WEEKLY MARKET OUTLOOK

12 March - 18 March 2018

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Trumps Trade Tactics Good From Mexico

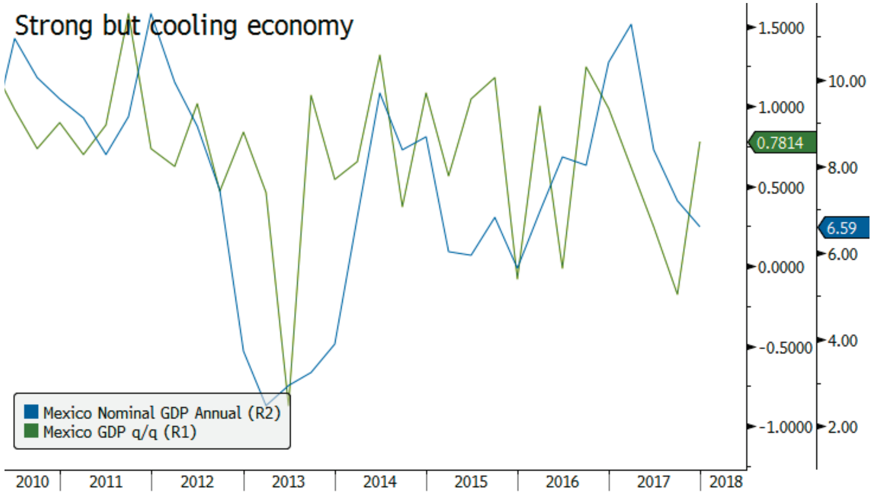
US president Trump continues to pull the one lever he has wide control over. Trade. Over the last 100 years congress has given the US president broad powers on trade legislative powers. The result of Trumps unilateral actions being the increased potential of a global trade war. Despite heavy opposition, Trump introduced tariffs on steel and aluminum imports. These new protective measures are on top of import tariffs already levied on solar panels and washing machines. Trump did water-down the punitive act by allowing exemptions for Canada and Mexico and offered the option of excluding other allies, backpedaling from an earlier "no-exception" position.

We have two thoughts about from Trumps aggressive "take-no-prisoners" trade policy. First is the clear trend towards "economic nationalism" by protecting domestic manufactures from international competition. In the short term, depending of global retaliations, increases the likelihood of US economic slowdown. However, in the long-term, strong domestic manufacturers would limit the threat of an extended economic contraction and higher inflation. Currently, nations are examining Trump trade directive and weighing options. The EU seems to be heading towards not promising retaliation strikes, but enter negotiations to lower other EU import tariffs. Moving forward, should Trump focus on cutting foreign-trade deficit continue then the automotive sectors which accounts for 25% of the US balance-of-trade deficit must be consider a target.

Secondly, Trumps negotiation tactic, of pushing expectations to the extreme, only the reduce tensions at the last moment is a reoccurring theme. Investors should take this knowledge when pricing in MXN and NAFTA discussion. We have already witness significant decelerations in threats. MXN is currently pricing in a sizable risk premium for NAFTA and July presidential elections.

Left-wing Mexican presidential hopeful Andres Manuel Lopez Obrador has an 11-point lead over rivals on platform to review private oil contracts, challenge out corruption and increase social spending without upsetting Mexico's macro-economic strength. Barring any voting irregularities (not expected) a market friendly result. While development of TPP (without USA) will give Mexico a strong bargaining position.

Given the current turn of events, we see MXN as undervalued and would see pricing as an opportunity to reload MXN long positions.

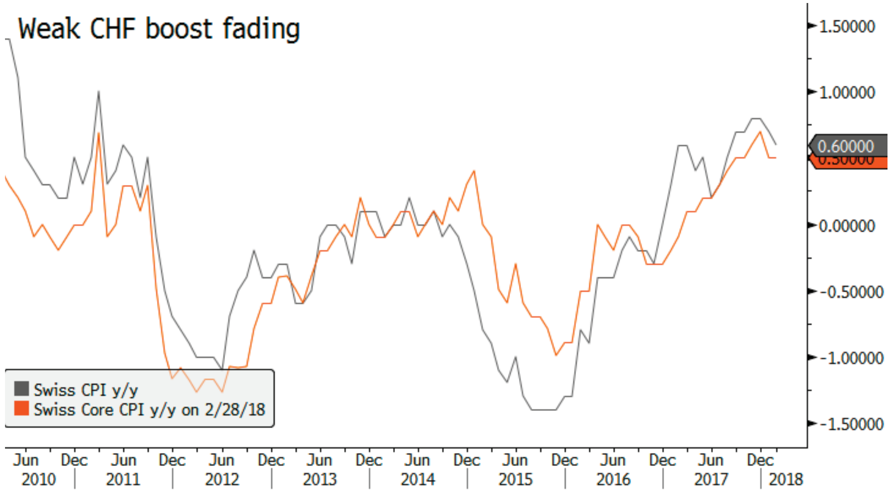


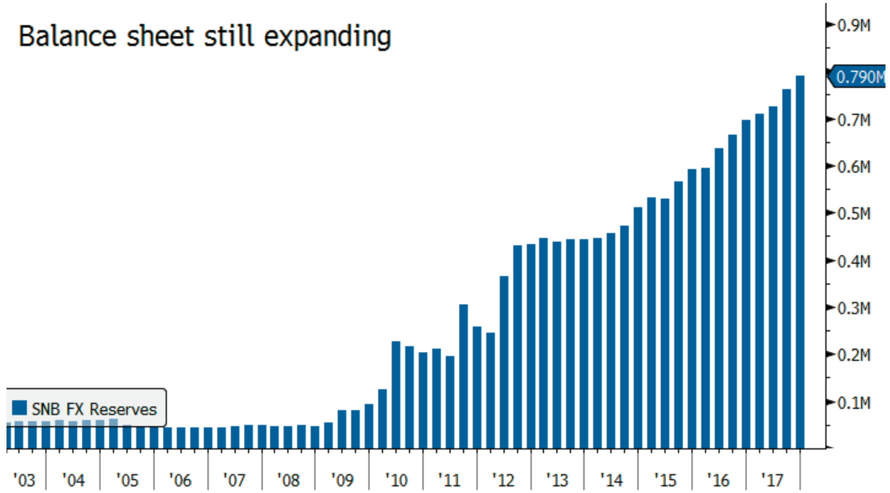
Economics

SNB to maintain loose policy

The Swiss franc has weakened against the Euro and USD as politics in Italy and Germany regressed to "normality", US President Trump protective tariff failed to trigger a hyped "trade war" and geopolitical tensions decrease. A weaker CHF will allow SNB members to sleep a bit easier. At their 15th March quarterly monetary policy meeting the Swiss bank is likely to maintain their current policy mix. The Swiss economy continues to expand at a decent clip as 4Q 2017 real GDP quicken by 0.6% q/q. 1Q 2018 should see further expansion as ICO collects revenues from Olympic games plus late heavy snowfall boosts consumer spending, saving the winter season.

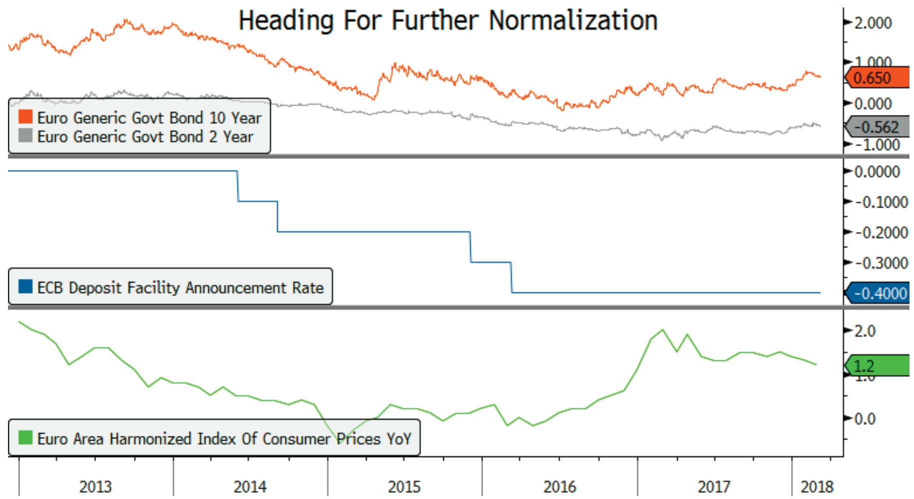
Yet the deciding factor for policy steering at the SNB remains the weak underlying inflation trend. The sharp depreciation in CHF helped import inflation at core level from -0.3% to nearly 1.0% in a year. However, strong CHF have now pushed core back down to 0.5%. The lack of consistent inflation dynamic will provide SNB coverage to keep policy rates negative and stand ready to intervene physically if necessary (rally of EURCHF above 1.17, will suggest no longer overvalued). The SNB policy continues to be extremely profitable. Meanwhile, the SNB turned in bumper results for 2017: profit of CHF 54.4 billion, up 29% from 2016, with CHF 49.7 billion earned in foreign currencies and CHF 3.1 billion from gold holdings. The central and the cantonal governments will be cheering, because they will share a profit distribution of CHF 2 billion. This was the SNB largest profit in 100-year history. Given inflation dynamics and volatility in CHF we don't see the SNB in any rush to adjust policy. Speculations of exit is just premature. Most likely adjustment will be in 1Q 2019, well after the ECB increased their policy rates. Due to SNB policy stability and encouraging macro backdrop we remain negative on the CHF.





Economics

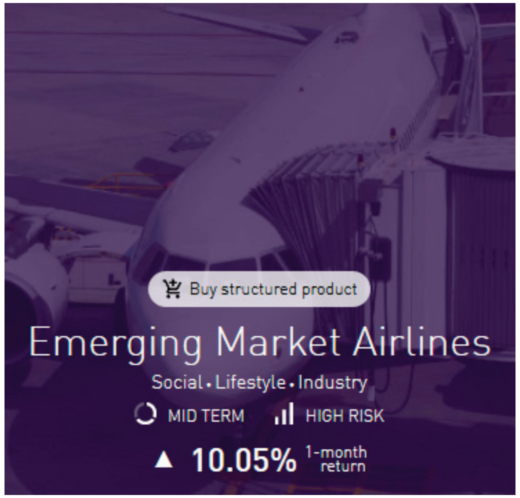
Draghi Maintains Monetary Policy Unchanged



European Central Bank press conference on Thursday ended as expected. Draghi's dovish monetary policy is maintained, as investors got a confirmation that ECB interest rate is to remain at –0.40% and that asset purchasing program period could be extended up to September 2018 if economic conditions deteriorate. No mention of increasing purchasing amount to EUR 60 billion were however communicated in the statement. Draghi underlined his concerns as to the increasing tensions that border taxes on steel and aluminum would have on the world economy and the slowing inflation within the Euro Zone (February Consumer Price Index Y/Y estimated at 1.20% compared to January data given at 1.30% and continuously decreasing since November 2017 at 1.50%). Since EU growth continues its expansion and is predicted to remain at a pace of 2.30% by the end of 2018, in line with December 2017 data, we remain confident that recent communications will give rise to QE interruption by September, in line with current ECB's projections, on the way to further normalization. Accordingly, long-term treasury yields are expected to rise, which in turn should strongly affect EUR-denominated portfolio allocation, adding additional weights into fixed-income asset classes. Year-To-Date, Euro 2-year and 10-year Treasury yields increased by +7.85% and +39.60% in relative value.

Trading below the 1.23 range, EUR/USD decreased following higher than expected February NFP numbers in the US, largely above expectations, given at 313'000 (consensus: 205'000). US February unemployment rate remained flat at 4.10% (much lower than full employment rate estimated at 5%) while average hourly earnings Y/Y remain at 4.10%, confirming the scenario of a 25 basis points interest rate increase (from 1.50% to 1.75%) for coming March 21st FOMC meeting, as the convergence to normalization strengthens.

Themes Trading — Emerging Market Airlines



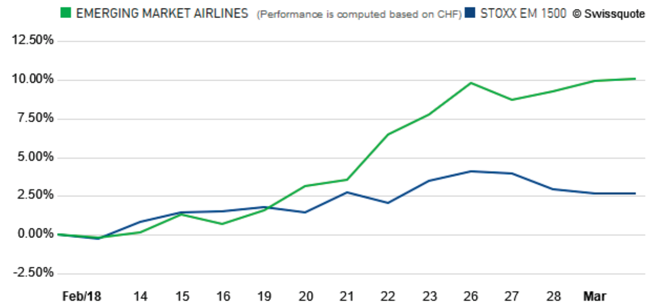
Why ? Global wealth is undergoing the greatest transfer in history from developed markets into emerging markets. In its wake, this shift is creating a massive middle class. The global middle class was estimated at 3.2 billion people in 2016, 65% of them in emerging markets. This emerging middle class, with its new-found discretionary income, has all the aspirations and desires of its established neighbors – including air travel. China singlehandedly accounts for one-fourth of all international tourism expenditure, in spite of the fact that only 8.7% of Chinese people have a passport. Due to this growing market and a globalized economy where international travel is becoming increasingly affordable, consumers in emerging countries are eager to discover other regions and parts of the world, whether locally or internationally, and are thus soliciting travel-related services.

What ? This theme focuses on investing in airlines that derive most of their revenues from emerging markets and manage their growing market share by investing in smart technologies (e.g. e-commerce platforms).

Takeaways: The expanding middle class has shifted spending on air travel from developed countries to emerging markets. If you are looking for aggressive investments benefiting strongly from emerging market growth, invest in our EM Airline theme!

Since inception	▲ 10.05%
1-month return	10.05%
Return day	0.14%
Est. dividend yield	0.00%
Inception date	12/02/18

See portfolio details | Buy structured product



Emerging Market Airlines is available for trading at :

https://www.swissquote.ch/url/investment-ideas/themes-trading

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