

## Investors more optimistic

### U.S. central bank extremely expansive

Investor sentiment continued to improve, accompanied by inflows into equities and high-yield corporate bonds as well as a decline in liquidity. Hence, our countercyclical risk index was marked down by one notch and is now in the neutral range.

In order to avoid liquidity shortages that frequently occur at the end of the year, the U.S. Federal Reserve is extremely expansionary, thus driving up the prices of all assets. While the improvement in leading economic indicators is progressing slowly, fears of a recession have disappeared.

Long-term government bond yields are rising, while risk premiums on high-yield corporate bonds are falling. Moreover, investors do not expect the Fed to cut interest rates any further, which is why the U.S. interest rate curve is showing a clearly positive slope.

Overall, this results in a slightly less positive assessment of our Navigator, with a slightly different weighting of the asset classes:

Liquidity is reweighted neutrally, bonds continue to be underweighted and equities are only slightly overweighted. Alternative investments remain slightly overweighted.

#### December 2019

- Recession fears gone
- Falling risk premiums
- Equities downgraded from overweighted to slightly overweighted
- Liquidity upgraded from underweighted to neutral

### Sound Capital Investment Navigator

Valuation Bonds: --											
		Yields				Spreads					
		low	-	0	+	high	low	-	0	+	high
		--				++	--				++
<b>New</b>		X						X			
<b>Old</b>		X						X			

Valuation Equities: +											
		Shiller PE				Risk Premium					
		expensive	-	0	+	cheap	low	-	0	+	high
		--				++	--				++
<b>New</b>		X									X
<b>Old</b>		X									X

Valuation Alternatives: +											
		Leading Indicators				Risk-Index					
		Contraction	-	0	+	Expansion	Euphoria	-	0	+	Panic
		--				++	--				++
<b>New</b>					X			X			
<b>Old</b>					X					X	

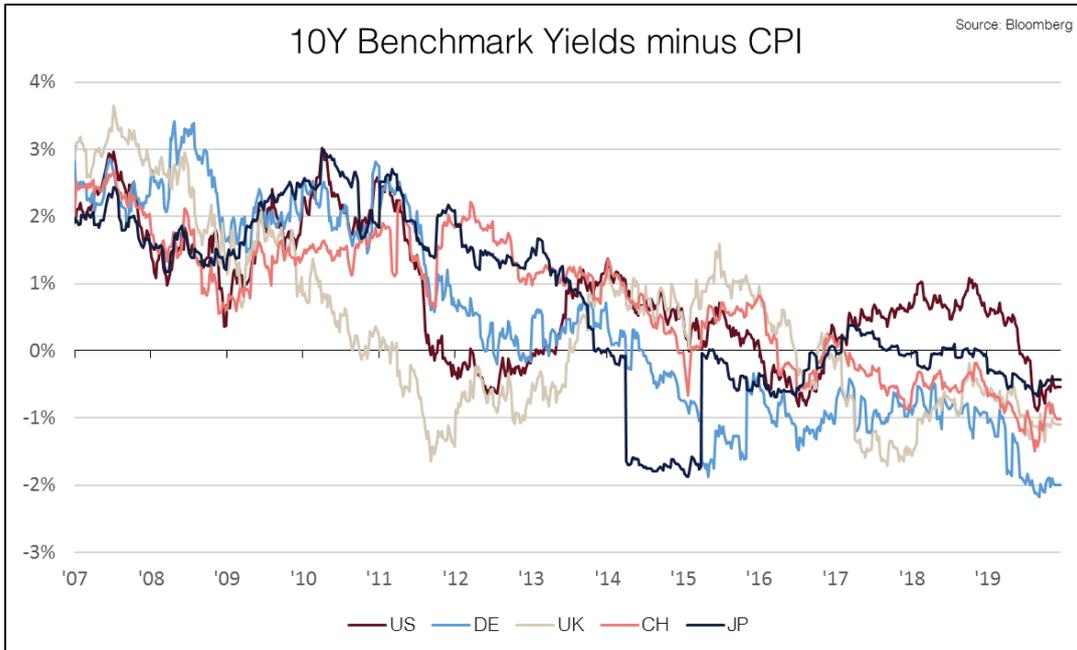
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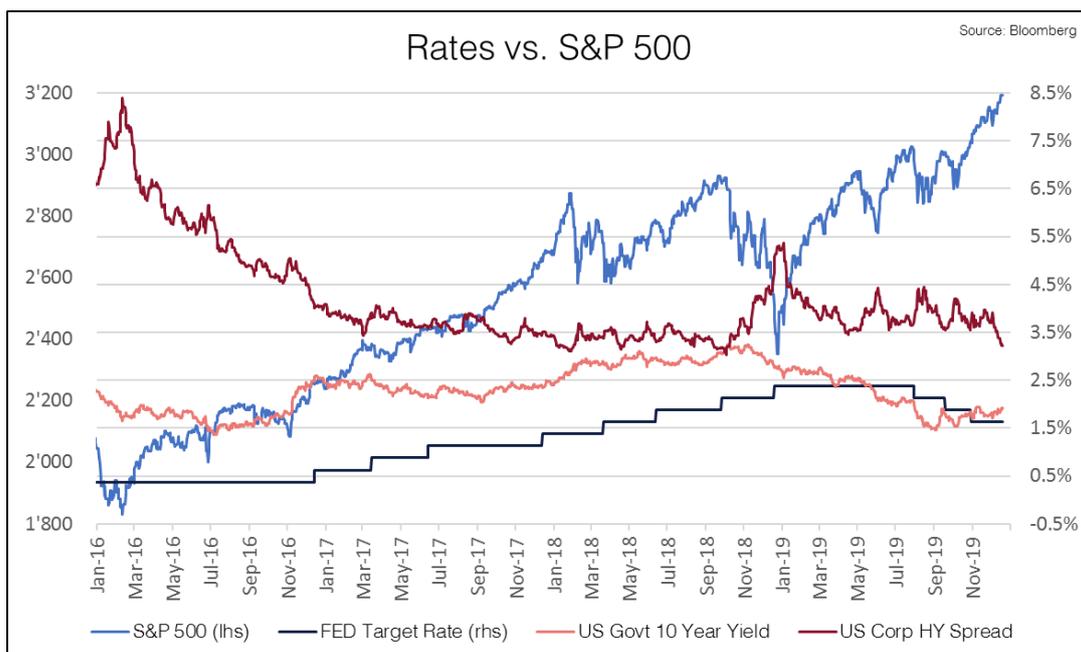
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**Interest rate level** (assessment indicator --) / **Spreads** (assessment indicator -)  
 assessment unchanged / assessment unchanged

At first glance, the nominal yield on 10-year U.S. government bonds appears comparatively attractive. However, considering inflation (as measured by the consumer price index) and real interest rates, the picture becomes far less appealing.



The U.S. yield curve is now showing a clearly positive slope and risk premiums for high-yield corporate bonds are falling. In combination this can be seen as a relief with regards to recession fears.



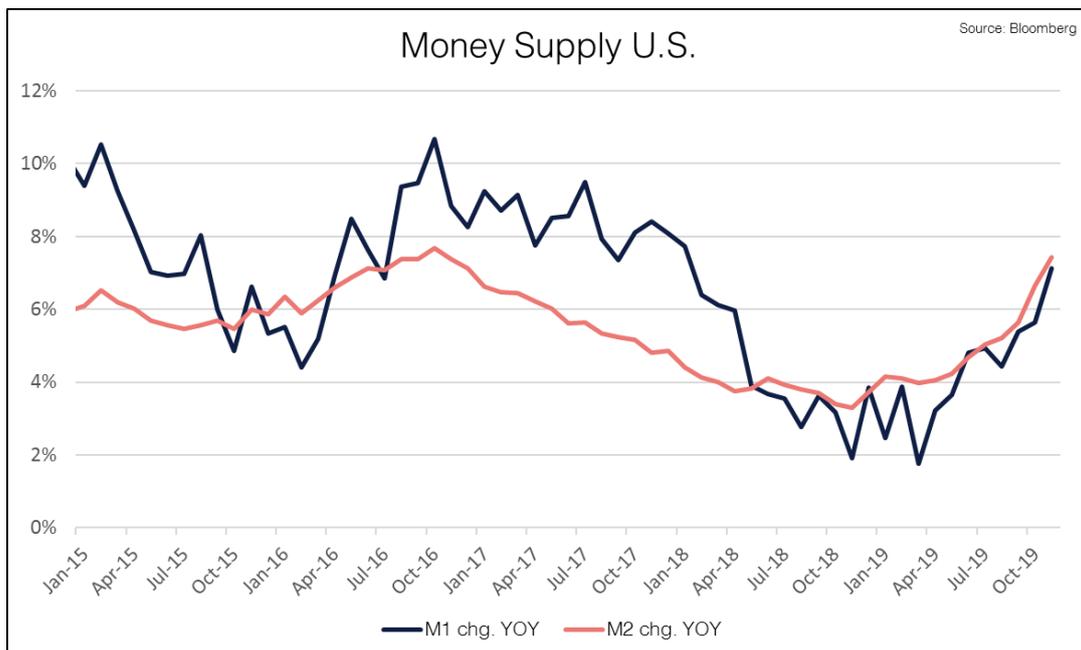
**Shiller P/E ratio** (assessment indicator --) / **risk premium** (assessment indicator ++)  
 assessment unchanged / assessment unchanged

The absolute valuation of the U.S. equity market as measured by the Shiller P/E ratio remains unattractive. On the other hand, the relative valuation of equities compared to government bonds, is still attractive (although levels are decreasing).



**Macro leading indicators** (assessment of indicator +)  
 assessment unchanged

While early economic indicators are improving only slowly, financial markets (positive slope of the yield curve, rising nominal interest rates for government bonds and falling risk premiums for high-yield corporate bonds) and above all the development of the U.S. money supply aggregates suggest a significant economic recovery.



**Risk index** (assessment indicator 0)

Rating downgraded from + to 0

Investor sentiment continued to improve, accompanied by inflows into equities and high-yield corporate bonds and a decline in liquidity. Hence, our countercyclical risk index was marked down by one notch and is now in the neutral range.

*Zurich, December 2019*

*Dear customers and readers*

*We wish you a Merry Christmas and a Happy and Healthy New Year 2020.*

*We look forward to navigate you through the financial markets as we would like to thank you for your highly appreciated readership.*

*Yours sincerely*

*Sound Capital Ltd.*

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