BATTING FOR THE HOME TEAM?

As macro headwinds and volatility hit the market we ask wealth managers whether they have reassessed their view of Swiss equities

GROUP OPINION:

NICOLAS BARILE
Beau-Séjour Finance
Lausanne

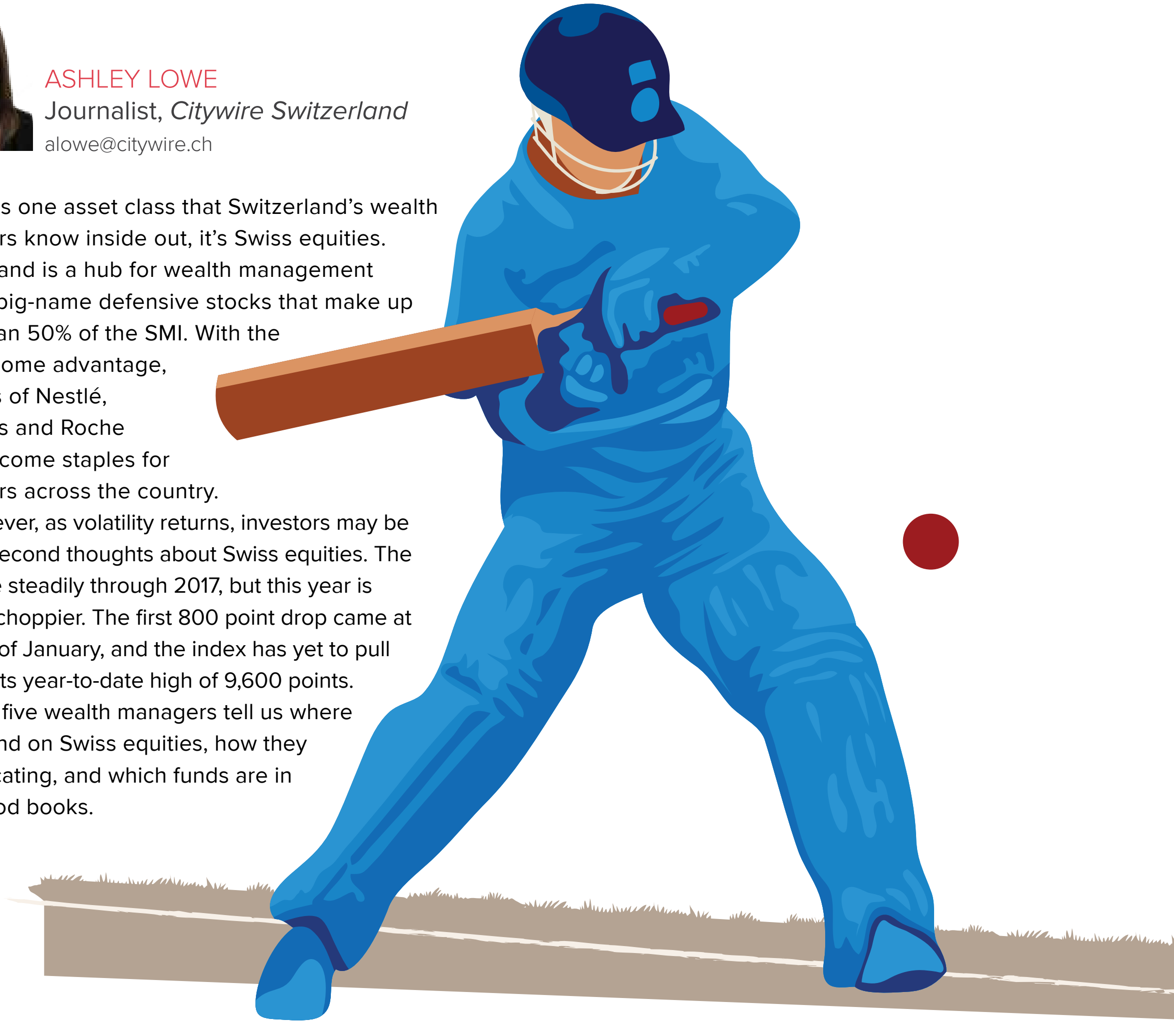
ANDREAS A. BICKEL
Blackfort Capital
Zurich

PASCAL COLLOMB
ProTrading
Fribourg

MARCEL DOUSSE
Boccard & Partenaires
Fribourg

DAVID SAATY
GI Global Invest
Zurich

ASHLEY LOWE
Journalist, *Citywire Switzerland*
alowe@citywire.ch



If there is one asset class that Switzerland's wealth managers know inside out, it's Swiss equities. Switzerland is a hub for wealth management and for big-name defensive stocks that make up more than 50% of the SMI. With the added home advantage, the likes of Nestlé, Norvartis and Roche have become staples for managers across the country.

However, as volatility returns, investors may be having second thoughts about Swiss equities. The SMI rose steadily through 2017, but this year is looking choppier. The first 800 point drop came at the end of January, and the index has yet to pull back to its year-to-date high of 9,600 points.

Here five wealth managers tell us where they stand on Swiss equities, how they are allocating, and which funds are in their good books.

NICOLAS BARILE • Beau-Séjour Finance

The stage is set for the arrival of the next bull market

Despite negative interest rates pushing a lot of investors towards equities, the SMI index has been range-bound over the last five years. In addition, a lack of decent yields in fixed income, has encouraged investors to increase their exposure to equity proxies.

As a result, a glass ceiling has developed over the large-cap stocks of the SMI. Puts writing, either directly or via structured products, has been a common strategy but with limited results because options providers simply arbitraged the limited risk that investors were ready to bear.

Furthermore, without any major impulse from company earnings, volatility has remained low on average, in particular over recent quarters. However, this situation could be disrupted by the evolution of the US 10-year treasury yield and its subsequent impact on the rest of the world. Indeed, falling bond prices are becoming the norm rather than the exception.

On the other hand, dividends from Swiss equities look more and more attractive, either because of drops in share prices or because of increasing earnings and distribution. A 4-6% dividend yield is now common. We are also seeing the start of a sectoral rotation towards growth stocks and companies benefiting from a higher interest rate environment.

Overall, we believe the last part of 2018 will be more rewarding than the first half of the year.

The necessity for investors to allocate money freshly withdrawn from fixed income markets should favour an increased exposure to equities and there is likely to be less demand for proxy strategies to use cash as was the case over the past three years.

We are expecting the SMI to break the 9,800 points resistance level and the start of a new secular bull market.

ANDREAS A. BICKEL • Blackfort Capital

Diversify to make the most of Switzerland's mixed bag

At the beginning of the year Swiss and US equities were among the most expensive developed markets and the majority of strategists were positive on European equities. Now, as the market corrects, the relative valuation is still very similar. Nevertheless, the US sold off from an all-time high while the other markets continued in bear market territory and most dropped more than the US. The latest sentiment indicators and the IMF growth forecast point to a global slow-down. In this environment, we prefer US equities to European and Swiss ones.

Based on the Fed's US GDP forecast we expect US companies will still show strong earnings growth over the next six months. Swiss equities are a mixed bag. Some large caps are now offering a good entry point, while selective fallen small- and mid-caps look good value. Computer chip-related Swiss stocks, such as VAT, Comet or AMS will struggle as the whole sector has built up too much capacity. Given that both US and Swiss markets are expensive, we recommend diversifying equity portfolios globally. Elsewhere, long-term emerging markets offer value based on Shiller PE (CAPE). Vietnam, and to a lesser extent, India, are interesting places to deploy money. Asia in general has a positive outlook but new US tariffs could hold these markets back for a while.

PASCAL COLLOMB • ProTrading

Beware of macro headwinds

Swiss equities remain interesting, in particular thanks to attractive dividends in the context of low-yielding Swiss bonds. However, the macro environment calls for caution as there are several external risk factors at play: a potential crisis in Italy, rising protectionism and trade tensions, as well as monetary crises in emerging markets following the US rate hikes. All these factors could impact the Swiss market, even though it is sitting close to 7% below its annual, and historical, peak reached in January 2018.

The OECD lowered its global economic growth forecast in mid-September and the IMF is warning that several risks to growth have begun to materialise. In addition, as history has often shown, we are entering a difficult stage in the seasonal cycles of equities. For this reason we cut our Swiss equities exposure by 20% at the end of September, with the aim of potentially re-entering in late November this year once the outlook is clearer.

We are avoiding bank stocks, as they could be hit hardest by any market turmoil. We think the dollar still has room to go up due to interest rate spreads so we favour export-oriented companies with attractive dividends. Our favourite names here are ABB (3.49% dividend), Adecco (4.90%), Rogers (3.42%), Novan (3.34%) and Zurich Insurance (5.36%). Swisscom's yield (5.11%) is also attractive at the current price of CHF 430.

MARCEL DOUSSE • Boccard & Partenaires

Banging the drum for Swiss defensive stocks

We have always used Swiss large caps as a basis for our portfolios, in particular Nestlé, Novartis and Roche. These shares performed relatively well in 2017, although this year Nestlé and Roche have slightly underperformed so far, while Novartis has gained more than 5%.

At the beginning of the year, we were overweighting Roche and Novartis after their shares prices dropped, as their dividends remain attractive given the negative yields of Swiss bonds. However, we recently sold our overweight position and are now back to a neutral weight for these three shares. Nevertheless, our outlook remains positive for these defensive stocks as they should benefit from current economic growth. They would also help soften a consolidation or drop in US equities, as this market's valuations are mainly driven by tech companies.

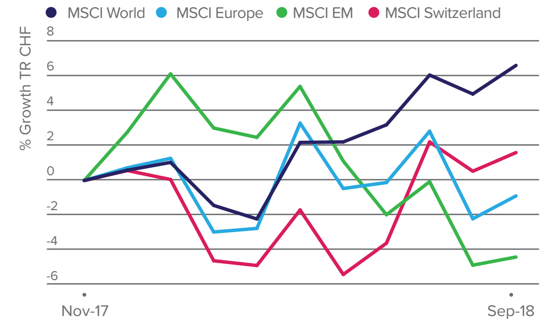
In the rest of our Swiss equities allocation, we are invested in financial stocks such as UBS, Julius Baer and Credit Suisse, which perform decently and will certainly benefit from rising rates. Furthermore, we started to buy AMS at CHF 50 following its large price drop this year. Finally, we are also positioned on Swiss small and mid-caps through a BlackRock fund.

DAVID SAATY • GI Global Invest

Riding out the all-cap storm

The Swiss stock market is generally rather cyclical and the large-cap SMI index is dominated by Novartis, Nestlé and Roche, which together make up almost 55% of the index. The large caps did well in 2017, but are down more than 5% year to date. The small and mid caps had a fantastic run in 2017 but the SMIM mid-cap index has also fallen more than 7% year to date. VAT, the leading global developer, manufacturer and supplier of high-performance, high-end vacuum valves, was a darling of the small-cap segment until spring 2018. The company recently had to revise down its earnings outlook, put 400 workers on temporary reduced working hours and the stock is down 30% this year. It wasn't so long ago that the Credit Suisse Swiss Export indicator was still quite optimistic for Q4 2018. Perceptions can indeed change quickly. For the pure large-cap SMI we don't see much added value in actively managed funds and recommend index products, such as the **iShares SMI (ETF)**. In the small- and mid cap area the **UBS (CH) Small & Mid Cap Equities** fund is an excellent, stable performer. We also like the **Credit Suisse EF (CH) Swiss Small Cap** fund and the **Sarasin Saraselect (CH)** strategy. All three funds show solid three and five-year performance records. Their Sharpe Ratios and Information Ratios also look compelling over these two time periods. Overall, 2018 has obviously been a difficult year for all managers so far with markets being in the red.

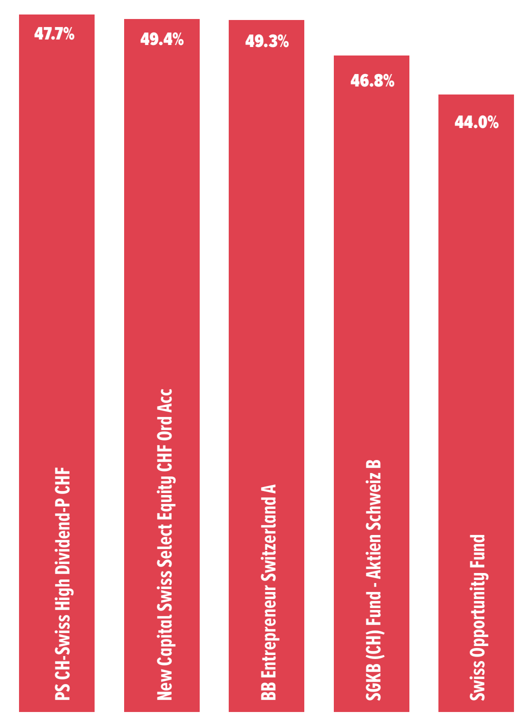
HOW SWISS EQUITIES STACK UP



SOURCE: LIPPER

TOP FIVE SWISS EQUITY FUNDS

(Total returns over three years to 30 September)



SOURCE: LIPPER