HOUSE VIEW

HINDUJA BANK

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September 2017

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Dear Reader,

On that infamous October 19th, 1987, share prices tumbled from Tokyo to New York. At that time I was a young Equity Fund Manager and our boss would tell us: "Everyone on the phone, just buy everything, everything!" – and we did. We bought intensively in the market for two weeks and then the market recovered.

Three decades later many investors might be tempted to adopt a similar approach, as one of the longest stock market rallies in history means share valuations have long been more expensive than when "Black Monday" hit. When studying bear markets, there is no parallel for today. We just do not have precedents for going into a recession with interest rates and inflation so low.

The symposium in Jackson Hole left open questions for markets that are relying on central banks to boost asset prices and lower financial volatility. It will not matter in the short term because central banks will likely adopt a dovish stance. However, over the long run, it may increase the risk of collateral damage to the economy from artificially elevated asset prices.

Global growth is expected to remain firm over the next 12 months. Financial conditions in most countries have eased substantially since the start of the year thanks to rising equity prices, lower bond yields, and narrower credit spreads. Analysts suggest that easier financial conditions tend to lift growth with a lag of 6-to-9 months. This bodes well for activity in the remainder of this year.

Last but not least, I am pleased to announce the launch of a new section of HBS House View, *Investment Themes*, where you will find various investment opportunities representing the current trends, hot topics, disruption sectors, or contrarian ideas. This month, we present to your attention the first *Millennials Portfolio* theme.

Sincerely,

Michel Menoud
Chief Investment Officer

Key Themes

Global growth and oil prices

Global growth estimates have been trending higher over the past 12 months, having bottomed last summer. Ironically, the collapse in oil prices in late 2014 was both the main reason for the deterioration in global growth as well as its subsequent rebound.

Plunging oil prices led to a massive decline in capital spending in the energy sector and associated industries. In the U.S., energy capex dropped by 70% between Q2 of 2014 and Q3 of 2016. The economic fallout was even more severe in many other economies, especially emerging markets such as Russia and Brazil. The result was a global manufacturing recession and a pronounced slump in international trade.

When thinking about oil and the economy, the distinction between levels and rates of change is important: while rapidly falling oil prices tend to have a negative impact on global growth, lower oil prices affect it positively. By the middle of 2016, the damage from the oil crash had largely run its course. It resulted in a massive windfall for households, especially those who spend a disproportionate share of their pay-checks at the pump. Industries using oil as an input also benefitted.

Overall, global growth is expected to remain firm over the next 12 months. Financial conditions in most countries have eased substantially since the start of the year thanks to rising equity prices, lower bond yields, and narrower credit spreads. Bank Credit Analysts suggest that easier financial conditions tend to lift growth with a lag of 6-to-9 months. This bodes well for activity in the remainder of this year.

Jackson Hole: no clear insight

Since its inception in 1978, the annual gathering of central bankers and economists has sometimes primarily focused on current monetary policy issues. Many were hoping that this year's Jackson Hole symposium would provide insights on important policy issues facing major central banks. However, both the headline speakers Janet Yellen and Mario Draghi avoided those issues opting to tell politicians about the importance of financial regulation and free trade instead. Both leaders were looking to, and succeeded in maintaining, policy optionality. Markets will have to wait for clarity on policy issues. Many had hoped that Ms Yellen would shed light on how the Fed would handle competing claims on monetary policy from low inflation and elevated asset prices. There were also hopes that Mr Draghi would detail the ECB's approach to reducing its large purchases of securities with steps to restore interest rates to positive levels while handling with the stronger euro.

The symposium left open questions for markets that are relying on central banks to boost asset prices and lower financial volatility. It will not matter in the short term because central banks will likely adopt a dovish stance. However, over the long run, it may increase the risk of collateral damage to the economy from artificially elevated asset prices.

Signs of a stock market peak?

Compared to "Black Monday" in 1987, when stock markets around the world crashed, in case of similar setback investors might be tempted to buy back intensively.

However, the problem is that what worked in the 80s does not appear to work anymore. Bonds are also expensive, their price inflated like many other assets, by years of extraordinary stimulus measures as central banks have tried to reduce borrowing costs for businesses, governments and consumers. For bonds, lower yields mean higher prices. For stocks, an environment of slow economic growth and moderate inflation means corporate profits become highly prised. Investors buy them less in expectation of rapid growth but because income of any sort is hard to find. These markets are quite different from bubbles that we have seen in the past.

Investors who believe the bull market cannot last, focus on factors that could aggravate any turn in the business cycle triggered by international political issues. When studying bear markets, there is no parallel for today. We just do not have precedents for going into a recession with interest rates and inflation so low.

Brazil: tepid recovery

The National Monetary Council decreased the inflation target from the current 4.5% to 4.25% for 2019 and 4.0% for 2020. As before, inflation can diverge from this average by +/-1.5%. This is positive step and the new inflation targets are achievable. The inflation rate fell to 3.0% in June, giving the central bank leeway to cut interest rates further in the months ahead, even though inflation is likely to rise slightly again towards the end of the year.

Brazil has emerged from the deep recession, but the latest data point to a very prolonged economic recovery. The activity indicator fell by 0.5% in May, month-on-month. The first vague signs of stabilisation can be made out on the labour market. For the first time since the end of 2014, the unemployment rate has fallen slightly. However, at 13.3%, it is still very high, and growth in employment is negative at 1.3%, year-on-year. The situation is slightly better for real wages, which rose by 2.3% in May, year-on-year.

Political uncertainty has a dampening effect on economic players and economic growth. The corruption scandal involving the companies Petrobras, Oderbrecht and JBS continues to spread. As a result, the ongoing pension reform, proposed by Brazil's President Michel Temer in May, which is crucial for the restructuring of the fiscal budget could be delayed.

Economic overview

Growth forces are waning somewhat globally, but the leading economic indicators are nevertheless springing positive surprises and still reflect a high degree of economic activity. In Europe, the economy continues to do well. However, headwinds could pick due to strengthening euro. In the US, the cautious investment activity may limit an acceleration in economic growth.

Switzerland

Swiss foreign trade figures recently set a new record. Exports were stronger than ever before in the first half of the year, and imports were the highest in the past eight years. In both trading directions, the pharmaceutical industry – as has become usual – made a substantial contribution to total growth. It was also pleasing that the metal industry registered a clear plus in its exports too.

The strongest growth rate in exports came from the “textile, clothing and footwear” sector. However, this cannot be attributed to stronger exports by Swiss clothing companies but rather to so-called returned goods. The Zalando effect that has been observed for some time once again led to a positive export result. Among the sales markets, Germany, the US and China were the undisputed driving forces. The current exceptionally positive economic leading indicators show that the favourable foreign trade development will continue in the second half of the year too.

The EUR/CHF exchange rate passed the 1.15 mark at the start of August, making the franc the weakest it has been since January 2015. The franc is much less the focus of financial investors’ attention than it was several months ago. The reason is the euro’s relative strength.

Eurozone

The leading economic indicators declined slightly from a high level in July. However, they still showed positive surprises. The ECB’s Bank Lending Survey for the second quarter pointed to a continuation of the easing in credit conditions for both companies and consumers.

Demand for credit increased. Overall, we can assume that the economy will be in a good trend in the second half of the year too.

After Mario Draghi caused turbulence on the financial markets at the end of June by discussing the end of the ultra-expansive monetary policy, he backpedalled somewhat at the press conference following the European Central Bank’s (ECB) latest Council meeting. The important statements about the monetary policy assessment remained largely unchanged from the previous meeting. As regards the economy, the wording was somewhat more optimistic. Unlike in his assessment at the end of June, however, Draghi emphasised that the inflation rate is still hardly heading in the direction of the ECB’s target. Furthermore, he explained that the gradual reduction of the bond purchasing program has not yet been discussed. Government bond yields barely reacted.

USA

The economic data still paint a mixed picture of the state of the US economy. While the sentiment indicators are mostly convincing, this is not the case for the real economic data. Retail sales and the declining auto sales point to rather lacklustre private consumption, and foreign trade also provides little stimulus. This is compounded by restrained investment activity and the postponed US government tax reforms. The acceleration of US economic growth will thus be more modest than had been hoped in spring. However, recently the ISM Indices – the most informative leading indicators for the US – increased again, underscoring the positive outlook for the US economy.

From the Fed’s standpoint, the exceptionally low inflation is still unsatisfactory. Annual core inflation is currently at 1.7%. The Fed’s targeted inflation rate of 2% thus has still not been reached. This increasingly worries the central bankers as low inflation could slow down the ongoing process of raising interest rates. At its semi-annual appearance before Congress, Fed chair Janet Yellen called inflation the biggest uncertainty affecting future monetary policy at the moment. At the same time, however, she expressed herself as being confident that the dampening effects are only temporary.

Asia - China

GDP growth did not weaken slightly in the second quarter, as was generally expected, but rather, at 6.9%, posted the same rate of expansion as in the first quarter. Solid private consumption, a recovery in private investment and the revival in foreign trade contributed to the pleasing development. Furthermore, all important monthly economic data surpassed consensus expectations in June. It is also surprising that the housing market is proving resistant in spite of the restrictive measures that have been implemented.

A slight slowdown in the growth momentum should still be expected in the second half of the year, but this is likely to be modest. The deleveraging in the financial sector, which has already enjoyed a degree of success, will continue, but ahead of the 19th Party Congress of the Chinese Communist Party in autumn, the government’s priority will be stability.

At the National Financial Work Conference in mid- July, headed by President Xi, the focus was on three main targets. First, the financial sector is to support the real economy with high-quality, efficient services. Second, financial risks are to be avoided, which includes resolving the debt problem. Third, financial reforms are to be stepped up, which includes the further opening of the financial markets.

Economic overview

India

Consumer price inflation hits five month low while foreign investment pushes rupee up against the US dollar.

Several factors supported market expectations of falling yields on Indian bonds:

June consumer price inflation (CPI) eased to a fresh low of 1.5% year-on-year from 2.2% in May, mainly due to fall in housing and fuel prices. More importantly, core inflation (ex-food & energy) also moderated to 3.9% in June from 4.3% in May. The monsoon's satisfactory progress to date, with rainfall 4% above normal by the end of July, was also helpful in further tamping down near-term inflation expectations. Good global distribution was yet another positive with 91.6% of the cropped area receiving normal to above normal rains.

Indian bond markets also reacted to the falling yields on US treasury bills. The Senate's failure to repeal and replace the Affordable Care Act (Obamacare) added to concerns about the Trump administration's ability deliver on its pro-growth agenda, thereby diminishing the prospects of a Fed rate hike. Favourable supply-demand dynamics also helped sustain the positive bond market momentum.

The Monetary Policy Committee, which cut the policy interest rate by 25bps to 6% on 2 August, reiterated its neutral stance on monetary policy. Its baseline inflation trajectory is now tracking a little above 4% by the end of March 2018 and 4.5% including implementation of the Seventh Pay Commission mandated salary and allowance hikes by the central government. Headline inflation could rise even further if states were to also implement similar increases in salaries and allowances. Hence, another policy rate cut appears unlikely in the coming months. As a result, it could make sense to reduce the exposure to the low yielding government bonds while allocating more exposure to higher yielding corporate bonds.

Iran

Total Foreign Direct Investment for 2016 is officially estimated at about 3 billion USD, indicating that despite the removal of sanctions, it will take more time for FDI to recover to its historic average.

Foreign Direct Investment (FDI) has been the subject of intense discussion between the Iranian authorities and the private sector over the past 30 years. Iran launched a series of reforms at the same time as Turkey where efforts to drive change were more ambitious and intensive. Turkey made impressive progress in attracting FDI in the 1980s and '90s with major financial and economic reforms. With a third wave of reforms from 2000 to 2004, Turkey began to register a significant influx of foreign investment from 2003.

Iran adopted a comprehensive strategy of market-based reforms with the government's 20-year vision document and the sixth five-year development plan for the 2016-2021 period. The plan is founded on three pillars: development of a resilient economy; progress in science and technology; and promotion of cultural excellence. On the economic front, the development plan envisages an annual economic growth rate of 8 percent, with reforms of state-owned enterprises and reforms of the financial and banking sector. A raft of financial reforms in Iran is still required to generate an investment climate similar to Turkey's. Based on experiences in Turkey, Russia and Brazil, an influx of investment into Iranian economy and capital markets could double current levels of GDP.

Given these internal challenges, which are found more or less across many emerging and frontier markets, a study by Harvard University shows that many multinational corporations are struggling to develop successful strategies in Emerging Markets, not just in the Iranian one.

Asset class overview

Equities

The continued expansive monetary policy of the central banks combined with low inflation rates still argue for rising stock markets. As the central banks adjust their communication about a monetary policy turnaround, the fluctuation range of share prices is likely to rise.

⇧ Buy ⇔ Hold ⇩ Sell

Switzerland ⇧

The Swiss Franc was the only G10 currency to weaken against the dollar over the past month. The SNB is keeping rates lower versus other currencies and has no immediate intention to change its policy. With more political stability and the recent strength in the Eurozone, all these conditions have ignited a boost for the Swiss equity market.

Recommended global equities to buy - Switzerland

Stock	Currency	Price	Target Price
Cosmo	CHF	140	220
Lafarge Holcim	CHF	56.5	61
Novartis	CHF	80.5	85
Roche	CHF	242	280
Sunrise	CHF	82	85

UK ⇔

UK equities offer a decent 4.2% dividend yield while the market's multi-national earnings should draw some support from a weak pound. In spite of the uncertainty, the economy continues to do surprisingly well. The unemployment rate fell in May at 4.6% and GDP grew by 0.3% quarter on quarter in June. The rise in consumer prices lost momentum, easing pressure on the BoE to raise interest rates soon.

Recommended global equities to buy - UK

Stock	Currency	Price	Target Price
Glencore	GBP	36	36
Rio Tinto	GBP	37	38
Shire	GBP	38	60
Smith & Nephew	GBP	13.9	14

USA ⇔

The second reporting season in the US is well underway. More than 280 companies have published their balance sheets. The earnings surprises were mostly on the positive side, as was already the case in the last quarters. The sales surprises were higher than in the preceding quarters, indicating that the global economy accelerated in the first half of the year.

Recommended global equities to buy - USA

Stock	Currency	Price	Target Price
Comcast	USD	40	46
Halliburton	USD	39	56
HCA Healthcare	USD	77	97
Pioneer Natural Res.	USD	128	200
Salesforce	USD	94	105
Synchrony Financial	USD	31	42

Japan ⇧

Japanese stocks demonstrate attractive valuations relative to the US and are supported by a still very expansionary Bank of Japan. This is likely to cause the JPY to weaken and to give Japan's exporting companies a new boost that should also be reflected on the stock market.

Recommended global equities to buy - Japan

Stock	Currency	Price	Target Price
Daikin Industries	JPY	11000	12500
Softbank Group	JPY	8920	11500
Subaru Corp	JPY	3850	5500

Asset class overview

Equities

Eurozone

Prospects for Eurozone equities look good thanks to the region's improving economic prospects.

Since the end of June, the Eurozone has underperformed most other regions in local currencies. This was partly due to the powerful appreciation of the euro, which gives rise to concerns about a decline in company earnings. The relationship between the exchange rate and the stock market trend is, however, uncorrelated. There are obviously phases in which the euro zone exhibited relative strength in spite of a firmer currency.

The earnings trend is indeed decisive. A stronger euro makes Eurozone goods and services less competitively priced, resulting in losses in earnings. The question is whether companies will be in a position to compensate for this loss. The outlook is not bad. First the global economy is in healthy shape and second domestic growth is surprisingly strong.

Recommended global equities to buy - Eurozone

Stock	Country	Currency	Price	Target Price
Anheuser-Busch	BE	EUR	100	115
Axa	FR	EUR	24.5	26.5
Capgemini	FR	EUR	93	100
Orange	FR	EUR	14.3	16.5
Prosieben	GE	EUR	27.3	45
Ahold Delhaize	NL	EUR	15	24
Royal Dutch Shell	NL	EUR	23	30

Emerging Markets

The EM equity markets experienced another strong surge in July. The MSCI EM index gained more than 5%, bringing the year-on-year increase to over 20%. This trend was accompanied by another considerable depreciation of the US dollar and a substantial rise in commodity prices. The positive economic developments virtually across the board supported the uptrend. The capital inflows from international investors are also persisting, not only in the bond segment but also on the equity markets. Investor sentiment seems to have improved again recently. The surprisingly weak inflation data in the USA and the most recent statements by Fed chairwoman Janet Yellen weighed heavily on the US dollar and provided additional support for equity prices in the Emerging Economies.

Over the short term, one could expect some profit taking on equities in the Emerging Markets. However, the medium- to long-term outlook remains positive for risky assets, given the robust export growth of the Asian Emerging Markets and the relative weakness of the dollar.

Recommended global equities to buy – Emerging Markets

Stock	Country	Currency	Price	Target Price
China Construction Bank	HK	HKD	6.8	7.5
China Mobile	HK	HKD	83	100
BSE	IN	INR	973	1165
Icici Bank	IN	INR	298	335
Infosys	IN	INR	914	1175
Tata Motors	IN	INR	376	580
Singapore Telecom.	SG	SGD	3.7	4.2

Asset class overview

Fixed income

Developed market central banks remain on track to normalise policy, with the ongoing cyclical recovery supporting a less accommodative stance. On the inflation front, however, the outlook is far from clear. Despite improvements in the labour market, where unemployment rates are close to the cycle lows, wage pressures remain subdued and core inflation muted.

Swiss Government Bonds ⬇

The relative easing on the CHF currency front is also reflected in the trend of the SNB's sight deposits, an indicator of the central bank's intervention activity. Sight deposits have remained unchanged recently, which means that the SNB hardly had to intervene on the currency market. The lack of price pressures confirm the status quo on interest rates.

Eurozone Government Bonds ⇔

In Europe, the ECB deferred any meaningful change in monetary policy until the end of summer, and Mario Draghi struck a more cautious tone on inflation at the July ECB meeting. Inflation remains the main source of concern for the Governing Council, and while the economic backdrop does justify a removal of stimulus, the ECB should remain on the side of caution and reduce purchases only very gradually.

US Government Bonds ⬇

The Fed will likely announce its intention to shrink the balance sheet at the September meeting, by gradually reducing reinvestments from October onwards. The decision has been very well flagged to the market, is largely priced in, and we do not expect any meaningful reaction in US Treasuries to the announcement, with yields that will likely remain in a 2-2.5% range. The main risk to this scenario comes from US policy. Expectations of any meaningful, growth-friendly reform are now priced out, and both the USD and Treasuries yields have adjusted accordingly. Even a small positive surprise out of Washington could push yields higher.

Emerging Market Bonds ⇔

Flows into EM debt continue to be sustained, with the latest round of USD weakness providing a strong tailwind to the asset class. Over the past few months, the tightening trend in EM Hard Currency spreads has slightly slowed down, with spreads stable despite the positive risk sentiment and strong flows into the asset class. EM stories have made the headlines such China's regulatory tightening, political instability in South Africa and Brazil and the latest political and social developments in Venezuela. While these factors may not be reason for concern in the short term for EM investors, in aggregate they have had an impact on the asset class returns, particularly in EM Hard Currency Sovereign Debt.

Recommendations

In the current rising rate environment, we tend to avoid typical buy-and-hold strategies. We reiterate our call to invest in flexible, actively-managed, and unconstrained strategies. In the quest for yield, subordinated debt of selected issuers and preferred shares of financial companies offer an attractive yield. We also appreciate Indian bonds; downward pressure on inflation in the long term and high foreign exchange reserves of hard currencies are positive for these securities. Investors who would like to reduce their sensitivity to the equity market may want to consider convertible bonds as well.

Outlook of bonds

Sector	Currency	Outlook (1 month)	Expected % change* (1 month)	Outlook (3+ months)	Expected % change (3+ months)
Bonds CHF (Corporate & Gvt. Bonds)	CHF	⇔	within +/-0.10%	⇔	within +/-0.10%
Bonds EUR (Corporate & Gvt. Bonds)	EUR	⇔	within +/-0.15%	⬆	within +/-0.25%
Bonds GBP (Corporate & Gvt. Bonds)	GBP	⇔	within +/-0.25%	⬇	within +/-0.50%
Bonds USD (Corporate & Gvt. Bonds)	USD	⬆	within +/-0.25%	⬆	within +/-0.50%
Global EM (Sovereign Bonds)	USD	⇔	within +/-0.50%	⬆	within +/-1.00%
Global HY Bonds (High Yield Bonds)	USD	⇔	within +/-0.50 %	⬆	within +/-1.00%

Asset class overview

Currencies

The USD loses further ground following the Jackson Hole symposium as key central bankers voiced concerns for inflation, removing accommodation too soon and deregulating the market.

CHF ⇔

The Swiss franc continues to strengthen on the back of a stronger EUR and poor performance of the USD. Renewed safe haven buying in the wake of heightened North Korean tensions has lifted the CHF also. Technically the next target for USD/CHF is the year to date low at 0.9440.

EUR ⬆

EUR/USD has risen above 1.20 for the first time since January 5, 2015. The combination of ECB induced euro strength and substantial headwinds for the USD in the coming weeks pushes EUR/USD higher. Mario Draghi in his testimony at Jackson Hole conference underscored that accommodation will stay in the near term, but that the general council will have to vote on the subject soon. President Draghi remains upbeat on the Eurozone economy but raises concerns on inflation. EUR/USD will remain bid over the medium term. The market maintains its maintain current forecast for ECB policy, a tapering of asset purchases in the course of 2018 with the first interest rate hike priced for early 2019.

GBP ⇔

Sterling is lower following a softer tone from the Bank of England monetary policy committee and the lower inflation data. Concerns over Brexit are re-emerging as negotiations recommence after the summer hiatus. Economic data has been upbeat with many market participants seeing a soft landing for Brexit over the long term. Cable should remain in the 1.2850/1.3250 range this month.

USD ⬆

The Federal Reserve Chair Yellen's testimony at the Jackson Hole meeting did little to lift the USD. The FOMC head underlined concerns for inflation and deregulation of the market. The USD has lost its allure as market's concerns for inflation rise and long term yields struggled to move higher from interim support. The market discounts one more interest rate rise by the FOMC this year.

JPY ⬇

The Japanese economy recorded surprisingly high growth in Q2 2017, which suggests that the government's Abenomics growth strategy seems to finally be paying off. However, that alone is not sufficient to stabilise the Japanese economy long term. Japanese debt levels remain a risk for JPY exchange rates. Geopolitical risks emanating from Korea have pushed JPY back to the highs of the year and pushed yields on the 10 year back below 0.00%.

INR ⬆

The Indian rupee has fallen on US dollar demand from importers. Regional geopolitical tensions also weighed on the rupee. USD/INR has risen over 1% as Sensex index of shares fell 1.1%. Indian sovereign bonds rallied contributing to rupee weakness. The RBI continues to sell the rupee via open-market operations in an effort to stem INR strength throughout 2017. Finally global funds boosted holdings of rupee-denominated government and corporate debt. USDINR is expected to trade in a 63.50-65.00 range over the near term.

Anticipated trend of major currencies

Sector	Spot	Outlook (1 month)	Outlook (1 month)	Outlook (3+ months)	Outlook (3+ months)
EUR/CHF	1.14	⬆	1.15	⇔	1.16
EUR/JPY	130.50	⬆	131.00	⬆	132.50
EUR/USD	1.20	⇔	1.21	⬆	1.22
GBP/CHF	1.23	⬆	1.24	⬆	1.26
USD/CHF	0.95	⬇	0.95	⬇	0.94
USD/JPY	109	⬆	111.00	⬆	113.30
INR/USD	64.5	⬆	65.00	⬆	64.00

Asset class overview

Commodities

Given the general monetary policy turnaround, which leads to expectations of globally rising government bond yields, and the reduced political risks, one can foresee that the price of gold will continue to fall. The prices of fuel and industrial metals, on the other hand, should be supported by the global economic upturn.

Industrial metals ⬆

The outlook for industrial metals is not as upbeat as for oil, but metal prices should nevertheless rebound over the coming months. Analysts suspect that much of the recent weakness in metal prices can be attributed to the regulatory crackdown on shadow banking activity in China.

Many Chinese traders had used commodities as collateral for loans. As their loans were called in, they had no choice but to liquidate their positions.

Today, speculative positioning in commodities has returned to more normal levels.

This reduces the risk of a further setback in commodity prices. One could expect the Chinese authorities to relax some of their tightening measures. This is already being seen in a decline in interbank lending rates and corporate bond yields. One key reason why the authorities have been able to let interest rates come down is because capital outflows have abated.

Gold ⬇

At face value, tighter monetary policy would be a bearish development for gold prices, but perhaps with the Fed signalling over recent years that this was on the cards, the market may have already largely discounted this likely development. It may be the case, as although gold prices have tended to sell-off ahead of FOMC meetings, the fallout has tended to be short-lived once an interest rate rise has been made.

The fall in the USD has modesty benefited gold which has tasted 1300 and is now slightly above this level. Data from the customs authorities in Switzerland confirm that only 120 tons of gold was exported in July. Less than half of this total was shipped to Asia confirming weaker demand from the region.

The proportion had been 70-80% in previous months. Gold exports to India declined significantly further due to a new goods and services tax imposed on gold trading resulting in lower consumer demand. Gold did benefit form safe haven buying in the wake of North Korea US tensions but this has since abated. With geopolitical risks aside, we see global inflations and interest rates being the main driver over the near term. XAUUSD still sits comfortably on the July uptrend, however showing signs of buying fatigue at 1295/1300.

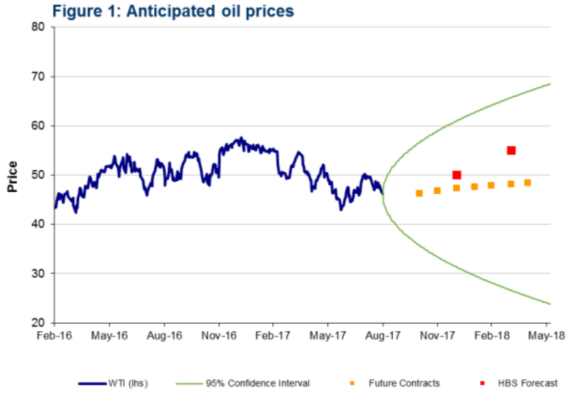
Oil ⬆

Commercial crude oil inventories continue their long running fall from their peak at the end of March. Since the start of April, inventories are down by the most this decade to this point of the year, and if we included the withdrawals from the Strategic Petroleum Reserve (SPR), the total crude drawn from commercial inventories and the SPR would be just over 85 million barrels, a rate of decline not seen at any point in this decade.

The market keeps on struggling between hard facts of a gradually tightening US and global crude oil market against forward looking fears (which may never be realized) about the return of rising US crude oil supplies, a rapid reflation of crude oil inventories, demand softness in some parts of the world, geopolitical noise abroad and at home (i.e. Trump etc.), and slowly eroding compliance by participants in the OPEC/Non-OPEC production cuts. That last item is about the only one that seems to have some element of quantitative truth to it given some deterioration of compliance in the past couple of months. We think most of these, if not all, have been greatly overblown in terms of their potential to create more bearish markets.

Figure 1 shows the recent evolution of the price of oil.

Figure 1: Anticipated oil prices



Investment Themes

Hinduja Bank (Switzerland) Ltd is proud to introduce its latest equity solutions. Our Portfolio Management & Products team has selected various investment opportunities representing the current trends, hot topics, disruption sectors, or contrarian ideas. All these investment themes have the same objective: improving the performance of your portfolio. The first portfolio of this series is devoted to the Millennials.

HBS Millennials Portfolio

Medium Risk

Medium Term

Theme

Millennials, or the Generation Y, are the demographic cohort born between the early 1980s and the mid-1990s. They are often known as the children of the Baby boomers. In the United States, this population has represented the largest group of individuals since 2016.

Generation Y is marked by an increased use and familiarity with digital technologies. Through their needs to appear on social networks, Millennials are often seen as the most narcissistic generation. They often have a liberal approach to politics and economics. Their consumption habits is different from their parents', as they value more the experience than the product.

The aggregated revenues of the Millennials should equal the ones of the Baby boomers by 2020. Moreover, they will inherit more than USD 40 trillion.

Portfolio

Our selection of stocks focuses on companies that should benefit from the demand and the behaviour of the Millennials. The portfolio is highly exposed to IT and consumer discretionary companies.

HBS Millenials Portfolio

Stock	Country	Currency	Initial weight
Alphabet	US	USD	10%
Children's Place	US	USD	8%
Comcast	US	USD	12%
Constellation Brands	US	USD	12%
Electronic Arts	US	USD	10%
Expedia	US	USD	6%
Facebook	US	USD	10%
Fortune Brands Home & Security	US	USD	12%
Spouts Farmers Markets	US	USD	8%
Walt Disney Co	US	USD	12%

What is an HBS Investment Theme portfolio?

Our team of investment professionals has developed a series of portfolios that focus on thematic market trends. Select the theme that represents the best investment for you.

How is the selection of stocks made?

Our process focuses on both quantitative and qualitative aspects. We are looking for profitable companies with a solid balance sheet and high operating margins. The sustainability of the profits is important. The firms are established leaders in their domain and rely on a business model that must be easy to understand.

What are the risk and period indicators?

Our risk indicator illustrates three levels of risk: low, medium, and high. A medium risk indicates a level of volatility close to a broad market index. A low and a high risk portfolios will respectively be used for portfolios that exhibit a lower and a higher volatility than the market. This is not a capital guaranteed solution – investing in stocks may be risky.

The recommended investment periods can be up to three years (short term), between three and five years (medium term), more than five years (long term). This indicators depend on the risk of the HBS Investment Theme portfolio, and the trading strategy used for the theme.

How can I invest in a HBS Investment Theme portfolio?

A straightforward solution to implement an investment theme is to purchase all the stocks of a portfolio. Our portfolios will usually be composed of 6 to 12 stocks. The higher the number of stocks, the higher the diversification level.

Depending on the investment size, it is also possible to issue equity certificate. This structured product can replicate efficiently and at a low-cost the performance of our HBS Investment Theme Portfolios. The FX risk can also be systematically hedged within the product.

How can I monitor a HBS Investment Theme portfolio?

Indicative factsheet will show the performance of the underlying basket on a monthly basis. In addition to this, a more detailed presentation of each HBS Investment Theme Portfolio is available.

Please request the documents to your Relationship Manager.

Asset class overview

Summary on future trends

As of 31 August 2017

⇧ Overweight ⇔ Neutral ⇩ Underweight

Asset class	Outlook	Benchmark	Value	m/m perf[1] in %	Ytd Perf.
Equities					
USA	⇔	S&P 500	2'458	-0.3%	11.3%
Eurozone	⇧	Euro Stoxx 50	3'428	-0.5%	7.1%
UK	⇔	FTSE 100	7'418	1.5%	7.1%
Japan	⇧	Nikkei 225	19'646	-1.3%	3.8%
Switzerland	⇔	SMI	8'917	-1.5%	11.9%
Emerging Markets	⇧	MSCI EM	1'088	2.3%	28.6%
Bonds					
US Government bonds	⇩	10-year yield	2.14%	0.6%	2.1%
US corporate bonds	⇔	Spread (vs 10yr US Gvt)	112 bps	0.4%	5.3%
US high yield bonds	⇔	Spread (vs 10yr US Gvt)	353 bps	0.0%	4.7%
EM sovereign	⇔	Spread (vs 10yr US Gvt)	323 bps	1.7%	8.4%
Swiss Government bonds	⇩	10-year yield	-0.14%	0.7%	-0.3%
Germany Government bonds	⇩	10-year yield	0.36%	0.7%	-0.3%
Alternative investments					
Commodities	⇔	Dow Jones Commodity	569	-0.9%	0.3%
Listed Real Estate	⇧	FTSE EPRA/NAREIT Developed	4'379	-0.5%	6.2%
Currencies					
USD	⇧	-	N/A	N/A	N/A
EUR	⇔	EUR/USD	1.18	-0.1%	12.5%
CHF	⇔	USD/CHF	0.97	-0.1%	5.3%
GBP	⇔	GBP/USD	1.29	-2.7%	4.2%
JPY	⇩	USD/JPY	110.60	-0.3%	5.8%
INR	⇔	USD/INR	63.91	0.4%	6.3%

[1]Month-over-month performance

Sources: HBS, Bloomberg, Capital economics, ZKB, Financial Times, Jefferies, Exane,

Asset allocation

Preferred investment views

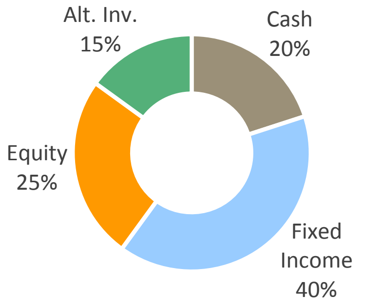
Asset Class	Most preferred	Least preferred
Equities	Japan Eurozone Emerging Markets	-
Bonds	Unconstrained strategies Indian debt Floating-rate notes in USD Convertible bonds	Government bonds Long duration bonds in USD
Foreign Exchange		JPY
Alternative investments	REITs Equity market neutral	-
Cash	-	-

Asset allocation

Recommended asset allocation

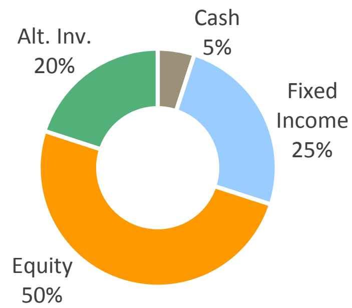
The Conservative Investor

Asset Class	Range of SAA[1]	TAA[2] Portfolio	Change (from prev. allocation)
Cash	0% - 50%	20%	0%
Fixed Income	20% - 80%	40%	0%
Equity	0% - 30%	25%	0%
Alternative Investments	0% - 20%	15%	0%
Total	100%	100%	0%



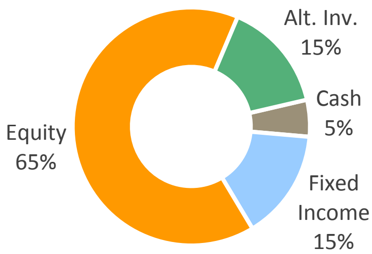
The Balanced Investor

Asset Class	Range of SAA[1]	TAA[2] Portfolio	Change (from prev. allocation)
Cash	0% - 30%	5%	0%
Fixed Income	10% - 70%	25%	+5%
Equity	20% - 60%	50%	-5%
Alternative Investments	0% - 30%	20%	0%
Total	100%	100%	0%



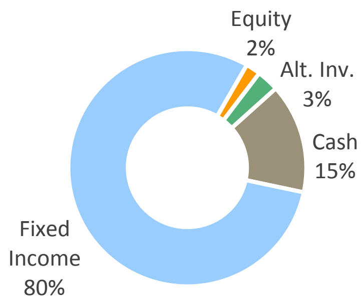
The Dynamic Investor

Asset Class	Range of SAA[1]	TAA[2] Portfolio	Change (from prev. allocation)
Cash	0% - 20%	5%	0%
Fixed Income	0% - 60%	15%	+5%
Equity	50% - 90%	65%	-5%
Alternative Investments	0% - 40%	15%	0%
Total	100%	100%	0%



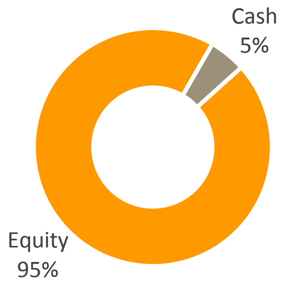
The Strategic High Yield Bonds Investor

Asset Class	Range of SAA[1]	TAA[2] Portfolio	Change (from prev. allocation)
Cash	0% - 20%	15%	0%
Fixed Income	20% - 80%	80%	0%
Equity	0% - 20%	2%	0%
Alternative Investments	0% - 30%	3%	0%
Total	100%	100%	0%



The Strategic Equity Investor

Asset Class	Range of SAA[1]	TAA[2] Portfolio	Change (from prev. allocation)
Cash	0% - 20%	5%	0%
Fixed Income	0% - 20%	0%	0%
Equity	70% -100%	95%	0%
Alternative Investments	0% - 20%	0%	0%
Total	100%	100%	0%



[1] SAA – Strategic Asset Allocation, [2] TAA – Tactical Asset Allocation

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