

## Are we living in two parallel worlds?

*It seems like it if we take a closer look at today's economic, social and political environment.*

### The socio-political world

On the one side we notice that both in Europe and in the US populism is on the rise, a populism that is mainly fuelled by ideas from the far right.

At the same time socialism seems to be on the retreat.

The better than expected score achieved by the "Alternative für Deutschland" in the German elections highlights once again this tendency. It remains to be seen whether Angela Merkel's position has been significantly weakened, but most probably she is now beyond the peak of her political power and influence. The pro Europe speech by the French President Macron, showed a lot of ambition. It remains to be seen, though, to what extent Merkel will be able to follow suit.

In the US the socio-political situation is alarming as well. President Trump's ego stands in the way of his political agenda. He is currently unable to push through any of his promised reforms. One of the main proposals, the tax reform, still needs to pass some significant hurdles. Also his undiplomatic approach to the North Korea conflict does not inspire confidence and is an unprecedented change of direction.

***This is one side of the story.*** A story that easily grabs the headlines in the media; negative and spectacular news are an easy sell.

### The economic world

More under the radar, and maybe not welcomed by many populists, is the strong performance of the global economy, where recently Europe jumped on the bandwagon as well. In Europe, in economic terms, all seems to be on a roll and even better than expected. The unemployment figures continue their way down and economic growth has doubled from 1% to 2%. Currently

Europe's economic growth is in sync with the US's. The business climate can be characterized as being ideal. An inflation rate at 2% coupled with a real economic growth rate of 2% make for 4% nominal economic growth. In the rest of the world the economic growth is even stronger. ***This is the other side of the story.***

### Our investments in equities

The companies we invest your wealth in operate in a dynamic environment that witnesses 4% nominal economic growth and offers many opportunities. Hence we are not surprised that corporate profits are so strong. We have been repeating this for years now, when looking for a return on your investment, equities cannot be ignored. And indeed, this year again, this strategy has proved itself. The investments in equities, this year once again, show nice results.

Our  
investments in  
bonds

Half the outstanding sovereign fixed income of this world offers yields below 1%. One quarter even offers negative yields. In this market environment of ultralow rates we make several choices that should offer some opportunities to our fixed income investors. Which choices did we make?

1. We diversify our investments globally. In the first place we opt for quality and choose 'high grade' sovereign issuers like Germany, Luxembourg, the US, Canada and Australia. Next, in an effort to diversify we purchase sovereign debt from countries like Mexico, India, Indonesia and Argentina, where we can still capture yields of above 7%.
2. We invest in corporate bonds, of which a considerable part is denominated in US Dollar. Here we are able to capture yields above 3%, even on corporate debt of high grade issuers.
3. These two choices come with foreign exchange risks. This year the strong Euro has weighed on our performances. However we remain confident in our strategic decision to manage your wealth with a globally diversified portfolio. Currently we consider the USD/Euro forex rate to reflect the economic equilibrium between the underlying geographic entities.
4. At current low rates we are cautious with respect to the duration of the fixed income investments. The end of ultralow rates is coming closer. We do not expect major rises in the yield curves. However, with current zero rates in the Eurozone, a rise by even 1% can hurt the prices of fixed income instruments temporarily. Anticipating this we have lowered once again the duration of the fixed income investments to 3,5 years.

Conclusion

As a conclusion we can say that we constantly evaluate both sides of the socio-political and economic story, as it keeps evolving. The next chapter in the socio-political story step will be the Italian elections. But also the economic story evolves, e.g. with the recent acceleration of the European economic growth. In addition, both stories interact. Trump may be able to push through his tax reform, an additional incentive for American corporates and households. Macron hopefully will find an ally in Merkel for further European integration, which would be very positive for economic growth in Europe.

Kindest regards,

The Executive Committee of CapitalatWork Foyer Group