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MARKET COMMENTARY – Q2 2018

About a year ago we warned about the risk of a globalization decay, driven by the new US government1[1]. This risk is today much more obvious since the introduction of import tariffs by the US late in the first quarter. How far this could go is no easy question, however it is not difficult to say that it is far from over.

In an unconventional way, president Trump has rationalized his ability to impose tariffs to his advantage when trade "threatens or impairs national security". Obviously taking much liberty in its interpretation, the US president has followed an aggressive stance when it comes to trade and left little choice to other nations but to retaliate in a similar fashion at the risk of looking weak. China, the main target of the policy, was first to retaliate with similar measures. It was soon followed by several countries including Canada and Mexico, the United States' two other main trading partners. The escalation of tension accelerated during the quarter, resulting in further tariffs and investors rightly feared its future impact on growth.

Protectionism's resurgence was not the only concern of markets as the deterioration of international diplomacy worried investors too. Despite the united front displayed in Syria, along with France and the UK in April, the US withdrew from the Iranian deal and faced isolation at the G7 gathering held in Canada. In order to best highlight the depths to which diplomacy has sunken, we need to only mention Peter Navarro's2[2] words when targeting the Canadian Prime Minister who he sees as having "a special place in hell".

The fragility of the European Union once more became evident during this period. The Italian coalition's attempt to instate an anti-euro Minister of Economy sent tremors through the Euro-zone as a whole, the Spanish prime minister was evicted and even Angela Merkel appeared to be in a difficult position over migrant policies dispute within her own government. Although temporary, these issues indicated how swiftly the sentiment can change in the region.

In this environment, the major central banks were able to provide some stability. First, the Fed showed its confidence in the US economy and its positive trajectory by increasing its key interest rate by a quarter of a percent and drove expectation for another two rate hikes for the year. Then, in a meeting we attended with Peter Praet3[3], his tone indicated a cautious approach when he spoke about the ECB position. Lagging

[1] Q1 Market commentary 2017
[2] Assistant to the President, Director of Trade and Industrial Policy, and Director of the White House National Trade Council
[3] ECB Chief economist and executive board member

significantly behind the United States, the European economy is much more sensitive and still requires, in our opinion, some support from the central bank. The European central bank later communicated its intention to keep key rates low until 2019, while still tapering their asset purchase program.

The European Union GDPR4[4] implementation in May following the Facebook data breach, reported earlier in the year, may well signal the start of another transformation of the industry. Beyond short-term considerations, this is an interesting development in internet scrutiny worth both to be mentioned and monitored for future opportunities, as it reflects both the genuine needs for users to be better protected and the attraction of this major profits-making industry which pays little by way of taxes.

In summary, the escalation of tariffs on international trades systematically dominated the news cycle during the second quarter and was the main driver of market volatility. Some of these uncertainties translated into the strengthening of the US dollar and significantly impacted emerging markets, producing major outflows and putting countries such as Argentina at risk once again. Protectionism combined with "orderly" retraction of central bank liquidity will definitively lead to much more dispersion where passive investment will be lagging active management. Going beyond index investment, in order to pick the right and better positioned companies going forward, is our current strategic conviction to achieve better risk adjusted return and outperform.

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Managing Director & CIO

Markets	**Indices**	**Q2-2018**	**YTD**
Equity World	*MSCI All Countries World Daily Total Return Net USD Index*	**0.5%**	**-0.4%**
Equity Emerging Market	*MSCI Emerging Net Total Return USD Index*	**-8.0%**	**-6.7%**
Global Fixed Income	*Barclays Global-Aggregate Total Return Index USD*	**-2.8%**	**-1.5%**
Global Commodity	*S&P GSCGI Index Spot Index*	**7.6%**	**10.2%**
Hedge Funds	*Hedge Fund Research HFRX Global Hedge Fund Index*	**0.2%**	**-0.8%**
EUR/USD	*Euro Dollar*	**-5.2%**	**-2.7%**

[4] General Data Protection Regulation