



MARKET COMMENTARY – Q4 2018

Volatility is never a welcome occurrence in any market, although experienced investors well knew that it would rear its head at some point. In a painful series of sell-off waves, the long positive trend reversed sharply during the last quarter of the year, resulting in the worst one for equities since 2011. The axis that shines a light onto this period has increasing worries around geopolitical noise on one end and on the other, a tighter monetary policy exacerbating market sensitivity.

During 2016, as we were discovering the astonishing political program of President Trump, we learnt of an agenda focused on reinvestment into the country's infrastructures, building a wall on the Mexican border, a review of corporate fiscality but at the same time a reduction of the US national debt and implementation of a series of protectionist measures. Donald Trump's discontent toward the federal reserve and its previous chairperson, Janet Yellen, perceived as being excessively dovish, was also made abundantly clear. The Trump administration's opening conundrum was set; how to finance such an ambitious agenda, while servicing the national debt is so important and stands to increase with higher interest rates.

Today, two years after the election, the contradiction is even more clear. President Trump appointed a new chairman for the federal reserve himself, who turned out to be much more moderate than anticipated but who is suddenly facing criticism for being too hawkish.

The question of the wall is back on the table. After having realized that Mexico will obviously not pay for it, Trump wasn't successful in convincing the US congress to fund it and his attempt following the mid-term election, during which Democrats won back control over the house of representatives, led the government into its current ongoing shutdown. At least, Donald Trump's change of opinion over interest rates makes more sense and his multiple consumption taxes may be seen as an effort to compensate for corporate tax reduction reform put in place a year ago. The issue remains that the fed under Jerome Powell did not tighten its monetary policy more than had been expected. This followed a very rational trajectory, which has been consistently well communicated globally and isn't expected to accommodate national budget challenges.

The situation for the old continent is quite different but probably not much better. Since the European debt crisis in 2011, the necessary reforms ushered in a welcome element of stability offered by Angela Merkel's government in Germany and the promises made by Emanuel Macron's new government in France following the Brexit referendum. Today president Macron's policies are in doubt and France is going through significant social unrest with the yellow vest protests. On the German side, Angela Merkel's party lost

significant ground in regional elections, consequently, the Chancellor formally stepped down as the CDU leader after 18 years and will not seek re-election. The planned exit of the UK from the EU continued to be an excruciating process of which the outcome remains an important regional risk factor. Theresa May is thus left in a precarious position as Prime Minister. As expected, the European Central bank formally ended its bond purchase program at the end of the year. Furthermore, let's remember that 2019 will mark the end of Mario Draghi's tenure as the chairman of the institution. The points made above have created high levels of uncertainty negatively impacted market sentiment in Europe.

In the far east, Xi Jinping and Donald Trump came to an agreement to call a truce in the trade war for a while, but the arrest of Huawei CFO, Meng Wanzhou, in Canada as per a US extradition request, sustained the tension between the two countries.

On average, beyond the political challenges discussed, the macroeconomic indicators were positive. The main worries standing out was about the deceleration of Chinese Growth. The latest earning seasons reported results beating analyst expectations. The emerging markets meltdown fears have been put aside as they held better than developed ones. The Italian budget focus disappeared from the headlines and proved to be less of an issue than perceived as an agreement between the Italian government and Brussels was found.

During the quarter, investor perspectives shifted considerably, however at the end of the quarter, there were very few unexpected developments. Today, valuations are back to much more moderate levels. To some extent, parts of the market even look oversold, but the repricing of risk took place without the typical quick rebound we've become accustomed to over the last few years. This is why today, we remain very careful and favor diversification. While we tend to believe that the movement has been exaggerated, the chosen path and any development will be key to incrementally pushing the balance toward a more defensive stance or a more constructive one. Either way, this increase in volatility will certainly lead to interesting opportunities in 2019.

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Markets	Indices	Q4-2018	YTD
Equity World	<i>MSCI All Countries World Daily Total Return Net USD Index</i>	-12.8%	-9.4%
Equity Emerging Market	<i>MSCI Emerging Net Total Return USD Index</i>	-7.5%	-14.6%



Global Fixed Income	<i>Barclays Global-Aggregate Total Return Index USD</i>	1.2%	-1.2%
Global Commodity	<i>S&P GSCGI Index Spot Index</i>	-23.0%	-15.4%
Hedge Funds	<i>Hedge Fund Research HFRX Global Hedge Fund Index</i>	-5.6%	-6.7%
EUR/USD	<i>Euro Dollar</i>	-1.2%	-4.5%
