INVESTMENT OUTLOOK

DECEMBER 2017

MACRO-ECONOMICS

Developed and Emerging Markets

The global economic recovery has steadily broadened and deepened, with new cyclical highs in business and consumer surveys in the U.S. and Euro area last month. Meanwhile, central banks continue to tread cautiously in the absence of an inflation threat, with no policymaker willing to take any economic risk.

U.S. growth is accelerating, inflation is subdued and unemployment is the lowest in 16 years. Such a backdrop should enable the new Fed Chairman, Jerome Powell, to keep gradually raising interest rates from historic lows with the aim of stretching out what is already the third-longest U.S. upswing. Also, at the beginning of the month, U.S. House Republicans rolled out a tax bill proposal that contained sweeping changes for business and individual tax rates, including a measure to cut the corporate tax rate to 20 per cent. Europe is no longer the sick man of the world economy as the Euro-Zone block is enjoying the strongest growth in a decade. Economists are declaring that Europe is heading toward a period of low-inflationary expansion while the International Monetary Fund (IMF) is stating that the global economy can thank Europe's robust growth for the improving outlook. Meanwhile, the Bank of England has increased interest rates by a quarter point to 0.5 per cent and signaled that this first rise in a decade was the start of a gradual process of increasing borrowing costs. China's cyclical rebound is inherently unsustainable, as it has been narrowly driven by the construction-linked resource sectors. The forthcoming slowdown should be fairly mild, as China's non-resource private firms are in better health than the headline figures suggest.

Currencies

The British Pound weakened despite the Bank of England announcing its first interest rate increase in a decade, as it cautioned that future increases will take place only "at a gradual pace and to a limited extent". The U.S. Dollar extended its retreat in the wake of more dovish than expected Federal Reserve minutes. Elsewhere, the Euro strengthened, helped by the Euro-area economy gathering pace, and news that Germany's Social Democrat party was said to be open to talks with Chancellor Angela Merkel to offer limited support for a fourth term.

Energy and other commodities

Oil hit a two-year high after the arrests of at least eleven Saudi Arabian princes and dozens of senior officials and prominent businessmen by the country's new anti-corruption commission. This uncertainty and other factors such as Saudi Arabia's escalating war with Yemen and the expectations that OPEC will extend its output cuts, have been putting upward pressure on oil prices.

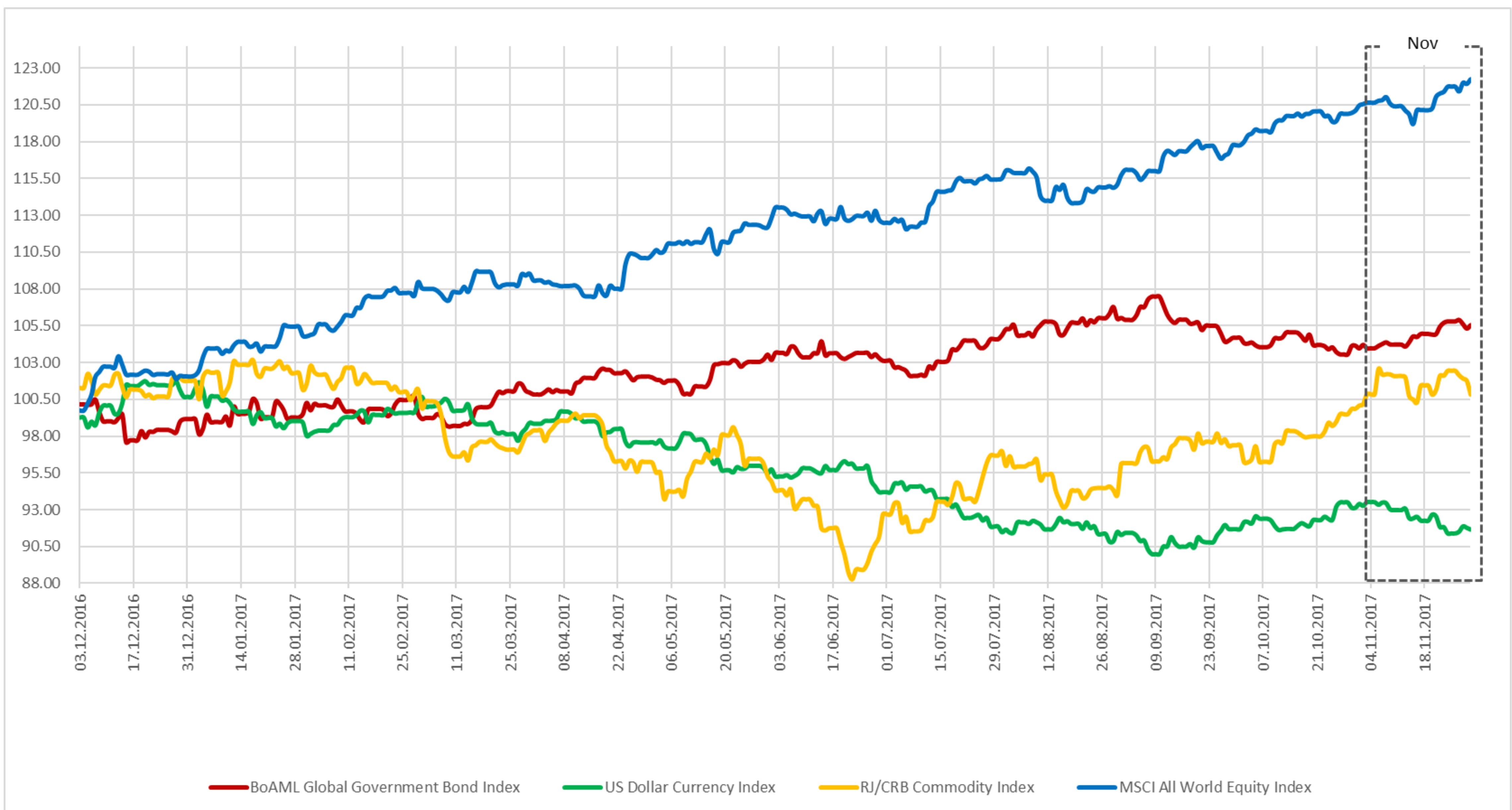
(see illustration on next page: "Asset Class Comparison")

INVESTMENT MANAGER
Quantum Global Investment Management AG · Bahnhofstrasse 2 · 6300 Zug · Switzerland
Phone +41 41 560 29 00 · Fax +41 41 710 63 00 · investment.im@quantumglobalgroup.com · www.quantumglobalgroup.com

MACRO-ECONOMICS AND CURRENCIES

Illustration (Section "Macro-Economics and Currencies"):

Commodities vs. Equities, Government Bonds and US Dollar



Source:	Bloomberg Finance L.P.	
Graph:	Quantum Global Investment Management (1-year rolling, daily, indexed)	
Indices:	Commodities:	RJ/CRB Commodity Index Total Return Price Index. The base currency is USD.
	Equities:	MSCI All Country World Index includes both developed and emerging world markets. The base currency is USD.
	Govt. Bonds:	The Bank of America Merrill Lynch Global Government Index tracks the performance of investment grade sovereign debt in local currency. The base currency is USD.
	USD:	U.S. Dollar Index indicates the general international value of the USD by averaging the exchange rates between the USD and major world currencies.

Quantum Global Investment Management AG · Bahnhofstrasse 2 · 6300 Zug · Switzerland
Phone +41 41 560 29 00 · Fax +41 41 710 63 00 · investment.im@quantumglobalgroup.com · www.quantumglobalgroup.com

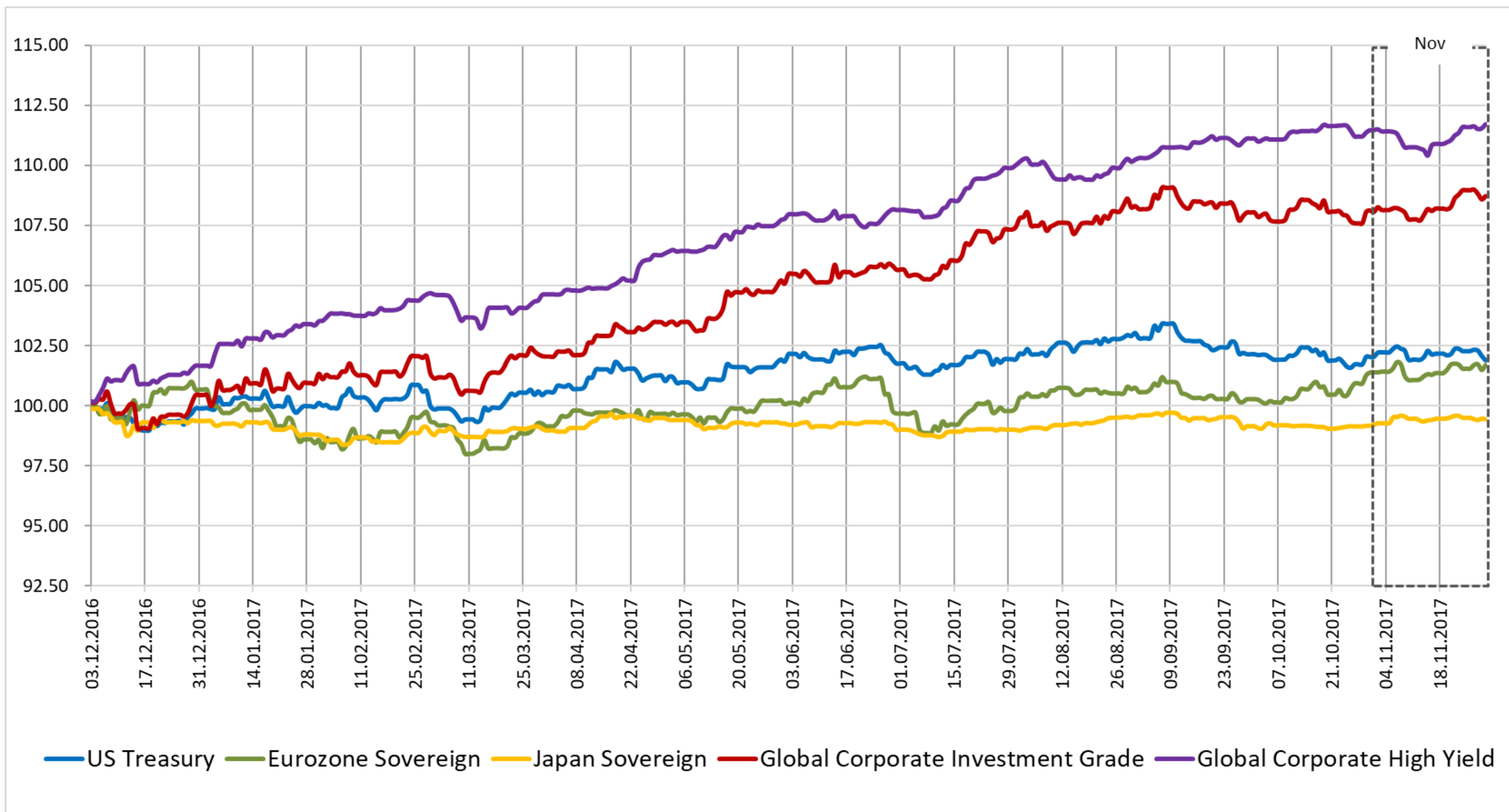
FIXED INCOME

Global Bond Markets

Globally, Sovereign bonds remain supported by ongoing asset purchases by the major central banks. The US Sovereign curve continues to flatten, evidenced by underperforming short-dated maturity points, versus longer dates. Questions loom over slower growth and inflation forecasts within the US, however, the Federal Reserve are ready to increase interest rates in December and perhaps the first quarter of 2018. The European Central Bank's Monetary Policy Meeting minutes were released indicating some debate as to the duration and end date of current stimulus. The ECB recently announced a lesser amount of asset purchases but for an extended period of time. Europe is facing a similar dilemma to that of the US domestic economy; there being growth but inflation continues to undershoot policy makers' target levels, rapid fall in unemployment numbers but a stunted reaction in wage response.

November saw a moderate widening in credit spreads, giving back some performance from the higher risk sub-sectors. High valuations, low liquidity and the end of year fast approaching, a moderate widening now seems obvious. However, a significant move weaker is not expected given the ongoing positive fundamental backdrop, provided by the current growth environment and central bank rhetoric. Coupled with rising rates in the US, better quality bonds should face headwinds and therefore underperform versus lower rated assets, which should offer some compensation in the form of credit spread contribution. Despite the recent move, valuations remain high, volumes are relatively low, primary issuance is ongoing and a continued search for yield and spread contribution drives risk assets onward.

Government Bonds vs. Corporate Investment Grade and Corporate High Yield



Source:	Bloomberg Finance L.P.	
Graph:	Quantum Global Investment Management (1-year rolling, daily, indexed)	
Indices:	US Treasury:	The US Treasury Bond Index includes fixed rate coupon U.S. Treasuries with maturities greater than 12 months. The base currency is USD
	Eurozone Sovereign:	The Eurozone Sovereign Bond Index includes fixed-rate local currency securities issued by Eurozone countries. The base currency is EUR
	Japan Sovereign:	The Japan Sovereign Bond Index includes fixed-rate JPY securities issued by Japan. The base currency is JPY.
	IG Corp:	The Global Investment Grade Corporate Bond Index includes investment grade, fixed rate securities issued in major domestic and Euro-bond markets. The base currency is USD
	HY Corp:	The Global High Yield Corporate Bond Index includes non-investment grade, fixed-rate, taxable securities issued by global corporates. The base currency is USD.

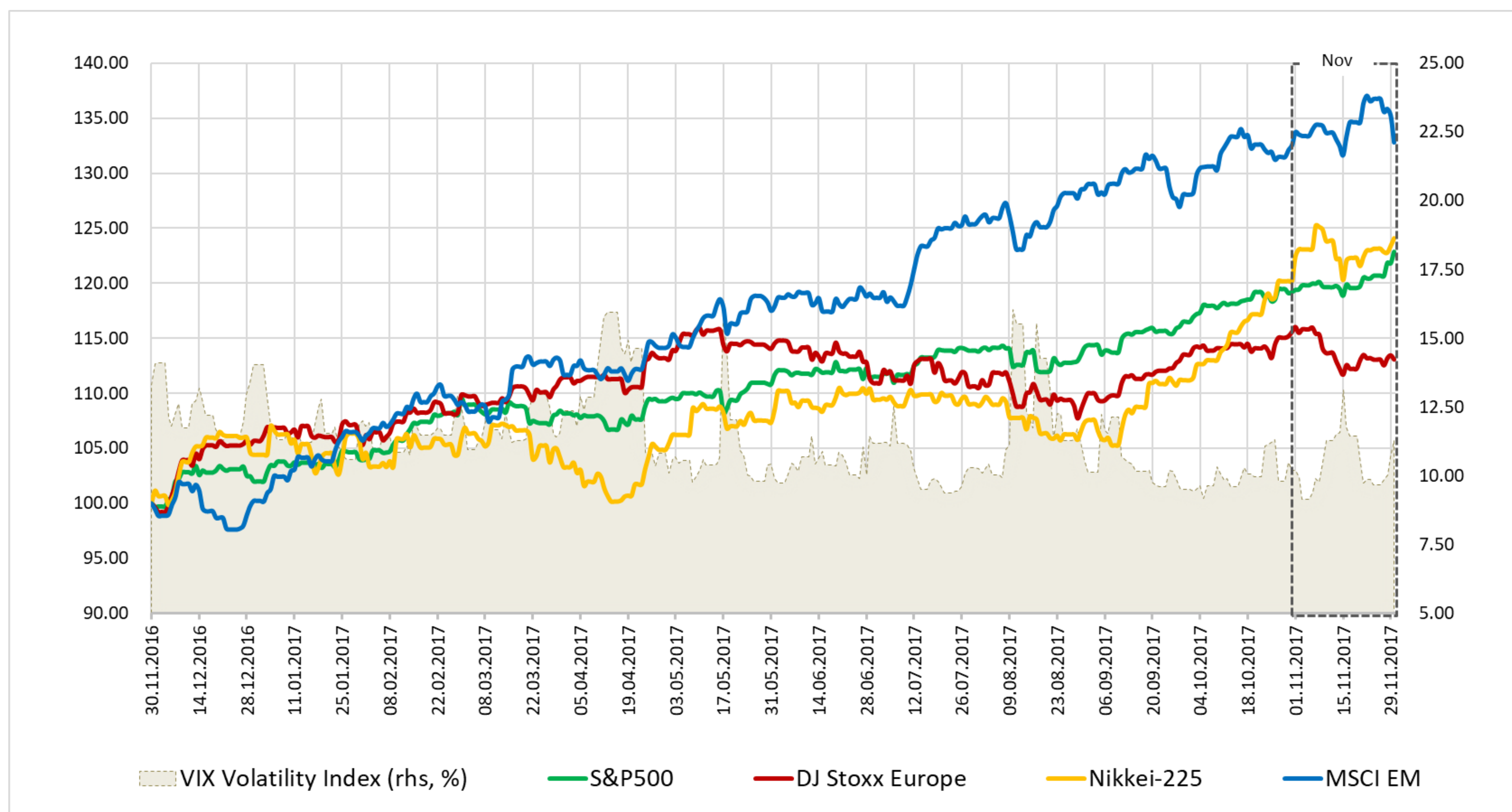
EQUITIES

Global Equity Markets

By mid November, the global equity market run has come to a halt. The retreat was in part blamed on the broad-based selloff in commodities and the risk-off tone spread from European and Japanese stocks as mining and oil-related companies slid. Investors also became nervous that the division amongst policy makers in Washington and the U.S. administration is too wide and chances for the U.S. tax reform passing the Congress are slim. Third quarter earnings releases are over and it is unclear what the next catalyst will be, which has the potential to push stock prices higher or at least keep them at current valuation levels. There is still an underlying belief that low-inflation and a synchronized global economy recovery is favoring risk assets such as equities. And although we maintain our stance that there is no evidence of a sufficient, adverse macro shock to trigger the end of the current equity cycle, market volatility has increased in November, indicating that short-term, erratic price movements will persist in the coming weeks and swings between risk-off/risk-on moods has gripped the global markets again.

European stocks were not able to recover all their earlier losses amid company-specific profit taking, closing the month as the weakest global region. In November, U.S. equities managed to finish on a positive note, whereas developed Asian and Emerging Markets (ex Japan) proved resilient as economic growth and low, relative valuations drove stock indices significantly higher. Profit-taking was strongest amongst companies in cyclical growth sectors such as Financials and Industrials. Consumer Staples profited from a general shift towards more defensive plays and individual stock price laggards whereas the Energy and Materials sectors were sold off on weaker commodity prices.

MAJOR EQUITY INDICES & VOLATILITY



Source:	Bloomberg Finance L.P.	
Graph:	Quantum Global Investment Management (1-year rolling, daily, indexed)	
Indices:	S6P 500:	The Standard & Poor's 500 Index includes 500 U.S stocks representing all major industries. The base currency is USD
	Stoxx Europe:	The STOXX Europe 600 Index includes 600 stocks across 18 countries of the European region. The bas currency is EUR.
	Nikkei-225:	The Nikkei-225 Index includes 225 top-rated Japanese companies. The base currency is JPY.
	MSCI EM:	The MSCI Daily Total Return Net Emerging Market index captures the large and mid cap representation with 832 stocks across 23 Emerging Markets countries. The base currency is USD
	VIX Index:	The Chicago Board Options Exchange Volatility Index reflects a market estimate of future volatility and includes an average of the implied volatilities for a wide range of option strikes. The base currency is USD.

OUTLOOK

Market Implication

The global economic expansion is durable and self-reinforcing. Most recessions and bear markets are triggered by tighter global monetary conditions, but central banks remain determined to lag improving growth conditions. It could take years before global policymakers push rates to restrictive levels and cause a global recession and bear market. Near-term, there is a risk for disappointment, given that the Chinese housing market and industrial economy are already downshifting more than investors acknowledge.

Asset Allocation

The unwinding of the great monetary experiment will proceed slowly, and is not expected to create a roadblock to further gains in the global equity markets for the foreseeable future. Also, sustained bear markets require a recession. We caution against relying on the U.S. for such a signal, as greater excesses reside in other economies. In short, there is no evidence yet of a sufficient macro catalyst to end the investment cycle. We are maintaining a moderately pro-growth asset allocation tilt, favoring stocks over bonds within global multi-asset portfolios.

Fixed Income:

Rate normalisation and tighter monetary conditions greatly depend on progressive growth and inflation indicators. We will likely see a continuation of the search for yield which will underpin low rated and higher risk assets. Correction risk will be determined by the pace of change in tighter monetary conditions, of which central bankers are extremely careful in communicating for such reasons. We maintain a constructive stance on the fixed income asset class. A portfolio tilted to short duration, with a bias to low credit grade quality should outperform as rates move higher and growth continues. Additionally, the current and ongoing conditions are supportive for Emerging Market assets.

Equities:

Overbought conditions and rising expectations have put equities at risk of a correction, at least from a shorter-term perspective. Stocks are being supported in part by distortions in the G7 government debt market, which flatters comparisons of equities versus bonds. A rise in bond yields is likely and will cause at least some near-term turbulence for stocks. The most likely triggers for a significant correction though include an abrupt jump in bond yields and/or a moderation in the global growth outlook.

Currencies:

The U.S. Dollar is currently trading at its lowest levels since October as investors remain skeptical about the tax bill and doubt the Federal Reserve’s plan to normalize monetary policy. Meanwhile, the Euro might strengthen further if economic data releases are confirming growth above market expectations.

Commodities:

A mild Chinese slowdown will weigh on commodity prices. Oil prices are high enough to trigger an acceleration in U.S. output and thus will have difficulty sustaining their recent breakout.

Disclaimer

Quantum Global Investment Management AG ("Quantum Global") has taken every effort to ensure the accuracy of the information contained in this report. All information contained in this report is obtained from sources believed to be accurate and reliable. The estimates, strategies, and views expressed in the report are based upon past or current market conditions and/or data and information provided by third parties (which has not been independently verified) and is subject to change without notice. Quantum Global does not guarantee the appropriateness, accuracy, usefulness or any other matter whatsoever regarding this information. While all information presented is believed to be accurate and reliable, it is prepared "without audit" unless otherwise identified as audited financial information. Due to the possibility of human or mechanical error as well as other factors, this information is provided "as is" without warranty of any kind and Quantum Global makes no representation, express or implied, as to the accuracy, reliability, completeness, or timeliness of this information, and is not responsible for any loss or damages incurred by parties using this information.

Forward Looking Statements

The report may contain "forward-looking statements." Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "intend," "project," "plan," "will likely continue," "will likely result," or words or phrases with similar meaning. Forward-looking statements involve risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors outside of Quantum Global's control. Quantum Global does not intend, and undertakes no obligation, to update any forward looking statements.