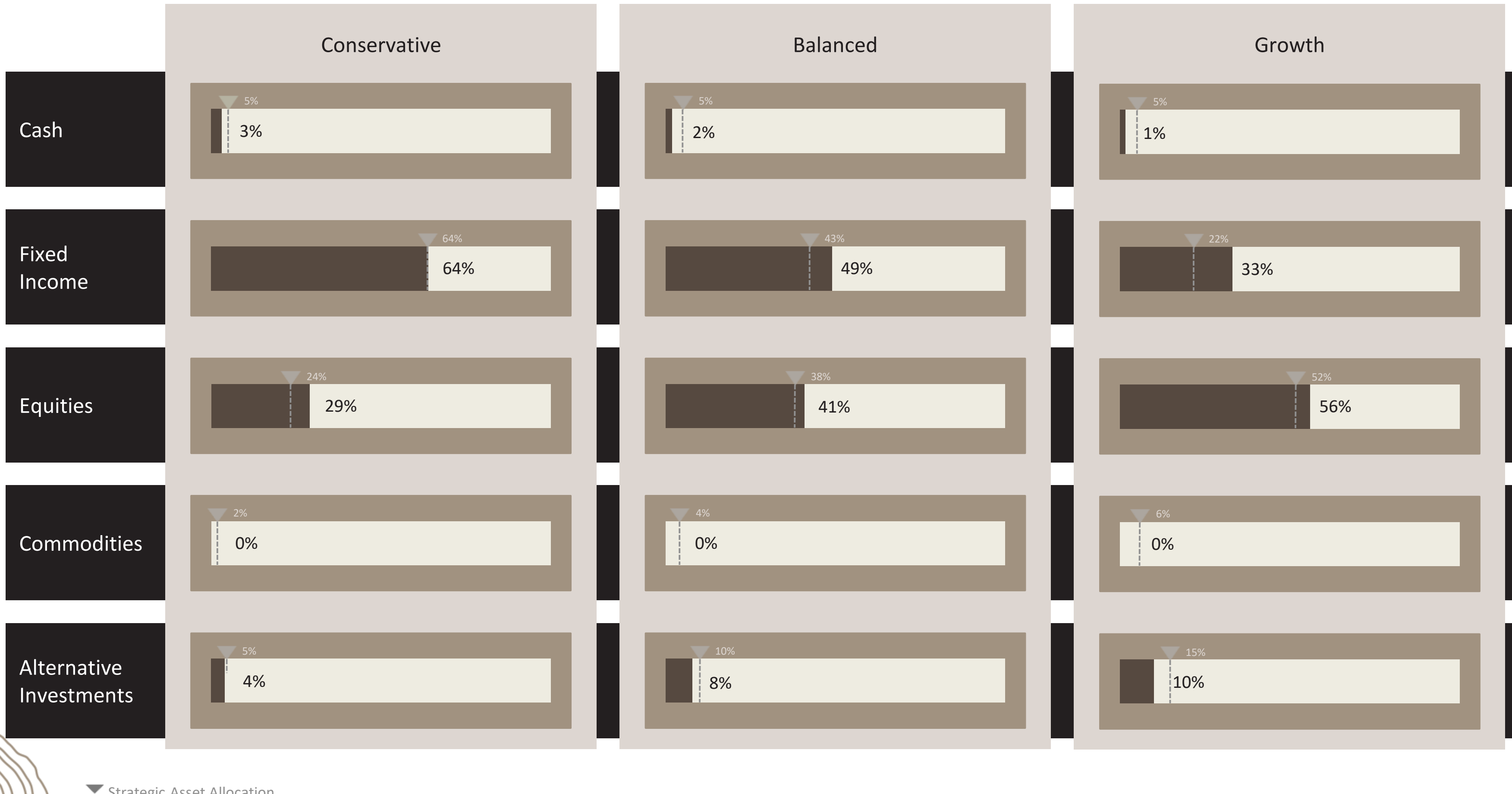
Other risks

Trade wars, Spread of populist political parties, China slowdown, Terrorism

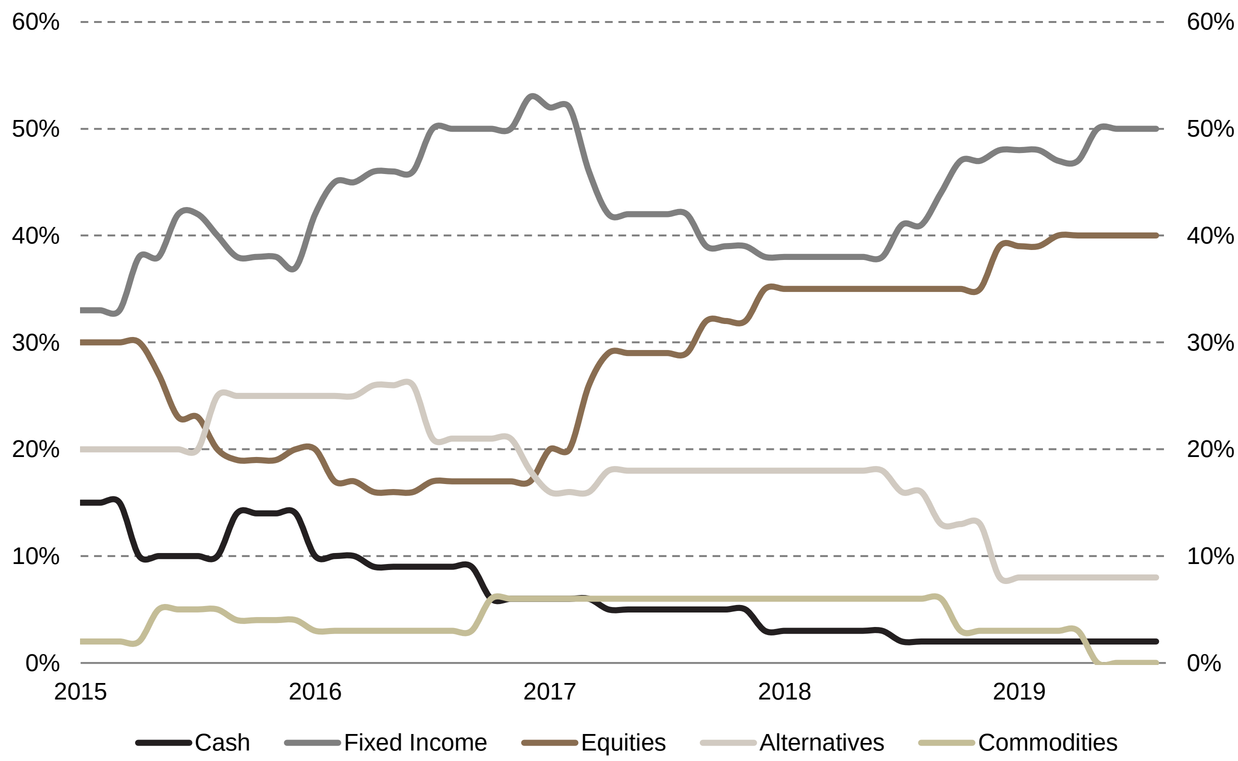
EWM Model Portfolio Balanced USD



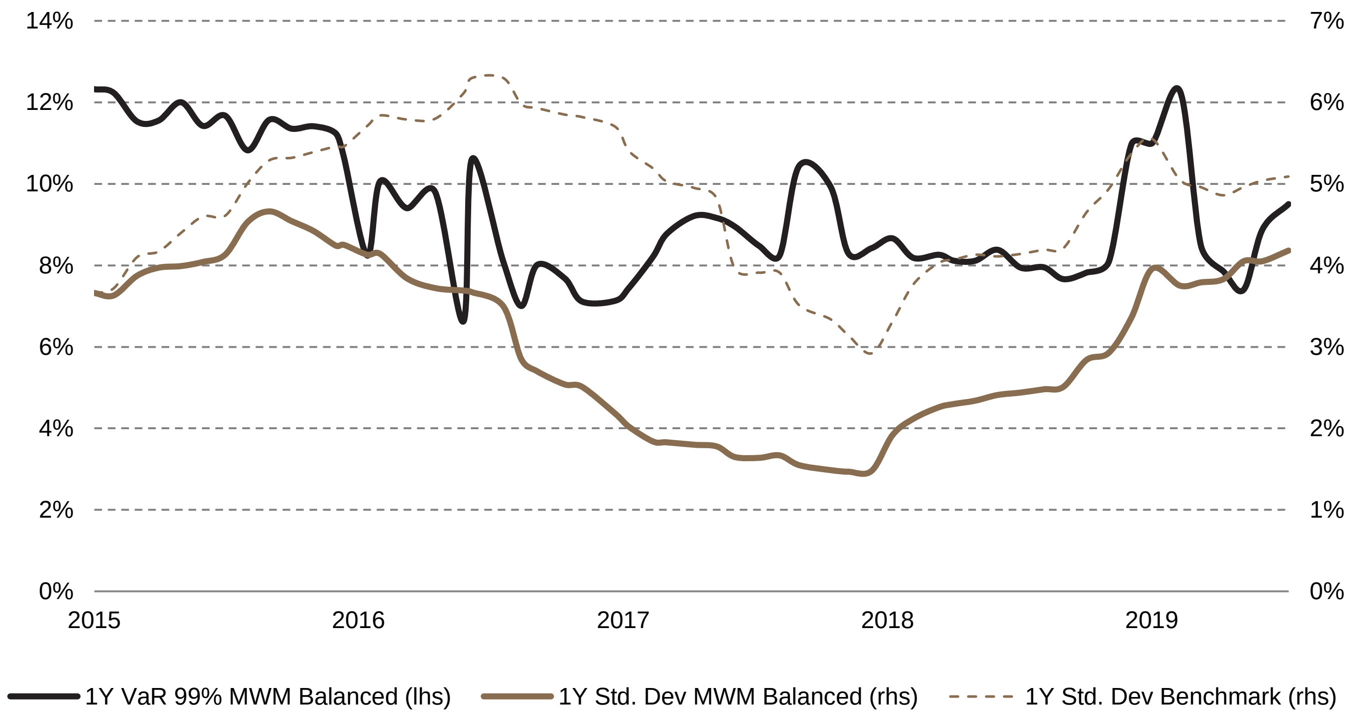
EWM Investment Profiles



EWM Model Portfolio – Asset Allocation evolution

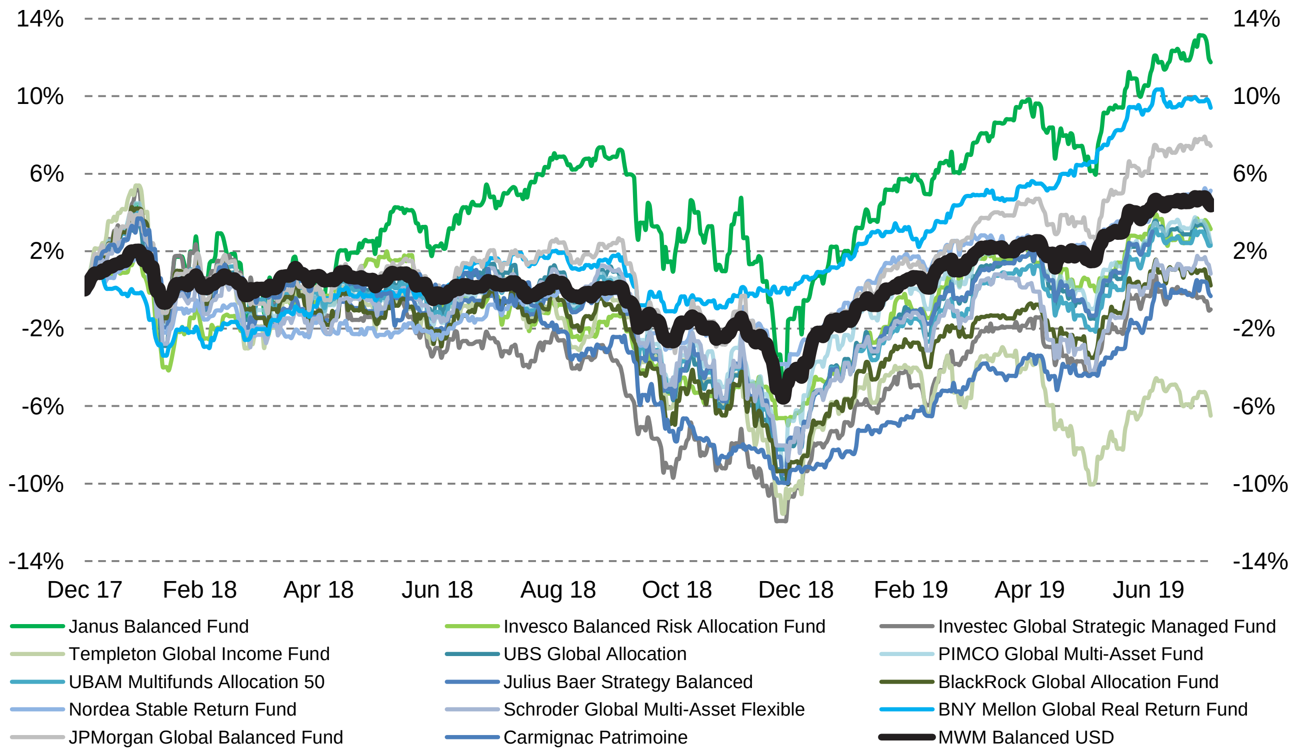


EWM Model Portfolio – VaR evolution



[1] As of August 1, 2019
Source: Bloomberg

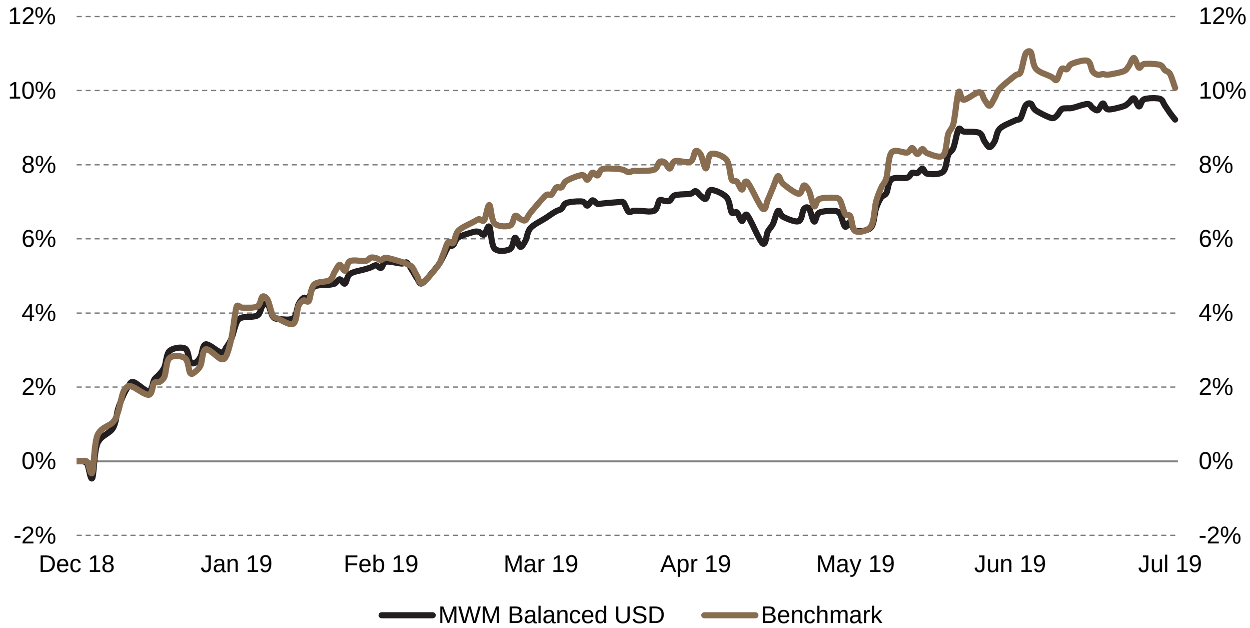
EWM Model Portfolio – Peer comparison



- **Total Return** (Ytd[1]): **10th out of 15**
- **Standard Deviation** (1 year[1]): **1st out of 15**
- **Downside Risk** (1 year[1]): **2nd out of 15**
- **Sharp Ratio** (1 year[1]): **4th out of 15**

[1] As of August 1, 2019
Source: Bloomberg

EWM Model Portfolio – Ytd performance

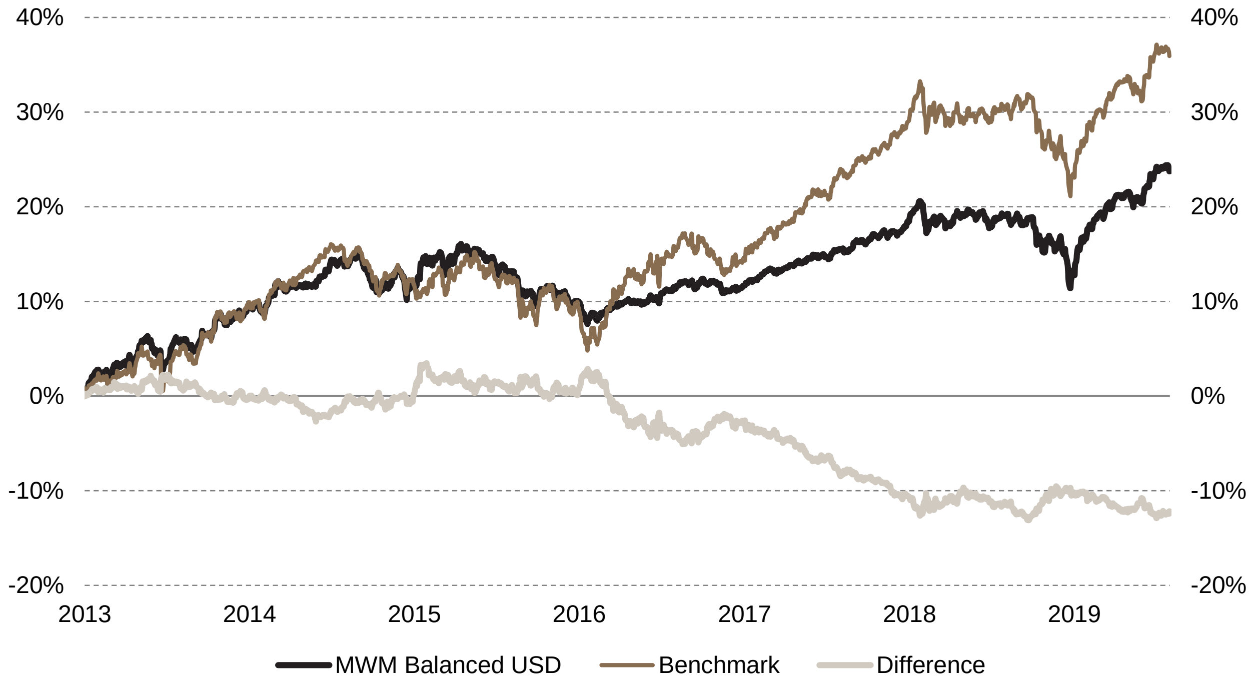


- **Total Return** (Ytd[1]): **8.39%** vs. **9.52%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **3.72%** vs. **4.29%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **2.74%** vs. **2.92%** Benchmark[2]
- **Sharpe Ratio** (Ytd[1]): **3.25** vs. **3.29** Benchmark[2]

[1] As of August 1, 2019

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

EWM Model Portfolio – Historical performance (1)

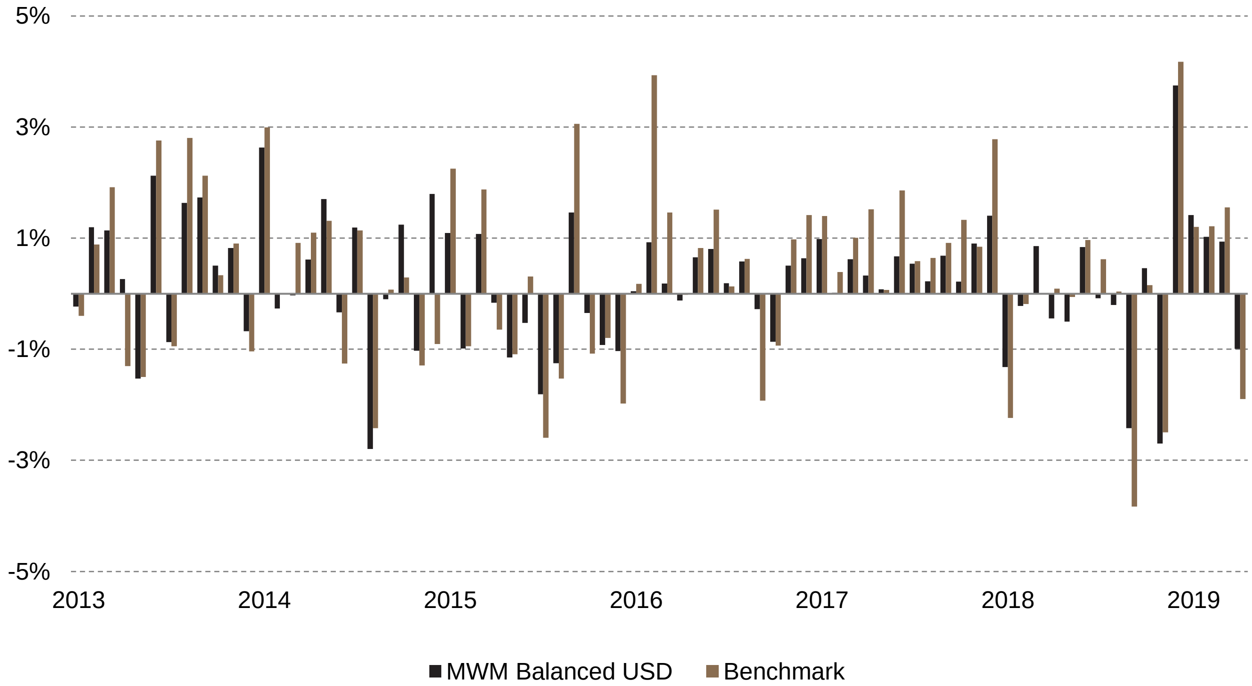


- **Total Return** (1 year[1]): **2.97%** vs. **3.38%** Benchmark[2]
- **Total Return** (3 year[1]): **9.11%** vs. **10.24%** Benchmark[2]
- **Total Return** (Since Jan 13[1]): **23.72%** vs. **35.91%** Benchmark[2]

[1] As of August 1, 2019

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

EWM Model Portfolio – Historical performance (2)



- **Standard Deviation** (1 year[1]): **4.18%** vs. **5.09%** Benchmark[2]
- **Downside Risk** (1 year[1]): **2.92%** vs. **3.10%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **0.18** vs. **0.24** Benchmark[2]
- **Var 95% - 1day** (1 year[1]): **-0.49%** vs. -**0.50%** Benchmark[2]

[1] As of August 1, 2019

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

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