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Investment report
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A year ago, we were contemplating a possible fall in the stock markets. We did indeed see a slump on markets but we had not expected such a massive fall in prices. As expected, the economy has slowed down but we are still far from a recession.

The falls occurred mainly in October and December. In December, in particular, we experienced panic selling at times, the likes of which we had not seen since the major recession of 2008. It is striking that the slump occurred in December, a month which has never seen one before. More often than not December has actually been one of the strongest months of the year. Analysts, financial specialists, journalists, investors, etc. all tried to find reasons for this state of panic. The USA-China trade dispute, interest rate rises in the USA — announced some time previously by the way — and a possible recession received the most frequent mentions.

When towards the end of the year these arguments turned out to be vague, flimsy and to have little substance, the markets began to slowly recover.

Under these circumstances, we find it difficult to risk a reliable prediction for 2019. The unpredictability of President Trump makes this task even harder. Nevertheless, we will try to outline the most probable scenario for 2019.

- As already mentioned above, the economy has slowed down but we are still in a growth phase. Neither the USA nor China wants to allow a recession to occur at this time. The FED has already signalled a break in its interest rate hikes, and the Chinese monetary authorities have reduced interest rates by 1%.
- As nobody has any interest in a recession, the trade dispute between the Americans and the Chinese will soon be settled.

- In Europe, only Italy has slipped into a recession. Specific measures to revive the economy have not (yet) been announced. There is very little leeway here as interest rates are already very low (negative).
- Earnings per share in 2019 for companies in the S+P 500 are estimated at USD 175. This equates to a price-earnings ratio of almost 15%. This valuation is historically slightly below the long-term average. In Europe, stocks are even more attractively priced than in the USA.
- In a market returning to normality, the euro can be expected to be stronger against the USD and the CHF. A weaker dollar will favour emerging markets.
- After the sharp drop in the oil price due to higher production and speculation, the situation has eased and the oil market is slowly returning to normal. We regard USD 60 per barrel (WTI) as a reasonable price for consumers and producers.
- In these turbulent times, gold has appreciated as expected although inflation has stabilised at a reasonable level (approx. 2%). Thus we also expect gold to settle down at around USD 1,200-USD 1,300 per ounce.

This is the most likely scenario that we can imagine in today's environment. However, this can change quickly if the underlying situation should drastically change. What could go wrong?

- Trade war USA-China-Europe
- Rapid slowdown in the global economy
- Deterioration in the climate in Italy and France
- Political problems in the USA which might lead to paralysis in the country
- Negative geopolitical events (Middle-East conflict and North Korea)

Conclusion:
From today's perspective we are slightly bullish but a higher state of alertness will be essential.

10 January 2019
Georges Mari