

INVESTMENT OUTLOOK

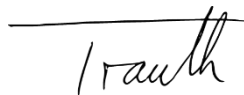
09.2016

17 September 2016

The Brexit vote has had no lasting impact on global markets, though the GBP has been revalued in its wake to much lower levels. In contrast, in July and August we saw a strong rally in risky assets and a sell-off of safe-haven assets like government bonds and gold.

This market phase was followed, after ECB's policy meeting on 8 September, by a significant sell-off of bond and equity markets at the same time. The ECB's comments sparked fears that easy monetary policy could end sooner than previously thought. In addition, very disappointing August macro data weighed on investors' sentiment. This caused significant portfolio losses for multi-asset class investors.

We think that the above-mentioned fears are greatly exaggerated and that easy monetary policy will continue for some time to come. Therefore, while remaining cautiously positioned, we continue to like the risky part of the bond market (high-yield and emerging markets) and we remain neutral with our equity positioning. We continue to see commodities range-bound, the USD stronger and the CHF weaker.

A handwritten signature in black ink, appearing to read 'Trauth', with a horizontal line above it.

Thomas Trauth
CEO – IMT Asset Management AG



WHAT TO EXPECT FROM CENTRAL BANKS?

Financial markets

In July and August risky assets rallied strongly. Emerging markets outperformed developed markets. In particular, the Brazilian Bovespa index rose by 11.2% in July and 1.0% in August. This lifted the year-to-date performance of the Brazilian stock market to a remarkable 32%. Among developed markets, the European and the Japanese stock markets outperformed. In July and August the Euro-Stoxx50 gained about 5.5% and the Nikkei225 more than 8%.

UK equity markets also rebounded, supported by the weaker GBP. The FTSE100 gained about 4% and the more local FTSE250 even 9% in July and August combined.

During July and August so-called safe-haven assets lost value. For example, 10-year government bond yields rose in Europe by 6 bps and in the US by 11 bps. While the short end of the EUR yield curve remained firmly anchored, US 2-year yields rose by 22 bps, discounting a higher probability of a Fed rate hike.

Inflation expectations, as measured by 10-year break-even inflation rates, rose only slightly. Credit spreads tightened further in July and August.

The price for Brent oil has been fluctuating between 40 and 50 USD/bl. The Gold price has remained in a trading range between 1,310 and 1,370 USD/oz.

The strong rally in global REITS, which gained 22% between Mid-February and end of July, came to an end. Since late July REITS have suffered from rising yields and, in addition, from declining stock markets since early September.

The GBP remained on the weak side. It has been fluctuating around 1.30 to the USD since end of June. The Chinese CNY has currently remained range-bound around 6.65 to the USD. The JPY – after its pronounced rally from November 2015 on – has stabilized at around 102 to the USD. The Swiss Franc gave back some of its gains after the Brexit vote and is currently trading around 1.09 to the EUR.

The positive market environment suddenly came to an end after ECB's policy meeting on 8 September. While policy measures remained unchanged, Draghi's announced intention to redesign the quantitative easing (QE) program sparked fears among market participants that the QE program could end earlier than expected.

This led to a pronounced sell-off of bonds and equity markets, which has hit multi-asset class investors badly.

Macroeconomics

Global growth indicators disappointed in August. Especially US growth indicators were weak. The US ISM manufacturing index fell markedly to 49.4 in August from 52.6. Also US non-farm payrolls rose by only 151,000 in August after 275,000 in July. Looking at the monthly average, however, the US economy is still adding jobs at a healthy pace.

The European manufacturing PMI weakened only slightly and fell to 51.7 in August after 52.0.

Overall, inflation remained at very low levels. If, however, oil prices remain at current levels, we will see an uptick of headline inflation in early 2017. This

is the result of base effects, since energy prices are likely to exceed their very low levels in early 2016.

Central Banks

At its 8 September meeting the ECB left rates and its quantitative easing program unchanged. However, President Draghi announced that the ECB is considering a redesign of its quantitative easing (QE) program. While this sparked fears that the ECB may end its QE program sooner than expected, we think that such fears are exaggerated or at least premature. We, instead, think that the ECB is contemplating measures to overcome some shortcomings in its QE program and ways of making it more effective. The ECB may, for example, decide to abandon its self-imposed limit of not buying more than one-third of a bond issue, which has proved to be a severe limitation.

Our view is supported by the fact that the ECB lowered its growth and inflation forecasts, albeit only marginally, and that Draghi said the ECB will continue its QE program until or beyond the current expiry date, and that it will run until the inflation path returns to the desired level. Inflation is currently much lower than the ECB's definition of price stability, which is below, but close to, 2%.

The Swiss National Bank (SNB) held its policy meeting on 15 September. The SNB did not change its policy stance but reiterated that it will intervene in currency markets if needed. The deposit rate currently stands at minus 0.75%. This is hurting banks and insurance companies. The SNB acknowledged this but is more worried about the over-valued Swiss franc, which is hurting the whole economy.

Following the recent ECB and SNB meetings, very important meetings will be held by the US Fed and the Bank of Japan (BoJ) on 21 September.

At its on its 20-21 September meeting the Fed will decide on the future path of rates. It is unlikely in our view that they will raise rates or turn very hawkish. Recent growth data have been disappointing. However, they may face a dilemma with regard to

the US elections in November. A hike in December, which is expected by many, could be seen as negative for the newly elected president. As a result, the Fed may fear falling too far behind the curve and may raise rates as early as September. This could have a negative effect on markets for risky assets, though we think such an effect would prove to be temporary. Currently the market is pricing a probability of 20% for a rate hike in September and 55% for December.

The BoJ will also meet on 21 September. There is much speculation on whether the BoJ will take additional QE measures, like buying foreign bonds instead of only domestic bonds or introducing a new core inflation target of 1.5%. Overall, we consider it likely that additional stimulus measures will be decided. Otherwise, the JPY may appreciate further and possibly break below 100 to the USD.

Outlook

The market reaction to ECB's September meeting is a reminder that market sentiment remains fragile. Draghi's comments may have recalled the so-called "tapper tantrum". On 22 May 2013, in a testimony before Congress, Mr. Bernanke announced the Fed's intention to lower its monthly bond purchases, which led immediately to a pronounced sell-off of bond and equity markets globally. While US rates continued to grind higher until year-end, the equity sell-off was short-lived and reversed, especially since macro data were very robust in the following months. The actual tapering only started on 18 December 2013, when the Fed reduced its bond purchases by USD 10 bn per month.

We think that taper fears with regard to the ECB are greatly exaggerated and premature. As discussed above, the redesign of the QE program will more likely lead to an expansion of QE.

The Fed and BoJ meetings on 21 September will provide further indications about the future path of monetary policy. We expect both central banks to be rather dovish, although there is a certain chance

that the Fed could take the opportunity to hike before the elections in November.

We remain cautiously positioned and continue to like the risky part of the bond market (high-yield and emerging markets). Our equity positioning remains

neutral with an overweight of European and Asian equity markets. We continue to see commodities range-bound, the USD stronger and the CHF weaker.

ECONOMICS

Growth indicators in August were weaker across the board. The US ISM manufacturing index fell markedly to 49.4 in August from 52.6. Also, US non-farm payrolls rose by only 151,000 after 275,000 in July. The European manufacturing PMI fell slightly to 51.7

in August after 52.0. Inflation remained low. If, however, oil prices remain at current levels, we will see some uptick in headline inflation early 2017, since energy prices will be clearly above their levels of early 2016.

Fig. 1: PMIs

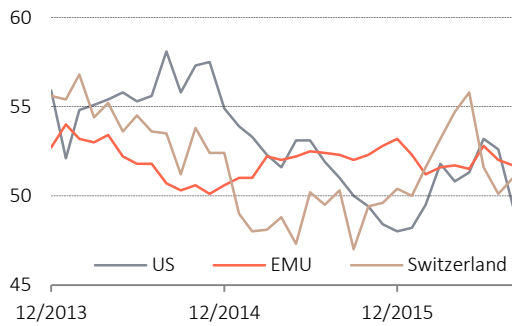


Fig. 2: PMIs

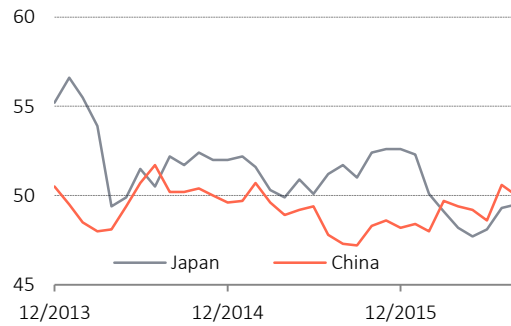


Fig 3: Consumer price inflation, in % YoY

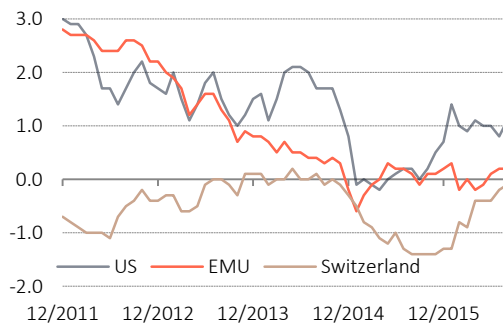


Fig. 4: Consumer price inflation, in % YoY

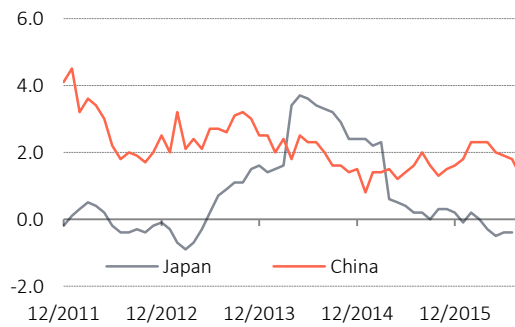


Fig 5: Unemployment rates, in %

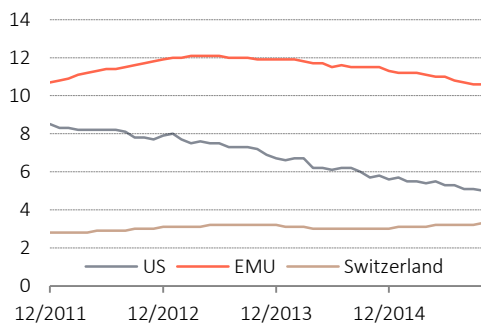
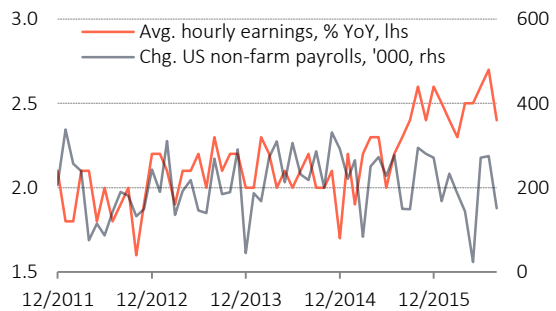


Fig 6: US labor market



FIXED INCOME

In August bond yields remained almost unchanged at the short end of the yield curve in Europe and Switzerland, while 10-year yields rose by about 5 bps and 9 bps, respectively. In the US, however, due to rising Fed rate-hike expectations, the short-end of

the yield curve shifted upwards by about 15 bps. 10-year Treasury yields followed, rising by 13 bps. 10-year break-even inflation rates rose only slightly. Credit spreads tightened further in August, but widened in early September.

Fig.7: 2Y government bond yields

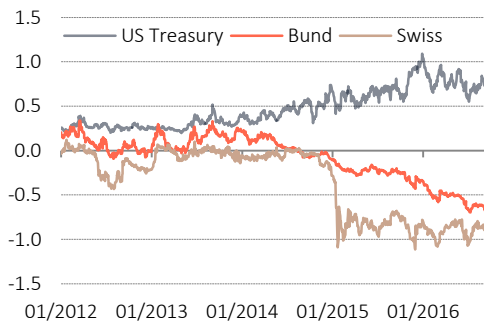


Fig. 8: 10Y government bond yields

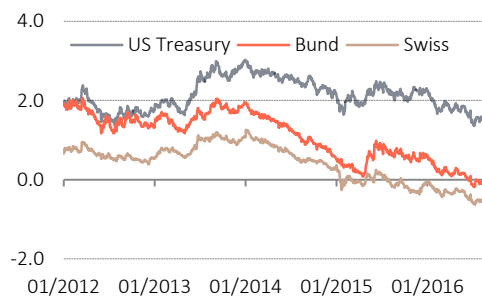


Fig 9: 10Y break-even inflation

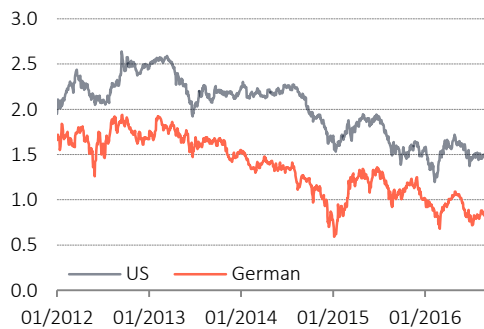


Fig. 10: Credit spreads, 5Y credit default swaps

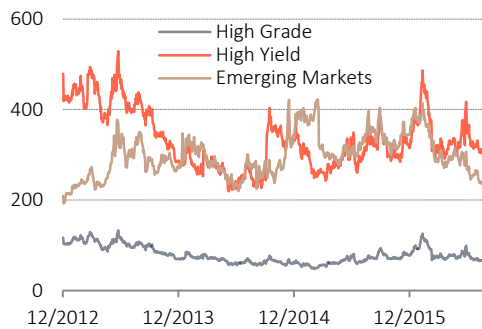


Fig 11: Money market spreads (3M-2Y)

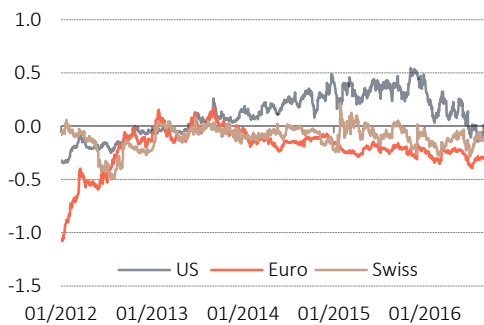
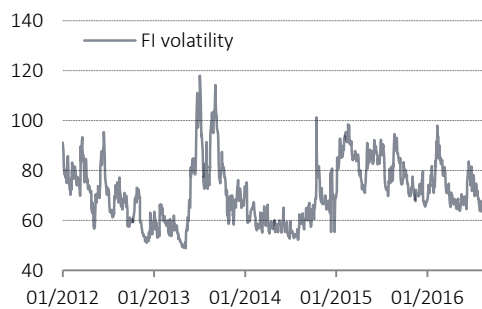


Fig 12: Merrill Lynch volatility index



EQUITIES

In August and July equity markets rallied. European equities outperformed. The EuroStoxx50 index rose 1.1% in August and 4.4% in July. UK equity markets also recovered, supported by the weak GBP. The FTSE100 rose 0.8% in August and 3.4% in July. The

Japanese Nikkei 225 index recovered as well and climbed 1.9% and 6.4%, respectively. Year-to-date European financials and telecoms underperformed, while stocks in the energy and materials sectors clearly outperformed.

Fig. 13: MSCI equity indices – major regions

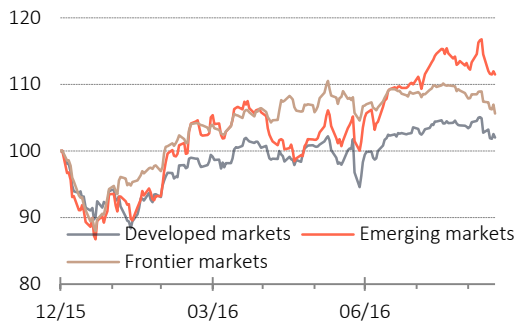


Fig.14: Equity indices – major developed markets

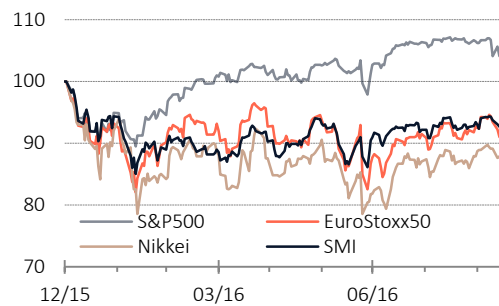


Fig 15: Equity indices – major emerging markets

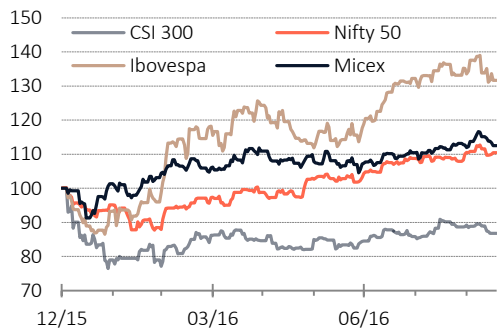


Fig. 16: Sector performance, MSCI Europe, 2016

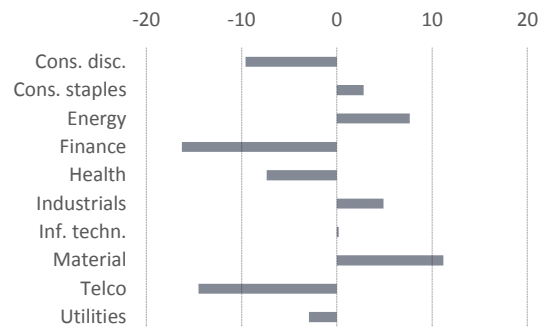


Fig 17: Price-earnings ratios

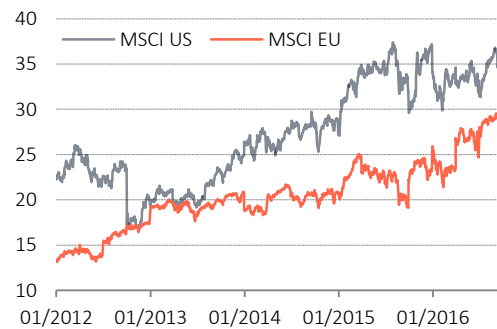
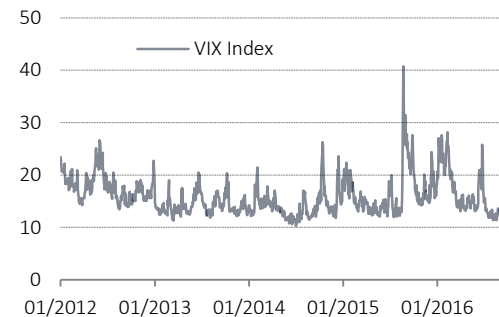


Fig 18: Equity volatility – S&P500 VIX index



ALTERNATIVE INVESTMENTS

The price for Brent oil remained volatile and has been fluctuating between 40 and 50 USD/bl. Gold remained in a trading range between 1,310 and 1,370 USD/oz. Global REITS performed strongly and gained 22% between Mid-February and End of July.

Since then REITS sold-off, losing about 6% since End of July. Hedge funds showed positive returns in July and August and a year-to-date performance of 3.5%.

Fig. 19: Gold price, USD/oz



Fig.20: Oil price, USD/bl

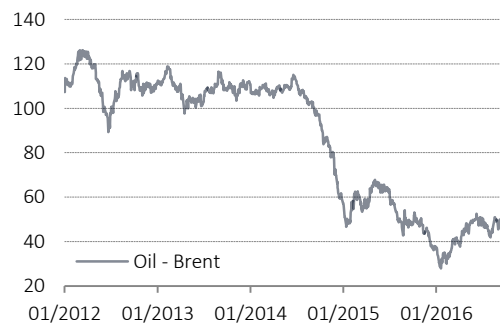


Fig 21: Bloomberg commodity indices

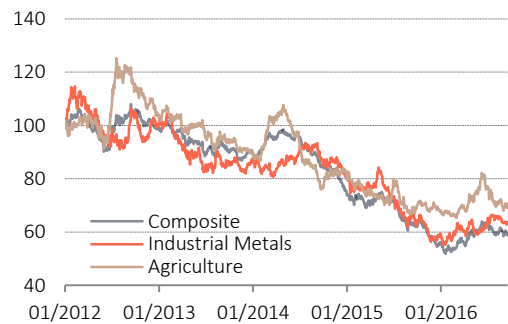


Fig. 22: HFRI hedge fund indices

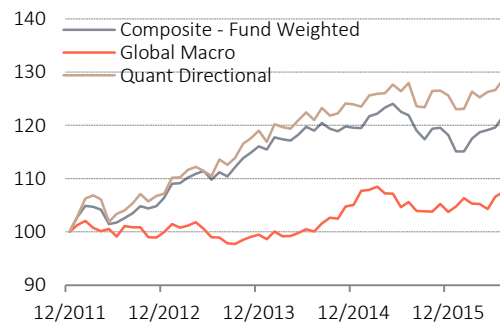


Fig 23: FTSE EPRA/NAREIT global index

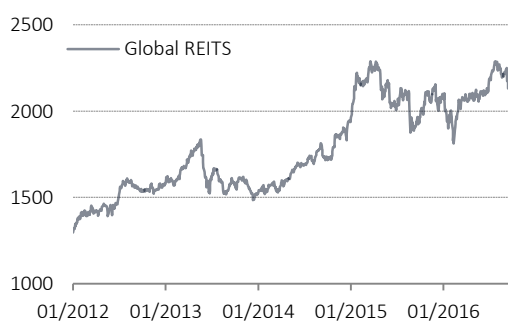
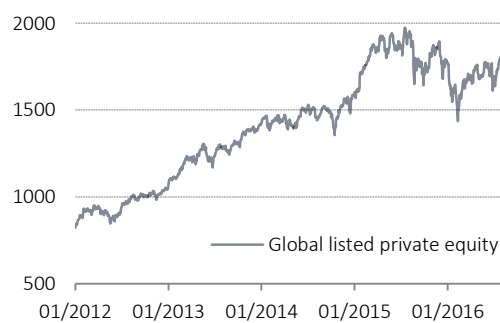


Fig 24: LPX global listed private equity



CURRENCIES

The GBP remained on the weak side. It has been fluctuating around 1.30 to the USD since the major sell-off end of June. The Chinese CNY currently remains range-bound around 6.65 to the USD. The JPY – after its pronounced rally from November last year

on – has stabilized at around 102 to the USD. The Swiss Franc gave back some of the gains after the Brexit vote and currently trades around 1.09 to the EUR.

Fig. 25: EUR-USD exchange rate

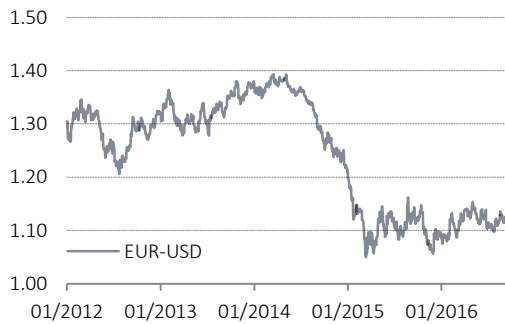


Fig. 26: GBP-USD exchange rate

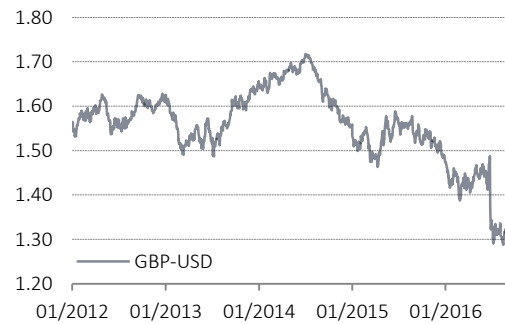


Fig. 27: USD-JPY exchange rate

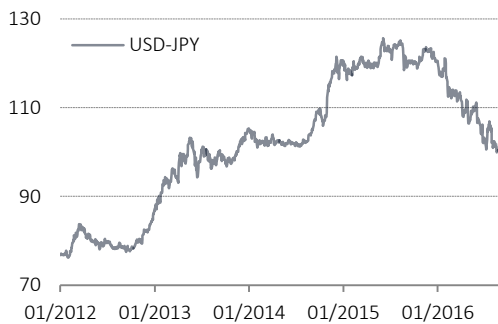


Fig. 28: USD-CNY exchange rate



Fig. 29: EUR-CHF exchange rate

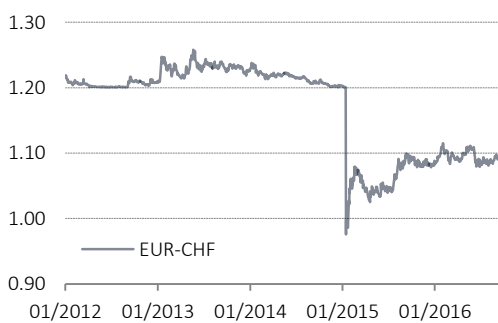
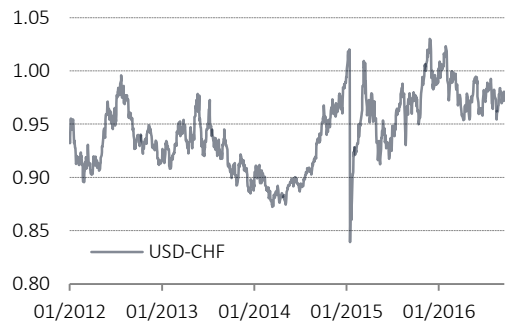


Fig. 30: USD-CHF exchange rate



ASSET ALLOCATION

For a EUR investor the best-performing asset classes have been risky bonds, REITS, Gold, and the JPY. European and Japanese equities as well as the GBP and the USD had a negative impact on

the performance. In August commodities, in general, as well as REITS made a negative performance contribution, while equity markets across the board had a positive performance impact.

Fig. 31: Performance of major asset classes, based on our EUR portfolio strategy



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