INVESTMENT UDPATE MARCH 2018
"ECHO FROM THE ALPS"

A new chapter begins

We are pleased to send you our first investment update for 2018. Last year was very exciting for us, not only because of a great investment climate. We also made some changes to our business and added more services that go beyond investment management. These services include wealth protection, investment consulting, precious metals storage and trading (with program partner) and third-party manager selection. In that sense we are operating our business more and more like a multi-family office operation. We are convinced that we can therefore offer our clients even more value and an even more personal service. In a time when there is a lot of talk about "robo-advice" and artificial intelligence, we feel that a personal service is more important than ever before. The turnkey investment services we are offering should give clients an easy and hassle-free solution in a time when everything seems to become more complicated. Our personal service and commitment to clients might look "old-school" in these modern times, however, we feel that nothing can replace good professional and personal advice. When it comes to making investments, we apply a very modern approach and integrate tools in our investment process to enhance our results and long-term performance. We offer our services with a strategic network of partner firms and banks in Switzerland, Liechtenstein, Austria and the United States.

2018 – Volatility is back

While 2017 was a very profitable year for investors, the new year has already brought some challenges. The sharp sell-off in global markets in early February has painfully reminded investors that markets are not always going up and volatility can't stay at the extremely low levels experienced in the recent past. The sell-off saw global equity markets falling by almost 10%, but eventually markets were stabilizing and have by now recovered almost half the losses seen a month ago. While the correction as such was not surprising, the question is "why now" when the global economy is seeing good momentum and for the first time in almost ten years, we are witnessing a situation of globally synchronized growth. Growth is good and will clearly support higher corporate earnings in coming quarters, the problem is that the market valuations are rather high by historical standards and therefore might come under pressure when interest rates are starting to move higher like now. So while the "E" part of the P/E valuation looks positive, it is the "P" part that looks problematic given the expectation for higher interest rates. This will create a more difficult environment for stocks going forward, however, we are not saying that this necessarily leads to a further market correction, but clearly to higher levels of volatility. Another factor that will limit gains in coming weeks and months are the concerns about rising trade issues and the possibility of an outright trade war. The recent announcement by the U.S. to put new tariffs in place is certainly not a positive signal for the world economy.

> ***"While corporate earnings remain strong, market valuation in certain markets, especially the U.S. have reached very high valuations, this will limit gains going forward"***

2018 will probably not be as good as 2017 in terms of stock market performance but in our view, it still has the potential to be very solid. With good momentum in corporate earnings, we also need to realize

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that higher interest rates are not yet problematic at all and are still very low compared to historical standards. Where and when higher rates are going to become painful is hard to say but we are clearly not yet at these levels. The recent correction in equity markets was caused by a painful adjustment to higher levels of volatility that hurt some highly leveraged volatility funds very badly. Some of those funds lost more than half their NAV within just a couple of trading days. It was very interesting to see that the market correction in stocks did not bring a lot of problems to other markets, such as currencies. So this recent sell-off looks like it was a somewhat isolated event and is not really changing the fundamental situation for the stock market.

We believe the recent sell-off is not the start of a longer correction, however, the question is where are the opportunities in stock markets. Our view is that Europe and the Emerging markets continue to look very attractive, we are slightly negative on U.S. markets given their stretched valuations. Also from a macroeconomic point of view, we see that Europe and many other economies are in a relatively early stage of growth, whereas the situation in the U.S. is in a much more advanced stage. With the recent tax cuts and additional fiscal stimulus coming, the recent economic expansion might get prolonged for another year or two, but eventually we see a slowdown coming like always. Given the extraordinary amounts of monetary and fiscal stimulus in the past few years, the underlying business cycle might be longer than in previous times. What has not changed, however, are the basic principles and factors that drive business cycles. The next slow-down or even recession is a question of when and not if.

What should investors do in 2018

In 2018 investors need to be more active and proactive than last year. Given the higher expected levels of volatility, investors need to look for opportunities while at the same time managing the risks very carefully. This starts with an overall adjustment of the underlying equity exposures in portfolios which should be more conservative than it was last year. Also, investors need to build up better protection by selecting stocks that have good momentum but also have profound defensive qualities. In this context it was very interesting to see that stocks/sectors that are typically considered defensive did not do well and were falling as much or more than the overall market. At the same time, some of the high beta stocks, especially technology shares have been doing really well. Sector allocation is going to be increasingly important for the successful management of a portfolio. While the outlook for stocks remains slightly positive, we also see the possibility of a rise in precious metals prices. Despite of rising interest rates, precious metals are holding up really well and given the increasing global tensions, we see further upside. The critical question is whether prices are able to breakout from the relatively narrow trading ranges we had in the recent past. If this happens, we see a significant positive momentum developing and that could move prices higher even as interest rates are rising. In terms of currency markets, we haven't seen much volatility at all in the past few weeks, even during the selloff in early February. Currency markets remain very stable with low volatility. An interesting point was that the U.S. Dollar did not really benefit from the increasing uncertainty, typically safe haven flows push up the greenback in times of correction but not so this time. The Japanese Yen has been much stronger lately and seems to be the safe haven currency of choice for a lot of global investors.

> ***"Despite rising interest rates, monetary conditions in most part of the world remain very accommodative. Short-term the market will need to absorb this new reality,***

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This brings up the obvious question given the fact that the peak in this latest Dollar cycle was reached in December 2016. What will the U.S. Dollar do once we are finally starting to see a slowdown in the U.S. economy which we project for 2019? Such signals will eventually stop the trend of rising yields and therefore take away a lot of support for the Dollar. We believe that this will eventually lead to a significant correction in the Dollar during 2019/2020 with the Dollar potentially testing the lows seen in 2011. This would imply a roughly 20% downside for the Dollar in the next 24 months.

In a nutshell, 2018 will not be as easy as 2017 and financial markets will not be a one way street. With rising interest rates, increasing concerns about trade wars and relatively high stock market valuations in certain markets, the upside for 2018 is lower than last year. There are still good opportunities but it will require a more active, tactical investment strategy to benefit from these opportunities. Also having a well diversified portfolio is key again, this requires investors to reconsider their sector allocation as well as investment in precious metals and other assets that will provide protection in times of market corrections.

Want to know more? Would like to discuss questions? We are happy to discuss with you on our regular monthly investment call. Please send a message to info@alpineatlantic.com to sign up for our monthly calls.

March 12, 2018

Kind regards from Switzerland,

Daniel Zurbruegg CFA

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