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| **Stretching out the dollar – Luca Paolini, Pictet Asset Management** |
| Die Pictet-Gruppe | 10. September 2018 |

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“The US dollar is as richly valued as it’s been in for at least a quarter of a century (1),” says **Luca Paolini**, c**hief strategist** at **Pictet Asset Management**.”

“Whilst this strength is underpinned by a robust US economy, rising inflation and expansive fiscal policy, we feel that the greenback’s ascent may have run its course.”

“Unless there’s an inflationary surprise or the current administration offers up another round of tax cuts, the prospects for further dollar gains are likely to be limited.”

“Hence, we have raised our stance on the euro-dollar exchange rate to neutral from underweight, taking profits on a long dollar position.”

“At the same time, however, we’ve decided to minimise exposure to prospective currency volatility by also reducing our position on the Swiss franc to neutral.”

“Furthermore, the US dollar’s ascent threatens to unleash inflation and cause problems for emerging market firms with liabilities denominated in the greenback.”

“In addition, the US’s deepening trade dispute with China presents a risk for the developing world’s exporters.”

“But there are reasons to believe the investor-retrenchment led sell-off has run its course: China has turned on the monetary taps again to offset the effects of US import tariffs, and this could be supplemented by increased public spending, adding further – and yet to be priced in – momentum.”

“This is further supported by the greenback now being in ‘overbought’ territory and vulnerable to a correction.”

“Emerging market valuations are also a plus following the recent sell-off and now look ‘oversold’. For these reasons, we remain overweight emerging market stocks.”

“We are less enthusiastic about European and US equities, however, particularly as the latter look poor value.”

“Away from equities, we retain our overweight stance on gold. We estimate the world is net short gold, which is unprecedented.”

“A weaker dollar should be good for emerging market local debt, on which we retain an overweight position.”

“We also remain overweight on US Treasury bonds as a hedge against global market volatility and because they are less expensive than other bond markets.”

“At the same time, we are cautious on credit. Valuations are too high, while corporate leverage is rising – it’s at 20-year highs for half of the non-financial sectors for global equities – and credit tends to underperform late in the cycle.”

**-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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