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| **No need to panic – Luca Paolini, Pictet Asset Management** |
| Die Pictet-Gruppe | 6. Juni 2018 |

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“It’s been a tough few weeks with plenty to worry investors such as Italy and US trade tensions. But there’s no need to panic as yet,” says **Luca Paolini**, c**hief strategist** at **Pictet Asset Management**.

“In equities, we have three particular areas of concern. First, we have dialled back a little on cyclicals – particularly financials. Valuations of some cyclicals are looking stretched, and cyclical momentum weaker.

Moreover, banks' lending margins could come under pressure if a slight cooling of economic conditions prevents the bond yield curve from steepening. At the same time, Italy’s political upheavals represents a risk for European banks, particularly as many have holdings of Italian sovereign debt that is bigger than their capital buffers (2).

Second, we are even less enthusiastic about the prospects for US equities, where a lot of good news is already priced in. Analysts expectations are now too optimistic. So while US equity valuations have dropped sharply as share prices dipped while earnings jumped, they’re not compelling enough to compensate for the risks of rising interest rates.

Third, emerging market equities are handing back some of their gains following a stellar 2017, where they surged 38 per cent. What seems likely across the board is that higher volatility will become the norm, with lower returns, creating a challenging environment for investors in this asset class. We remain neutral.”

“Nevertheless, we stay overweight euro zone equities, which should benefit from as the economic and earnings cycles catch up to those in the US. Plenty of bad news is already in the price of the region's stocks and the euro’s relative weakness should offer additional support.”

“This is subject to how the Italian political crisis develops. There’s a possibility the populists’ coalition could yet be prove strongly anti-EU, leading to further bond and equity market losses. But we think the new government is likely to be less market unfriendly than initially feared and we don’t expect the Italian political crisis to pose a systemic threat to the region’s banking system.”

“Whilst Japanese growth has stalled during the past couple of quarters, valuations remain compelling and stocks should continue to draw support from an accommodative central bank.”

“In the debt markets, emerging markets simply look more compelling than developed ones, and emerging market local currency bonds look relatively good value. With emerging market currencies looking cheap relative to the dollar, the asset class remains an attractive source of income.”

“At the same time, we are mindful of the need to insure against the possibility of further market volatility and US Treasury bonds continue to be an attractive hedge against market upheavals given their relatively high yields and status as a haven. We also remain short the euro given the political uncertainty in Italy and Spain, as well as the weakening of economic momentum here.”

“In addition, we have raised our exposure to the Swiss franc – a currency that should gain in the event of geopolitical turmoil. Moreover, CHF has not been this cheap since the global financial crisis.”

**-Ends-**

## Note to Editors

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Headquartered in Geneva, Switzerland and founded there, Pictet today employs more than 4,200 people. It has 27 offices in: Amsterdam, Barcelona, Basel, Brussels, Dubai, Frankfurt, Geneva, Hong Kong, Lausanne, London, Luxembourg, Madrid, Milan, Montreal, Munich, Nassau, Osaka, Paris, Rome, Singapore, Stuttgart, Taipei, Tel Aviv, Tokyo, Turin, Verona and Zurich.

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