6/ Mapping the markets

Last month, we expected the ongoing rally on equity markets to push higher until late July / early August, yet we concluded our introduction by stating that having followed the risk asset rally up for the last 18 months, we were getting ready to pull the "Take-profit" trigger towards end July. We could not exclude a further Growth extension into the Fall, but believed that by now, the risk/reward perspectives would certainly be worth adopting a more defensive stance. Today, we confirm all of the above and reiterate our cautious warning

Shorter term, we expect a first sell-off on equities between now and late August / early September, then a new upside retest probably lead by Growth and Defensive sectors, possibly into October, at the latest into early November. Defensive sectors should make new highs, while we are not convinced the rest of the market will. This will probably depend on the depth of the upcoming August sell-off and the strength of the subsequent rise into the Fall. For now, we re-iterate our view that at current levels, the risk/reward on risk assets seems stretched and that profit taking and shifting to more defensive profiles is probably justified.

As for reflationary assets, including Emerging markets, Financials or Commodities, we believe they are still in sell-off mode. The US Dollar remains strong for now, probably for another 2 to 3 weeks, and its strength could accompany the correction we expect during August on risk assets.

Coming late August/September, we expect the EUR/USD to bounce. This could trigger relief rallies in the reflationary assets mentioned above. Yet, these profiles are not leaders in the market any more, and their rebounds will probably resemble a dead cat bounce.

Finally, longer term, we don't believe the extension on Growth and Defensives profiles during the Fall will be as strong and long as the one we experienced in H2017 1. By November, we would expect a true risk-off environment to settle in, probably until next Spring at least. Treasuries, the Yen, Gold, the US Dollar and defensive assets in general should then widely outperform the risk assets space.

Main Equities & Government Bonds

Main Asset Allocation Drivers		Next 2 months	3 to 6 months ahead
Main Equities	US S&P500	US equities are attempting to retest their recent highs. A strong breakout is rather unlikely and by late September, they should start to correct down into November	While they may see intermediate lows towards mid/late November, US equitiess then probably resume lower in 2019 (more than -20% downside potential over the next 12m)
	Europe EuroStoxx50	European markets may bounce slightly towards late September. Following that they resume down in force until November.	They may see intermediate lows towards mid/late November, yet European markets then probably resume lower in 2019 (more than -20% downside potential over the next 12m)
	EMs MSCIEM USD	EMs are currently attemting to stabilize, from late September, they should resume their sell-off, probably into November.	Emerging marekts continue to sell-off, probably until Spring next year
Treasuries	US10Y Bond prices	Following some retracent towards mid/late September, US Treasuries should probably start to reverse up again, probably until November.	10Y Yields may retrace 60 to 100 bps until Spring/Summer 2019.
	Germany 10Y Bund prices	Bund Futures are currently retracing, probably towards late September, they then reverse up towards November	From October / November, the Bund should start to resume up gain, probably toward Spring/Summer 2019

Legend: Strong Underweight | Underweight | Neutral | Overweight | Strong Overweight

Main Equities

World markets
p 20, 21, 23, 44, 45, 51, 52

Equities are reaching the last stages of their Bull market since early 2016. Over the next couple of weeks, US Equities may attempt to retest up once more, while other market may see a slight bounce. From late September, we expect all equity markets to top or resume lower, probably into mid/late November in first instance and then probably into the Spring. Theoretically, the Bear market we expect could last between 12 and 18 months.

Main Regional picks
p 21

The currently seems to be recipient of Flight to Safety flows. Given our scenario, which is defensive towards November, we would favor it over Europe or Japan.

Emerging markets
p 21, 22, 44, 45

Essentially, Emerging markets remain in sell-off, probably into November and then into the Spring.

Volatility

Volatility is building a base again, slightly above the lows it made last year and during in January. We believ that by end September, it could start to pick-up again.

Government Bonds

US & European Benchmarks
p 17,

US 10Y yields are still in the process of topping out for this cycle and may start to reverse down form late September. We expect them to retrace 60 to 100 basis points towards Spring next year. European long term yields topped in January and have since been trending lower. This downtrend is currently pausing, yet should resume lower from late September, probably into November and then Spring next year.

Equity to Bond Ratios, Fixed Income Dynamics & Commodities

Main Asset Allocation Drivers		Next 2 months	3 to 6 months ahead
Equity / Bonds	US	The current uptrend has been resilient, yet the risk/reward for US Equity vs Bonds is stretched and we expect the ratio to top out towards late September	Following its top late September, the ratio could correct down into next year as the environment turns more defensive and rates start to retrace.
	Europe	The ratio, may bounce slightly until late September, but then resumes lower into November.	The ratio continues to Fall into next year as the environement turns more Defensive and rates continue to retrace.
Duration		US and European yield curves continue to flatten while long term yields resume lower from late September. Longer Durations can be considered.	Yields curves continue to flatten, while long term yields continue to retrace probably until year-end at least (favorable for defensive long Duration trades).
Credit		Credit spreads are currently retracing, they could resume higher from late September into November	We believe the Credit cycle has turned and Credit spreads should continue to widen into next year. We would stick to High Quality issuers over the next few quarters.
TIPs/Treasuries		TIPs vs Treasuries could bounce moderately towards end September and then resume down into November.	TIPs/Treasury ratio probably continues to retrace intonext year.
Oil		The current upside retest on Oil should die out towards early October. Oil then starts to correct towards mid/late November.	Oil continues to correct down into early next year (Brent probably breaks back down below 60 USD/barrel).
Industrial metals		Industrial metals and Copper may still attempt to bounce during September, yet they then resume lower towards November	Industrial metals and Copper probably continue lower into next year and could reface most of their uptrend since early 2016.
Gold		Gold is currently bouncing, yet could resume lower from late September as the Dollar rises again into November	Gold probably remains under pressure towards year-end and possibly towards Spring next year, i.e. as long as Central Banks are tightening.

Legend: Strong Underweight | Underweight | Neutral | Overweight | Strong Overweight

Equity to Bond Ratios

US & Eurozone Markets
p 18

We expect Yields curves in the US and Europe to continue to flatten, while US long term yields start to reverse down and German ones resume lower (from end September). This is a rather friendly environment for Duration. The Shorter term end of the US yield curve (US3Y-US3M) is quite interesting as it may flatten quite aggressively (it's catching up with the long term end, US10y-US3y, which has already flattened substantially). We believe this translates into an increase in the Flight to Safety flows towards the US Treasury market.

Credit During the Fall we expect High Yield to top out vs Investment Grade. We also expect Sovereign spreads to widen again. Overall, we believe that Credit is topping out for this cycle.

Rate Differentials
p 18, 19
The uptrend on the US rate differential vs other regions is starting to look extended, yet from now it is still uptrending.

Tips
p 19
TIPs are still resuming lower as inflation expectations are receding, yet real rates seem to continue to push higher. Both Tips and Treasury should start reversing up this Fall, but Tips will probably lag Treasuries in doing so. Hence, the TIPs/Treasuries ratio has started to reverse. We believe it could resume lower again from late September into November.

Commodities

Oil
p 28, 29, 30, 31, 32
Brent is still retesting its may and late June highs and may continue to do so until late September / early October. WTI is also bouncing, but should fail to make new highs. This probably reflects the political risk on international Oil markets (mid eastern tensions, e.g. Syria and Persian Golf). Both Brent and WTI should top out between late September and early October and start correcting down towards November and then early next year. By then, Brent may revisit the the mid/high 50s, while WTI the mid/low 50s USD/barrel.

Industrial metals
p 20, 39, 47- 50
Industrial metals continue to sell-off along with Chinese equities. A slight bounce may materialize over the next couple of weeks, yet by late late September, the trend resume lower towards November and then again into Spring next year. By then, Industrial Metals may revisit their early 2016 lows.

Gold & PMs
p 35, 36, 39, 40
Gold is currently bouncing from its mid August lows, along with the EUR and most currencies against the US Dollar. Yet, it should resume lower from late September as the US Dolllar resumes its uptrend. We believe it will remain under pressure as long as the FED continues to tighten (as long as the ECB is considering it).

Agriculture Agricultural Commodities are typical late cycle commodities. They are more defensive than Energy or Industrial Metals and should perform better than them in the upcoming environment. That said on an absolute basis they remain under pressure in an environment where the Dollar is still strong and the Yuan is still declining.

Foreign Exchange

		Next 2 months	3 to 6 months ahead
USD vs	EUR	The current rebound on EUR/USD may continue until late September towards the 1.17-1.19 range. From end September EUR/USD resumes its downtrend towards the 1.13 - 1.10 range	EUR/USD remains under pressure until at least Q1 2019 and could break below the 1.10
	GBP	The current rebound on GBP/USD may continue until late September towards the 1.31- 1.33 range. From end September EUR/USD resumes its downtrend towards the 1.27- 1.22 range	GBP/USD remains under pressure until at least Q1 2019 and could break below the 1.20
	JPY	USD/JPY could push back into the 112 - 113 range. By early October is starts to resume lower towards 110	The Yen gradually strengthens as a defensive cros asset shift materializes. USD/JPY moves back below 110, and potentially towards 105.
	CHF	USD/CHF is consoldiating, probably until November within the 0.97 - 0.95 range	USD/CHF should resume up towards parity betwen November and the Spring
EUR vs	GBP	EUR/GBP continues to consolidate during September (89-88 range), before it resumes its uptrend into November	EUR/GBP continues highers towards year-end and 2019, and towards the 0.92 - 0.95 range
	JPY	EUR/JPY continues to bounce towards the 130 - 132 range. By late September, it tops out and resumes lower towards November (towards the 126 -122 range).	EUR/JPY continues to fall until Spring next year and should move below 120, possibly even lower.
	CHF	EUR/CHF may bounce slightly until late September, but it then resumes lower into November towards 1.11 - 1.09 range.	EEUR/CHF contonues its fall into the Spring, probably below 1.10 and potentially towards 1.05
GBP vs	JPY	GBP/JPY continues to bounce towards the 146 - 148 range. By late September, it tops out and resumes lower towards November (towards the 141 -136 range).	GBP/JPY continues to fall until Spring next year and should move below 135, possibly even lower.
	CHF	GBP/CHF may bounce slightly until late September, but it then resumes lower into November towards 1.25 - 1.21 range.	GBP/CHF contonues its fall into the Spring, probably below 1.20 and potentially towards 1.15

Legend: Strong Underweight | Underweight | Neutral | Overweight | Strong Overweight

US Dollar
p 37

We believe the US Dollar has turned up for this cycle and that it will continue to strengthen in successive stages towards mid/late 2019. Shorter term, the US Dollar is currently correcting and could continue to do so over the next couple of weeks. From late September, however, we expect it to resume higher first towards year-end and then into next Spring on Flight to Safety concerns.

Euro
p 23, 37

The upside momentum on EUR/USD that prevailed throughout 2017 has reversed. The pair has since seen a first leg down, which was probably completed mid August. The current bounce in rather unconvincing, yet it may linger on up and retest the 1.17 – 1.19 range. From late September, at the latest, we expect EUR/USD to resume its downtrend towards late November and possibly year-end, and the 1.13 – 1.10 range. Vs CHF, EUR has clearly reversed down. EUR/CHF may stabilize slightly over the next couple of weeks, yet should also resume lower from late September, at the latest, probably towards November and the 1.11 – 1.09 range. EUR/GBP may see a slight correction to the downside in the 0.89 – 0.88 range over the next couple of weeks, yet should resume up thereafter into November and possibly year-end towards the 0.92 – 0.95. Obviously the conclusion (or not) of Brexit talks are going to have a strong impact on the pair and its volatility.

Yen
p 38

USD/JPY is still trying to push higher as risk-on considerations are still present in the US and in Japan at least. The pair may push back up into the 112 – 113 range over the next couple of weeks. From late September/early October however, we expect the Yen to start regaining its risk-OFF profile as the cross asset environment gradually turns more defensive. Vs the Euro and Sterling, the Yen may also continue to retrace into late September, but should then accelerate up into October and November (i.e. lower EUR/JPY and GBP/JPY from late September).

Sterling

The fate of Sterling is hanging onto the current Brexit negotiation, to their successful conclusion and to the details of this deal. For now, the bounce in Cable (GBP/USD) is rather unconvincing. It may continue to push slightly higher over the next couple of weeks (towards the 1.31 – 1.33 range), yet from end September, we expect it to resume lower towards late November, possibly year-end and back into the 1.27 – 1.22 range. Vs EUR or the Yen, Sterling may also continue to bounce over the next couple of weeks, yet should also resume lower tehreafter.

Oil & Commodities currencies

Commodity currencies (our equal weighted portfolio containing AUD, BRL, CAD, NOK, NZD, RUB, CLP and ZAR) topped out in early February against the Dollar and has been selling off since. They are currently attempting to make an intermediate low, yet my late September, we expect them to resume lower into October/November and then possibly again into Spring next year. Similarly, we expect them to remain weak vs all the major currencies.

Asian currencies
p 38

Our Asian Growth equal weighted portfolio (CNY, INR, KRW, THB and TWD) shows a similar profile as our Commodity currencies portfolio above, yet with less volatility (i.e. it is more defensive on a relative basis). It may attempt to bounce slightly over the next couple of weeks, yet remains weak until the Spring vs all the major currencies.

Equities Markets Segmentation

Core Sector Weightings			Next 2 months					3 to 6 months ahead				
US Sectors - S&P500			**Growth sectors may still hold up during September along with US equity markets. From October, they correct down with them. We remain Overweight Defensives.**					**We would favour Defensive sectors, first towards mid/late November and then again into the Spring**				
Sectors	Proxy ETF symbols	Benchmark-weights	Strong Under-weight	Under-weight	Neutral	Over-weight	Strong Over-weight	Strong Under-weight	Under-weight	Neutral	Over-weight	Strong Over-weight
Technology	XLK	26%										
Financials	XLF	15%										
HealthCare	XLV	14%										
Discretionary	XLY	12%										
Industrials	XLI	10%										
Staples	XLP	8%										
Energy	XLE	6%										

European Sectors - Europe Stoxx 600			**Next 2 months** **Industrials and Energy may hold up until end September along with equities and Oil, yet looking into October/November, we remain Overweight Defensives**					**3 to 6 months ahead** **We would favour Defensive sectors, first towards mid/late November and then again into the Spring**				
Sectors	Index symbols	Benchmark-weights	Strong Under-weight	Under-weight	Neutral	Over-weight	Strong Over-weight	Strong Under-weight	Under-weight	Neutral	Over-weight	Strong Over-weight
Banks	SX7P	13%										
Industrials	SXNP	12%										
HealthCare	SXDP	11%										
Pers. & HH Goods	SXQP	9%										
Food & Beverage	SX3P	7%										
Insurance	SXIP	6%										
Energy	SXEP	6%										

Main Sectors Allocation

p 16, 19, 20, 21, 31, 44, 45, 55, 56

While US equity markets attempt to retest their highs during the next couple of weeks and European markets make a slight rebound, Growth sectors in the US (Technology and Consumer Discretionary) and Industrials in Europe may continue to hold up against the market. Given that Oil is attempting to retest up until late September / early October, we would also include European Energy in this Neutral allocation (US Energy could bounce, yet without much amplitude). Yet, from late September, we expect equity markets on both side of the Altantic to reverse down into November and these sectors should start to underperform. Overall, we remain Overweight defensive sectors as we believe they could break-out vs the market, probably from late September into November

Going forward, if the reversal down in the market we anticipate materializes, we expect a first support point towards mid/late November and perhaps a bounce into December. Yet, we also believe that this bounce will probably be short lived and that by early next year at the latest, equity market should resume down again into the Spring. Hence, our sector mix will probably remain rather defensive until then.

Countries allocation

Core Countries Weightings All World Country Index Currency hedged			**Next 2 months** **We are Underweighting Canada, China and Japan, while Overweight Switzerland**					**3 to 6 months ahead** **From early September, we will Underweight Europe, Overweight the US and Switzerland and Neutralize China and Commodity producers**				
Sectors	Index symbols	Benchmark-weights	Strong Under-weight	Under-weight	Neutral	Over-weight	Strong Over-weight	Strong Under-weight	Under-weight	Neutral	Over-weight	Strong Over-weight
US	S&P 500	52%										
Canada	TSX	3%										
Europe	SXXP	21%										
-UK	FTSE	6%										
-France	CAC40	3%										
-Germany	DAX	3%										
-Switzerland	SMI	3%										
Japan	N225	8%										
China	MSCICN	3%										

Main Country allocation
p 22, 31, 32, 33, 34

Over the next couple of weeks, a slight rebound in global market may benefit the RoW vs the US, yet from late September, we expect all markets to reverse down again, probably until mid/late November, and although the US should also correct it may resist slightly better on a relative basis. Given this scenario with a slight rebound and then a sell-off into November, we have neutralized most developed international markets for now vs ACWI and will reconsider early October. We remain underweight China and Canada for now given their links to the Commodity/Emerging markets space, and the fact that the downside risk in our view remains greater that the risk of a rebound.,

Looking into October/ November and then into next year, we will remain Overweight the US for now as we expect the US Dollar to remain strong, while Global Equity markets should continue to correct. In such circumstances, the US should continue to benefit from Flight to Safety flows. That said, we notice that the MSCI World is looking very Oversold already vs the S&P500 on a long term basis, yet we expect this trend to push slightly further into early 2019 (we may reconsider this view towards year-end). We remain underweight China and Canada as we expect the commodity/emerging market sell-off to continue into the Spring. We will Underweight Japan as a stronger Yen should negatively impact its large export industry and will keep Switzerland as Neutral as its Defensive mix of sector exposure will be compensated by the negative effects of a stronger currency.

Note: the country and regional allocations in the table above are considered hedged for currency risk, ie. the relative performances are anticipated in local currency.

Core factors and Themes

Core Factor/Themes Weightings	Next 2 months					3 to 6 months ahead				
General Comment	**Until late August, early September, our factor allocation mostly avoids high beta risk.**					**From early September, our theme allocation avoids cyclicality and is tilted towards the EUR/USD rebound**				
Themes	Strong Under-weight	Under-weight	Neutral	Over-weight	Strong Over-weight	Strong Under-weight	Under-weight	Neutral	Over-weight	Strong Over-weight
Nasdaq 100 (vs S&P500)										
DJ Industrial (vs S&P500)										
Russell 2000 (vs S&P500)										
Wilshire REITs (vs S&P500)										
US Value (vs US Growth)										
Southern EuroZone (vs Stoxx EZ 600)										
EuroZone Small Cap (vs Stoxx EZ 600)										
Japanese Small Cap (vs N225)										
Goldmines										
Diversified Mining										

Core factors and Themes
p 22, 30, 43, 44, 52

Despite the slight bounce on risk assets that may materialize over the next couple of weeks, we will avoid high beta plays over the next couple of months. Indeed, from late September, we expect equity market to start to correct into December. We have gone underweight US Small caps as their cyclical bias should now outweigh any benefits from a stronger US Dollar.

From late September into year-end, we will underweight the Nasdaq has it is probably quite extended vs the S&P500, and will continue to avoid high beta plays given the equity market correction we expect. We will overweight Japanese small caps as these are usually rather defensive, especially if a rising Yen negatively impact Japan's large export businesses.