



# Goldilocks?

April 2019

## China back on track

Positive countermove especially in the PMI data for China but also for the U.S.

Quarterly data published by companies to date exceed expectations

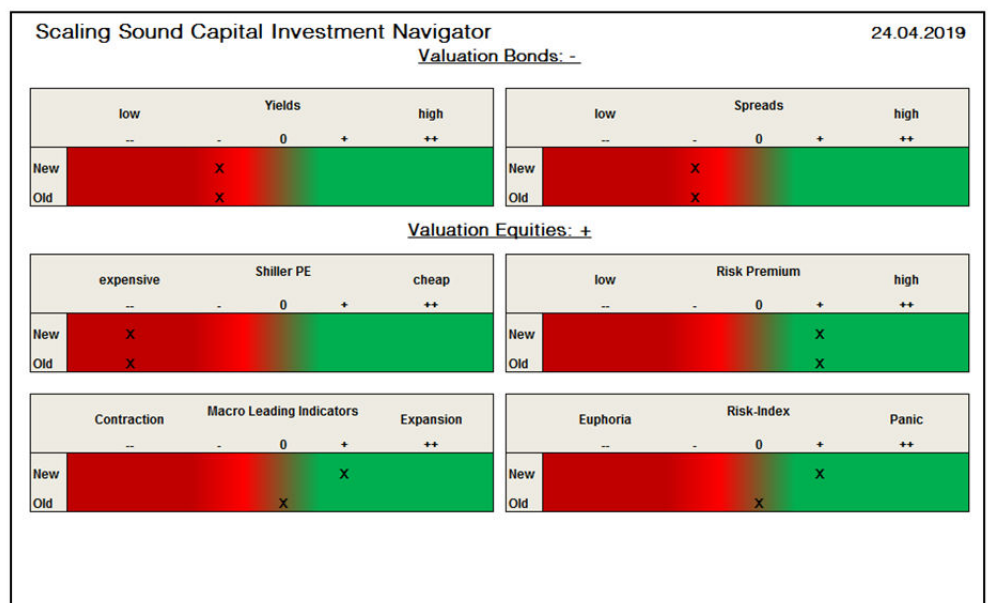
Monetary environment in the U.S. remains relaxed

Stock market upswing still not driven by euphoria

No change in our assessment of asset classes or investment policy

China has once again succeeded in bringing its economy back on track through government stimulus measures. This is confirmed by the current PMI data for the manufacturing and service sectors. In the U.S. as well, leading economic indicators are pointing upwards again. This development is confirmed by the previously published U.S. company figures for the first quarter of the current year. The monetary environment in the United States remains relaxed despite slightly higher yields on 10-year U.S. government bonds. Since the bull market on the U.S. stock market has not yet been accompanied by euphoria, we are sticking to our light overweighting of shares. We are likewise making no changes to the other asset classes.

### Sound Capital Investment Navigator



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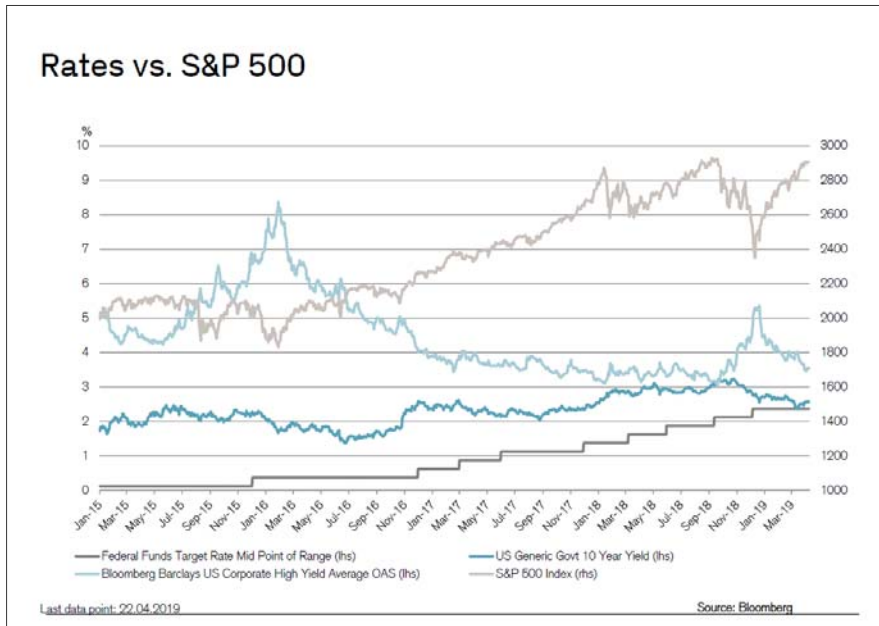
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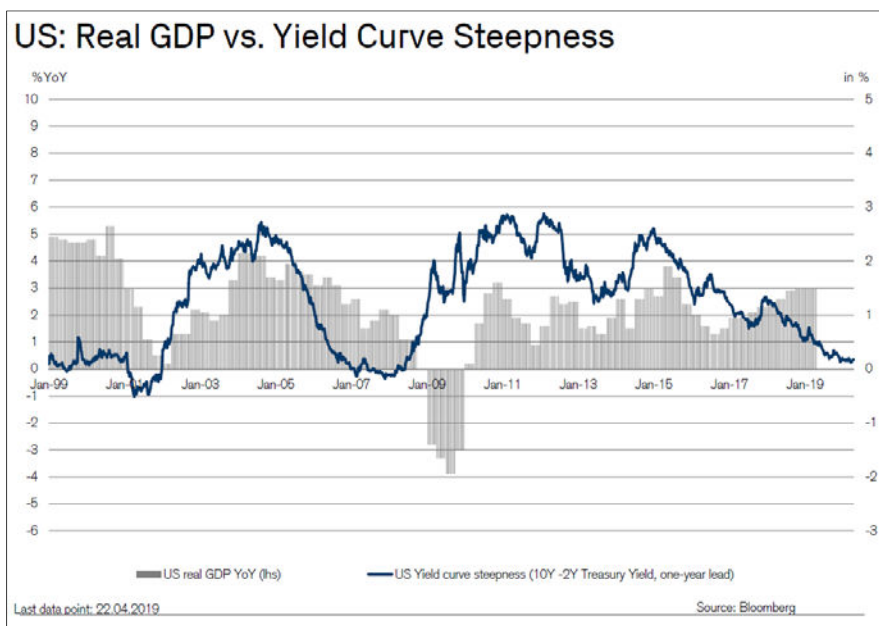
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Interest rate level (assessment indicator -) / Spreads (assessment indicator -)  
 assessment unchanged / assessment unchanged

Since our last report, the nominal interest rate level of 10-year U.S. government bonds has risen slightly, while the spreads of high-yield U.S. corporate bonds have hardly changed. The so-called "Goldilocks economy" (not too hot or too cold, with steady, rather weak but recession- and inflation-free economic growth), with its positive impact on the financial markets, seems to persist.



Despite slightly higher yields on 10-year U.S. government bonds, the yield curve has barely changed.

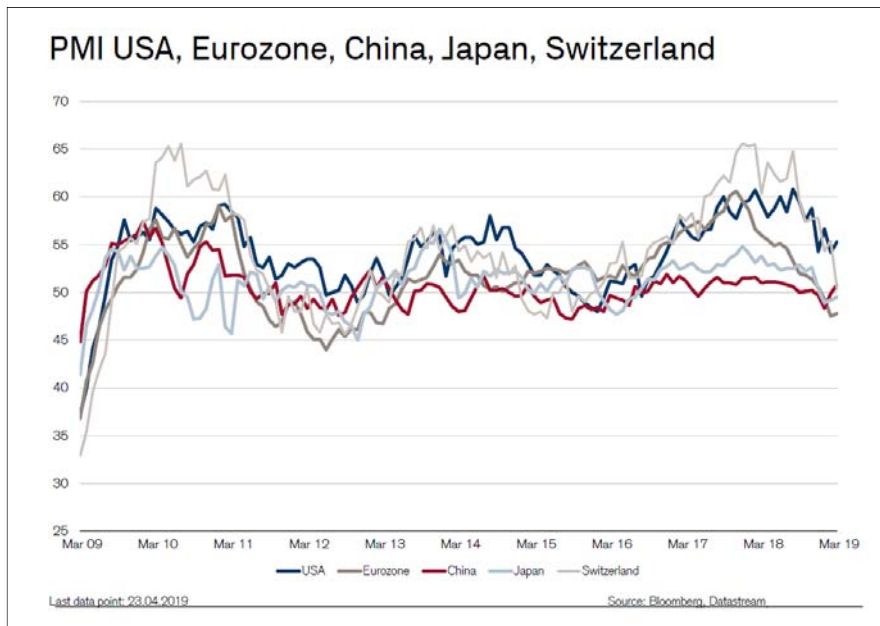


**Shiller P/E** (assessment indicator --) / **risk premium** (assessment indicator +)  
 assessment unchanged / assessment unchanged

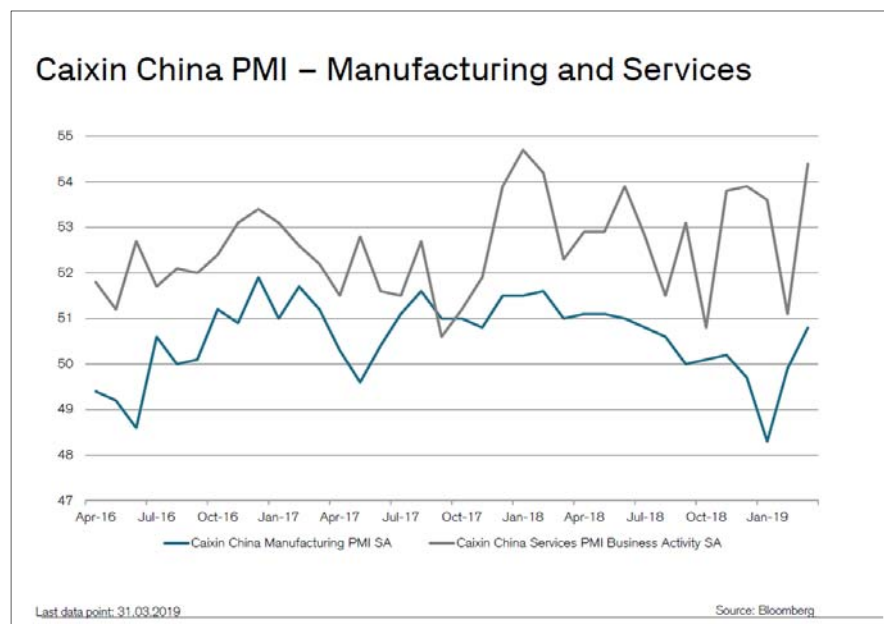
The absolute valuation of the U.S. stock market measured by the Shiller P/E ratio is still unattractive. By contrast, the relative valuation of equities against government bonds remains attractive.

**Macro leading indicators** (assessment indicator +)  
 risk assessment new +

In our last report, we described the development of global PMI data as threatening. Since then, the situation has eased considerably as a result of China's very positive development and stabilisation in the U.S., which may have significantly reduced the risk of a synchronous recession.



The Chinese data are particularly compelling, as manufacturing and services have revived equally.



**Chart technique** (assessment indicator 0)

assessment deleted from Navigator

It will likely not have escaped your notice that we had repeatedly judged the behaviour of the Guild of Chart Technicians as procyclical in previous publications. This has prompted us to back-test (apply concrete recommendations for action to historical data), with a sobering outcome: in concrete terms, following the historical recommendations for action did not lead to any out-performance of a passive "buy-and-hold" strategy. For this reason, our Investment Committee has decided to remove this indicator from our barometer.

**Risk index** (assessment indicator +) / **capital flows** (assessment deleted from Navigator)

risk index assessment new +

Investor participation in the upward trend since the beginning of the year remains low, although this is now partly offset or relativised by the purchase of derivatives. Accordingly, it can still be assumed that further inflows into equities will continue to fuel the bull market but that an exaggeration will probably herald its end. Once the indicators we are tracking (such as early 2018) indicate euphoria, we will not hesitate to drastically reduce our equity exposure.

Our Investment Committee has decided to combine this originally two-part indicator (risk index and capital flows) into one indicator (risk index). The reason for this is that the risk index already takes sufficient account of capital flows, which means that our measure eliminates duplication.

**General information**

We expect the sharpened focus of our Navigator to strengthen our capabilities, which are crucial for long-term investment success:

1. to be able to distinguish important from less important information: with regard to our Navigator, this means that only data series that are demonstrably relevant to developments in the financial markets are analysed and taken into account in our investment process.
2. to estimate how much of an expected development has already been priced into the current price level: with regard to our Navigator, this means that our overall assessment is derived from the almost equally weighted assessment of the macroeconomic situation, valuation and sentiment indicators.

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