MORNING NEWSLETTER

November 2017

Summary

Adrien Pichoud
Chief Economist & Senior Portfolio Manager

Wanda Mottu
Portfolio Manager

Maurice Harari
Senior Portfolio Manager

01

Global growth at full pelt, with the emerging world reaccelerating

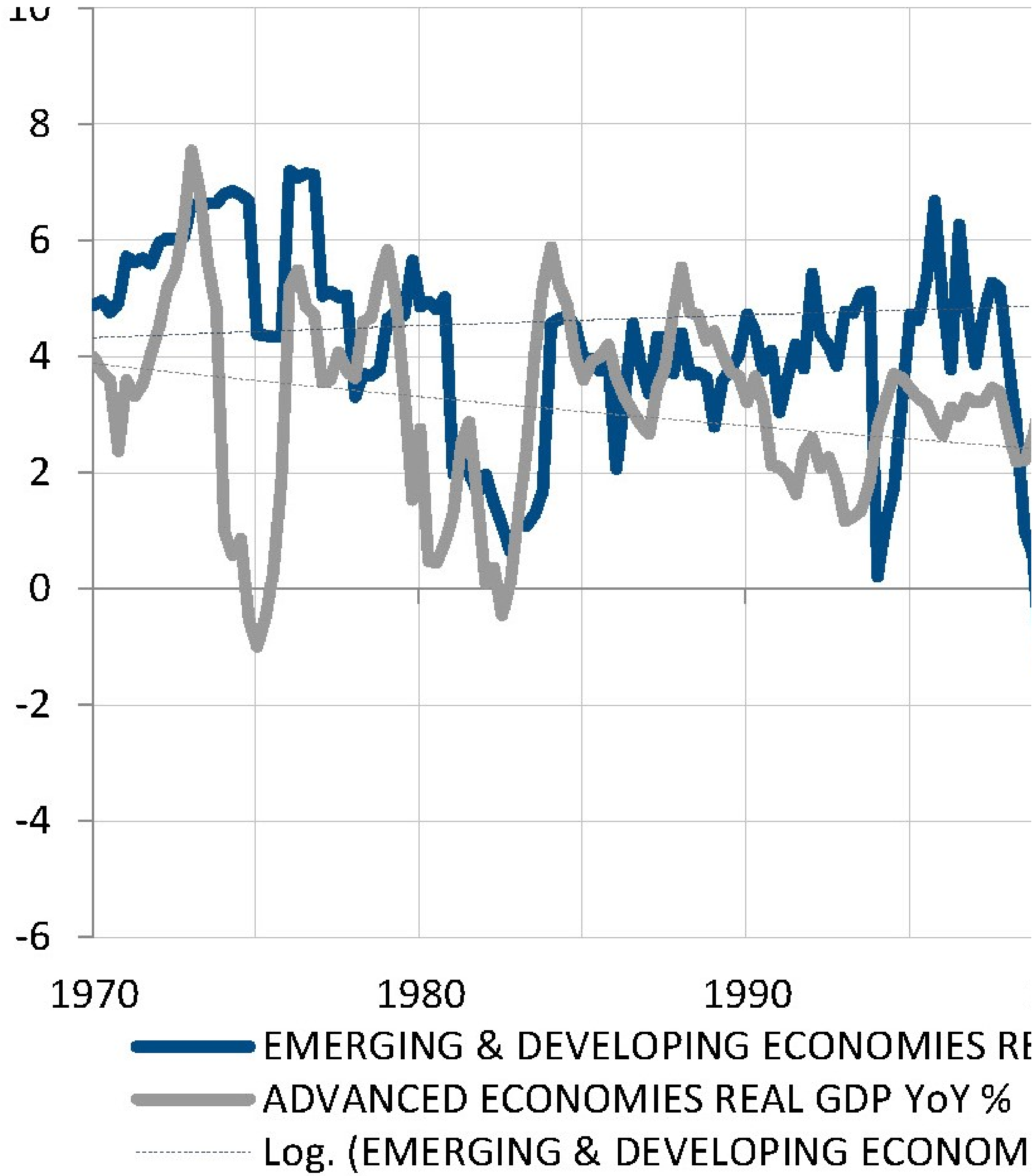
The global economy continues to travel through 2017 at full pelt, as each month brings more evidence of positive economic growth across the globe. All the major developed economies are growing above their underlying potential and sustain a pace of growth above the trend of the past 50 years.

In parallel, the major emerging economies are getting back to positive growth after often sharp slowdowns or recessions in the last couple of years. They are thus recovering the growth lead that they have experienced for most of the past 30 years but that had spectacularly narrowed recently.

Looking forward, the potential for an additional improvement in advanced economies appears limited for structural reasons such as demographics and productivity, and the burden of past and high indebtedness. But further momentum could come from emerging economies, where those structural headwinds are also developing but are not yet as pronounced.

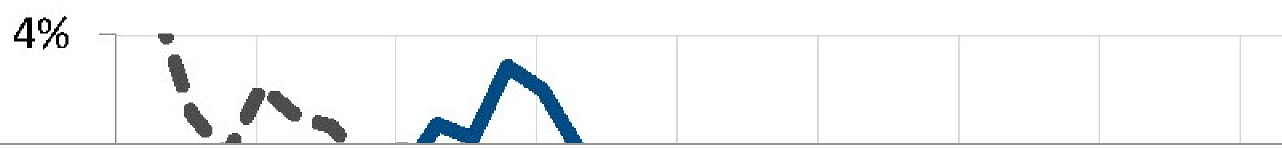
EM could bring additional positive momentum to global growth

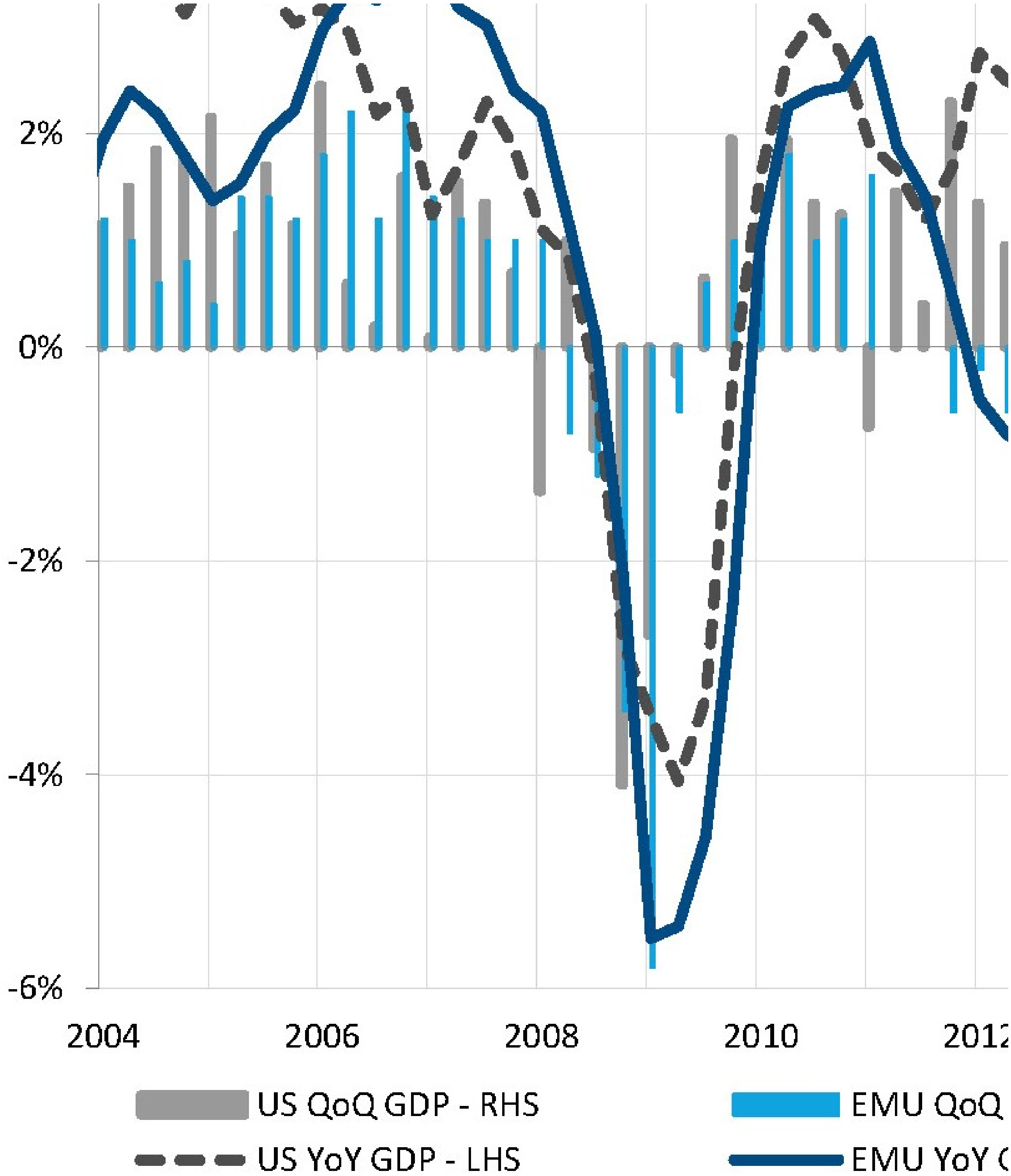
Sources: IMF, Factset, SYZ Asset Management. Data as at: 30 June 2017



Solid and improving growth on both side of the Atlantic

Sources: Markit, Factset, SYZ Asset Management. Data as at: 31 October 2017





02

The US and the Eurozone post strong growth in Q3

US economic growth remained strong over the summer and, according to the preliminary release of Q3 GDP data, the two major hurricanes of August had very little impact on nationwide economic activity level. The GDP was up +3.0% in annualised terms, with positive contributions from household consumption, business investment, external trade and business inventories.

In the meantime, the Eurozone was not to be outdone, with another quarter of solid GDP growth (+2.4% in annualised terms) that confirms the strength and dynamism of the ongoing economic expansion in Europe.

In fact, when looking at 12-month growth rates, the Eurozone has been growing at a faster pace than the US in the past two years, with European GDP up +2.5% YoY in Q3 2017 when US GDP was up "only" 2.3% over the same period. This is the fastest pace of expansion in seven years for the former, while the latter is back to a two-year high after the "energy-and-strong-dollar-led" soft patch. Good economic dynamism on both sides of the Atlantic!

03

Germany is benefitting from the strong global and European growth

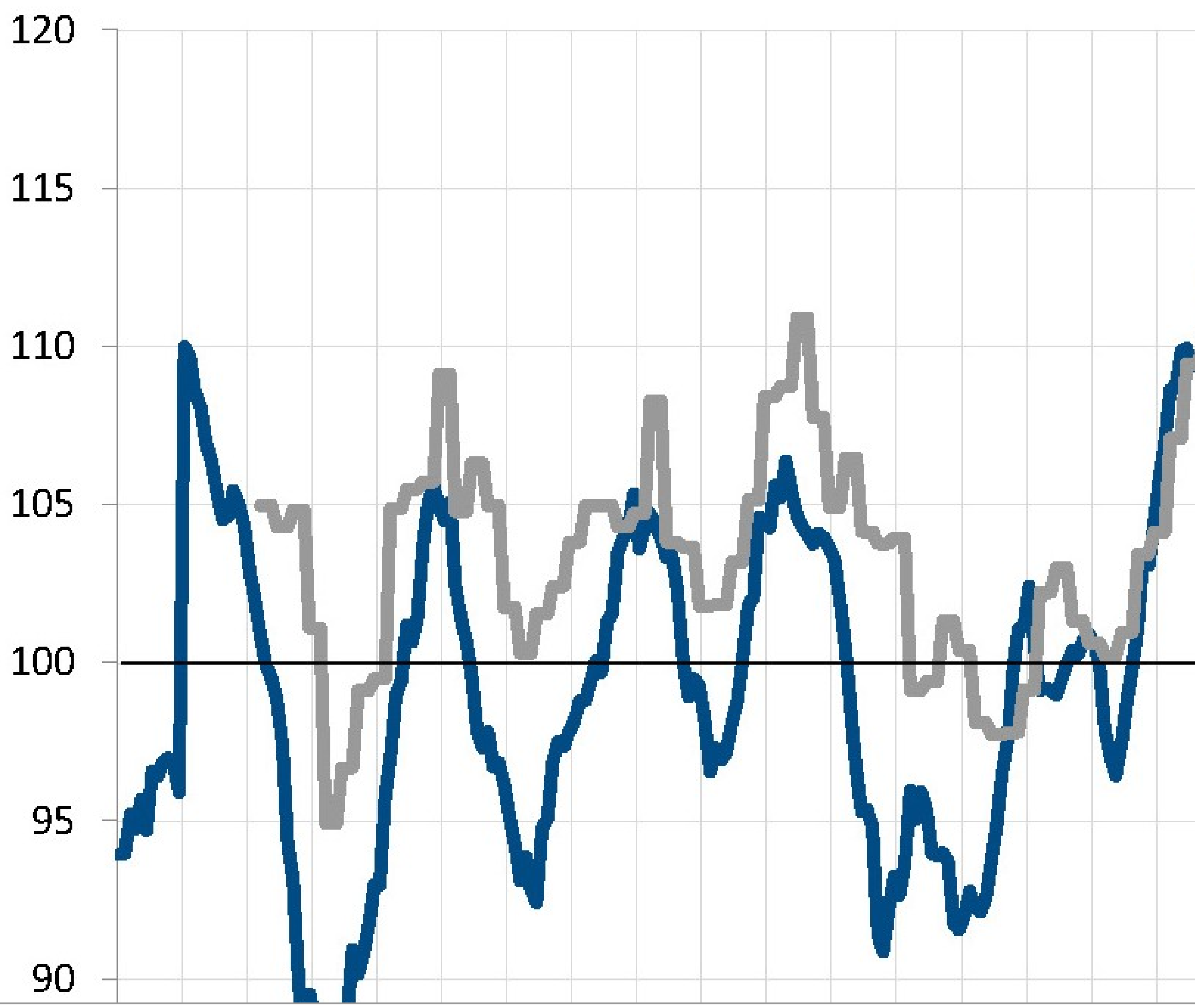
The German economic boom is still in full swing. The manufacturing sector is posting very strong growth, supported by dynamic global growth and strong demand from neighbouring European economies. The IFO Business Confidence Index even jumped to a record high in October and consumer confidence hit a new high in September. Germany is more than ever the powerhouse of an expanding Eurozone economy.

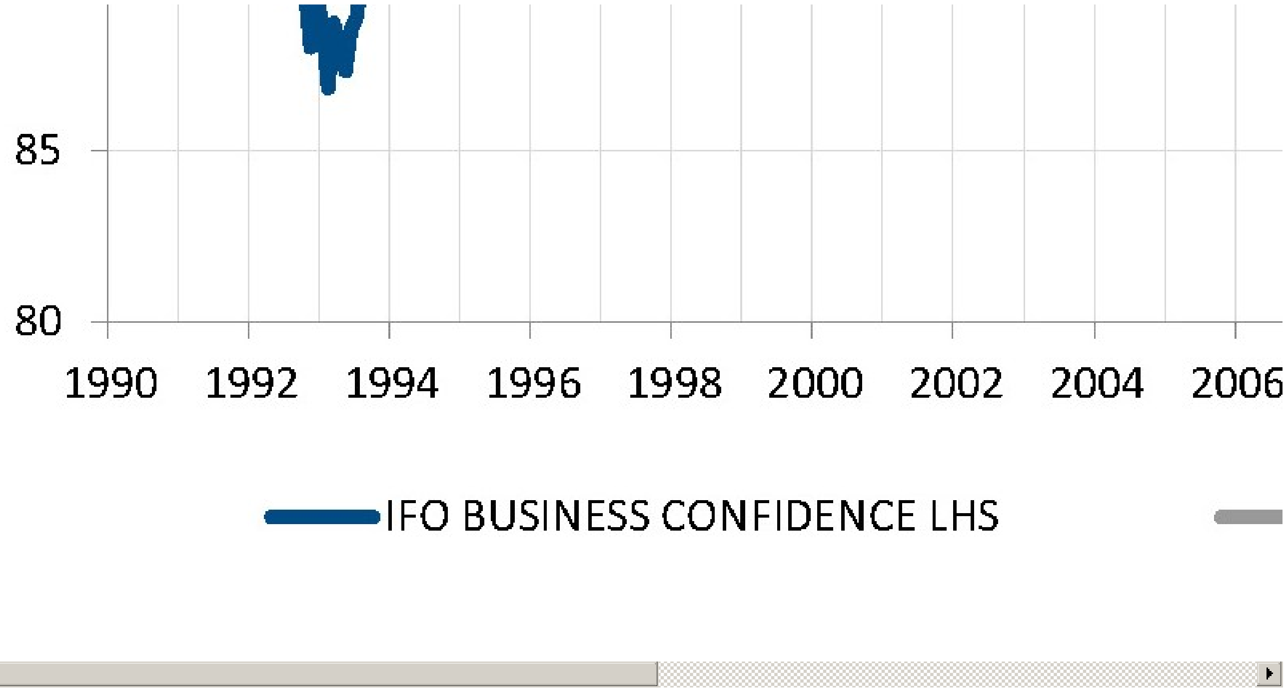
The combination of cleared political uncertainties, with Merkel renewed for a fourth term and a pro-European president in France, certainly helps to buoy expectations. The ECB's monetary policy, very accommodative for Germany's economic backdrop, also supports activity and sentiment. And the lowest post-reunification unemployment rate both reflects growth dynamism and fuels domestic consumption.

While demographic trends are quite adverse, strong productivity gains help to raise Germany's potential growth rate at around 1.1%, above the Eurozone average. Its current expansion rate is therefore twice its potential and, despite the surge in sentiment indices, it is difficult to imagine GDP growth accelerating again from such a strong rate. Still, the context strengthens confidence on the continuation of this positive economic environment into next year.

Germany's strong expansion is set to extend into 2018

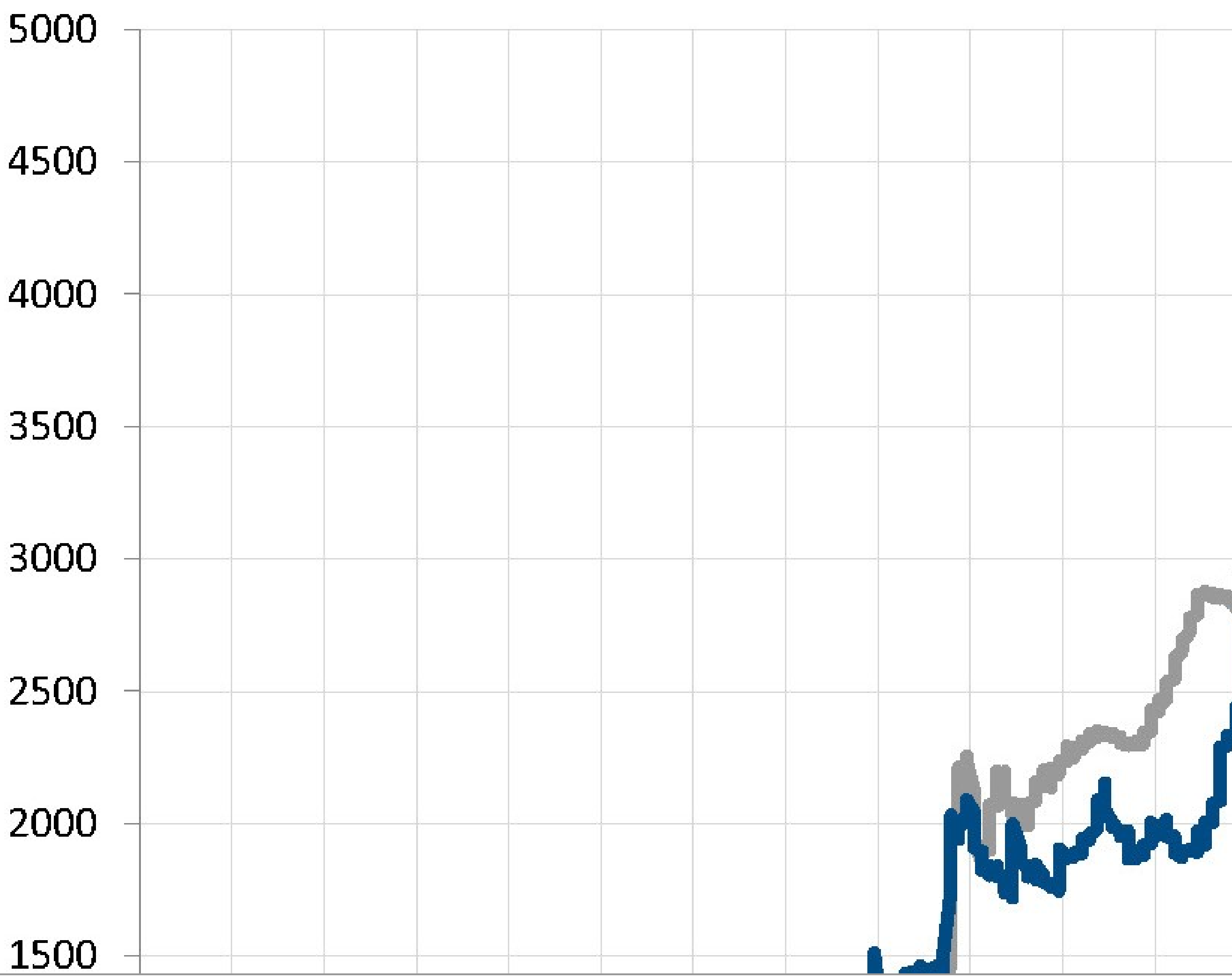
Sources: Markit, Factset, SYZ Asset Management. Data as at: 31 October 2017

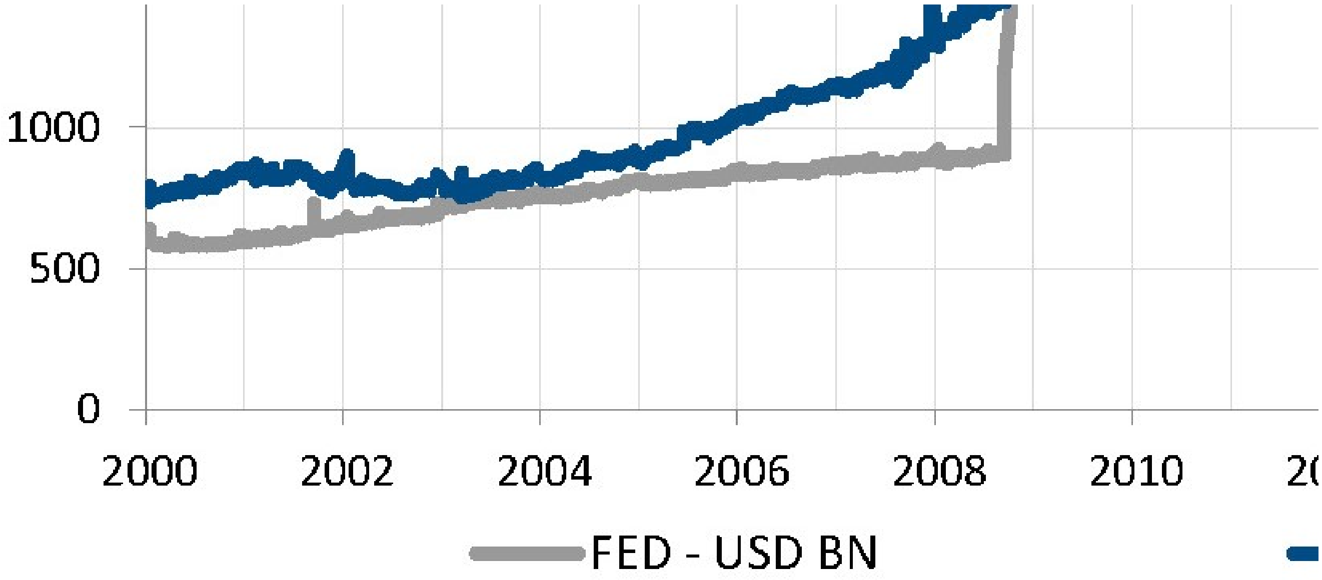




The ECB continues to grow its balance sheet, only at a slower pace

Sources: Markit, Factset, SYZ Asset Management. Data as at: 31 October 2017





04

The ECB announces a “dovish tapering” of its QE program

In October, the ECB announced a reduction in the pace of its asset purchases from January 2018. A slowdown had been widely expected in a context of strong economic growth and encouraging inflation trends, where the ultra-accommodative measures designed to fend off deflation are no longer necessary.

However, this step toward more “normal” monetary policies proved to be smaller than many had expected. Finally, the ECB will halve the pace of its monthly purchases (from EUR 60bn to EUR 30bn) and will run the program at least till the end of September 2018.

This timing implies that the ECB practically rules out any interest rate hike before 2019 at the earliest as it is hardly conceivable to see a rate hike in the immediate months following the end of QE. Provided QE is stopped in September 2018 altogether - in other words, while the Fed already proceeds to the gradual normalisation of short term rates and its balance sheet’s size, the ECB will continue for a while to inflate its balance sheet and keep short-term rates at zero.

05

A positive economic backdrop helps Abe to secure a large majority

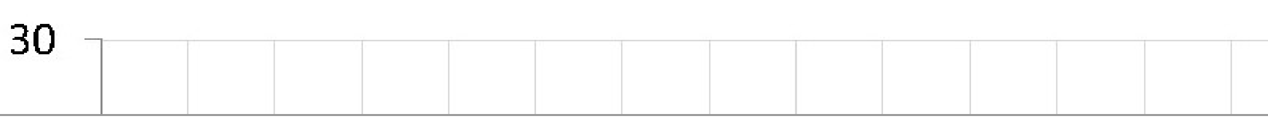
Shinzo Abe has been more successful than Theresa May in calling early elections to strengthen and lengthen his mandate. His party won a two-third majority in Parliament, confirming the support for its Abenomics policies and giving him a chance to revise the pacifist constitution.

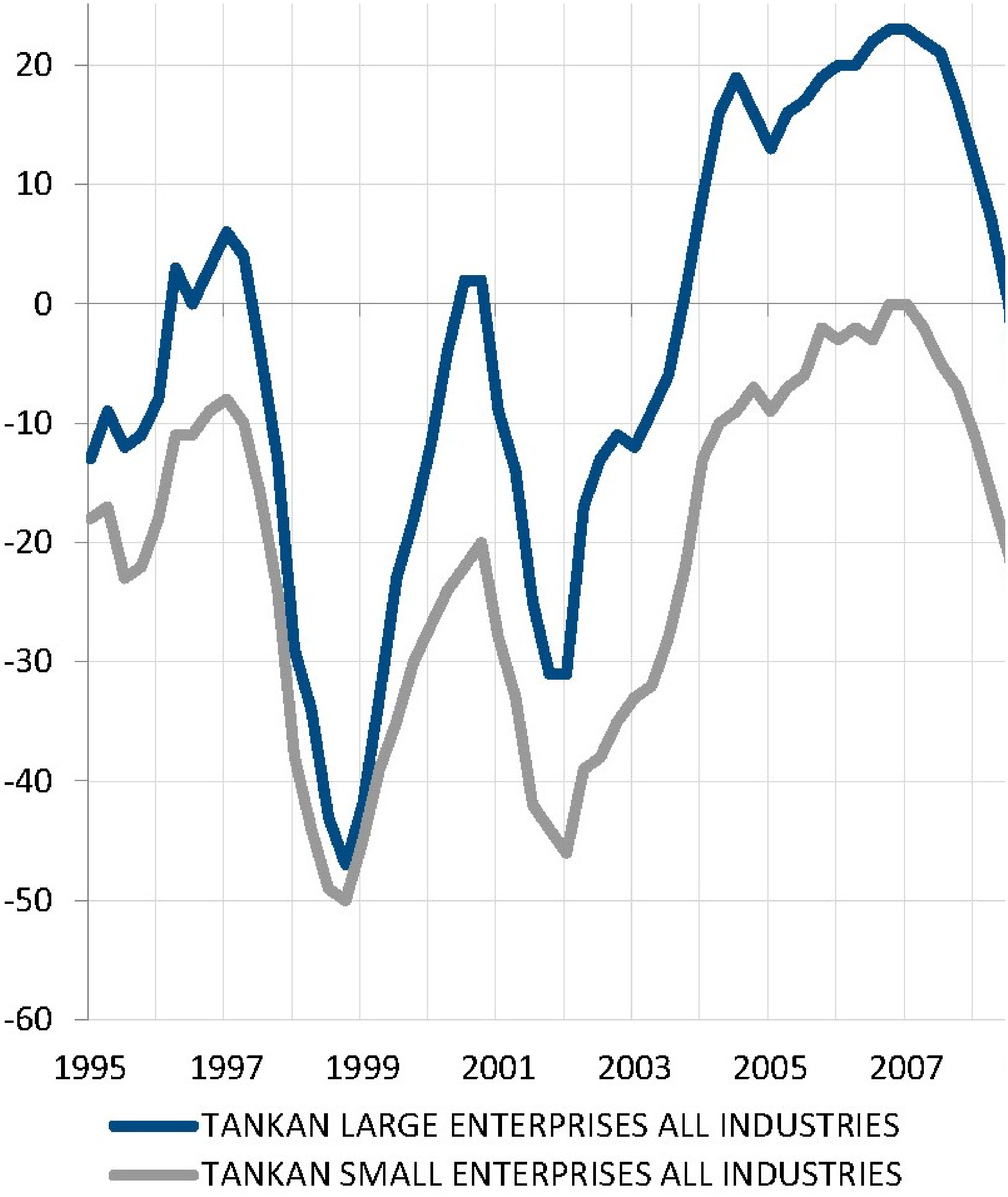
Such a large vote for continuity is not surprising when looking at the economic situation of the Archipelago. Japan has been posting above-potential growth in the past two years, the unemployment rate is at a 23-year low, consumer confidence is back toward a decade-high, industrial production has picked up, even retail sales exhibit signs of acceleration recently, and the latest quarterly update of Tankan surveys showed activity at its highest level in two decades among large and small enterprises.

No cloud on the horizon then (except maybe the unpleasant proximity of a bellicose North Korea), especially given the commitment of the BoJ to keep monetary policy ultra-accommodative at a time when most large central banks are gradually moving toward normalisation. This does explain the 12% rally of the Nikkei in the past two months (with only two negative days out of 21).

Japan economic indicators all flash green, pointing to solid expansion

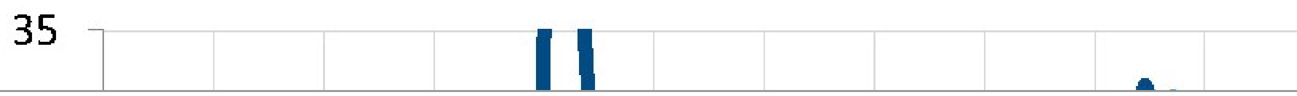
Sources: Markit, Factset, SYZ Asset Management. Data as at: 31 October 2017

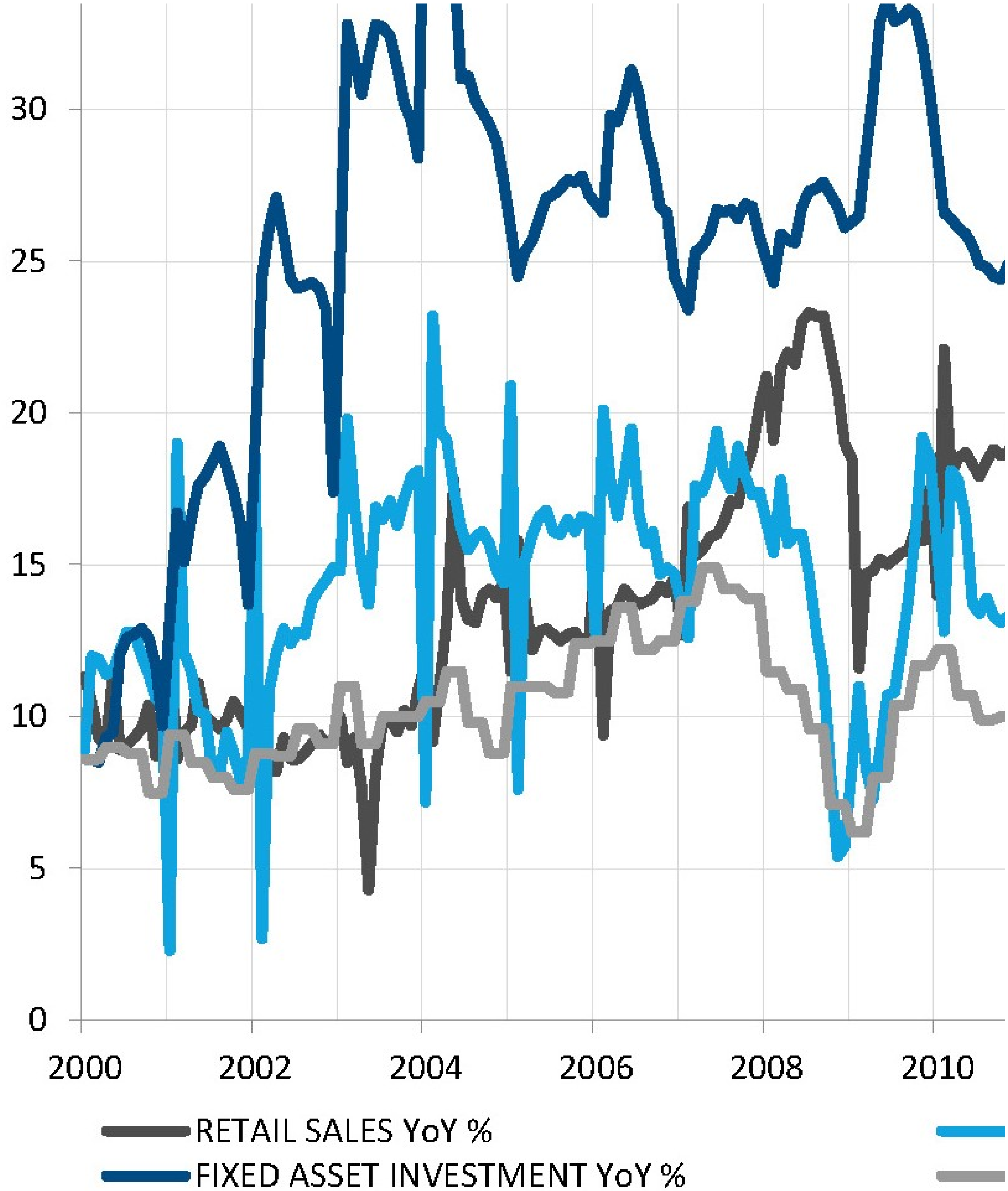




Most activity indicators have stabilised in the past two years

Sources: Factset, SYZ Asset Management. Data as at: 31 October 2017





06

Xi Jinping opens the Party Congress amid stabilized economic growth

On October 18th, Xi Jinping opened the 19th Communist Party Congress with a speech heralding a newera for China: an expected rise on the global stage, continuity at the domestic political level and gradual economic changes (especially slower home price increases and lending growth).

The following day, Q3 GDP numbers confirmed the growth stabilisation in the world's second-largest economy. In fact, GDP growth has been remarkably stable just below 7% for the past two years, after an uninterrupted five-year slowdown. This stabilisation is visible on most indicators, such as industrial production, retail sales or even credit growth, still high relative to nominal GDP but not accelerating.

retail sales or even credit growth, still high relative to nominal GDP but not accelerating.

As containing real estate and credit bubbles is a key objective of the authorities, the slowdown in Fixed Asset Investment reflects the effectiveness of targeted macroprudential measures designed to gradually cool down the property market. While the issue of high and rising indebtedness remains in China, the growth stabilisation and the opening political sequence temper short-term macroeconomic risks.

07

Equities – US equity markets reaching again new all-time highs

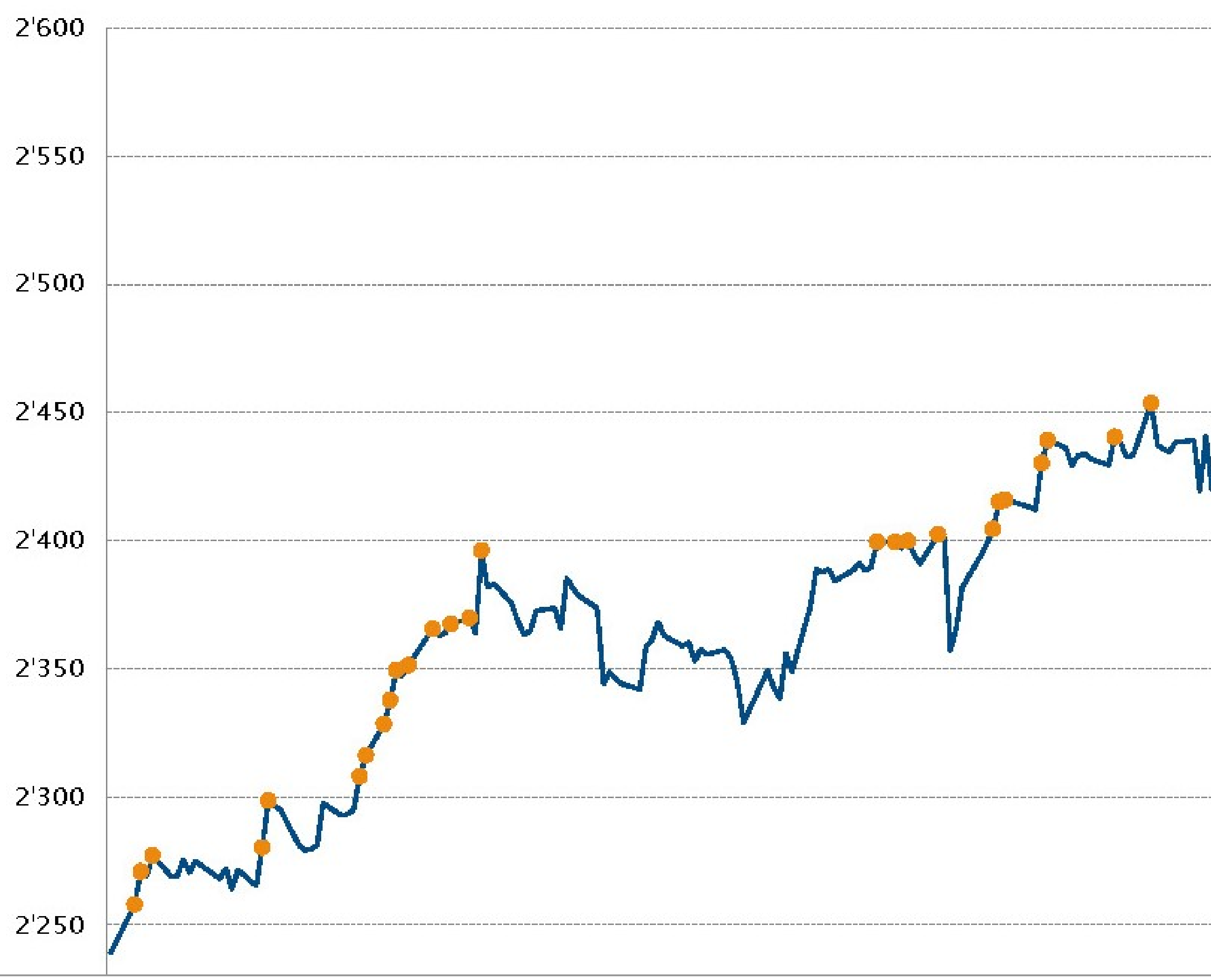
So far this year, US equities as represented by the S&P 500 have returned ten monthly positive total returns in a row, continuing the positive trend initiated post Donal Trump's election nearly one year ago.

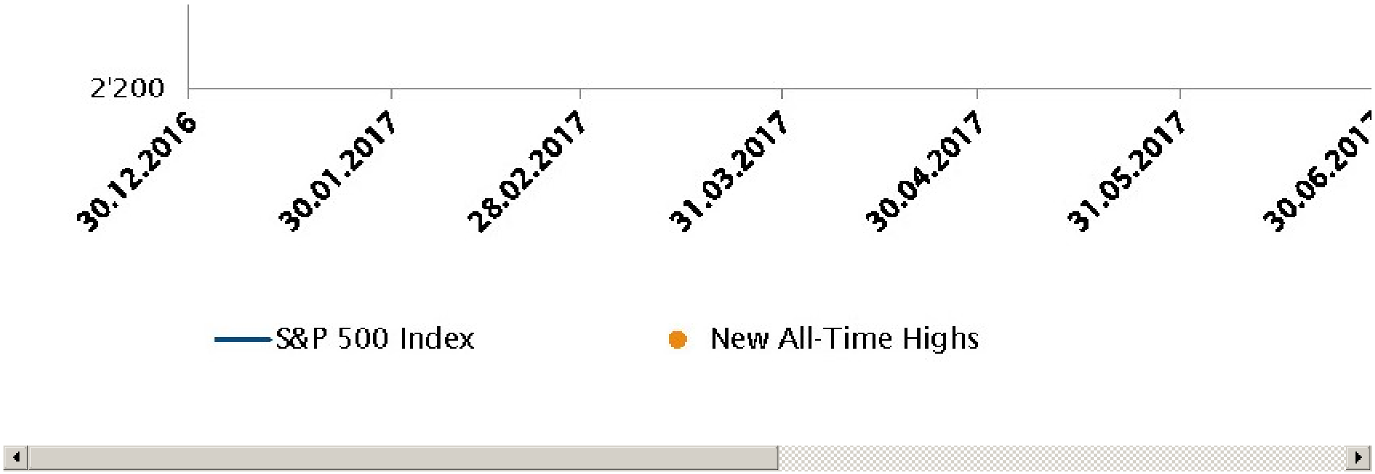
In October, the index was up +2.2% bringing the year to date performance to +15.0%. The best sectors in the US contributing to this rally are information technology, materials and industrials while energy and telecommunication services are the only ones still in negative territory (respectively -4.0% and -3.2%). Moreover, the S&P 500 has peaked at new all-time highs more than fifty times in 2017.

Indeed, over the last eighteen months the favourable economic backdrop has provided powerful tailwinds for equity markets. But these winds could shift, which could well mean that a fair clearing price for equity markets is somewhat lower than current levels.

S&P 500 Index YTD evolution and new all-time highs

Sources: Bloomberg, SYZ Asset Management. Data as at: 7 November2017




2'200
30.12.2016
30.01.2017
28.02.2017
31.03.2017
30.04.2017
31.05.2017
S&P 500 Index
New All-Time Highs

Bloomberg World Exchange Market Capitalization (USD, millions)

Sources: Bloomberg, SYZ Asset Management. Data as at: 31 October 2017

08

Equities – World Exchange Market Capitalization peaking at more than USD 90 trillion

The Bloomberg World Exchange Market Capitalization is calculated from all shares (primary securities excluding ETFs and ADRs) outstanding actively traded on the country's exchanges. From its lowest level reached in more than ten years at the beginning of 2009 (USD 26'000'000'000'000), the index now peaked above USD 90'000'000'000'000 (read USD 90 trillion). To put this high number into context, it equals 120% of global GDP.

Since the great financial crisis of 2008, the index has been growing every year except in 2011 and 2015. More recently, the pace of growth has been accelerating at a growth rate of +36% in 2017 (as of the end of October) compared to an annualised growth rate of less than +10% for the period from 2009 to 2016.

If we look more closely at the different sectors this year (on a global basis), information technology stands out as the best performing sector YTD (+37.3%) and has been outperforming the second and third top sectors by respectively +20.8% (materials) and +21.4% (industrials).

09

Equities – Factor investing can be rewarding

On the surface, the S&P500 does not show to the full extent what is happening to sectors and factors. Its smooth performance this year is not a good reflection of some of the issues that factor and sector investing faced in 2017.

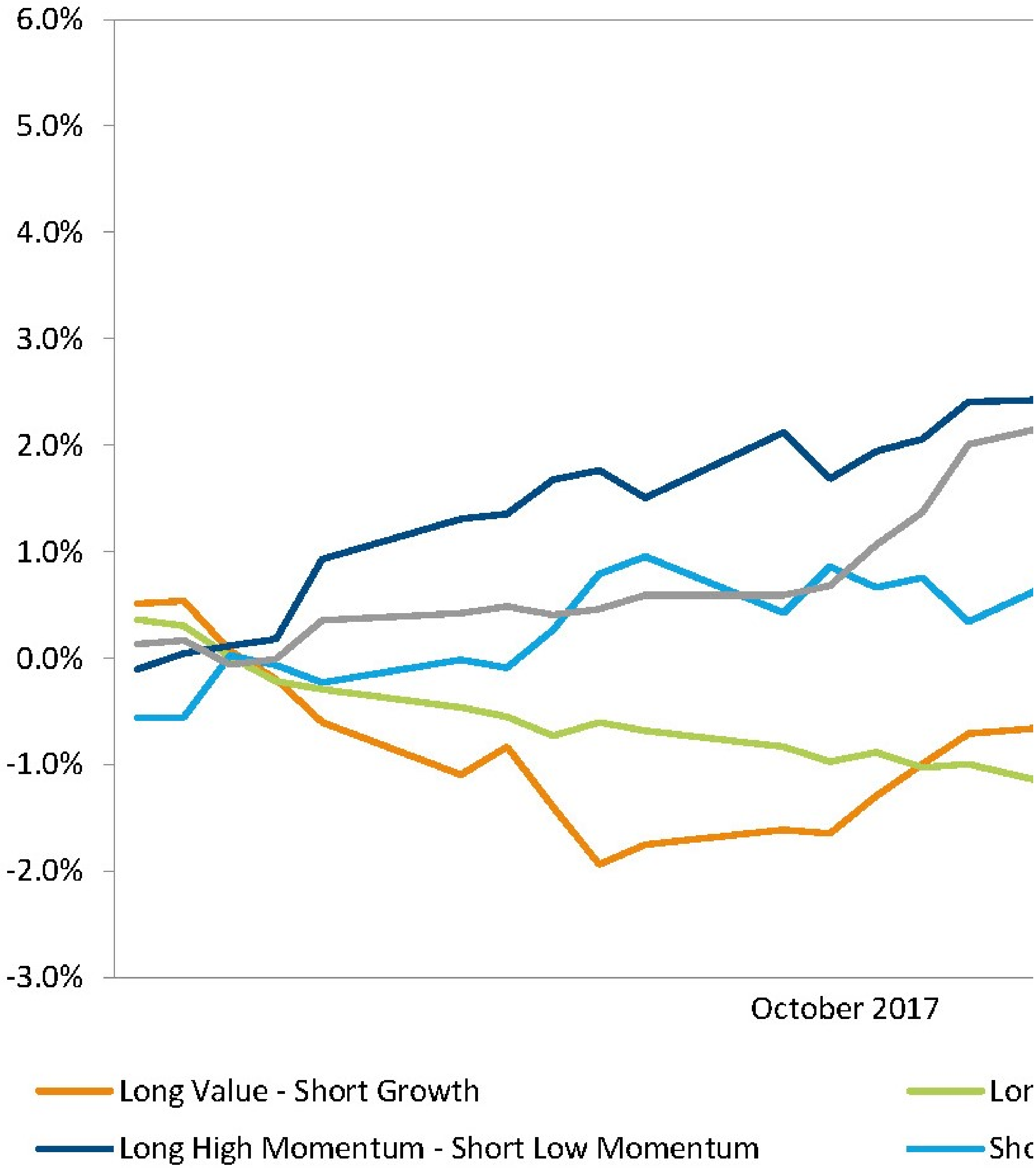
reflection of some of the issues that factor and sector investing faced in 2017.

The month of October was particularly rewarding for investors and strategies who were positioned long momentum as the style generated a solid +4.9%, while this style has not been performing as well so far this year. Although index investors have enjoyed a very solid 2017, style investors suffered from stock and sector rotations and picking the winning strategy this year was not so easy.

Going forward, as it appears that Central Banks around the world are coordinating an end to easing policies, investors can expect more volatility which will create a more healthy environment for style investing.

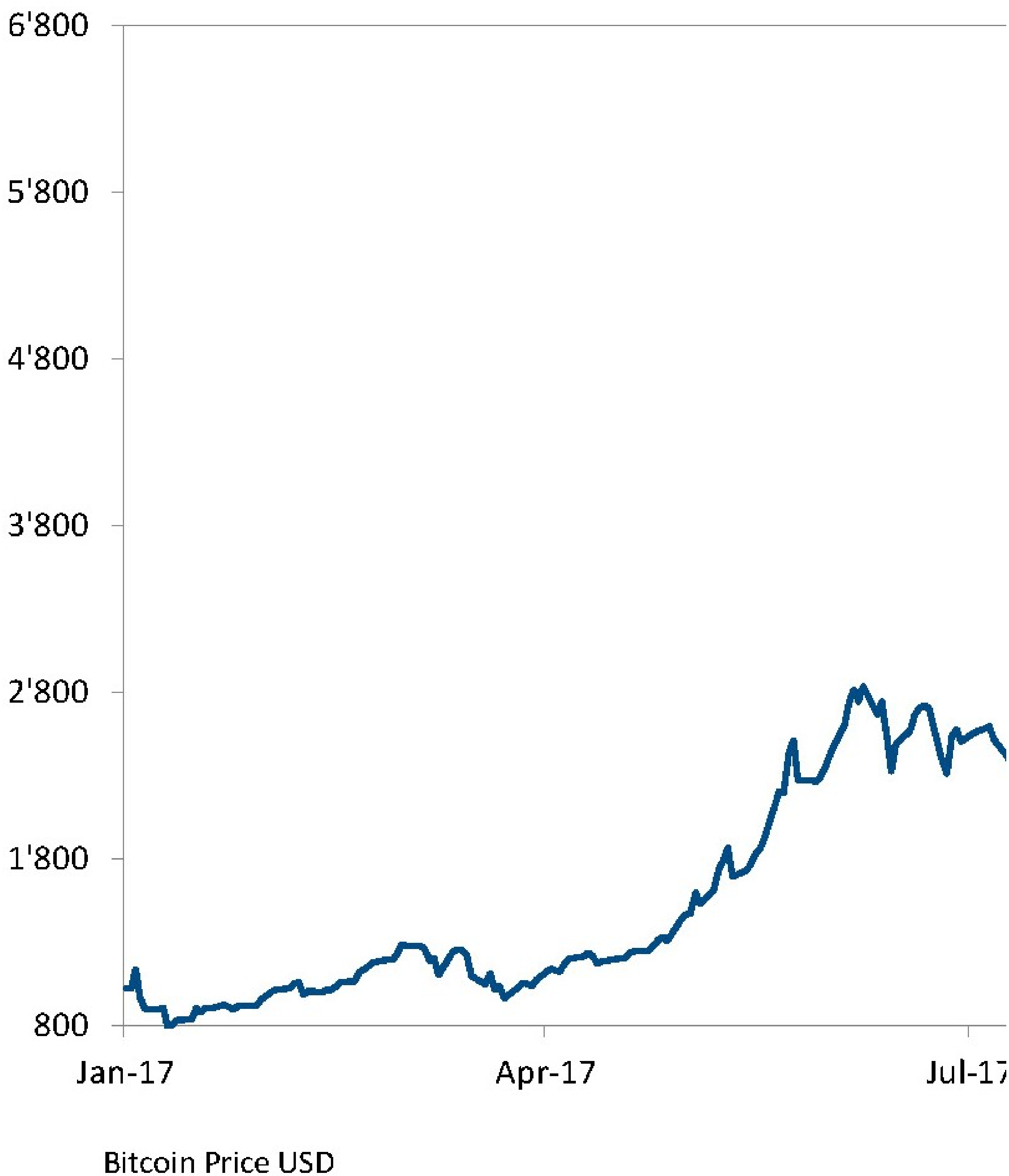
Momentum outperforming

Sources: Bloomberg, SYZ Asset Management. Data as at: 31 October 2017



Mother of crypto-currencies on fire

Sources: Bloomberg, SYZ Asset Management. Data as at: 31 October 2017



10

Digital Assets - Bitcoin is unstoppable!

The S&P 500 is not the only asset out there that is making new highs every week. Bitcoin, the infamous cryptocurrency or crypto-asset, is trading at new highs almost daily. It opened the year at 952$ and closed the month of October at 6’367$ with a monthly return of 52.6%.

There are several factors that could explain this incredible rise, but most recently the fact that the CBOE announced that it will list futures on its exchange has probably helped to boost the Bitcoin. Futures are easily traded today at extremely low costs on multiple trading platforms and are very likely to trigger a huge increase in volume. Media - not only specialised but also mainstream media - are also now relaying bitcoins stories, adding to the self-fulfilling scenario for this new asset. However, investors should remain cautious as bitcoin is for now a highly volatile asset.