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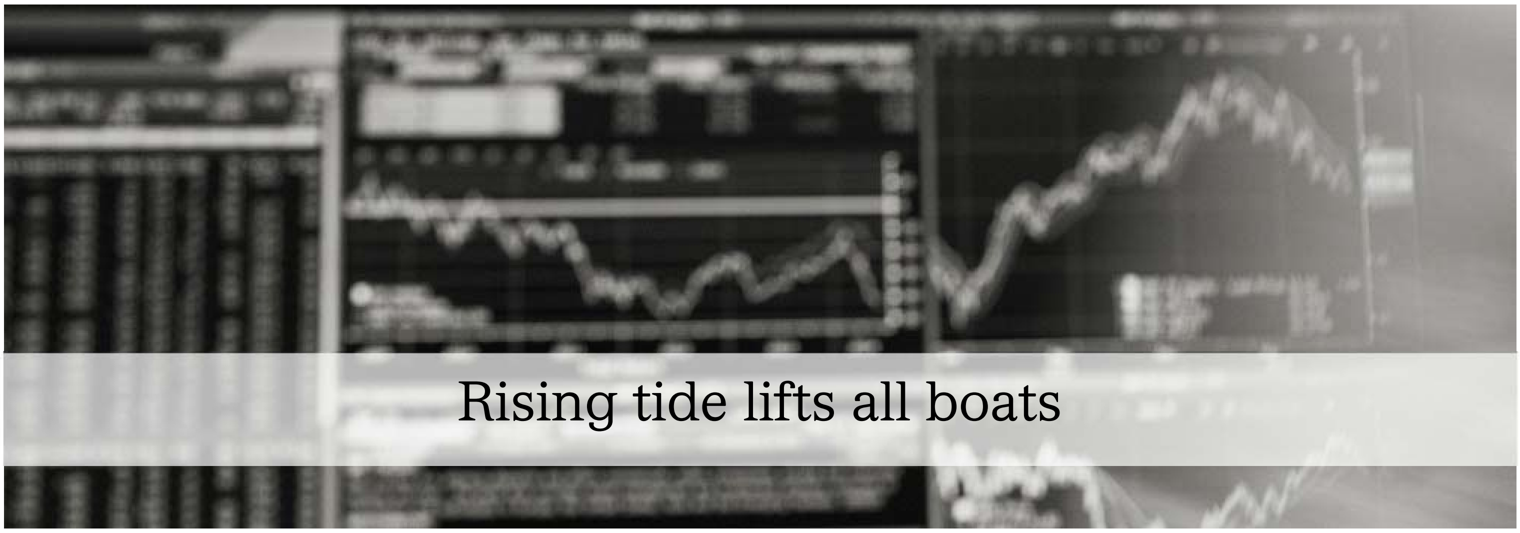

Rising tide lifts all boats

Significant improvement of the U.S. monetary environment

June 2019

- Ten-year government bond yields and high yield spreads fall in tandem
- Fed funds rate above 10-year U.S. government bond yield
- PMI data at a crossroads
- Extremely defensive positioning of investors

The Federal Open Market Committee meets on June 19th and the G20 meeting is held in Osaka on the last weekend of this month. The financial market participants hope that both dates will provide decisive signals for the further development of the real economy and financial markets. While we do not expect the Fed to disappoint investors, the likelihood of a sustained settlement in the trade war between the U.S. and China is low. This is especially true because of the likelihood that this dispute is primarily about the U.S. strategy of global supremacy.

The assessment derived from our Navigator leads to the following decisions:

Fixed-income securities are upgraded to neutral, liquidity to slightly underweighted. Equities remain slightly overweighted and alternative investments neutrally weighted.

Sound Capital Investment Navigator

Valuation Bonds: -

	low		Yields		high
	- -	-	0	+	+ +
New		X			
Old		X			

	low		Spreads		high
	- -	-	0	+	+ +
New		X			
Old		X			

Valuation Equities: +

	expensive		Shiller PE		cheap
	- -	-	0	+	+ +
New	X				
Old	X				

	low		Risk Premium		high
	- -	-	0	+	+ +
New				X	
Old				X	

	Contraction		Macro Leading Indicators		Expansion
	- -	-	0	+	+ +
New				X	
Old				X	

	Euphoria		Risk-Index		Panic
	- -	-	0	+	+ +
New				X	
Old				X	

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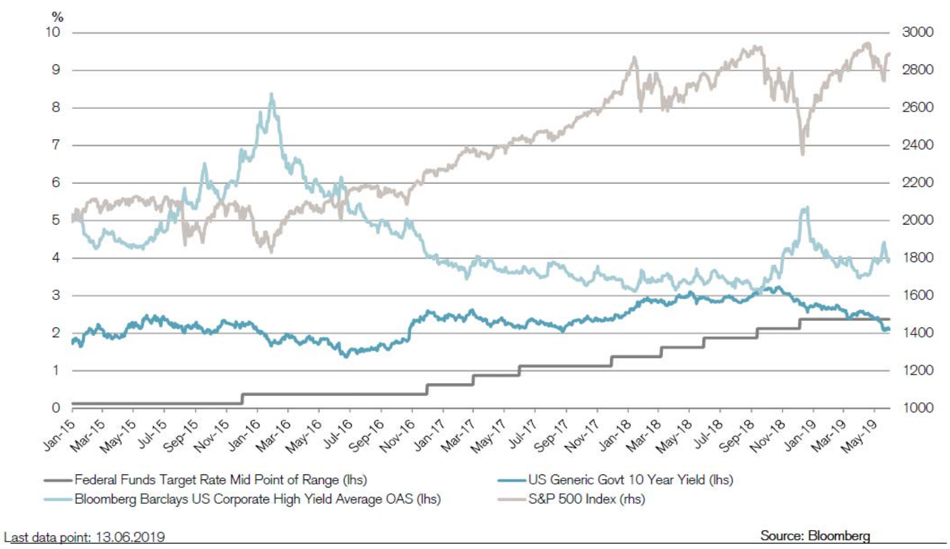
Interest rate level (assessment indicator -) / Spreads (assessment indicator -)

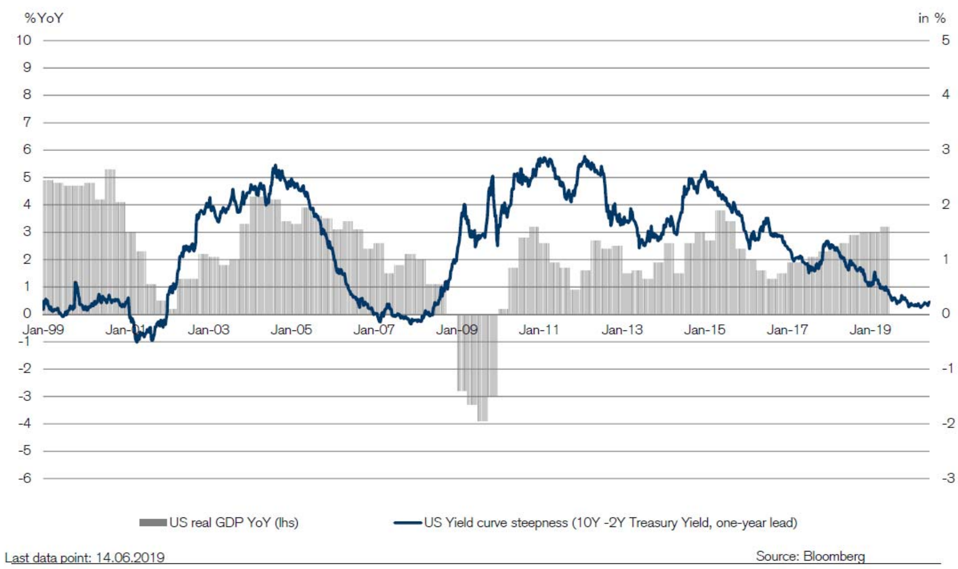
Assessment unchanged / Assessment unchanged

As a result of the Fed's strongly expansive signals, yields on global government bonds have fallen sharply and are now in negative territory in many countries. We are reassured by the fact that the yields on high-yield U.S. corporate bonds have recently declined in parallel with yields on 10-year U.S. government bonds. In addition, the area of the yield curve less strongly influenced by the Fed, which results from the difference between 10- and 2-year U.S. government bonds, is still not inverted. In contrast to the PMI data, the financial markets do not signal an increased risk of recession but rather an urgent need for action on the part of the Fed. The Fed fund rates yielding higher than the 10-year government bonds show that the U.S. Federal Reserve is "behind the curve" in the meantime and is thus being driven ahead by the financial markets - a situation that the Fed is likely to counter very soon with interest rate cuts.

Rates vs. S&P 500



US: Real GDP vs. Yield Curve Steepness



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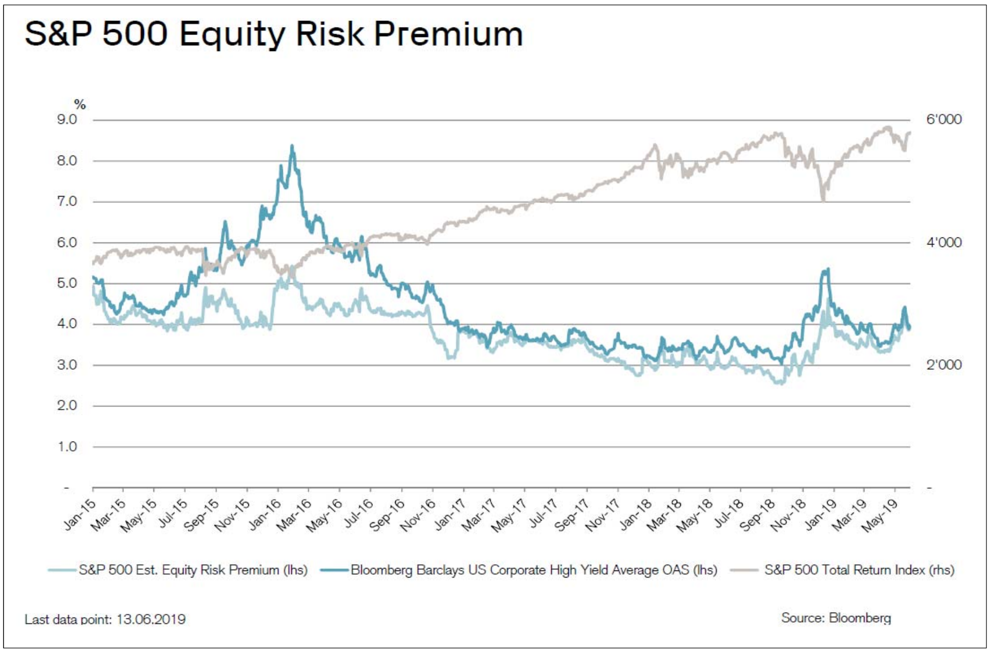
Shiller P/E (assessment indicator --) / risk premium (assessment indicator +)

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. The positive price movement of U.S. equities, which began two weeks ago, seems healthy from this standpoint. These was accompanied by falling risk premiums on high-yield U.S. corporate bonds and falling equity risk premiums.



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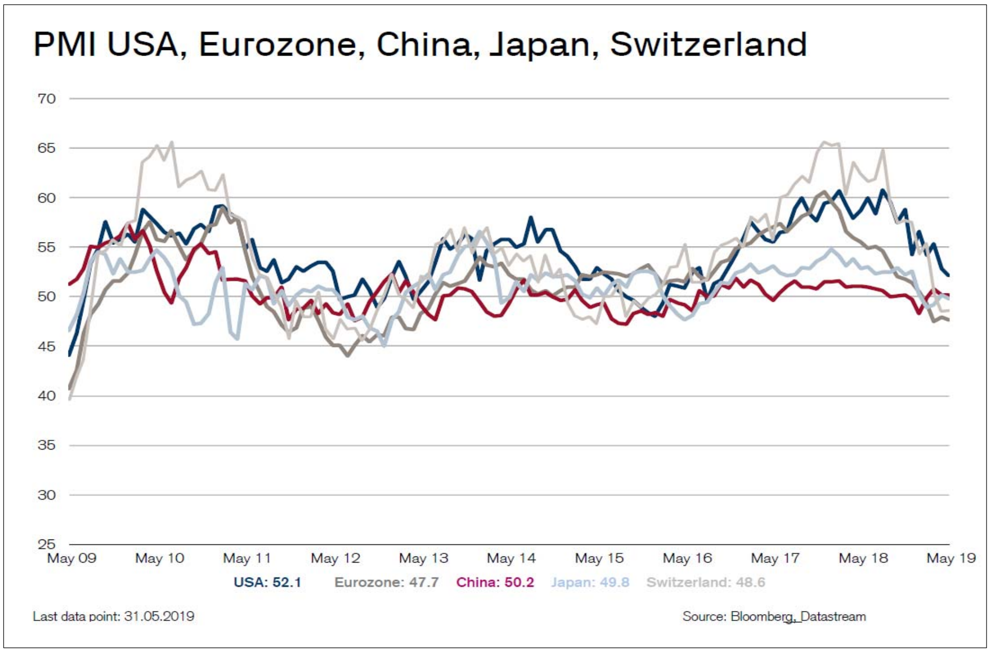
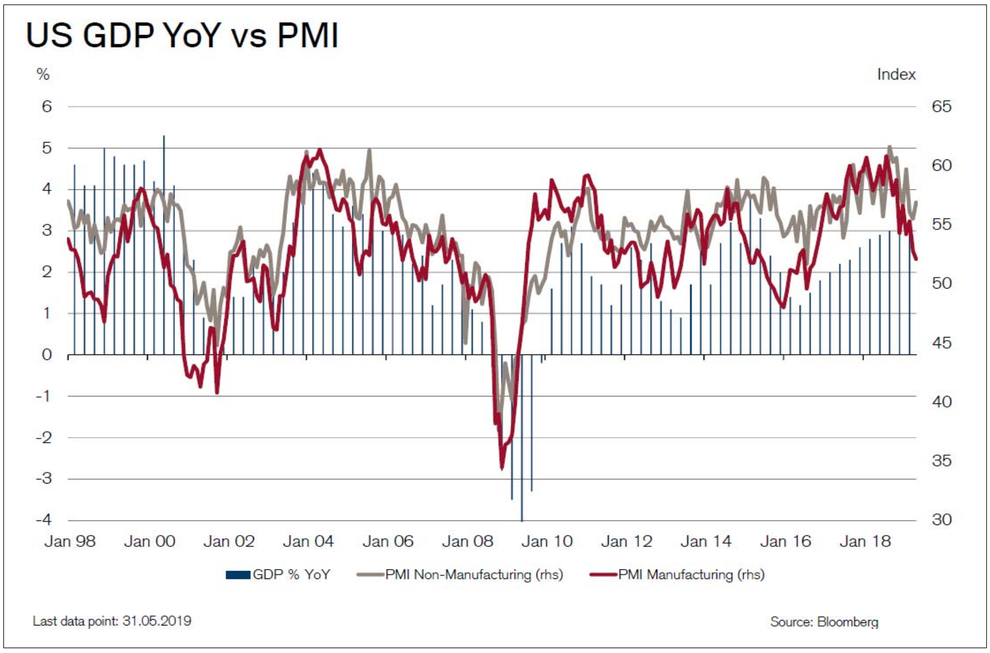
Macro leading indicators (assessment indicator +)

Assessment unchanged

Global aggregated PMI data are at the crossroads between economic expansion and contraction, particularly due to a further decline in the U.S PMI data set. Due to the positive development in the U.S. services sector and positive signals from the financial markets (development of risk premiums for high-yield U.S. corporate bonds and development of the U.S. yield curve), we are however taking a leap of faith with respect to the global economy and leaving this indicator of our Navigator at +.





Risk index (assessment indicator +)

Assessment unchanged

Due to the persistent extremely negative positioning of investors, this indicator continues to make a positive contribution to our overall assessment.