ODDO BHF
ASSET MANAGEMENT

# INVESTMENT STRATEGY
## 2019 : it can’t get any worse

*Article completed on January 17th 2019*

- Most investors ended the past year in a pessimistic mood. The Trump administration's trade conflict with China called into question the global growth model based on free trade and globalization. Steadily declining leading indicators and a more restrictive monetary policy triggered fears of recession. This sentiment was reflected in losses on all major equity markets and a sharp widening of corporate bond spreads, particularly in the fourth quarter. So, have we already seen the worst?

  There are at least several reasons why the mood is worse than the situation:

- **Although growth has slowed, we see no clear signs of recession:** purchasing managers' indices have fallen, but at over 50 they are still signaling an expanding but decelerating economy; unemployment figures are improving in the US and the eurozone; stable commodity prices (except for oil) point to healthy demand.
- **Slowing China still has scope for economic stimulus measures:** Growth is weak in China (Chinese retail sales reached a 15-year low in the fourth quarter, car sales slumped). But the government still has room for maneuver, especially in tax policy, to support the economy. However, the strongest impetus for a recovery would come from an agreement in the trade dispute, which would also be in the interest of the US.
- **The central banks will not stifle a possible recovery:** After four rate hikes, the Fed seems to be taking a break. The markets no longer expect interest rates to rise in 2019. While the Fed has already reached a neutral interest rate level, the ECB is lagging and has just completed its QE program. Since it will neither reduce its bond holdings nor raise interest rates for the time being, monetary policy in the euro zone will remain accommodative in 2019.
- However, the risks of 2018 have not simply vanished into thin air. The trade dispute between the US and China has not yet been settled. A disorderly Brexit could trigger turbulence. Investors would therefore do well to proceed cautiously and, depending on developments, to increase the risks during the year. Subject to this, however, the following asset classes appear to us to be the most attractive:
  - **Euro equities:** While the US economy is slowing, growth in the Eurozone should be stable (even if slightly below potential growth). So, following the sharp correction in the last quarter of 2018, many equities and sectors such as automotive suppliers offer attractive valuations.
  - **Emerging markets equities:** Emerging markets suffered from rising interest rates and the rising dollar in 2018. When the dollar falls, there is a lot of catch-up potential in 2019.
  - **European convertible bonds**: Cautious investors can use this asset class, for participating in the equity market with a buffer.
  - **Short Duration High Yield Bonds:** After the massive widening of spreads, valuations are attractive again, if you have the resources to analyze issuers and invest only selectively.
  - **Private Equity Secondaries:** Private equity makes it possible to capture equity returns without the volatility of the equity markets. In view of the levels of valuations on the primary market and high sums still to be invested, opportunities are available on the secondary market.

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