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MONTHLY NEWSLETTER

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KEY ECONOMIC DATA PUBLISHED IN JANUARY

- China's December exports dropped by 4.4% (YoY) compared to forecasts of + 2%; imports declined by 7.6%, below expectations of + 4.5%.
- China's Caixin Manufacturing PMI fell to 48.3 in January versus market expectations of 49.5.
- Economic sentiment in the Euro-Zone was stable in January (ZEW survey at -20.9 vs. -21 in December). The PMI Composite number was weaker at 51 (51.4 expected).
- In Germany, economic sentiment (ZEW survey) weakened in January (27.6 vs. 45.3 in December). The IFO Business Climate Index also dropped to 99.1, below expectations.
- US consumer confidence was 120.2 in January, below forecasts.
- The Markit US Manufacturing PMI Index rebounded in January at 54.9, compared to forecasts of 53.5. The Services PMI was stable at 54.2 and in-line with forecasts.
- US payrolls in the private sector rose by 296K in January vs. forecasts of + 174K with December numbers revised from 301K to 206K.

THE BEST JANUARY FOR THE S&P 500 SINCE 1987: +7.9%

- 103bps

THE TIGHTENING OF SPREADS ON U.S. HIGH YIELD IN JANUARY

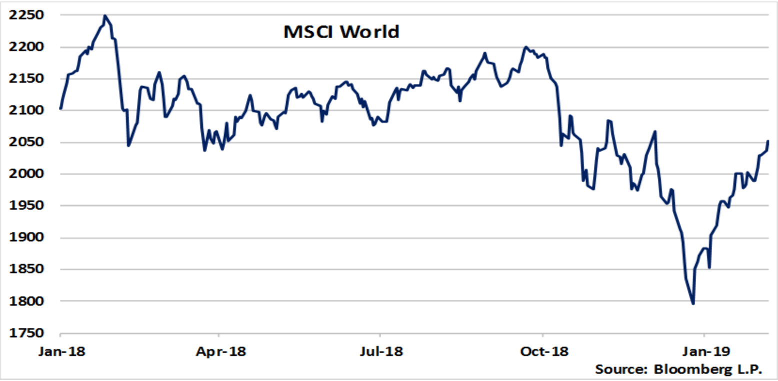
INVESTMENT PERSPECTIVE

What a difference a month makes! For investors gripped by fear during the manic month of December, January provided a much-needed relief rally of risk assets. Global equity markets had their best month since October 2015, with a 7.7% gain for the MSCI World Index, and credit spreads dropped back to end-November levels, or even lower. Commodity prices also rebounded, lead by oil and industrious metals. In foreign-exchange markets, emerging markets and commodity-related currencies performed the best. In this environment, it is also worth noting the positive performance of more defensive assets, including government debt and gold.

The significant rebound of risk assets can be interpreted as un unwinding of market pessimism relative to the outlook for economic and earnings' growth that had become extreme. The path of the Federal Reserve's monetary policy was another concern that had been weighing on the markets during the fourth quarter; the significant early-January shift towards a more dovish stance proved to be one of the drivers of the recent rally; it also contributed to push government bond yields lower, especially as the European Central Bank adopted an increasingly more cautious tone. Some optimism on the progress of the U.S.-China negotiations on trade and structural issues also provided market support. Finally, the reporting of Q4 earnings, while not as impressive as previous quarters, has nevertheless seen markets react generally well to positive surprises.

In the meantime, macro-economic data continues to show widespread weakness across the Eurozone and in China, in particular in the manufacturing sector. Markit PMI Manufacturing readings dropped below the expansion level of 50 in both Germany and Italy, while the Chinese Caixin Manufacturing PMI fell further into contraction territory at a level of 48.3.

A STRONG REBOUND OF WORLD EQUITIES



The chart above shows that the MSCI World Index nearly recovered all of its December drawdown in January. The exhaustion of selling within stressed equity markets was observed towards the end of 2018. This contributed to the early year rebound, from a starting point of extreme oversold conditions. The turnaround was helped in part by remarks from the Fed's Chairman Jerome Powell about more flexibility in interest rate increases and about the possibility that the central bank could stop shrinking its balance sheet soon.

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INVESTMENT STRATEGY

Our assessment that the movements observed towards the end of 2018 were difficult to justify has been vindicated by the behaviour of financial markets in January. Our decision to maintain a modest overweight equity allocation at the onset of 2019 has contributed to this year's good start. It has also been reassuring to observe the rebound of credit markets which have recovered their December losses. Some of the market's headwinds appear to be lifting and recession fears have decreased. At this stage however, equity markets look overbought in the short term and might need to consolidate.

Our exposure to the dollar for non-USD portfolios is under-weight as we believe that the U.S. currency is unlikely to be as well supported as last year. The much lesser impact of tax reform, a more dovish Fed, widening current account and budget deficits should all weigh on the U.S. dollar. In fact, this is one of the key factors for risk assets to be able to perform well this year.

FOLLOWING THEIR STRONG REBOUND, EQUITY MARKETS LIKELY TO CONSOLIDATE

PORTFOLIO ACTIVITY/NEWS

January was a very good month for the portfolios as nearly all the underlying positions ended the month with positive returns. With only a few hedge funds recording modest drawdowns, the strong rebound of equity markets and the significant narrowing of credit spreads contributed to an above-average monthly performance. U.S. equity funds provided the best contributions, with small caps and growth stocks leading the way. One of last year's laggards, a U.S. value fund, has also been outperforming its benchmark significantly. Emerging market equity funds were other noteworthy contributors while all the fixed-income funds ended the month with higher NAVs.

In January, we took the decision to redeem a fund investing into European Mid and Small Caps due to the decline of the size of its assets under management. We recently added a new fund which invests into Chinese equities. The Chinese market figured amongst the worst performing equity markets last year and valuations have reached levels well below long-term averages. Even if the Chinese economy continues to slow, many sectors are still offering attractive rates of growth. This market also presents a relatively low degree of correlation with other equity markets making the investment case for this region quite compelling.

	End 2017	December 2018	January 2019	MTD	2019
Equities					
S&P 500	2673.6	2506.9	2704.1	+ 7.9%	+ 7.9%
Euro Stoxx 50	3504.0	3001.4	3159.4	+ 5.3%	+ 5.3%
MSCI EM	1158.5	965.7	1049.9	+ 8.7%	+ 8.7%
Yields					
UST 10-year	2.41%	2.68%	2.63%	- 5bps	- 5bps
Bund 10-year	0.43%	0.24%	0.15%	- 9bps	- 9bps
BBB EU	1.44%	1.89%	1.77%	- 12bps	- 12bps
Currencies					
EUR/USD	1.201	1.147	1.145	- 0.2%	- 0.2%
USD/CHF	0.974	0.982	0.994	+ 1.2%	+ 1.2%
EUR/CHF	1.170	1.126	1.138	+ 1.1%	+ 1.1%
GBP/USD	1.351	1.275	1.311	+ 2.8%	+ 2.8%
Commodities					
CRB Index	193.9	169.8	179.6	+ 5.8%	+ 5.8%
Oil (WTI)	USD 60.4	USD 45.4	USD 53.8	+ 18.5%	+ 18.5%
Gold	USD 1303	USD 1282	USD 1321	+ 3.0%	+ 3.0%