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| **An interest of conflicts – Luca Paolini, Pictet Asset Management** |
| Die Pictet-Gruppe | 10. September 2018 |

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“Equity markets are likely to be held in check by simmering trade tensions and tighter monetary conditions, even if corporate profits remain healthy,” says **Luca Paolini**, c**hief strategist** at **Pictet Asset Management**.

“Strong corporate earnings and steady economic growth are helping to mitigate the US Federal Reserve’s steady withdrawal of liquidity.”

“Yet the tension between these opposing forces is likely to continue for the coming months. The pace at which the Fed’s balance sheet is due to shrink hits a peak in early October, while the European Central Bank’s asset purchase programme is coming to an end this year.”

“Countering this, though, is the US’s fiscal stimulus, which hits full throttle in the first quarter of 2019.”

“Hence, we’re maintaining our neutral weightings on equities and bonds, remaining overweight Japanese stocks and emerging debt.”

“Japan is the cheapest of the developed equity markets while the US is comfortably the most expensive. The Bank of Japan is still pumping money into the market (albeit slowly), while the US Fed is doing the reverse, having just delivered its third interest rate hike of the year.”

“Investors are noticing this valuation disparity, with Japanese stocks rebounding in September while their US counterparts made little progress. We think global investor allocations to Japan remain neutral, so we are maintaining our overweight as we expect them to catch up. We remain underweight US equities.”

“Despite recent gains in emerging market equities, valuations remain very compelling. Investor positioning is again very light. We anticipate resilient earnings and activity in the vast majority of emerging economies and we do not expect the dollar to rise much further.”

“Continental Europe looks potentially attractive but without an obvious catalyst for momentum, we remain neutral.”

“When it comes to equity sectors, technology continues to dominate both the year-to-date performance tables and the headlines, but valuations are now extremely stretched and are becoming more so.”

“For now, we think the risks are fairly evenly balanced, although that could change once the dust settles on S&P’s and MSCI’s introduction of a new communications sector to absorb the likes of Facebook and Google’s parent Alphabet.”

“The investment case for healthcare is much more clear-cut. It is well-placed to benefit from continued investor preference for defensive sectors, while still offering exposure to long-term secular megatrends through latest medical innovations.”

“Growing investor appetite for defensive stocks has also prompted us to reconsider our stance on utilities, which we upgrade to minor underweight.”

“With both Argentina and Turkey flirting with crisis, fears are growing that these local difficulties could morph into something more systemic.”

“Dig a little deeper and it’s clear that both Argentina and Turkey are emerging market outliers nursing self-inflicted wounds. Their financial woes - which also includes damage to the credibility of their central banks - are far from representative. And this, coupled with an improvement in Chinese economic conditions, is why we remain overweight local currency EM debt.”

**-Ends-**

## Note to Editors

The Pictet Group is a partnership of seven owner managers, with principles of succession and transmission of ownership that have remained unchanged since foundation in 1805. It offers only wealth management, asset management and related asset services. The Group does not engage in investment banking, nor does it extend commercial loans. With CHF 512 billion in assets under management or custody at 30 June 2018 (USD 516 billion, EUR 442 billion, GBP 391 billion), Pictet is today one of the leading Europe-based independent wealth and asset managers.

Headquartered in Geneva, Switzerland and founded there, Pictet today employs more than 4,300 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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At 30th June 2018 Pictet Asset Management managed GBP 144 billion in assets (EUR 163 bn, CHF 189 bn, USD 191 bn), invested in equity and bond markets worldwide. PAM has seventeen business development centres worldwide, extending from London, Brussels, Geneva, Frankfurt, Amsterdam, Luxembourg, Madrid, Milan, Paris and Zurich via Dubai, Hong Kong, Taipei, Osaka, Tokyo and Singapore to Montreal.