CIO Viewpoint – Trade tensions raise spectre of protectionism in a period of higher volatility

After more than a year of abnormally low volatility, we think the February episode marks a return to a new volatility regime, with a VIX anchored above 15. Increased volatility should be considered as an opportunity to buy and not to sell.

However, since Trump signed an order on 8 March calling for a levy of 25% on steel imports and 10% on aluminium, the fear of Protectionism is back. Investors appear to have settled on the idea that Trump is trying to strengthen his hand in trade talks rather than wielding an iron fist, but the US President amplified the protectionist tone of his administration: he recently blocked Broadcom's hostile takeover bid for Qualcomm and announced plans to impose tariffs on up to $60bn of Chinese goods, accusing China of intellectual property theft.

Despite the risk of taking Trump at his word, fundamentals remain solid. **Our central scenario remains positive** and we maintain a pro-growth stance that favours equities and emerging markets. We decided to rebalance portfolios by increasing equity exposure by 1% while reducing credit exposure.

Agility and **investment discipline** will be key in the coming weeks.

Investment Committee Update Switzerland – decisions made on March 5th, 2018

Asset allocation: Reduced credit exposure, increased equity allocation and cash holdings.

Fixed Income: Decreased credit exposure as we see more upside in equity markets. First step: reduced IG Bond denominated in CHF and EUR.

Equities: Rebalancing portfolios and increasing equity exposure. Preference for EM, Japanese and European equities over US equities maintained.

Currencies: No change. We maintain our long JPY / short USD position.

Commodities: No change.

The above-mentioned TAA changes are based on CHF denominated portfolios with a balanced profile.

Investment Opportunity – Another way to reduce the risk of market-timing: Private Equity

In an unsettled market, with rather frothy valuations, we believe that the Private Equity asset class represents a **useful diversification** and **performance enhancement tool** for investors. Our Lombard Odier Private Equity team seeks to invest in resilient managers delivering **attractive performance across economic** cycles, with the ability to create value, beyond relying on multiple expansion. The team therefore selects managers with **defensive strategies**, able to respond to market corrections and deliver returns across more challenging periods. For example, a number of leading Private Equity managers continued to achieve net IRRs in the 15-20% range across the 2007-2008 vintages. Furthermore, we believe that Private Equity represents an attractive long-term investment solution which seeks to mitigate the risks related to market-timing. This is due to the fact that Private Equity fund managers seek to select investments over a 4-5 year investment period, followed by a 4-5 year harvesting period during which they aim to create value within their investments and seize the most favourable exit timing.

The Lombard Odier team has developed a broad offering of Private Equity solutions suitable for qualified investors. Please contact your relationship manager or the investment expert listed below for further information.