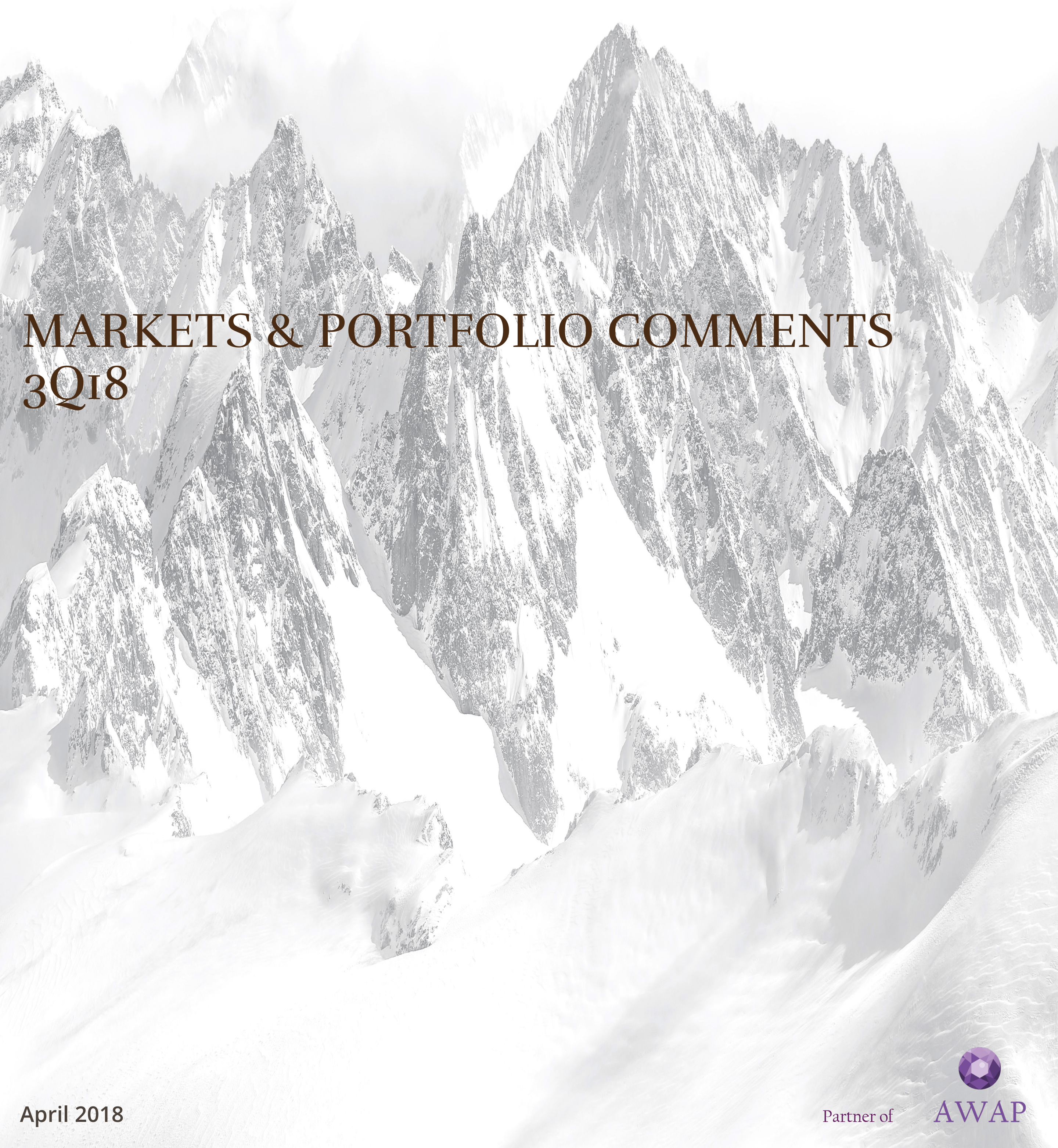
MOUNT INVEST

MARKETS & PORTFOLIO COMMENTS 3Q18



April 2018

Partner of AWAP

LIQUIDITY & SIMILAR

Market Weather

Central banks on a gradual pace. The rate differentials will slowly narrow and a normal pace should take place unless the US Trade War with China escalates much further. We believe the EUR has room to improve, the CHF could also strengthen again and the GBP could see more weakness.

Considering the absence of wages increases acceleration and thus a underlying muted inflation, we do believe the rate hikes will only be gradual (at lease in the US). Reforms are taking place in a late-cycle context and the FED is moving carefully. The ECB needs to normalize its monetary policy without killing any peripheral growth (yet better than the "core" countries with growth at potential sub-levels).

We could consider today's European Union economic system as a "Ponzi Scheme": lending money while issuing debts. Struggling countries got credits that they can not repay today. Lending economies bail them out as they can not get their money back (Greece style). Government debts to sustain credit consumption, etc... Some will wake-up with a mega hang-over...

Bloomberg Composite

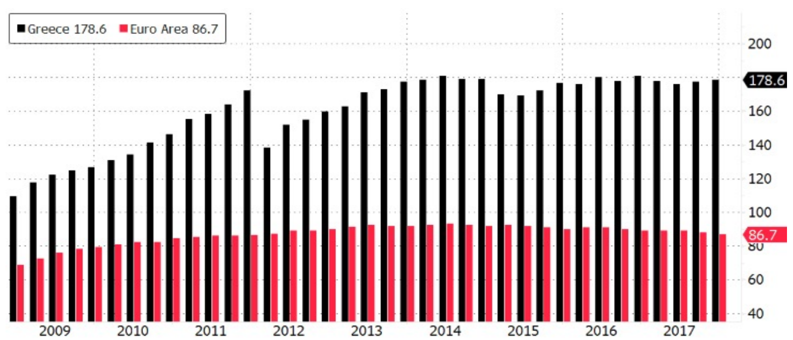
25/06/2018	Spot	Q3 18	Q4 18	Q1 19	Q2 19	2019	2020
British Pound	EURGBP						
Forecast		0.88	0.88	0.88	0.89	0.88	0.9
Forward	0.88	0.88	0.88	0.89	0.89	0.9	0.91
Euro	EURUSD						
Forecast		1.18	1.2	1.22	1.24	1.28	1.29
Forward	1.16	1.17	1.18	1.19	1.2	1.22	1.26
British Pound	GBPUSD						
Forecast		1.34	1.36	1.37	1.39	1.43	1.43
Forward	1.33	1.33	1.34	1.34	1.35	1.36	1.39
Swiss Franc	USDCHF						
Forecast		0.99	0.99	0.98	0.97	0.95	0.95
Forward	0.99	0.98	0.97	0.96	0.96	0.94	0.91
Japanese Yen	USDJPY						
Forecast		109	109	108	108	104	100
Forward	110	109	108	108	107	105	101
Mexican Peso	USDMXN						
Forecast		19.55	19.4	19.21	18.9	18.08	18
Forward	20.13	20.44	20.75	21.04	21.34	21.92	23
Chinese Renmin	USDCNY						
Forecast		6.42	6.45	6.4	6.39	6.33	6.28
Forward	6.5	6.55	6.58	6.6	6.63	6.67	6.74

The USD strength should fade and the 1.20 level vs the USD could be seen. The Pound should suffer a bit more. Watch to add exposure on weakness. Avoid EM currencies. Attention to the flight to quality currencies (USD, CHF, JPY). Keep cash for market opportunities.

FIXED INCOME & SIMILAR

The FED almost "confirmed" our rates expectations, i.e. 4 hikes in 2018. Keep calm and reduce risk on High Yields (globally). Some segments or countries (fallen angels) still attractive. The ECB has entered the tapering mode but will hold any rate hike till 2S19. Low duration, Floaters and switch to more quality

The US flattening curve persisted. We believe this effect should abate in a progressive way. For risk averse investors, floaters should be integrated within any standard portfolio.



Political uncertainty in Italy burst out, sending ripples across Europe. We see this as a warning signal for politics, yet not for investors but will continue to be cautious on EU peripherals.

The Greece saga ends with the extension of maturities and grace period of 10Y interests and amortization on US$ 112 billions... plus interest rate penalties lifted... plus a final EU disbursement of EUR 15 billion to help Greece repay arrears, finance maturing debt, buffer cash, etc.!!! In one word: « The European Ponzi"... Would you buy a Greek Euro-Bond on financial markets / new issue... ? If not, the country will be back to square... Avoid.

Corporates still attractive in some segments and High Yield becoming hot potatoes. Particularly, EM related bonds suffered sell-offs. On any given rally, reduce the HY exposure or protect the segment (via ETF's, Futures, Options, etc) as we expect more spreads widenings in coming months.

Low durations (via barbell strategies) and fly to quality. Avoid local EM currency papers.

EQUITY & SIMILAR

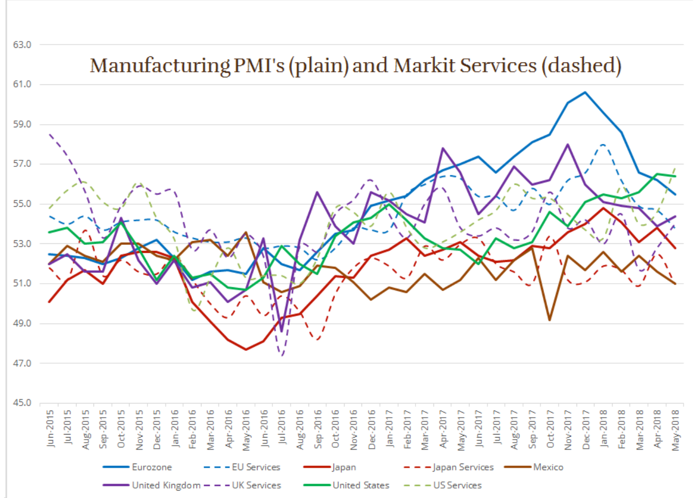
Market Weather

The US Trade War would cause casualties but to a lesser extend than market anticipations. Rising rates and regulatory overhangs have hurt utility stocks. The risk aversion could gather pace and be a burden to any rally on indices. Focus on segments rather than on global's. Buy the usual sectors suspects, on weakness and use cushion Structured Notes or guaranteed ones

Unless we see an escalade in the trade war with China (the most affected country in terms of US relations and impact on retaliation (see attached matrix), we do not see any major trouble on the US horizon in the coming weeks.

COUNTRY	USA Imports from	US Exports to	Foreign Tariff imposed to US	US Tariff imposed to foreign	% of Tariff to total trade*
Canada	306	282	12.8	17.4	5.14%
Mexico	316	242	3	7.2	1.83%
EU	284	432	7.5	12.3	2.77%
China	526	130	50	50	15.24%
All figures in $US Billion		Total	73.3	86.9	

*Total aggregate tariff taxes on total aggregate imports-exports



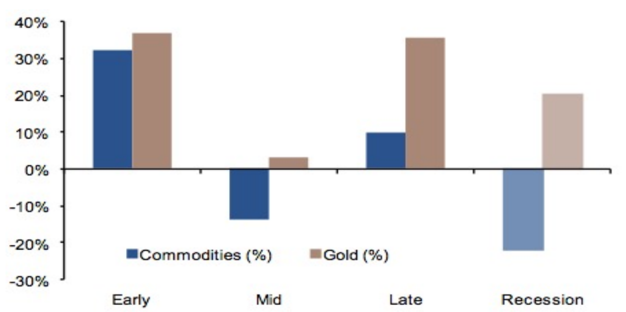
BUT watch carefully the index levels to cash-in gains and look for protections to buy as we may see a trend reversal on any topping technical levels (see the S&P 500 chart on the allocation and infos section).

Cyclical economic slowdowns: Central banks will have to respond with a very gradual monetary pace normalization otherwise the slowing trend may turn into a possible recession in 2S2019. We continue to favor what we call "FIT" (Future Investment Themes) combined with some protections.

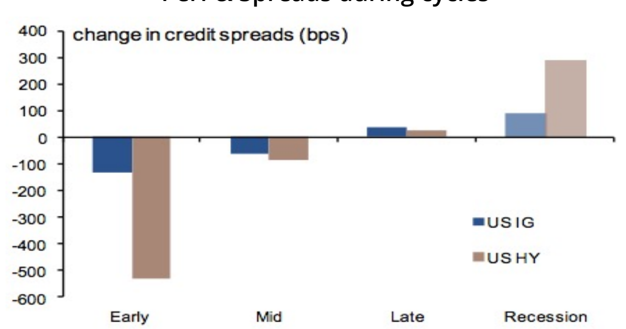
ALTERNATIVE INV. & SIMILAR

The optimism about a coordinated global growth recovery is fading. Volatility would return and with it, market swings. Stick to defensives and add protections on topping ranges. The Oil gave back some of the highs. Sidelines for this quarter but volatility to return. Add Gold on weakness and keep commodities if you have them

Overall, with modestly positive equity performance and negative bond performance, banks balanced portfolios are broadly flat year-to-date. We managed to gather better positive performances thanks to the "conservative" asset allocation we have on the "Special Balanced" portfolios. We will return to investments on volatilities and will monitor to add protections to portfolios. Our exposure to Gold and Real Estate would be maintained. The inclusion of the latter into the portfolios should bring more positive returns as they usually offer good returns during a late cycle economic stage. Beware of more credit spread widening that could be a strong burden on the Fixed Income portfolio segment. Keep the Oil twin-win products and add any capital guaranteed Notes with markets exposures.



Perf & Spreads during cycles



ALLOCATIONS & INFOS

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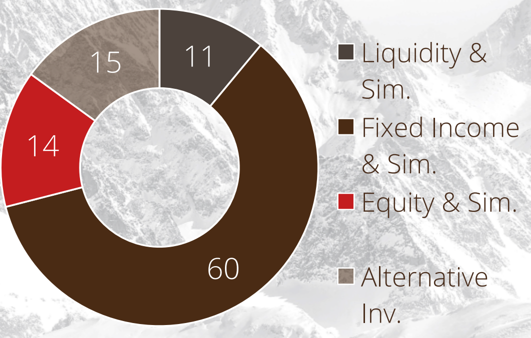
MODEL PORTFOLIO – 3Q18

USD "Special Balanced" portfolio*. Not recommended for all investors.

% ALLOCATIONS

ASSET CLASSES		CURRENCIES	
Liquidity & Sim.	11	USD	78
Fixed Income & Sim.	60	EUR	19
Equity & Sim.	14	GBP	3
Alternative Inv.	15	DIVS.	0
	100		100
Opportunistic**			

"Special USD Balanced"



*Example of a "Special Balanced" portfolio USD based. Not recommended for all investors.

** % allocation included in each category (for details, contact your advisor).

COMMENTS

An slow uptrend market and a new horizons to define. The US Trade War not so impacting overall. The European Ponzi still holds.

Late 2Q18, we decided to cut the short positions and to let the markets rise in combination with some small positions we have on equities or related structured notes. The move provided to bee good until these days when markets priced US trade war risk and a risk-off move appeared (see attached chart:

We were looking for the top channel levels (see our 2Q18 Outlook) to build long positions on volatility and buy new protections. We still believe the uptrend should gather strength and will wait to add to those investments on portfolios. In the meantime, we add Gold, some corporate High Yield fallen Angels and MXN straddle/strangles (due to the 1st July Mexican elections.

The European "Ponzi" scheme still holds but we will watch carefully any negative economic numbers (leading indicators) or geopolitical situation that could derail the actual "to quiet to be true" situation.

RISK GRADES® = a Mount-Invest SA proprietary colored potential risk model (details with your Advisor)

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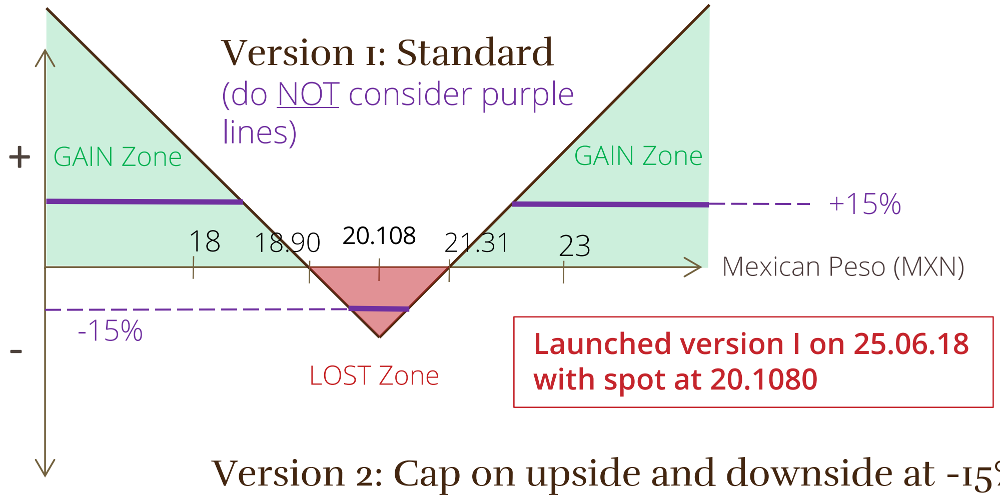
INVESTMENT IDEAS

RISK GRADES®

- "Straddle" on USDMXN, 1M: the idea is to get long USD and short MXN in case the Peso drops further the 21.57 level due to any overshooting considering the coming elections or to be long MXN short USD in case a trend reversal comes at hand (and goes above 19.12. On both sides we will be winners unless the currency stays within a small range, i.e. on the negative triangle on chart (expected maximum loss)

or If used as hedge



Technicals: We will use warrants for this example (more infos via your advisor)

Version 2: Cap on upside and downside at -15% y +15% for version of 3M or more (Barriers in purple to consider)

- Buy Gold (via ETF's physically backed or plain)
- Buy some Russian Corporate bonds (fallen angels). Lists via your advisor
- Buy Puts on Twitter (valuation to high at USD 45)

REMINDERS

Technical analysis and charting levels announced on 2Q18 reached. Strategy still in place (see 3Q18 Outlook)

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