INVESTMENT STRATEGY

Investment Management

Servicing beyond solutions

Investment Strategy Q4

Geneva - Headquarters
Place de Longemalle 10-12
1211 Geneve 3, Switzerland
Tel: +41 22 715 1211

Zurich Branch
Claridenstrasse 26
8022 Zurich, Switzerland
Phone: +41 44 265 71 11

Beirut Branch
Allenby Street, Beirut Souks,
Block 25, 4th Floor, Beirut, Lebanon
Phone: +961 1999 366

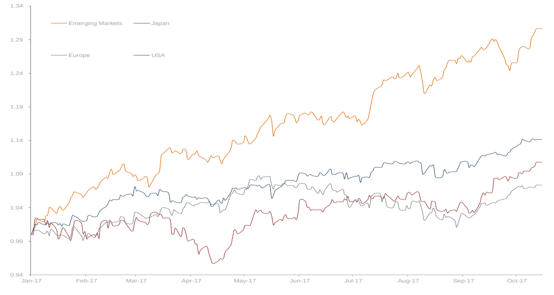
INVESTMENT TEAM PRESENTATION

	Name	Function	Professional background In the industry	Professional background At ABS	Education
	Alain Dargham	Chief Investment Officer	16 years	8 years	Ph.D. in Management, Finance at IAE de Paris, France Executive MBA at IMD Business School, Switzerland
	Cyrille Flichy	Head of Investment Advisory	9 years	7 years	MSc. in Finance at Edhec Business School, France MSc. in Finance at European Business School, Germany
	Daniel Deléchat, CFA	Head of Portfolio Management	23 years	3 years	Chartered Financial Analyst
	Johnny Pugliese	Senior Portfolio Manager	27 years	6 years	International & Swiss Certificates, Switzerland
	Vincent Bor	Portfolio Manager	4 years	3 years	Master in Finance at ESCP, France MSc. in Civil Engineering at ESTP, France
	Arnauld de Lassus	Investment Advisor	3 years	2 years	MSc. in Management - Finance Track at ESSEC Business School, France
	Anne-Lorraine de Malliard	Portfolio Manager	2 years	2 years	MSc. in Management - Real Estate Track at ESSEC Business School, France
	Wadih Manneh, CFA	Senior Portfolio Manager	18 years	1 year	Chartered Financial Analyst; MBA and BS at American University of Beirut
	Yasmina Dahlin, CFA	Investment Advisor	6 years	1 year	MSc. in Finance & BSc. in Economics, HEC Lausanne Chartered Financial Analyst

GLOBAL STOCK MARKETS

The third quarter saw a continuation of the overall positive trends in global stock markets amid persisting low levels of market volatility. Summer worries over geopolitics and lower US inflation data seemed to be easily shrugged off. Emerging Markets kept up their strong outperformance vs Developed Markets. Europe saw modest gains of around 2.4%, however with the rising Euro it added 6%, while US markets gained 4%.

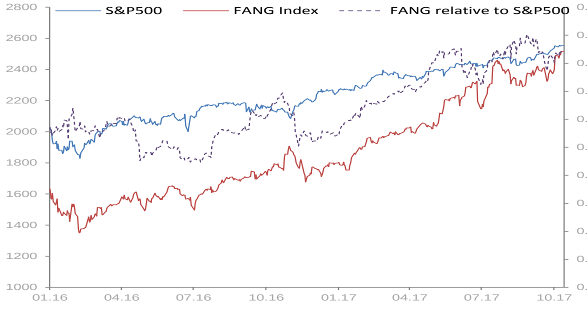
MSCI World Equity Indices *(Source: Bloomberg L.P.)*



FACEBOOKAPPLENETLIXGOOGLE

For most parts of the third quarter US equities, as measured by the S&P500, had not moved much. It was again upon the popular big tech stocks to take the lead to march on higher starting in mid September. This is once again a manifestation of the lack of market breadth, respectively the low level of participation behind this uptrend. Bull markets often are referred to as a wall of worry that they have to climb, while some call bear markets a slope of hope. It is clear that today's bull market is probably the most disliked ever, with many notable fund managers publicly calling for a market top and a larger correction being imminent. Even though the run-up in some tech stocks is reminiscent of a bubble, the public bearish discourse certainly helps to balance out. True, growth data across the globe have generally surprised in 2017, helping the bulls as well, to make their case.

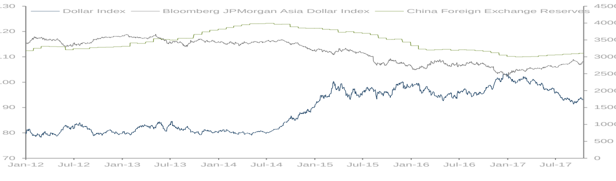
FacebookAppleNetflixGoogle *(Source: Bloomberg L.P.)*



THE U.S. DOLLAR INDEX, CHINA FX RESERVES

The US Dollar remains the name of the game. That it has trended lower for most of the first nine months doesn't change the overall big picture. Much can be attributed to the strength of the Euro this year, on the fact that the various elections in Europe didn't lead to the feared extreme outcomes. Thus confidence has returned to the fore. However, confidence in Europe seems to have suffered some as of late. Also benevolent to the continuation of the consolidation in the US Dollar since March 2015 was the rebound in the Chinese Yuan, where the People's Bank of China had an instrumental role behind it. However, the developments lately in the currency markets warn that trends might have reversed and that the US Dollar might already have resumed its underlying uptrend. As the Bank for International Settlements put it, the US Dollar had become the new fear index. A rising greenback would clearly have its ramifications on global financial markets.

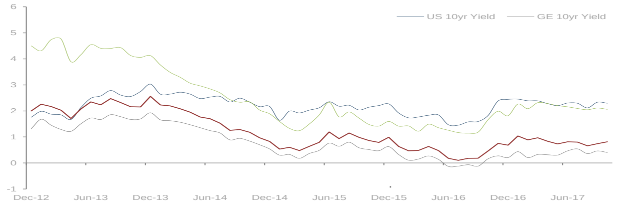
The U.S. Dollar Index *(Source: Bloomberg L.P.)*



GLOBAL FIXED INCOME MARKETS

Credit-sensitive bond markets, like high yield and emerging markets, have held up rather well in the wake of the rally in equities. However, credit spreads have not continued to improve during the third quarter as one would have guessed. A typical divergence seen late in a trend. Investment grade fixed income bonds, on the other hand, had seen their gains vanish in view of the rally in equities, and also based on the fact that the FED had reiterated its stance toward another rate hike later in the year. FED Chair Yellen dismissed low inflation as being only transitory. How a persistent flattening of the yield curve fits with the rhetoric from the FED for further gradual rate hikes seems questionable. Flat yield curves are essentially expressions of lower expected economic activity.

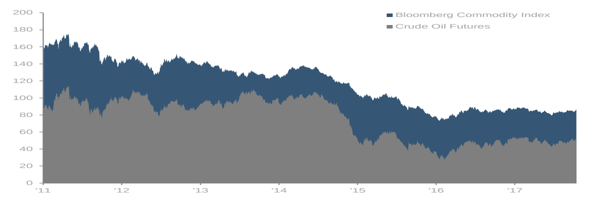
Global Fixed Income Markets *(Source: Bloomberg L.P.)*



Commodities

The commodity complex generally did well during the third quarter. In particular it was the industrial metals and energy sectors that moved up strongly. As we had stated in the Q3 report, from a technical point of view, a revisit of this year's high in Crude Oil at USD 55 seemed absolutely possible.

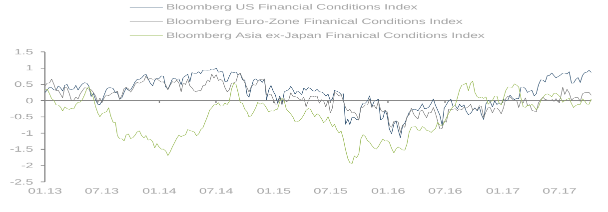
Bloomberg Commodity Index *(Source: Bloomberg L.P.)*



Global Financial Conditions

A look at the Bloomberg Financial Conditions Index, which tracks the overall level of financial stress in the money, bond and equity markets to assess the availability and cost of credit, still shows a rather dissimilar picture. The US Financial Conditions Index has improved much further than Europe and Asia. However, the improvement in the financial condition indices is just a result of the strong rally in equities, the absence of volatility and narrowing of interest rate spreads.

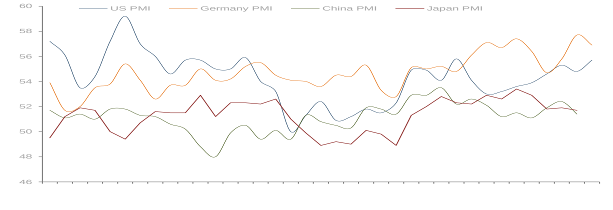
Gobal Financial Conditions *(Source: Bloomberg L.P.)*



Global PMI, US Credit Growth

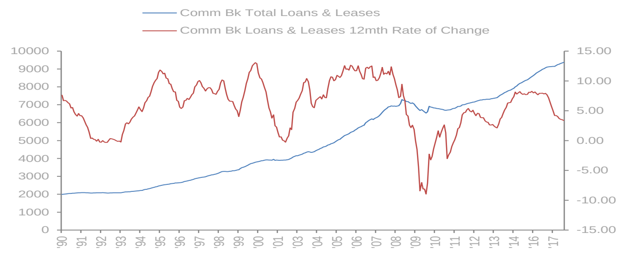
Our Asset Allocator Model showed an overall neutral reading for the allocation in equities. The model tracks the developments from fundamental and technical factors. It further takes into account liquidity aspects such as Central Bank actions, cash holdings and money flow observations. It probably comes as no surprise given the many conflicting signals markets currently face.

Global PMI Data *(Source: Bloomberg L.P.)*



Despite the relative maturity of the US business cycle, most investors see the recession risks in the US to be kept at bay. Survey based data of the Composite Global Purchasing Managers Indices from Markit show activities in the US and in Germany continued to hold up, while some weakening can be observed in China and Japan. On the other hand the US Manufacturing PMI surveyed by ISM has moved above 60 for the first time since early 2011. However, reaching this level has in the past always led to a subsequent contraction in this economic indicator.

US Commercial Banks Loans & Leases *(Source: Bloomberg L.P.)*

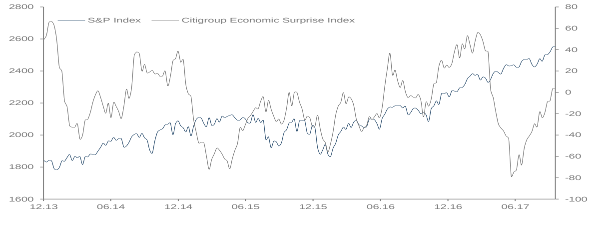


Economists make economic assumptions according to models, where an economy that is expanding must also be growing. While global growth data has surprised so far, accelaration, or momentum, is still absent. Therefore this important distinction has to be made. The uptick in growth data in 2017 seem to be just positive numbers and not robust growth. We are still reminded of the June Economic Outlook Report by the OECD which is titled, «Better, but not good enough.»

Citigroup Economic Surprise Index

The CESI has had many investors baffled in the second quarter when it had a persistent decline. Although it has been recovering nicely since the start of Q3, it still remains nowhere near the levels it was at in previous times of the current cycle. The current economic expansion is the third longest since 1854. On balance there is a gross divergence from the rally in equities, suggesting that something is still not quite right. The risk of the US entering a recession within the next six to eighteen months is considerably high.

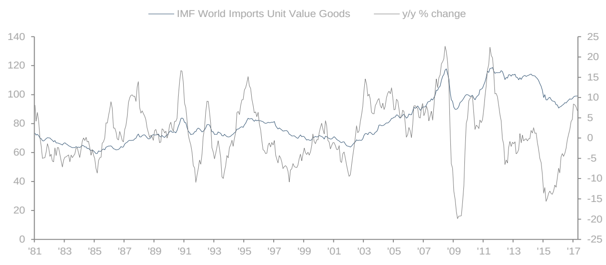
Economic Surprise Index *(Source: Bloomberg L.P.)*



IMF World Imports

In its World Economic Outlook Report, of October 2017, the IMF states that there is a short-term recovery, with projected global GDP to rise to 3.6% in 2017 and 3.7% in 2018. But it states that the recovery is not complete, that growth remains weak in many countries, that the long-term challenges remain.

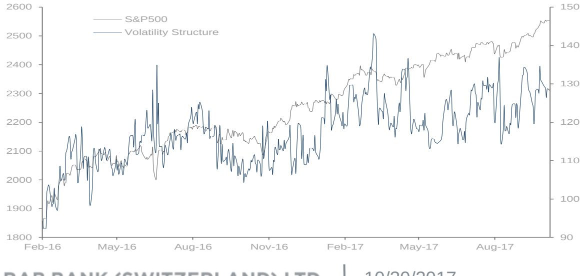
IMF World Imports (*Source: Bloomberg L.P.)*



VOLATILITY

Markets trade on narratives, while valuation and sentiment measures, among others, help investors to master risk. Depending on the narratives, new correlations between assets may develop or long-serving analysis on existing correlations may well be used. Currently markets are on the watch for a new narrative to trade on, despite the return of the FANG recently. We are going through an extended period of remarkable market calm, which in itself poses a major risk. Market participants have increasingly been trying to capitalize on ultra-low volatility, while actual risks continue to accumulate. Absent a new narrative, markets are prone to witness a pullback over the coming months. But on the other hand equity markets, namely US equities, seem to have only one way to go, and that is up. We advise to be vigilant. We recommend a pragmatic approach. We stay neutral as long as the S&P500 stays above its pivotal level of 2540, which was raised from 2400 as of the beginning of the third quarter. A break of 2540 would have us turn outright «underweight» in equities.

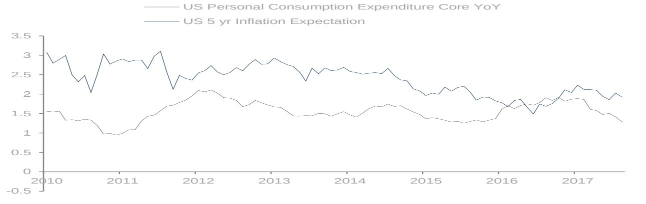
Volatility Measures *(Source: Bloomberg L.P.)*



U.S. PCE & Inflation Expectation

Much has been debated over the past three years about whether or not the FED would start to raise rates and for how long and how far any such liftoff eventually would last. Whether it's warranted or not. The Federal Open Market Committee holds eight regularly scheduled meetings during the year and other meetings as needed. At the December 2014 meeting the FED soothed markets by promising to have a patient approach to any rate hikes, but also projected that the Federal Funds Target Rate would be 1.12% as of end 2015, 2.5% as of end 2016 and 3.625% as of end this year. Twenty-two meetings later the FED has increased its rate four times to the current target range of 1.00% - 1.25%. It sees another four 25bps hikes by the end of 2018. Markets on the other hand, have had their doubts. It seems it's all about the lack of inflation or the return of it. Given our expectation that commodities will continue to go up, headline inflation could well pick up. Particularly if energy prices extend their uptrend. This could well give a wrong sense of returning of the "good" inflation for the FED. In our view the odds that the liftoff in rates has run its course is still higher than 50%.

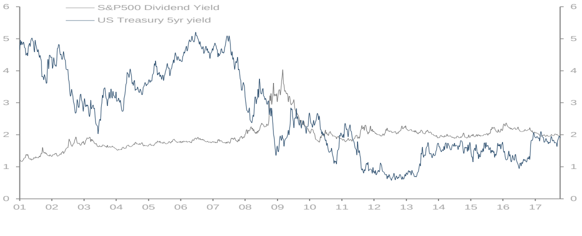
US PCE & Inflation Expectations *(Source: Bloomberg L.P.)*



S&P500 Dividend Yield & US Treasury 5Yr Yield

The Trump Administration's fiscal policy plans to cut taxes and engage in massive infrastructure programs had raised high hopes. The narrative was that these measures would have a significant impact on inflation and the US economy. The gridlock in Washington has hindered any progress. Still, a tax deal would have a significant impact. If passed, will the tax cuts be at the right place? Who saves taxes and who can spend, what will the economy benefit from?

S&P500 Dividend & US Treasury 5Yr Yields *(Source:*

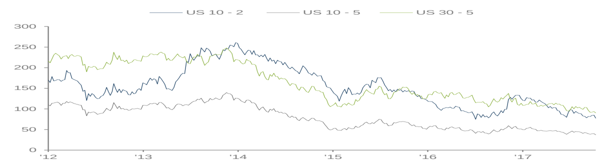


INVESTMENT STRATEGY

US Yield Curve

Much had been debated about whether monetary policies do work and what their impact is on the real economy. Contrary to overwhelming common belief initially, that once the FED started printing money, inflation would be on the rise, the exact opposite has happened. Inflation expectations never really picked up and the velocity of money just slowed down. It's simple: the very basic concept of Quantitative Easing is deflationary in nature. The persistent flattening of the yield curve is just another expression of the failed policies by Central Banks, but also a worrying sign of missing expectations of economic activity down the road.

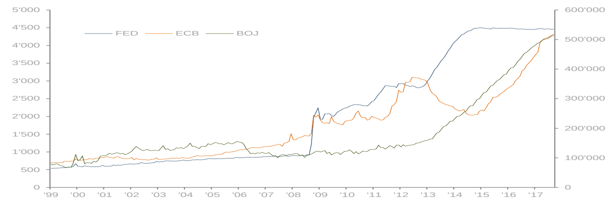
US Yield Curve (Source: Bloomberg L.P.)



FED ECB BOJ Balance Sheets & Grains

There is hope that fiscal policy can replace monetary policy, while it is realized that current monetary policy is no longer all that helpful. Central Banks are turning away from accommodative policies, but probably would do it again, should they feel it was needed.

Central Banks (Source: Bloomberg L.P.)



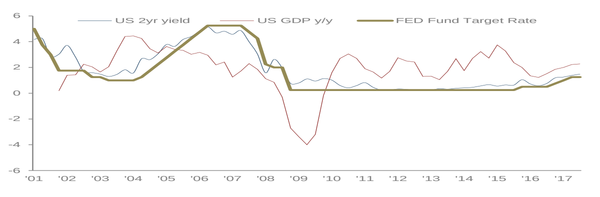
Yield Spread U.S. High Yield – Moody's BAA

Credit spreads, investment grade and high yield, have narrowed in line with the rally in equities. Credit markets do tend to follow equity markets. However, despite US equities being at new all-time-highs, credit spreads have not quite eased to where they were in summer 2014. This is a sign of a divergence between two different risky assets. Widening spreads will be on the agenda once again.

Key Calls

- USD asset-allocation trade is to remain intact
- Materials and energy stocks to outperform
- Oil to continue to go higher
- Agricultures at the beginning of a long-term bull market
- Low volatility and low correlation among stocks to cause VIX to go to 20 from 10
- FED closer to be done with hiking than doing another three or four hikes
- Risk of FED nearing policy error
- Risk of recession considerably high
- Convergence of global yields
- US – German 10yr yield spread from 200bps to 100 over coming 12-18 months

US 2yr yield, US GDP y/y, FED Fund Target Rate (Source: Bloomberg L.P)



		Change			
Country Allocation	**Recommendation**	Q1	Q2	Q3	Q4
USA	Neutral	➚	➘	➔	➔
Europe	Neutral	➔	➚	➔	➔
United Kingdom	Neutral	➘	➔	➘	➚
Switzerland	Overweight	➔	➚	➘	➚
Japan	Neutral/Overweight	➚	➚	➔	➚
Emerging Markets	Neutral/Overweight	➔	➔	➔	➘
					‡
Asset Allocation					‡
Cash	Neutral/Overweight	➔	➔	➚	‡
Bonds	Neutral	➔	➔	➔	➔
Fixed Coupon	Neutral/Overweight	➔	➔	➚	➔
Floating Rate	Underweight	➔	➔	➘	➔
Sovereigns	Underweight	➔	➔	➘	➔
Corporates	Overweight	➔	➔	➔	➔
Equities	Neutral/Underweight	➔	➔	➘	➔
Consumer Discretionary	Underweight	➘	➚	➘	➔
Consumer Staples	Neutral	➔	➘	➚	➔
Energy	Overweight	➚	➘	➚	➔
Financials	Neutral	➚	➔	➔	➔
Health Care	Overweight	➘	➚	➔	➔
Industrials	Neutral	➔	➔	➔	➔
Information Technology	Neutral	➚	➔	➘	➔
Materials	Overweight	➚	➘	➚	➔
Telecoms	Neutral	➔	➔	➘	➚
Utilities	Neutral	➘	➔	➔	➚
Alternative Investment	Neutral	➔	➔	➔	➔
Commodities	Overweight	➔	➔	➚	➔

INVESTMENT STRATEGY | DISCLAIMER

This document has been prepared by ABS for information purposes only and in no way constitutes a requirement, offer or recommendation to use a service, to purchase or sell investment instruments or to carry out any other transaction, nor should it be construed to constitute any investment advice. If you have received this information, it is on your specific request only.

Access to this type of information may be subject to legal and/or regulatory restrictions in certain countries in which the readers are domiciled or resident or of which they are citizens. This document does not intend to advertise, offer or otherwise solicit the use of the services of Arab Bank (Switzerland) Ltd. to give investment advice or to sell investments or investment funds in countries in which such activities are not permitted. This document is not intended for citizens of the United States of America or the United Kingdom or for persons who are domiciled or resident in any of these countries.

The information in this document is not the result of a financial analysis or research and is not subject to the Swiss Bankers Association's Directive on the Independence of Financial Research.

This document is intended for your personal use. It is based on information obtained from various sources that Arab Bank (Switzerland) Ltd. considers reliable as of the date hereof. No representation of any kind is made that the information contained herein is accurate or complete. Arab Bank (Switzerland) Ltd. does not accept liability for any loss arising from the use of this publication. Information on this document is subject to alteration at any time and Arab Bank (Switzerland) Ltd. undertakes no obligation to update or amend this document or notify a reader in the event that any information changes or subsequently becomes inaccurate.

Forward-looking statements include, but are not limited to assumptions, estimates, projection, opinions, models and hypothetical performance analysis. These statements constitute the author's judgment as of the date of this material and involve significant elements of subjective judgments and analysis and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein.

Past performance is no guarantee for current or future performance. Nothing contained herein shall constitute any representation or warranty as to future performance.

This document has been prepared without taking into account the objectives, financial situation or needs of any particular investor. Certain transactions or investments mentioned herein give rise to substantial risk. Arab Bank (Switzerland) Ltd. recommends before entering into any transaction to seek independent advice from a tax, legal, accounting and other professional advisors of your own choice regarding the appropriateness of the transaction in the light of the investment objectives and personal circumstances, including the possible risks and benefits of entering into such transaction.

Legislation or regulations in your home jurisdiction may prohibit you from entering into certain transaction with Arab Bank (Switzerland) Ltd. We reserve the right to make the final determination on whether you are eligible for particular products and services.

The information contained in this presentation is confidential and may not be reproduced or used or distributed in whole or in part without prior written consent by Arab Bank (Switzerland) Ltd.