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Treasury panic buying

September 2019

- Tactical indicator sends strong buy signal for stocks
- Surprisingly positive development in the U.S. services sector
- Fixed income reduced from slightly underweighted to underweighted
- Shares increased from slightly overweighted to overweighted

Investors are positioning for a recession

The extreme positioning of investors has become even more accentuated since we published our last report. While bond funds registered record inflows, money was withdrawn from equity funds. At the same time, investors' cash ratio rose to over 5%. Hence, investors appear to have already positioned themselves for a recession. It comes as no surprise that our anticyclical risk index sends a strong buy signal and shifts our overall assessment of equities from slightly overweighted to overweighted. All the remaining indicators are unchanged compared to our last report, although the economic outlook and recession risks were sharply debated at our investment committee meeting. In contrast to the U.S. industrial sector, the U.S. service sector is in good shape. Furthermore, risk premiums for high-yield U.S. corporate bonds have decreased again. In addition, the U.S. yield curve is not clearly inverted. Summing up all the leading indicators across our watchlist, we have decided to remain with an overall neutral assessment.

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

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

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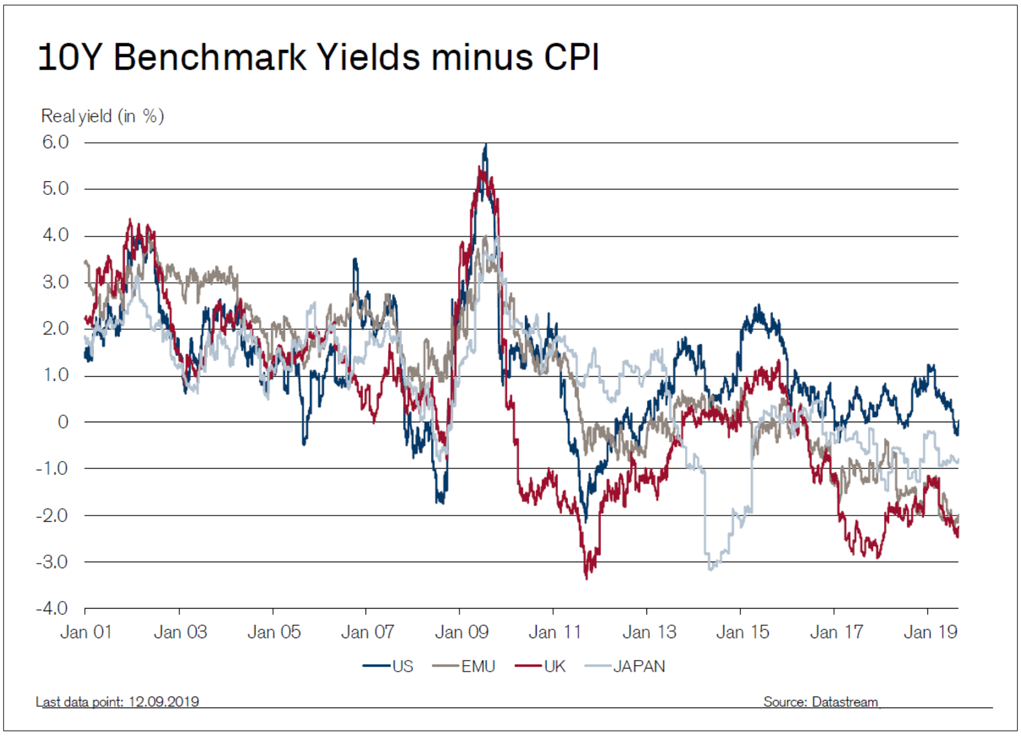
Assessment of the asset categories derived from our Navigator:

We reduce fixed income to underweight from slightly underweight, while equities are increased to overweight from slightly overweight. As a result of the positive stock market performance year-to-date, share quotas have increased in recent months, which is why the need for action resulting from this decision, if any at all, is minimal. Liquidity remains slightly underweighted and alternative investments slightly overweighted.

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

Assessment unchanged / Assessment unchanged

While the nominal yields on 10-year government bonds in the U.S. and U.K. are still in the positive territory, a look at the real yield reveals a diverging picture of the interest rate environment.



Although the U.S. 10-year government bonds increased again in the last couple of days, it is still well below the Fed funds rate. Therefore, the Fed remains under pressure from capital markets to act, despite some normalization from clearly overbought levels. Continuously lower risk premiums on high-yield U.S. corporate bonds once again point at decreased recession risks.

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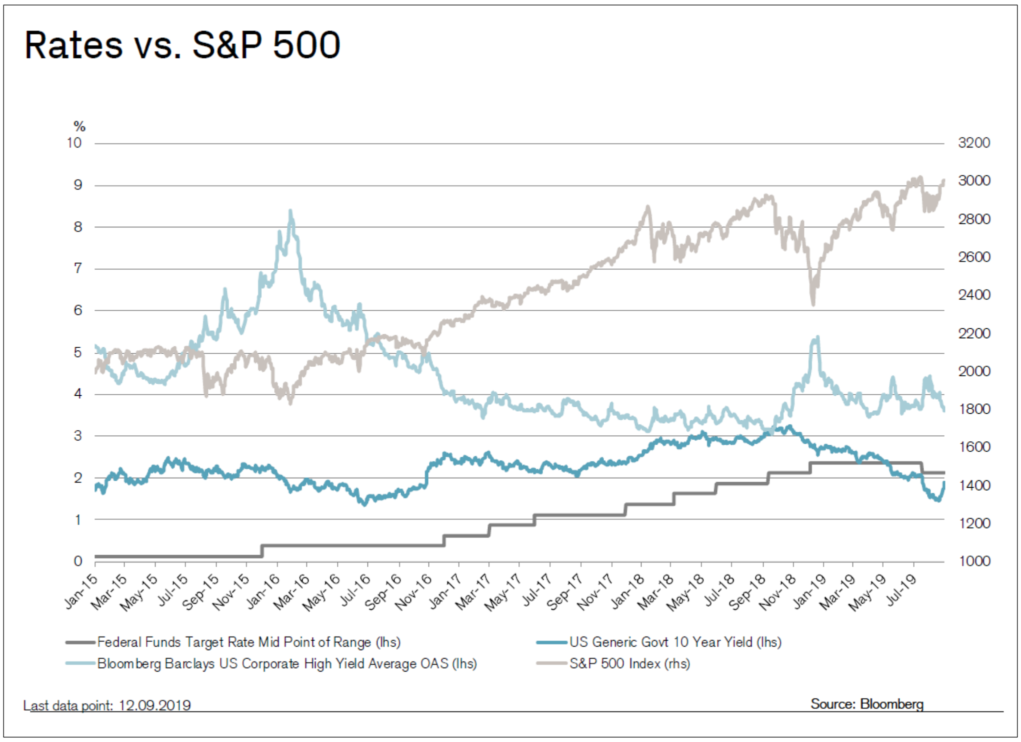
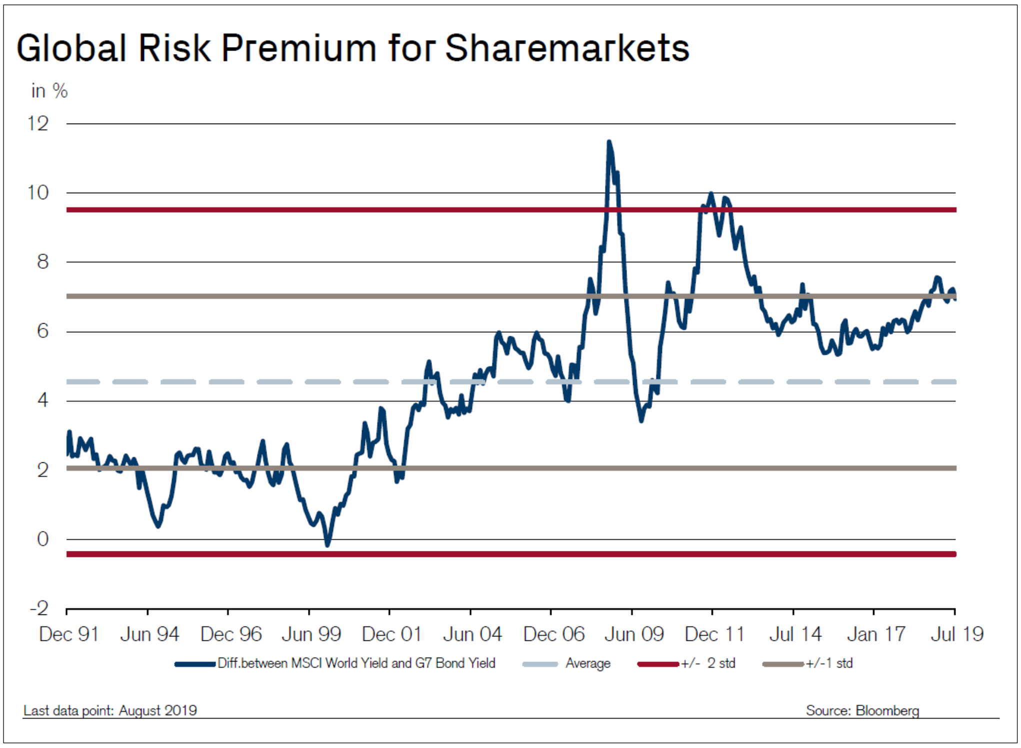


Shiller P/E (assessment indicator --) / Risk premium (assessment indicator ++)

Assessment unchanged / Assessment unchanged

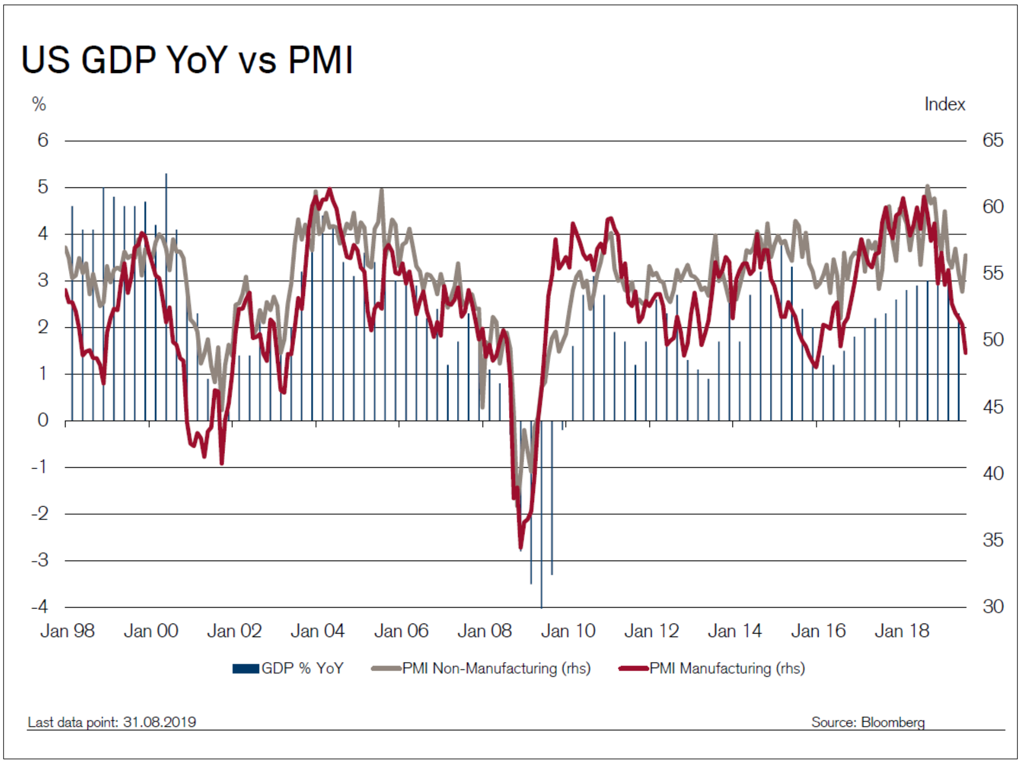
The absolute valuation of the U.S. stock market as measured by the Shiller P/E ratio remains unattractive. On the other hand, the relative valuation of equities versus government bonds is attractive. This market condition is increasingly likely to be used as the main argument for the supposedly "alternative-less" purchase of shares.



Leading indicators (assessment indicator 0)

Assessment unchanged

Within the industrial sector, PMI data in the U.S. now also points at a shrinking economy (49.1). The manufacturing sector is therefore in a synchronous global downturn. However, the prospering U.S. service sector and the positive early indicators in financial markets (rising yields on 10-year U.S. government bonds, falling risk premiums on high-yield U.S. corporate bonds and a not clearly inverted U.S. yield curve) convinced us to keep our neutral assessment of this indicator. The U.S. president's intent on his re-election and increasing pressure on the U.S. Federal Reserve chairman played no part in our decision.



Risk index (assessment indicator ++)

Assessment upgraded from + to ++

This strongly anticyclical indicator still makes a positive contribution to our overall assessment due to the continued negative sentiment with regards to risky assets and the extremely defensive positioning of investors. A study of cash flows shows that fixed-income investments are likely to be in an exaggerated phase, while equities have been suffering from massive outflows for an extended period of time.