ANDREAS CAPITAL

Wealth management for future generations

MONTHLY REPORT
September 30th, 2017

	NAME	FX	PERFORMANCES YTD	PERFORMANCES SEPTEMBER	PERFORMANCES IN EUR YTD	PERFORMANCES IN EUR SEPTEMBER
EQUITIES	MSCI (*) WORLD	USD	14.2%	2.1%	3.3%	2.6%
	MSCI USA	USD	12.7%	1.9%	1.7%	2.5%
	MSCI EMU (eurozone)	EUR			10.9%	4.4%
	MSCI EUROPE	EUR			6.9%	3.8%
	MSCI JAPAN	JPY	8.5%	3.6%	1.0%	2.0%
	MSCI AC ASIA ex-JAPAN	USD	28.5%	-0.3%	17.5%	0.3%
	MSCI EMERGING	USD	25.5%	-0.5%	14.5%	0.0%
	VOLATILITY US EQUITIES	USD			-32.3%	-10.2%
	VOLATILITY EUR EQUITIES	EUR			-33.1%	-22.5%
BOND INDICES	US Aggregate	USD	3.1%	-0.5%	-7.8%	0.1%
	US Corp High Yield	USD	7.0%	0.9%	-4.0%	1.5%
	Euro Government	EUR			-0.4%	-0.5%
	Euro Aggregate	EUR			0.1%	-0.4%
	Pan-Euro High Yield Unh Eur	EUR			5.6%	1.2%
	EMERGING USD Aggregate	USD	7.5%	0.1%	-3.5%	0.6%
	BBG EMERGING Local FX Sov	USD	7.8%	-0.8%	-3.2%	-0.3%
	EMERGING LC Core Net TR Unh US	USD	14.4%	-0.3%	3.4%	0.3%
INTEREST RATES	US Govt 10 Year Yield	USD			-11 Bp	22 Bp
	US Govt 5 Year Yield	USD			1 Bp	23 Bp
	US Govt 2 Year Yield	USD			29 Bp	16 Bp
	Germany Generic Govt 10Y Yield	EUR			26 Bp	10 Bp
	German Government Bonds 5 Yr O	EUR			27 Bp	8 Bp
	German Government Bonds 2 Yr B	EUR			7 Bp	4 Bp
CURRENCIES	DOLLAR INDEX SPOT	USD			-8.9%	0.4%
	EUR-USD X-RATE	USD	12.3%	-0.6%	-11.0%	0.6%
	EUR-JPY X-RATE	JPY	8.1%	1.6%	-7.5%	-1.5%
	EUR-NOK X-RATE	NOK	3.5%	1.7%	-3.4%	-1.7%
	EUR-CHF X-RATE	CHF	6.7%	0.1%	-6.3%	-0.1%
	EUR-AUD X-RATE	AUD	3.3%	0.6%	-3.2%	-0.6%
	EUR-GBP X-RATE	GBP	3.3%	-4.3%	-3.2%	4.5%
COMMO-DITIES	GOLD SPOT $/OZ	USD	11.1%	-3.1%	0.1%	-2.6%
	OIL Brent (London)	USD	1.3%	9.9%	-9.7%	10.4%
	OIL WTI (NY)	USD	-3.8%	9.4%	-14.8%	10.0%
	COPPER FUTURE Dec17	USD	17.0%	-4.6%	6.1%	-4.1%
	S&P GSCI Index Spot Indx	USD	0.3%	3.4%	-10.7%	4.0%

(*) As MSCI Equities Indices are more representative than national indices Andreas Capital uses them as a reference.

NB: Performances presented on this table are in Local currency but also in EUR. The currency impact can be substantial, for example MSCI USA YTD +12.7% in USD outperformed MSCI EMU in EUR +10.9%, but MSCI USA performed only +1.7% in EUR. All of the foreign currencies lost ground this year against the EUR, e.g. USD lost 11.00% year to date in EUR terms.

Emerging countries and Asia are the leading performer this year. Europe finally starts to perform again as the USD strengthens following the Fed hawkish intervention in August. We expect European equities continue to catch up. We also favour Emerging and Japan Equities relative to US.

Volatility for Equities *(perceived risk by option trader)* remains at extremely low levels.

In September interest rates on government bonds increased both in the US and Europe as a consequence Major Bond Indices continued to post poor performances. The low yield and credit spread environment *(extra yield for corporate bonds)* is not appealing and keeps investors pushing into riskier investment such as High Yield *(risky credit on corporates)* and Emerging markets bonds that tend to outperform the market overall.

Both the USD and GBP performed well in September, following their respective Central Bank more hawkish stance. Gold corrected for the same reasons, higher rates making Gold less appealing.

Oil prices increased sharply in September.

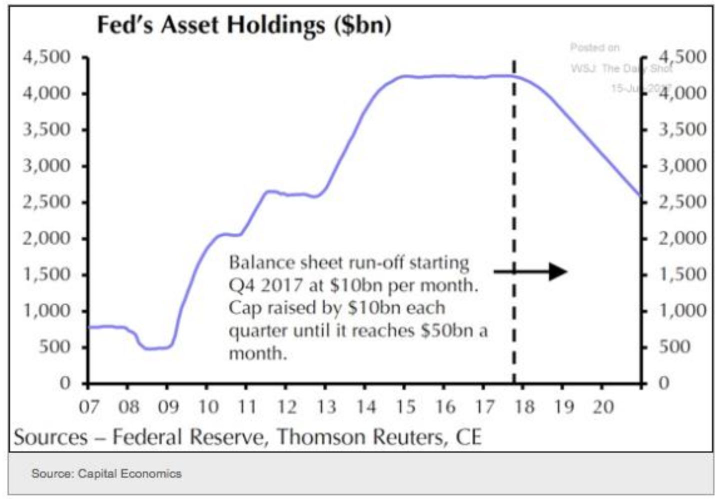
MONTLY MARKET COMMENT

September 2017 was the month when central banks made their intentions known.

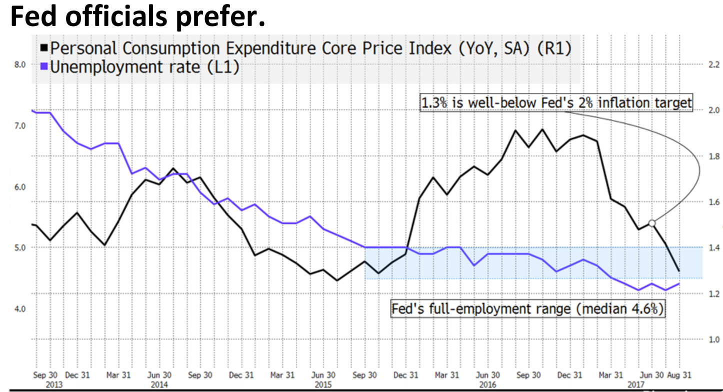
We had surprises as the Bank of Canada unexpectedly hiked rates by 25 basis points to 1.00%, strengthening in the same time the CAD versus USD.

In the US, the Fed benchmark rates were left unchanged, but from October, the Fed will be reducing its balance sheet. Janet L. Yellen, the Federal Reserve chairwoman, pointed out that the **Fed plans to keep raising its benchmark interest rate despite the "mysterious" weakness of inflation**. This increased the odds of another rate hike by year end to almost 70%, up from as low as 20% at the beginning of September. This translated in a rebound in USD *(major contribution in performances)* and US Treasury rates *(+22bp)* back on early August levels. In addition to the Fed's action, USD was "oversold", a correction was expected *(details on following pages "Chart of the Month")*. European yields followed with the Bund rising up to 0.50%. Interest-rate sensitive sectors like banks gained ground as did the oil sector thanks to higher oil prices.

Portfolios benefited from an underweight in duration and a reasonable overweight in the energy sector, the USD, and slight increase in Financials exposure in Europe. Portfolio benefited from our overall Equity overweight, especially in Europe.

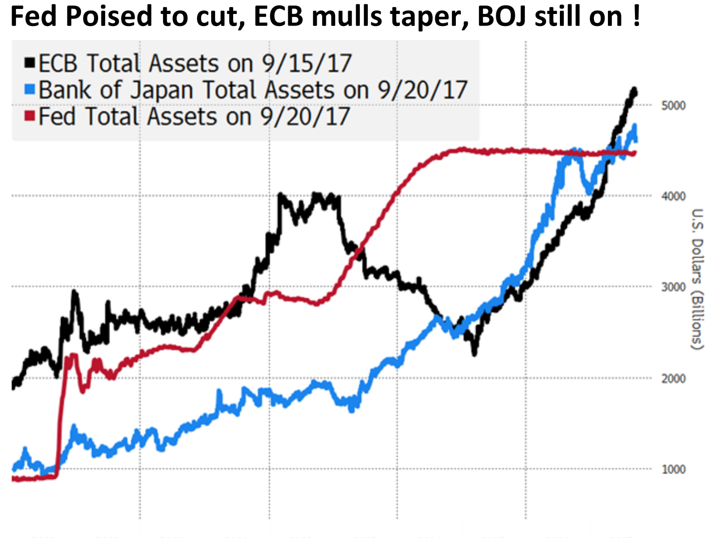


Yellen's dilemna:
Inflation slips even as US labor market tighter than Fed officials prefer.



Source: Department of Commerce, Labor

Balance Sheet Divergence.
Fed Poised to cut, ECB mulls taper, BOJ still on !



Source : ECB, BOJ, FED, Bloomberg

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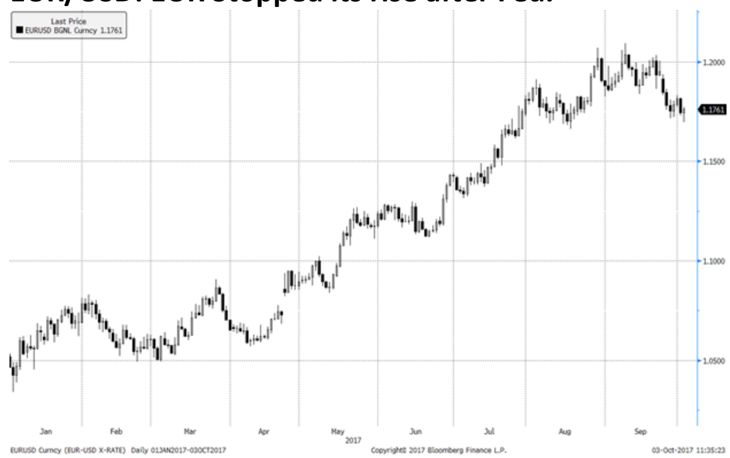
The Eurozone is still accelerating as Euro-area confidence surges more than forecast to a 10 year high. The central bank's Governing Council will have to weigh a booming economy against **inflation, a key element that has not appeared as consumer prices rose year on year +1.5% in September.** That is crucial for the ECB *(target at 2%)* and whose policy makers will decide on October 26th whether to start to slowdown bond purchases in 2018.

The European economic situation is improving: in September the credit rating of Portugal has been upgraded, factory activity expanded led by Germany and the Netherlands, worth to mention Greece enjoyed its strongest growth since June 2008.

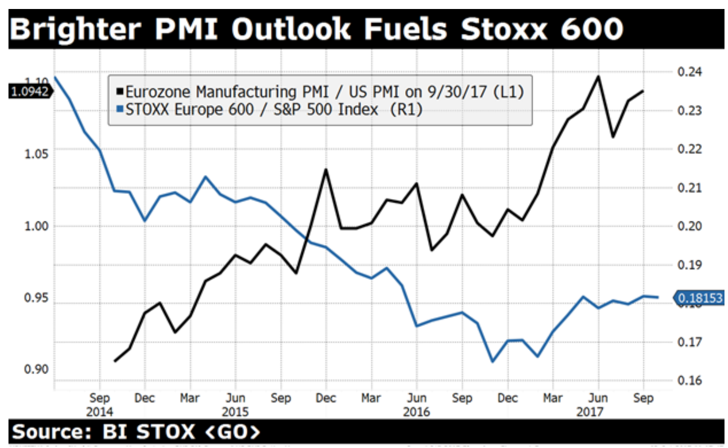
On the Emerging side, the recent downgrade on Chinese debt did not have a major impact. The official factory gauge rose to a five year high, signaling that the efforts to clean up the financial sector and the environment are not damping economic growth yet. The economic policy discussions at the Communist Party Congress from October 18th will be followed closely.

We remain cautious on bonds and remain underweight on duration. We continue to overweight European Equities, and favour Japanese and Emerging Equities relative to US Equities. The main economic indicators are very supportive, with inflation staying at low levels. We interpret the central banks' stance as a sign of confidence in the economy in general.

EUR/USD: EUR Stopped its rise after Fed.



Source: Bloomberg, Andreas Capital



Our current Asset Allocation :

	--	-	N	+	++
BONDS		■			
DURATION	■				
IG BONDS			■		
HY BONDS		■			
EM BONDS				■	
EQUITIES				■	
EUROPE				■	
NORTH AMERICA		■			
JAPAN			■		
EMERGING			■		
FX					
EUR			■		
USD		■			
CAD				■	
NOK				■	
GBP			■		
JPY			■		
COMMODITIES			■		

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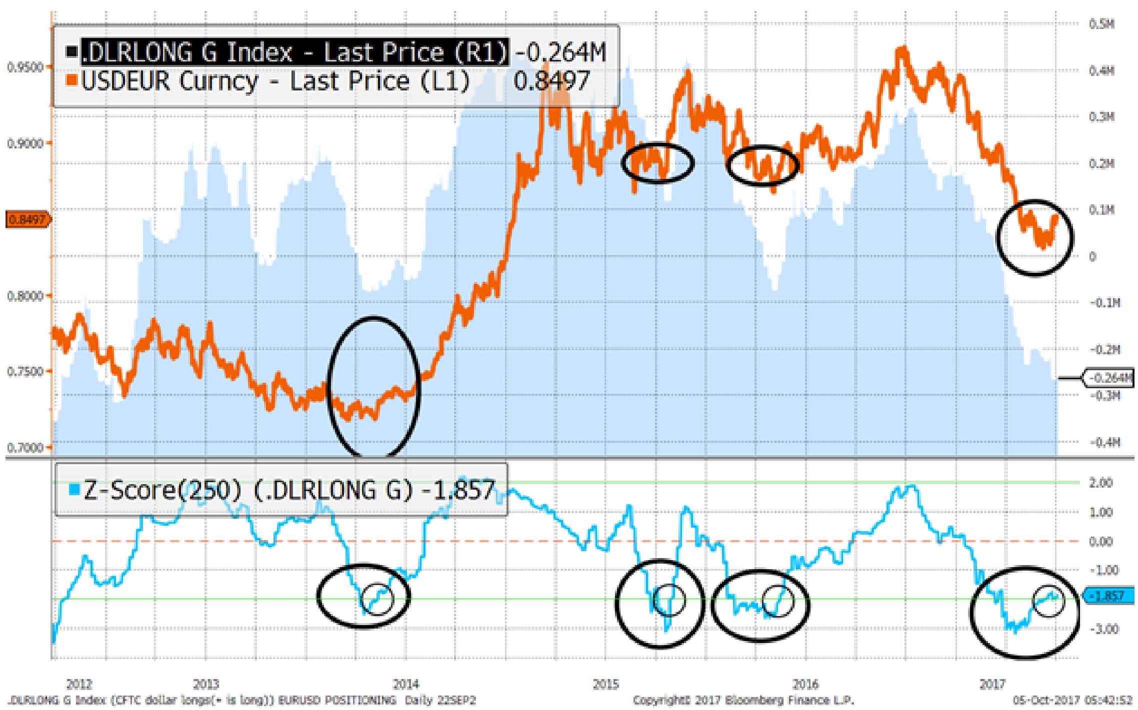
Chart of the month: USD oversold this summer, recovered in September.

The speculative positioning *(in blue in the chart, commitment of Traders, COT, from US Commodity Futures Trading Commission, CFTC)* on USD was extremely low this summer hitting a -3 Standard deviation against major currencies. In the past when the USD positioning hit a below -2 standard deviation, and turned again above a -2 standard deviation, the USD *(in red)* tended to a least stabilize and at best to perform again. Short positioning is stabilizing, and the Z-score just crossed up the -2 Standard Deviation, these 2 elements are technically supportive to the USD.



Source: CFTC, Bloomberg, Andreas Capital.

Do not hesitate to contact us!
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