



MARCH 2019

## LICENCE FOR VALUE HUNTING

### MARKET REBOUND



Equities and credit markets experienced a massive rebound in the first weeks of 2019, erasing most of the losses experienced in one of the most awful Decembers in history. The catalysts of the renewed optimism were the dovish shift in the Federal Reserve's strategy and progress in the trade negotiations between the US and China.

### THEMES TO WATCH



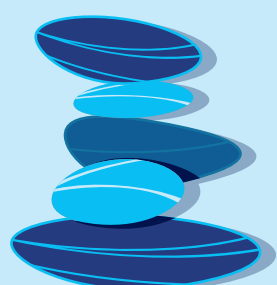
#### A NEW ECONOMIC NARRATIVE

We expect economic divergences through the year: the US will continue to decelerate (from strong growth), whilst Emerging Markets could stabilise and rebound in the second half of 2019 (with differences among countries), as could the Eurozone, as long as significant risks don't materialise.



#### A SWEET SPOT FOR NOW

An economic slowdown but no recession. Central banks with rate rises on pause or with accommodative stances. Bond yields at low levels. Altogether these represent a sweet spot and as long as they last, so will the market-friendly environment, though we are likely to see volatility as areas of uncertainty (geopolitics) and vulnerability (high debt) persist.



#### SUSTAINABILITY IN FOCUS

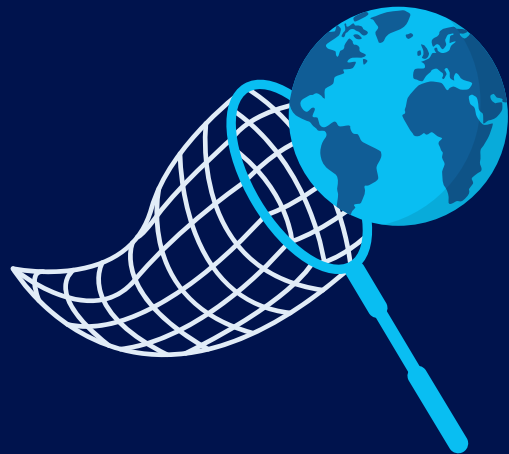
In this phase, the key focus is on sustainability of growth: countries/areas with solid internal demand (a particularly important element in Emerging Markets); sustainability of corporate earnings (focusing on companies with solid business models); and sustainability of debt (avoiding the most fragile situations).



#### EUROPEAN EQUITIES

European equity could be back as an area of interest in the coming months. Investors are too pessimistic on European Equities and most of the bad news (economic and earnings outlook) is likely behind us. Brexit and EU election could open entry points, to be carefully monitored.

### HUNT FOR VALUE



After the rebound, some valuation gaps have been closed somewhat, though some opportunities remain to be exploited in credit and Emerging Markets, as well as possibly, in the coming months, in EU equities. Focusing on fundamentals will prevent investors from falling into the pessimism (or excessive optimism) trap that a noisy news flow could trigger. With a medium-term view, the key guideline is to try to hunt for value opportunities arising from cyclical fluctuations.

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