Quarterly Investment Outlook

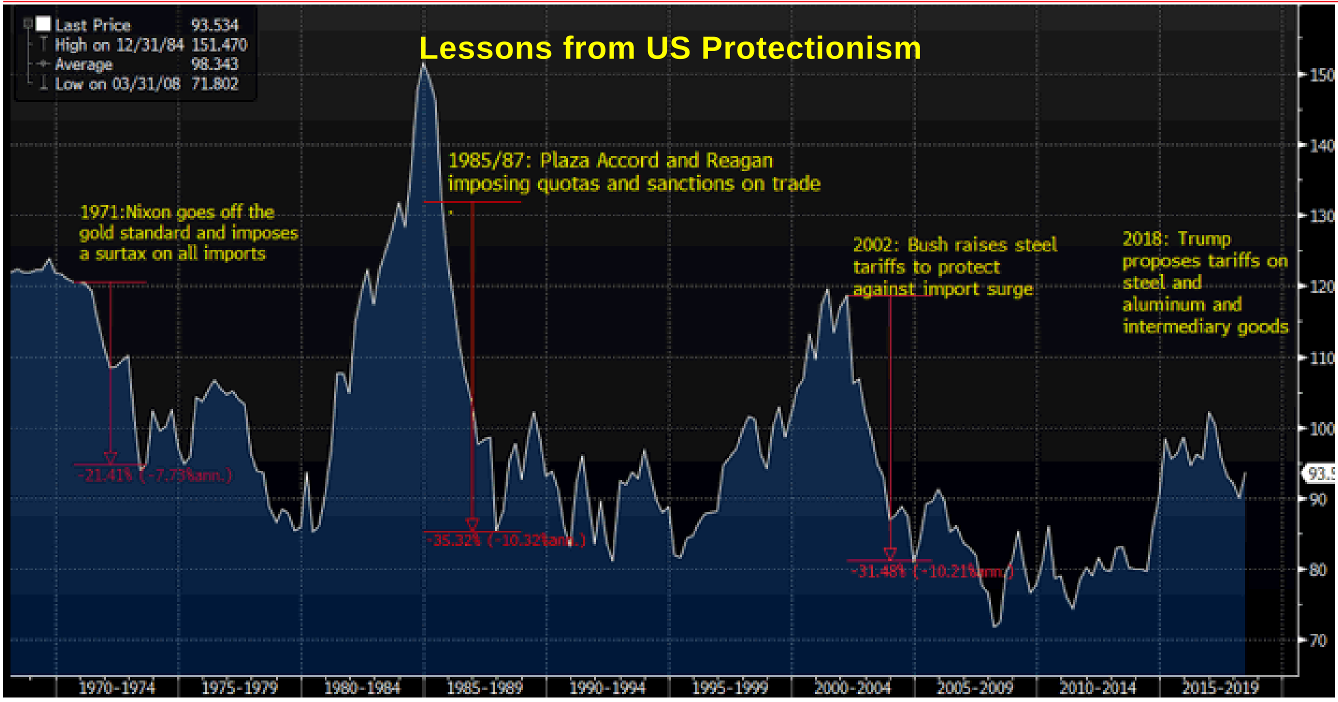
3rd Quarter 2018 June 2018

ameliora
WEALTH-MANAGEMENT

Advisor's Commentary

Six months ago we discussed why we thought the start of dollar weakness in late 2016 was a result of other forces than central bank policy and interest rate differentials (December Investment Outlook). At that time consensus opinion called for a stronger dollar after the Fed's policy rate had successively risen since 2015 and rate differentials to other developed nations had widened significantly. Since then, the trade weighted dollar index is back to the same late December 2017 level, i.e. no change, but still down 10 percent from its cyclical peak in 2016 even after five rate hikes. We pointed out that there is hardly any empirical evidence that supports the dollar strengthening during a rate hiking cycle, let alone an increasing rate differential to other currencies. And if a hawkish central bank and relative interest rate advantage cannot propel the dollar higher, then the new trade policies set out by the Trump administration is certainly not clearing the way for any future dollar support.

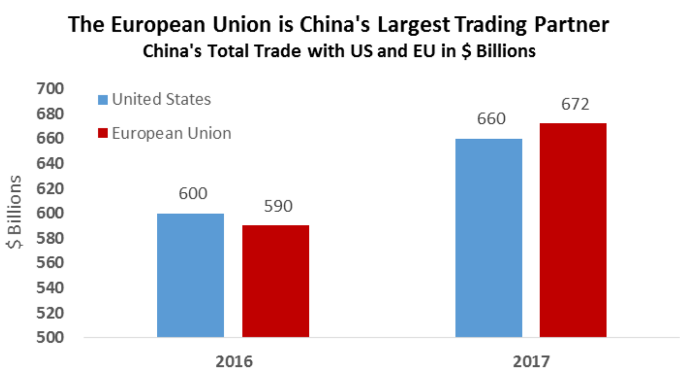
What was initially deemed as ratified improved trade agreement meant to better benefit the US has now morphed into an outright trade war. Interestingly, the proposed protectionist trade program currently being crafted is a spitting image of previous US administrations' efforts to curtail imports and improve the trade balance. However, in almost every instance of US trade protectionism the subsequent result has been a weaker dollar.



Sources: Bloomberg

What we looked at in our previous investment outlook was the possible future of the US dollar's reserve status by comparing it to the tenors of previous reserve currency nations. Historically, that has been about 100 years – pretty close to the dollar's centennial anniversary. If we now look at the typical traits of reserve asset, those that ensure faith in the institution underpinning it, such as size, political stability, fiscal discipline, and national security, we can spot a trend shift. With recent trade rhetoric, aggressive use of sanctions, coupled with tax cuts, which are likely to bloat the budget deficit further, we only see counterproductive measures that eventually will undermine the dollar's global standing. The Trump administration's "America First" protectionist stance alienates itself from vital trade partners such as China, Latin America, and the European Union who combined have a population of 2.3 billion people, seven times that of the United States. Coming out victorious seems improbable in such a battle.

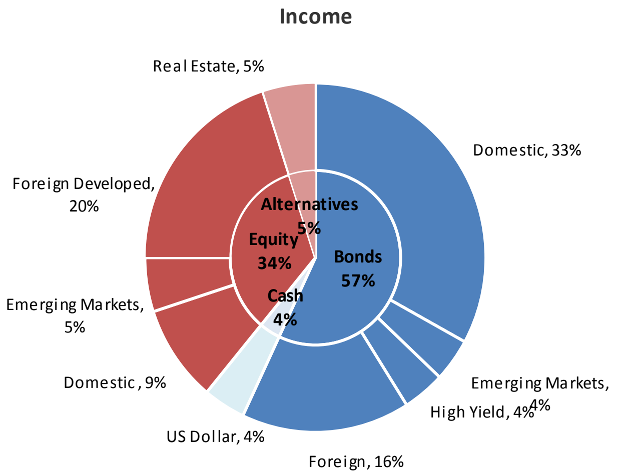
While Trump is waiving his sabre the EU is forging closer ties with both China, Japan, and Latin America. In 2017 EU's total trade with China eclipsed that of the United States making EU China's biggest trading partner. Both regions already set up institutions that bypass clearing in US dollars and instead settle transactions in yuan and euro, further increasing their currencies appeal as foreign exchange reserve assets.



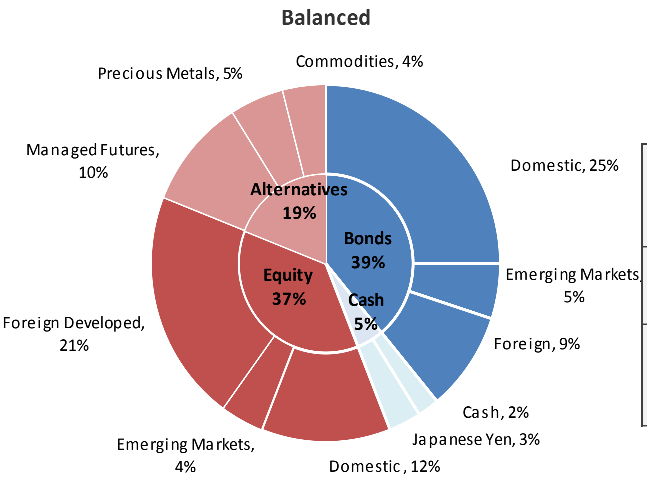
Sources: Bloomberg, Ameliora Wealth Management

And as US sanctions looms, European leaders are activating, for the first time in two decades, rules that will shield European companies from punitive American measures. The European Investment Bank have even set up processes that will allow it to finance business in Iran. China has built up its own lending institutions similar to the World Bank and IMF signaling the country's push to having the yuan as an international reserve currency. Bloomberg reported in May that reserve managers at some of the biggest central banks are looking to shift more of their holdings into euros as Europe forges more trade partnerships.

Asset Allocations



Tactical Positioning Relative to Strategic Weights %		
	Balanced	Asset Class
		Cash
Bonds	-5	Domestic
	5	Emerging Markets
		High Yield
	-1	Foreign
Equity	-13	Domestic
	4	Emerging Markets
	11	Foreign Developed
Altern.	-5	Managed Futures
		Precious Metals
		Real Estate
	4	Commodities



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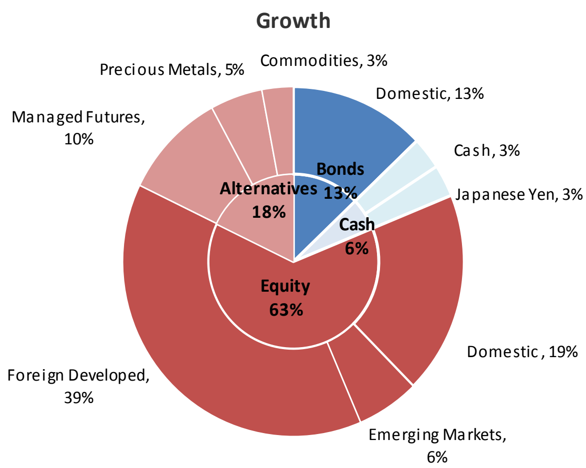

Tactical Positioning Relative to Strategic Weights %		
	Equities	Asset Class
	8	Cash
Bonds		Domestic
		Emerging Markets
		High Yield
		Foreign
Equity	-18	Domestic
	6	Emerging Markets
		Foreign Developed
Altern.	4	Managed Futures
		Precious Metals
		Real Estate
		Commodities

***Source**: Ameliora Wealth Management as of 1st June, 2018*

***Note**: Tactical asset allocations are subject to change without notice and represents investment strategies in USD. Tactical positions (over-/underweight) are deviations from strategic benchmark weights*

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