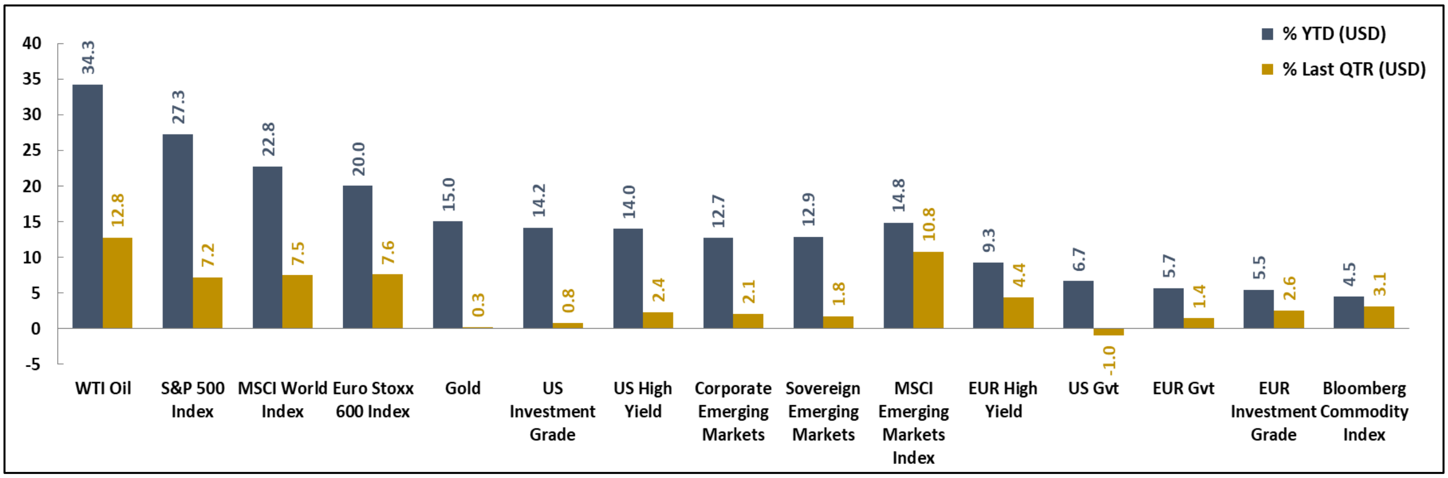
MONACO ASSET MANAGEMENT

Investment Outlook
Q1 2020

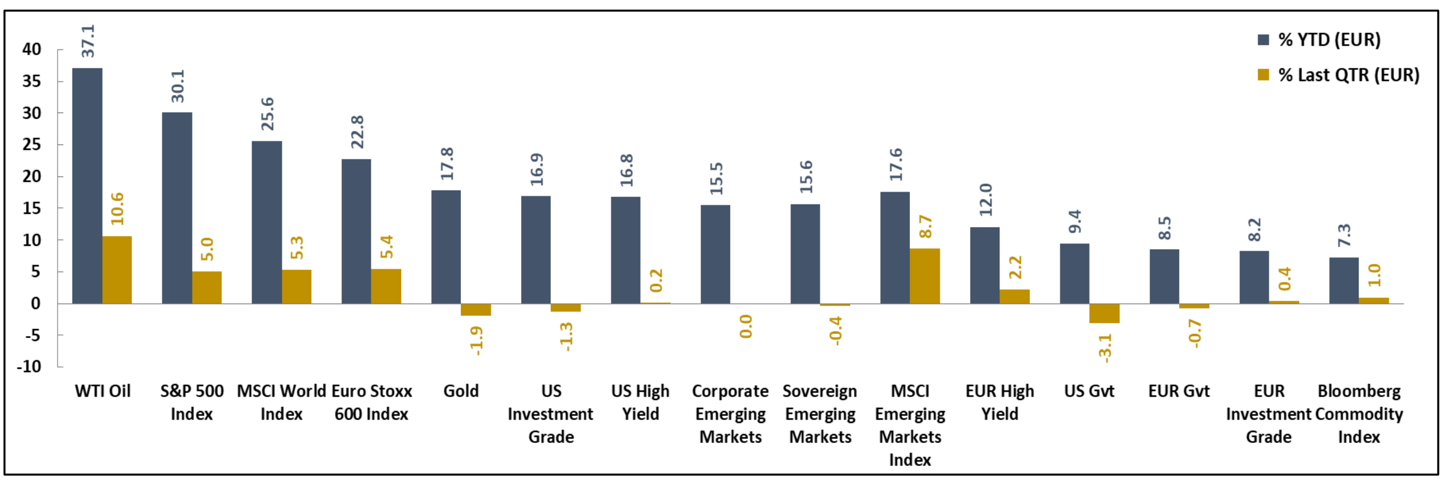
ASSET CLASS RETURNS

- Loser monetary policies globally leading to a late-cycle economic recovery similar to 1995, 1998 and 2015 have propelled all assets higher in 2019 without much discrimination. WTI oil is the best performing asset with a YTD return of +34.3% (in USD terms).
- Equity markets have performed extremely well especially in the US. The performance of the MSCI World YTD of +22.8% (in USD terms) has been pulled up by a very strong performance of US equities with the S&P 500 Index at +27.3% YTD. This contrasts with +20% for the Euro Stoxx 600 Index and +14.8% for the MSCI Emerging Markets Index.
- Gold prices are the surprise of 2019. Indeed, gold prices rallied +15% in 2019. This is very strong considering the appetite for risk all year long. This suggests renewed interest for this long-forgotten asset.
- In Q4 2019, it is worthwhile noting the very strong performance of the MSCI Emerging Markets Index at +10.8%. As investors grow increasingly confident about an economic recovery and as the USD stabilizes, capital is rapidly flowing to higher growth markets. This is positive for us as we have been Overweight Emerging Market equities for some time and see no reason to change our view.

USD – Denominated Returns



EUR – Denominated Returns



INVESTMENT STANCE OVERVIEW

Conclusion: Q1 2020 may experience a similar front-loading of performance as 2019 as trade uncertainty diminishes and US elections are still distant. While 2019 was supported by global Central Bank easing, 2020 should benefit from the deployment of widespread fiscal stimulus. The risk of a recession has diminished significantly. Our base case remains for a late-cycle economic pick-up for the first quarter of 2020. This supports our tactically bullish view on equities which remains one of the few investment alternatives, considering our bearish view of fixed income markets. This short-term optimism requires a flexible mind-set as markets can turn sharply in this late-cycle environment. We continue to be positive on commodities and Emerging Market assets which will benefit from lower trade uncertainty.

There are some key changes to our view from Q4 2019:

- We upgrade our view on the EUR from neutral to bullish. On a technical basis, we forecast the EUR/USD to reach 1.14 in Q1 2020.
- Within Energy Commodities, we switch our preference to natural gas from oil. We believe oil prices will to continue to evolve within their $55-65/bbl range. Supply constraints and seasonality favours a Long trade on natural gas.

	Investment Stance						Quarterly
	Very Bearish	Bearish	Neutral	Bullish	Very Bullish		Change*
SOVEREIGN BONDS						**NEUTRAL**	-
US							-
Europe (Core)							-
Europe (Periphery)							-
Emerging Markets							-
CORPORATE BONDS						**BEARISH**	-
US High Yield							-
US Investment Grade							-
EUR High Yield							-
EUR Investment Grade							-
Emerging Markets							-
CURRENCY						**BEARISH USD**	-
USD							-
EUR							↗
EM							-
JPY							-
GBP							-
EQUITIES						**BULLISH**	-
US							-
Europe							-
UK							-
Japan							
Emerging Markets							-
COMMODITIES						**BULLISH**	-
Energy							-
Precious Metals							-
Agriculture & Livestock							-
ALTERNATIVES						**BULLISH**	-
Hedge Funds							-
Real Estate							-
Private Equity							-

* Change compared with previous months. One arrow means the stance has moved one place to the left or the right, two arrows means a move of two places, etc.

MODEL PORTFOLIO

USD Based Portfolio

Asset Class	Last Price	Perf. 5D	Perf. MTD	Perf. YTD	MAM Outlook	Asset Allocation
Currencies						
Portfolio Bases						**97.0%**
EUR	1.11	0.14%	1.00%	-2.85%	Bullish	10.0%
USD	97.32	-0.08%	-0.97%	1.19%	Bearish	87.0%
Others						**3.0%**
JPY	109.56	-0.26%	-0.15%	0.09%	Bullish	3.0%
Equities						**45.0%**
Developped Markets	**57.79**	**0.17%**	**1.03%**	**18.30%**	Neutral	**32.0%**
Europe	414.78	1.77%	1.80%	22.70%	Bullish	9.6%
North America	3,191.14	1.58%	1.60%	27.30%	Neutral	19.2%
Great Britain	7,540.05	3.67%	2.63%	12.07%	Bullish	1.6%
Asia Pacific	23,864.85	1.88%	2.45%	19.24%	Neutral	1.6%
Emerging Markets	**1,109.18**	**3.59%**	**6.65%**	**14.85%**	Bullish	**9.0%**
Asia Pacific	615.44	2.83%	4.33%	16.00%	Bullish	5.9%
EMEA	264.57	3.65%	5.57%	9.95%	Bullish	2.2%
South America	2,907.39	4.62%	9.42%	13.31%	Bullish	0.9%
Thematic						**4.0%**
Asset Allocation	34.47	1.68%	2.62%	16.45%	Bullish	4.0%
Fixed Income						**25.0%**
Europe						**0.0%**
Sovereign	220.05	0.01%	-0.12%	3.37%	Bearish	0.0%
Investment Grade	247.73	0.08%	-0.30%	7.53%	Bearish	0.0%
High Yield	411.94	0.37%	0.92%	12.03%	Bearish	0.0%
North America						**9.3%**
Sovereign	2,559.86	0.07%	-0.42%	9.46%	Neutral	2.3%
Investment Grade	3,229.45	0.28%	-0.02%	14.15%	Neutral	6.9%
High Yield	2,177.14	0.83%	1.74%	14.02%	Bearish	0.0%
Emerging Markets						**4.3%**
Local Currency	400.99	0.87%	1.93%	12.89%	Bullish	4.3%
Hard Currency	1,204.99	0.66%	1.16%	12.71%	Neutral	0.0%
Others						**11.5%**
Convertible	828.34	0.32%	0.36%	5.17%	Bullish	3.2%
Trade Finance	107.55	0.00%	-0.03%	1.41%	Bullish	5.0%
Broad Funds	508.97	0.08%	0.05%	6.28%	Bullish	3.3%
Commodities		**1.31%**	**3.89%**	**4.54%**		**10.0%**
Agriculture	67.83	1.55%	3.79%	-2.75%	Bullish	1.7%
Energy	35.55	1.87%	6.59%	9.28%	Neutral	1.7%
Industrials	114.80	0.69%	3.17%	5.00%	Bullish	1.7%
Precious Metals	180.28	0.47%	0.23%	10.71%	Bullish	5.0%
Alternatives						**20.0%**
Hedge Funds	1,286.46	0.36%	0.75%	8.12%	Bullish	20.0%
Real Assets	1,930.46	1.08%	1.41%	16.81%	Bullish	0.0%
Cash						**0.0%**

EUR Based Portfolio

Asset Class	Last Price	Perf. 5D	Perf. MTD	Perf. YTD	MAM Outlook	Asset Allocation
Currencies						
Portfolio Bases						**97.0%**
EUR	1.11	0.14%	1.00%	-2.85%	Bullish	90.0%
USD	97.32	-0.08%	-0.97%	1.19%	Bearish	7.0%
Others						**3.0%**
JPY	109.56	-0.26%	-0.15%	0.09%	Bullish	3.0%
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Real Assets	1,930.46	1.08%	1.41%	16.81%	Bullish	0.0%
Cash						**5.0%**

MAM ACTIONS

Equities

In light of the economic and political uncertainty going into year-end we decided to take a cautious stand by reducing or hedging portfolios exposure to equities through spot sales and the purchase of puts, respectively. The trifecta of good news, namely a US-China “phase 1” trade deal, an overly “dovish” Fed speech and a strong Conservatives win at the UK elections meant that risk assets performed well into year-end. Considering the probability of a front-loading of equity markets performance in early 2020, we are currently in the process of increasing gradually portfolios’ equity exposure to 40-45% (from 35% currently). This is done via outright purchases of regional ETFs, MAM managed certificates as well as the purchase of call options on US and EU equity indices with a maturity in April 2020.

Fixed Income

Considering our preference for EM assets, especially in fixed income, we increased portfolios’ exposure to this asset class by buying the Pictet Latin American Local Currency Fund.

Commodities

Commodity markets are more complex to trade in traditional portfolios. We are actively investing in commodity futures in the MAM Macro Hedge Strategy Fund. This strategy is starting to bear fruit as various commodity markets are breaking out of multi-year low formations. That said, we are looking to add portfolios’ exposure to precious metals (Gold and Silver) in Q1 2020.

EVENTS

Conclusion: **Trade war, Brexit, Central Banks, and Argentina**. The first quarter of 2020 should be more candid in terms of political news as the US and China initiate "Phase 2" negotiations, a Brexit resolution is gradually in sight, and major Central Banks are likely to stay put for the time being. With already three rate cuts in 2019, the Fed is not expected to change rates unless it sees material changes in the state of the economy. After introducing a new round of QE in 2019, the ECB is also unlikely to cut rates in 2020 and its attention will shift to the comprehensive review of its mandate. We continue to follow very closely the situation in Argentina, as the new finance minister starts the negotiations with the IMF and private creditors for the debt restructuring. That said, political drama is never far away as 2020 US elections draw nearer.

Trade War

President Trump signed off on a trade deal with China, canceling a new round of tariffs which were set to take effect on December 15th. The US is negotiating the possibility to roll back on existing tariffs by cutting rates by up to 50% on $360bn of Chinese imports if Beijing agrees and commits to purchase large quantities of farm products and enhance protection of intellectual property. We welcome this positive development but remain sceptic about its long-term effectiveness. We strongly believe that trade tensions between the two "super powers" are part of the new normal.

Fed Update

In 2019, the Fed decided to cut interest rates 3x to 1.75% from a high of 2.5%. In its latest beige book, the Fed highlighted the modest economic expansion through mid-November amid steady consumer spending and brighter signs from manufacturers. The Fed doesn't plan to make any significant changes to its stance unless it sees material changes in the health of the economy. The Fed will try to demonstrate its independence by not meddling ahead of US elections. That said, it remains aware of inter-bank REPO market tensions and ready to deploy "QE4" if necessary.

ECB Update

The ECB left policy rates unchanged following its December 2019 meeting while highlighting a less pronounced downside risk to the economy. At the same time, Christine Lagarde announced a comprehensive review to be completed by the end of 2020 with the pros and cons of unconventional monetary policy tools likely to be discussed. This review will be the first of its kind since 2003. We should expect more information by the ECB's next meeting on January 23rd.

Brexit Update

Boris Johnson's conservative party won the UK general election with a majority which is the largest since Margaret Thatcher's in 1987. With the election now behind us, we look forward to the renewal of negotiation between the EU and UK ahead of the January 31st Brexit deadline. With over 360 conservative seats in parliament, the new government will likely be able to break the Brexit deadlock. Beyond then, focus will shift towards ensuring a revival of the UK's economy.

Argentina Update

The new Finance minister, who will lead the negotiations with the IMF and private creditors, has written extensively on debt restructuring and his appointment was rather well received by markets. Amid unorthodox policies, the proposals such as not paying debt for 3 years may seem positive, but both its feasibility and sustainability are questionable. With plenty of near term risks, patience is required on the bond side by only adding on dips below 50. Our biggest concern remain on the inflation front, fiscal consolidation, and on the unsustainable nature of consumer-driven rebounds. Talks with the IMF have already begun and talks with creditors are set to begin soon after. With a March deadline mentioned, we remain on the lookout for any further developments.

Chart 1: Argentina 2033 EUR-debt (Price)

ECONOMICS & RATES

Conclusion: **Neutral**. In the last month, many of the downside risks to rates have diminished. The US and China have agreed to a "phase 1" deal, risks of a no-deal Brexit have receded, the Fed signaled a pause, and US data has shown some signs of stabilization. The next leg of stimulus is expected to come from fiscal policies similar to the programme recently introduced by Japan. Under this late-cycle economic pick-up, we expect US 10-year bonds to continue to trade towards our target yield of 2.0% and German 10-year bonds towards our target yield of -0.2%. Our view will evolve as we approach US 2020 elections. Finally, we find better value in EM sovereign bonds. We remain on the lookout for a rating downgrade on Mexican sovereign bonds as this would trigger a compelling entry point in our view.

- In recent weeks, Global Manufacturing PMI showed some early signs of improvements **(Chart 1)** and more positive data points gradually emerged across the Europe, US, and China. A late-cycle economic pick-up is underway thanks to significant monetary policy adjustments. The next leg of stimulus will come from the fiscal side as per Japan's latest announcement. We expect other major economies to follow the same steps in 2020. A scenario of above trend growth and below trend inflation to the likes of 2016 and 2017 is materializing. The only caveat at this stage of the cycle is that any political shock (i.e. renewed US-China trade tensions, US election, etc.) can derail this benign outlook.
- Sovereign bond yields have been rising over the past few weeks under the spell of better economic data. We see this trend continuing in Q1 2020 with US 10-year bond yields reaching a target of 2.0% **(Chart 2)**. Similarly, we expect German 10-year bond yields to stabilize around -0.2% **(Chart 3)**. There will likely be a time in 2020 when we will recommend to go long both US and European sovereign bonds; just not for now.
- Considering the weak short-term return prospects offered by government bonds in most developed markets and the improving growth outlook for 2020, we continue to look at emerging markets for opportunities. Based on our bearish USD thesis, we favor local currency rather than hard currency debt in emerging markets **(Chart 4)**. As mentioned in our previous outlooks, Argentinian bonds have been great instruments to trade post-restructuring. This time is still no different. The country's newly appointed finance minister set a deadline for March 2020 to reach some sort of agreement with creditors. We remain attentive to the unfolding of the situation. We continue to like Brazil local currency bonds. We remain attentive to Mexican local currency debt and are awaiting another agency's credit downgrade before investing.

Chart 1: Global Manufacturing, Services, and Composite PMIs

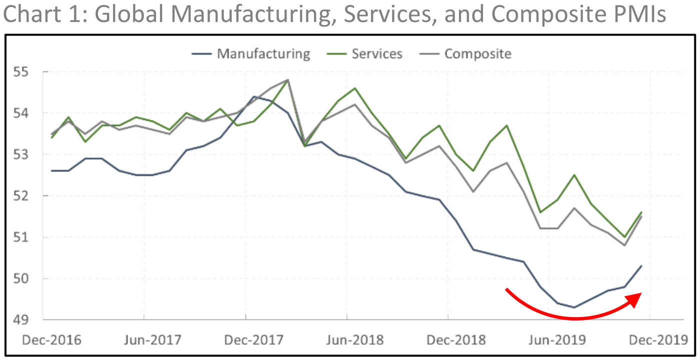
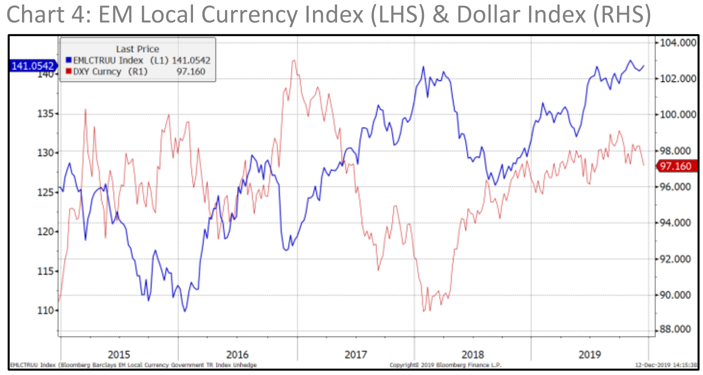


Chart 2: US 10 Year Bond Yields (Weekly)

Chart 3: German 10 Year Bond Yields (Weekly)

Chart 4: EM Local Currency Index (LHS) & Dollar Index (RHS)



CREDIT

Conclusion: **Underweight**. We have been negative on corporate credit for some time. Admittedly, we missed the stealth rally in bonds in 2019. However, we see no reason to dramatically change our overall cautious stance. Rising leverage and poor value remain the key themes across US and European credit. Current levels of global economic growth call for much wider credit spreads. The risk of a potential triple-B cliff on the horizon is worth monitoring. The performance of credit markets in 2019 will be very hard to replicate in 2020; especially as credit spreads are at or close to 5-year lows. Within credit, we continue to prefer Emerging Market local currency debt and alternative funds.

For corporate bonds, investors should stick to higher quality investment grade tranches with low duration over high-yield, given our concerns about the U.S. debt market.

Leading indicators of credit quality are worrying. Consumer confidence, "present vs expectations" is close to record highs. This level has historically been reached ahead of recessions. 90+ days delinquency rates on US auto loans are at 7-year highs and not far from the peak reached following the 2008 Crisis. Despite, these concerning signs, US high yield credit spreads are at 5-year lows **(Chart 1)**. This is an aberration to us and warrant the decision to have no exposure to US high yield markets.

Credit quality in many indices is at a record low, while the size of the BBB rated corporate market has ballooned to $3.8trn compared to $936bn in 2007, or 4x larger than the BB rated market. High debt levels mean that declines in revenues or asset values would have a larger effect on corporate hiring and capital expenditures than they otherwise would. Rising spreads may trigger downgrades and force many funds to liquidate holdings. We have long warned about the lack of liquidity in the bond market. In the event of forced fire sales, credit markets are likely to display outsized negative performances. A potential triple-B "cliff" is on the horizon.

We turned more bullish on EM local currency debt in Q1 2019. The "Phase 1" deal between the US and China could lead to spreads tightening. Combined with lower global interest rates, this support returns in EM corporate credit. EM currencies are cheap on a Real Effective Exchange rate basis. The WisdomTree EM local debt fund **(Chart 2)** looks set for a continued period of outperformance.

In credit, we continue to like alternative sources of return such as funds investing in short-term trade receivables with US or European exposure.

Chart 1: US High Yield Spread (Daily)

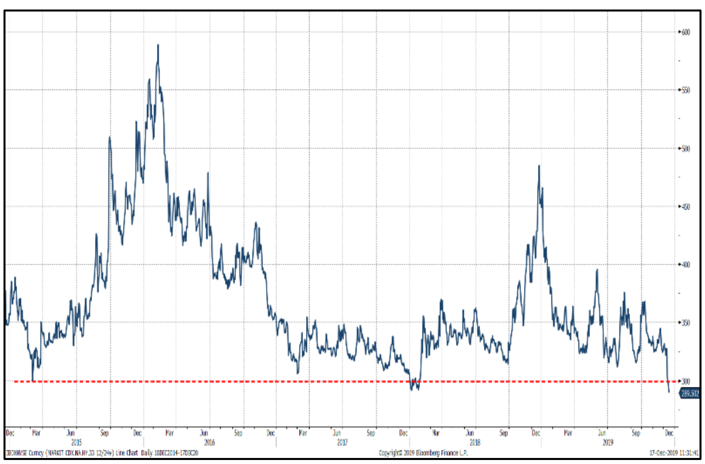
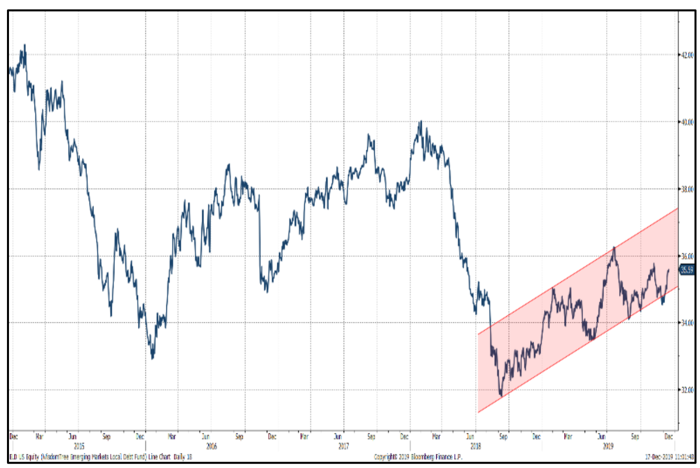


Chart 2: WisdomTree EM local debt fund (Daily)



CURRENCIES

Conclusion: **Bearish USD**. The USD Index was only up +0.9% in 2019. We remain fundamentally bearish the USD like we have been all of 2019 based on 1) increased US deficit at the peak of the US economic cycle, 2) a potential pick-up in global growth, and 3) the continued reduction of an over-extended long USD positioning from investors. We are tactically bullish the EUR. With a technical 3-year wedge formation breakout in the making, we forecast the currency to rally towards 1.14 in Q1 2020. We are bullish the SEK relative to the Euro with the currency two standard deviations cheap while the Riksbank is warning about the end of negative rates. Elsewhere, we also like the GBP with a value target of 1.40 against the USD and the JPY as a cheap way to hedge against unforeseen market stress.

- In recent months investors reduced their excessive net long positioning on the USD. As expressed in our previous notes, the USD is a countercyclical currency. In addition to a growing US budget deficit at the peak of the US economic cycle, the return to a positive growth outlook for next year in the “Rest of the World” and the tightening growth differential with the US is what should be driving the dollar lower in Q1 2020. Following the FOMC press conference of December, the dollar index broke down through its trend channel which prevailed for most of H2 2019 **(Chart 1)**.
- Technically, the EUR remains in a 3-year wedge formation. An overshoot to the downside is increasingly less likely with a series of higher lows materializing. A breakout of the resistance level of 1.12 would confirm the bearish USD thesis and see the Euro area currency rally towards 1.14 in Q1 2020 **(Chart 2)**.
- Relative to the euro, the Swedish Krona is starting to signal a potential breakout **(Chart 3)**. Valuations are two standard deviations cheap on Real Effective Exchange Rate basis. With exports accounting for over 50% of its GDP, Sweden is positively exposed to reduced global trade uncertainty and the resulting global economic pick-up. A brighter outlook for Q1 2020 could set up the market to cover its short position on the SEK and lead to significant outperformance.
- The Japanese currency has been trading at a historically low relative-valuation over the past couple years based on USD strength and extremely accommodative local monetary policy. In the current late economic cycle, we favor the JPY status as “safe-haven” currency and its ability to provide a cushion in times of unforeseen market stress **(Chart 4)**.
- Elsewhere, we continue to like the GBP. Our fair value target of 1.4 against the USD suggests upside potential of +6.9%. We will use any Brexit negative headline related pull-back to add exposure to GBP assets.

Chart 1: USD Index (Weekly)

Chart 2: EUR/USD Exchange Rate (Daily)

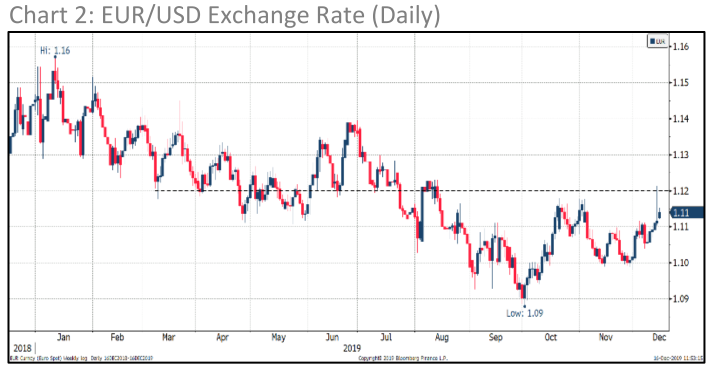


Chart 3: SEK/EUR Exchange Rate (Daily)

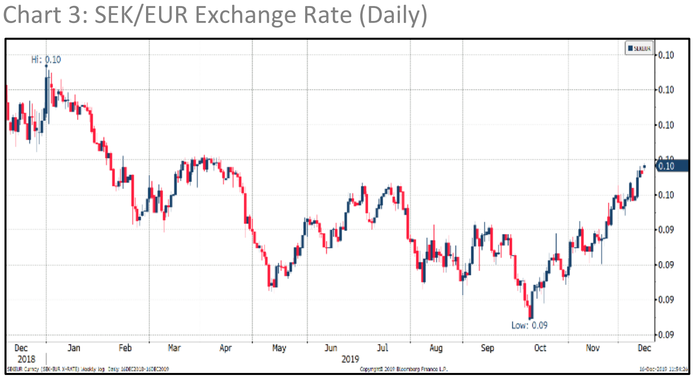
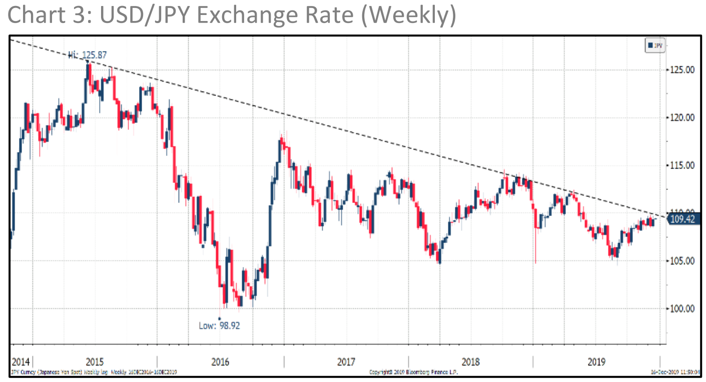


Chart 3: USD/JPY Exchange Rate (Weekly)



EQUITIES

Conclusion: **Bullish**. Equity valuations are fast approaching a cyclical top. The MSCI World Index trades on a 2020 Price/Book ratio of 2.3x. This is over 1-Standard deviation expensive and only 10% away from all-time high valuations of 2.5x reached in 2006-2007. Yet, there is no immediate sign of a market reversal into a bear market. In fact, the MSCI World Equity Index has broken up to record highs **(Chart 1)**. The allocation decision favours equities. The S&P 500 dividend yield beats the US 10-year bond yield. This happens rarely, but 94% of the time that it has, stocks have beaten bonds over the next 12 months. A front-loading of performance early in 2020 is possible. EM and Europe (including UK) could offer more upside in 2020. A pick-up in corporate profits growth in Q1 2020 could support a rotation out of “growth” stocks into “value” stocks. While we are tactically bullish equities in Q1 2020, we maintain a flexible mindset as this remains a late-cycle environment and stand ready to change our mind swiftly.

- With improving economic data and lower political uncertainty until at least 6 months before the 2020 US elections, there is a chance that global equities melt-up in Q1 2020 and front-load the yearly performance. Ascribing a historically high Price/Earnings ratio of 20x on expected S&P 500 earnings, we estimate a potential S&P 500 Index target of 3,400. This suggests +6.3% upside in a blue-sky scenario which could happen as soon as Q1 2020. While this return looks meagre in comparison to 2019, one should not get used to 2019-type extraordinary returns – they are the exception.
- Small cap stocks have underperformed large caps by c. 6% in 2019, hurt by weakening US/global macro, trade tensions, and a focus on quality/profitability amid a small cap earnings recession. Fundamentals for small caps are improving. We are witnessing a turning point **(Chart 2)** and expect small caps to outperform large caps in the coming months as we shift regime expectations from “Downturn” to “economic pick-up” in the US.
- The main debate is “Momentum/Tech” vs “Value”: which factor will outperform? The main driver for Value is profits, and we expect a pick-up to 8% in 2020. Money managers are overweight Momentum. Value has never been this cheap. Technology stocks are core holding in portfolios and a key investment focus performed in partnership with dedicated investment specialists. That said, exposure to “Value” sectors such as Energy and Financials is also warranted.
- EM and Europe could offer more upside in 2020: positive EPS revisions for the rest of world eclipse the US, and positioning is light everywhere but the US. Our penchant for International equities includes Europe, UK and Emerging Markets which remain the best value proposition to-date **(Chart 3)**. We remain relatively bullish on Chinese A-shares, even more so following the “phase 1” deal with the US **(Chart 4)**.

Chart 1: MSCI World Index (Weekly)

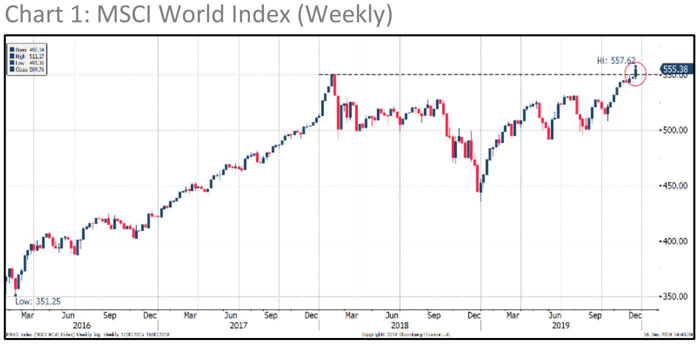


Chart 2: US Small Cap Stocks Relative to S&P 500 Index (Daily)

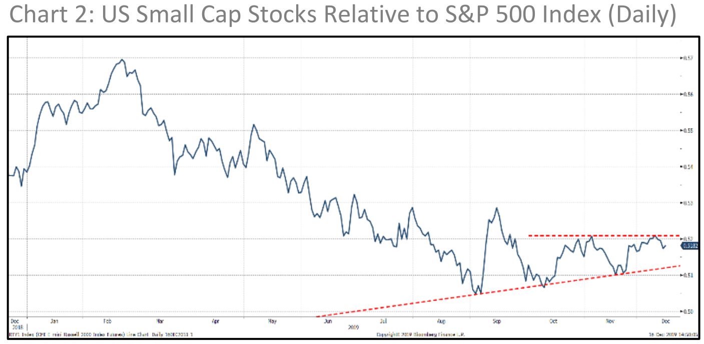


Chart 3: MSCI EM Index Relative to S&P 500 Index (Weekly)

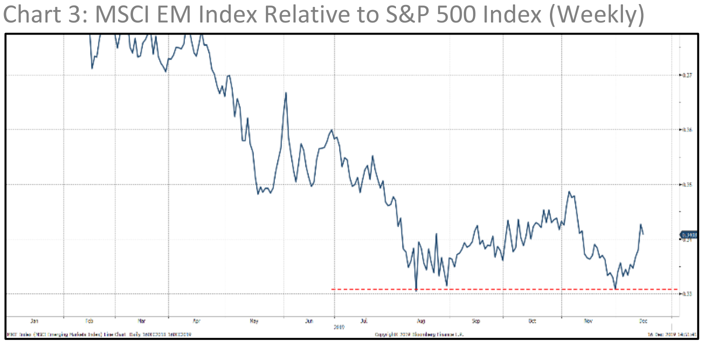
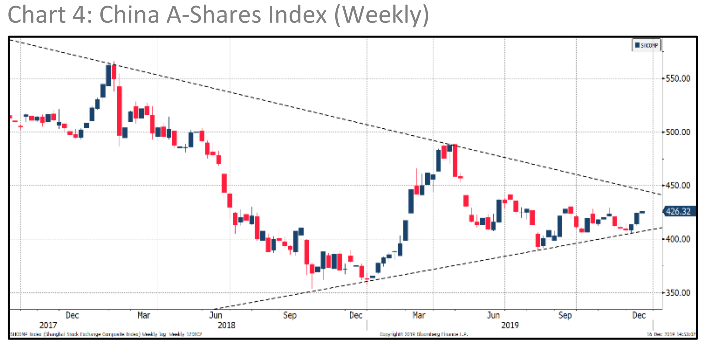


Chart 4: China A-Shares Index (Weekly)



COMMODITIES

Conclusion: **Bullish**. Commodities remain one of our preferred asset classes in a late cycle environment. Valuations are still close to record lows. Our outlook of a weaker USD, a brighter global economic outlook, and superior emerging markets growth coming into play are supportive of the commodities complex. We remain long gold with a price target at $1,550/oz (+5.1%) in Q1 and $1,800/oz before year-end 2020. With prices at decade lows, the US-China “phase 1” deal completion, and acute weather disruptions we continue to believe in some tactical long trades on industrial metals such as Copper and some agricultural commodities.

- The Bloomberg Commodity Index rose +3.1% in Q4 2019 **(Chart 1)** driven by higher global oil prices. The potential weakening of the dollar remains supportive of a bullish thesis for commodities. In the meantime, the brighter economic outlook and superior growth in emerging markets should both drive prices higher. Since 2009, the Bloomberg Commodity Index has shown a positive 0.73x correlation to Emerging Market (EM) equities. As EM equities start to outperform, so will commodities. “Doctor Copper” is tentatively breaking out **(Chart 4)**. As a harbinger of economic health, this is positive. Technically, the Bloomberg Commodity Index is showing clear signs of bottoming.
- We have been bullish on Gold prices **(Chart 2)** since Q4 2018 and remain so to date. The secular bull market for the commodity has only just started. Investors are starting to come to term with the value of owning gold at this point in the cycle. We forecast gold prices to reach $1,550/oz (+5.1%) in Q1 2020 and $1,800/oz (+22.0%) in H2 2020. At current price levels, we see attractive value and limited downside to silver.
- Agriculture and Livestock commodities prices **(Chart 3)** are starting to rise from the ashes. A US-China “phase 1” deal is a positive catalyst, notably in terms of secured end-demand. Supply growth has been limited as decade low prices have forced farmers to cut production while acute weather disruptions continue to periodically put pressure on supply. With the market positioned extremely short on these commodities, the risk is to the upside.
- Within Energy, We believe oil prices are likely to remain in a $55.0-65.0/bbl trading range **(Chart 4)**. Following the recent OPEC meetings, the new energy minister in Saudi Arabia has expressed his unwillingness to compensate for other countries’ overproduction anymore as the US is set to become a net petroleum exporter in 2020. Risks of over-supply are mounting. We continue to like natural gas for a trading opportunity in Q1 2020 based supply constraints and seasonal factors. Indeed, this asset tends to perform well during peak demand in winter months.

Chart 1: Bloomberg Commodity Index (Weekly)

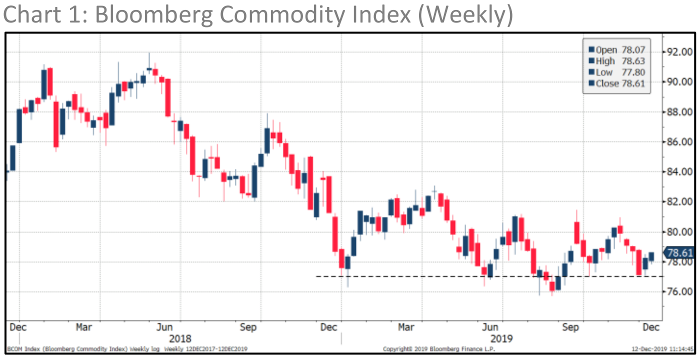


Chart 2: Gold Prices (XAU Currency - Monthly)

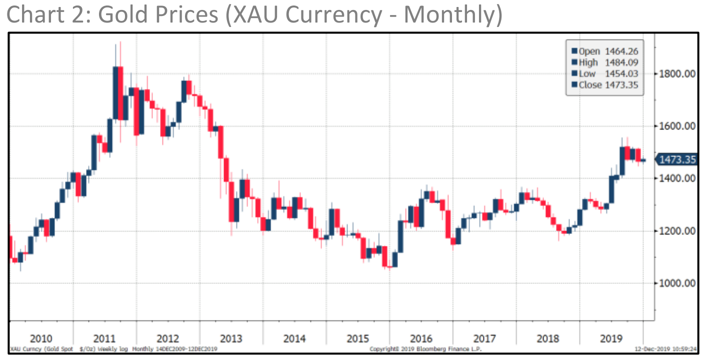


Chart 3: Bloomberg Agricultural & Livestock Index (Weekly)

Chart 4: Copper Prices (Weekly)

KEY 2020 TRADES

Long US Small Cap Stocks

Small caps have underperformed large caps by 6% in 2019, hurt by the deteriorating global macro backdrop, the US-China trade war, and a focus on quality/profitability. We see potential small caps outperformance in the coming months as we move from a recessionary environment to a likely economic pick-up. Analysts' guidance has improved more in small caps – which are slated to see better earnings growth. Small caps typically lead large caps from November-March. Technically, we use a Russell 2000 Index target of 1,740; suggesting +4.8% upside potential.

Russell 2000 Index (Weekly)

<u>Instruments:</u> Russell 2000 Index futures, Russell 2000 ETF or T Rowe Price Small Cap Fund

Long Japanese Yen

The Japanese Yen (JPY) is a highly cyclical currency which provides protection against potential market stress and renewed recessionary concerns. It is one of the cheapest developed market currencies with a Real Effective Exchange rate over 1-standard deviation cheap. The USD/JPY is testing long-term resistance and is looking overbought technically. Speculators are rebuilding their long position gradually. The sharp narrowing in expected interest rate differentials signals that a cyclical bear market in USD/JPY is underway. We use a USD/JPY target of 105; suggesting downside potential of 4%.

USD/JPY Exchange Rate (Weekly)

<u>Instrument:</u> USD/JPY forward

Long Gold Miners

The combination of low real yields and a potentially weaker USD makes us bullish on commodities. Gold continues to consolidate the rapid gains made during the breakout up-leg from May to September. Gold appears to be forming a similar "wedge" consolidation pattern as the one that occurred during the February to May consolidation. A sustained breakout could target a move to the $1,800 area. In a strong gold price environment the biggest beneficiaries are mining stocks. The Junior Gold Miners ETF has rallied +32% in 2019. With a target of $50 for 2020, this suggests 28% upside potential for this ETF.

Vaneck Vectors Junior Gold Miners ETF (Weekly)

<u>Instrument:</u> Vaneck Vectors Junior Gold Miners ETF

Long Chinese A-Shares

We believe index inclusion (MSCI, FTSE and S&P in 2019-20) and rising market access will necessitate global investors' involvement in the China A-share market. A-shares offer great diversification being the least correlated large equity market globally. Lower trade uncertainty and fiscal expansion should support the local equity market. The A-share market trades on a 2020F P/B of 1.27x which is historically cheap. Technically, the A-share market is breaking out of the 3-months consolidation pattern. We use a Shanghai Composite Index target of 3,400; suggesting +12.5% upside potential.

Shanghai Composite Index (Daily)

<u>Instrument:</u> Xtrackers Harvest CSI 300 China A-Shares ETF or UBS China Opportunity Fund

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