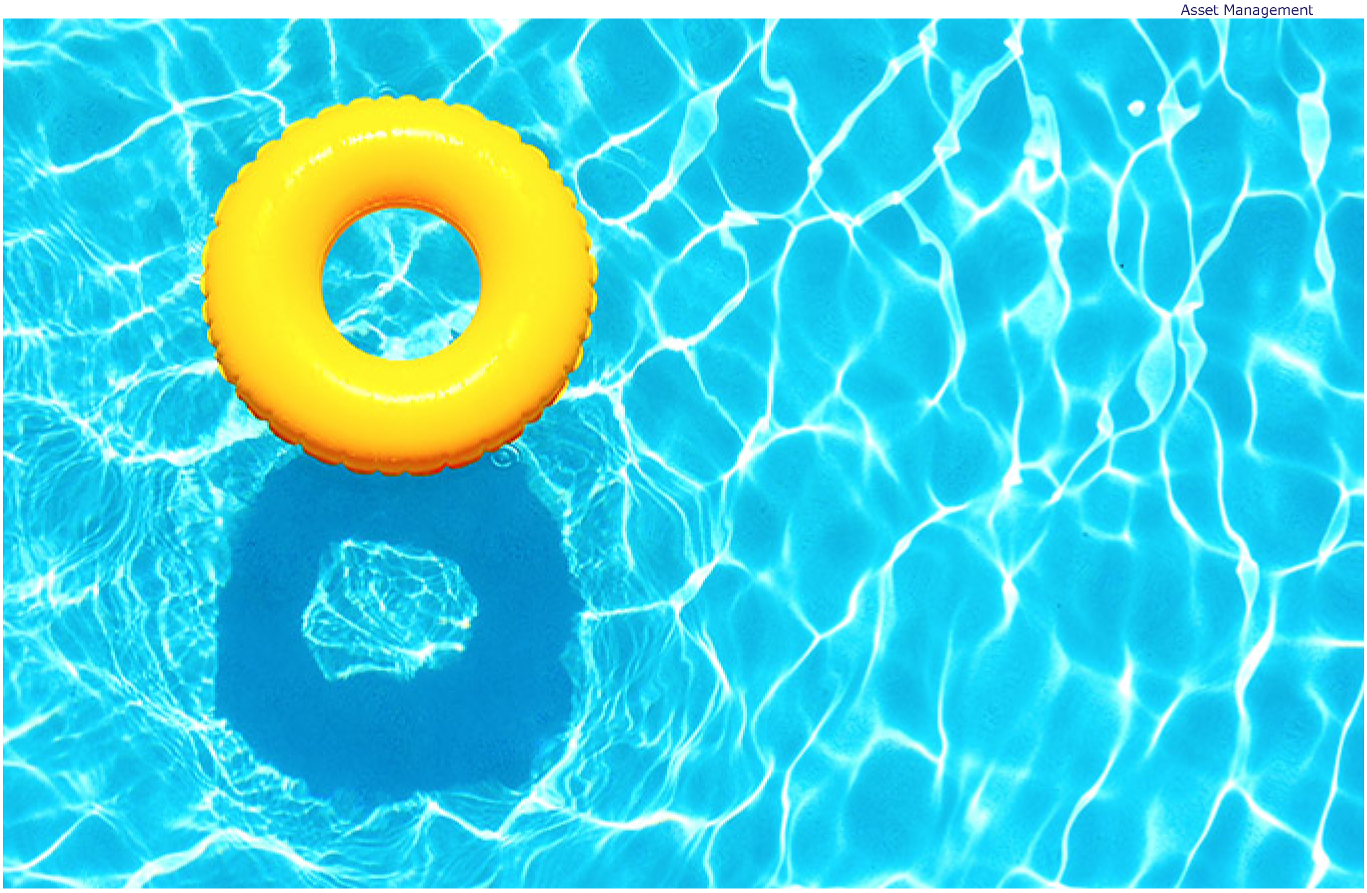

Themes for the summer

Market Insight

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As we head into the summer, we look at themes that form our current investment thesis

The past couple of weeks have been dominated by political shifts amidst relatively benign, if slightly disappointing, economic data. In Europe, the election of Emmanuel Macron has been a positive influx for European politics. The French president has reached out to Germany, promising French reforms and asking for greater European integration and social/economic policies. In our opinion, Angela Merkel, having already achieved everything she could for the German economy, should be receptive to a greater European focus going forward. We would expect a two-speed Europe to emerge soon as founding nations march forward towards greater European unity.

In contrast, the US agenda has been heavily tilted towards isolationism. Mr Trump has shot more rounds across the bow of NATO, lecturing European leaders on financial contributions, before heading off to a gripping handshake competition at the 43rd G7 summit. Once back home, he took his country out of the Paris climate accords, leaving China the defacto leader in international global warming efforts.

Looking ahead, the lack of inflation coupled with still solid economic activity across the world and lower political risk in Europe is supportive of the well flagged carry trade. While geopolitics remain tense (North Korea, Middle East, UK Brexit negotiations, US growing isolationism), economics are not rocking the boat and provide a good backdrop for risk assets.

As we head into the summer we look to the following themes that form our current investment thesis:

- We continue to **like higher yielding corporate debt** – mainly in European issuers, particularly contingent convertibles which have continued to see a strong improvement in fundamentals and where valuations continue to be extremely attractive despite the large moves we have seen
- Aggressively **short of US rates** – we remain convinced that the Fed will continue to raise policy rates broadly in line with its projections (the 'dots') relative to market pricing discounting just two rate hikes between now and December 2018
- **Selectively long of sovereign debt** – Italy spreads have not benefited from the renewed European political dynamic. We expect early elections would lead to a coalition government with no anti-European agenda. We see very little in terms of a catalyst for spreads to widen. We also favour Greece, Argentina and South Africa
- In FX, we maintain **our tail hedges** (China/Saudi Arabia), are **bullish Norwegian krone** despite its correlation to crude prices and remain **biased to short sterling –** the upcoming UK general election is proving a lot more open than expected and shows again how politics can turn around very quickly. While the prospect of a Labour government overseeing Brexit negotiations makes for interesting discussions, negotiations will be tough nonetheless