EGB Flash Update April 2018

MACRO OVERVIEW: GROWTH WITH LITTLE INFLATION

2017 was an extraordinary year both in terms of return (positive on almost all asset classes) and risk (extremely low level of volatility).

This year will clearly be very different, as Q1 figures already show.

Volatility is back and is here to stay. So far, it materialized in two forms:

- **Inflation scare:** a higher than expected rise in the January Average Hourly Earnings in the US triggered fears of a faster-than-expected increase in inflation. All major asset classes corrected, with rates reaching new highs. The yield on 10-year US Treasuries came close to the psychological level of 3%, with European rates following the movement.
- **Global trade war threat:** in accordance with what he promised in his manifesto, Trump first announced 25% tariff on steel and 10% tariff on aluminum imports. It later became clear that China was the main target, with US threatening 100$ billion tariffs on Chinese imports as retaliation against intellectual property theft.

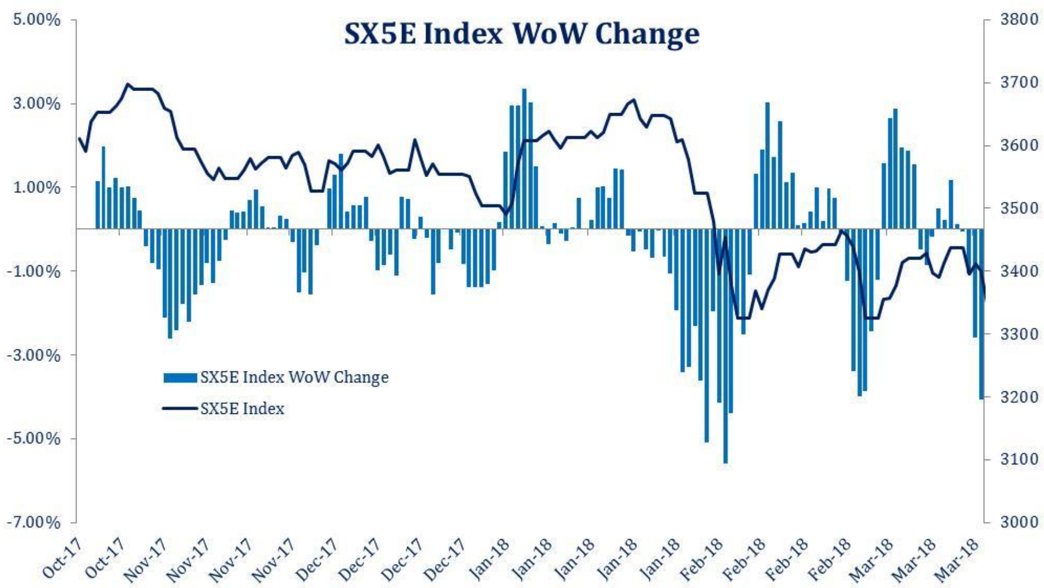
  Markets dropped due to fears of a trade war between the two world's biggest players. Some analysts estimated that the **impact on global growth could range from -0.5% to -1% per year**.

  It is still unclear what the real consequences will be. What is certain is that politics and geopolitics will be the main catalysts going ahead. Trump's latest tweets about a possible military intervention in Syria as we write this note, clearly prove this point.

In this context, **Equity** markets, and the US in particular, have been impacted the most.

The following graphs show the remarkably different trend in equity (Eurostoxx50 for Europe and S&P500 for the US) between Q4 2017 and Q1 2018. Moreover, the correlation between the US and Europe reached its lowest point since 2006 (0.35).

In **Europe**, stocks ended the quarter close to their yearly lows (Eurostoxx50 recorded a YTD Performance of -4.07%).



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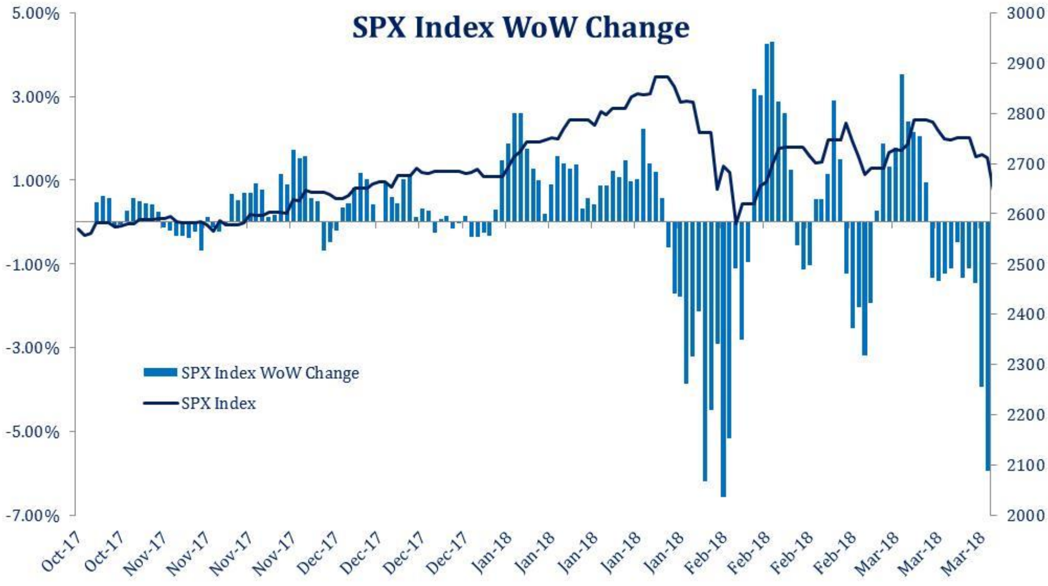
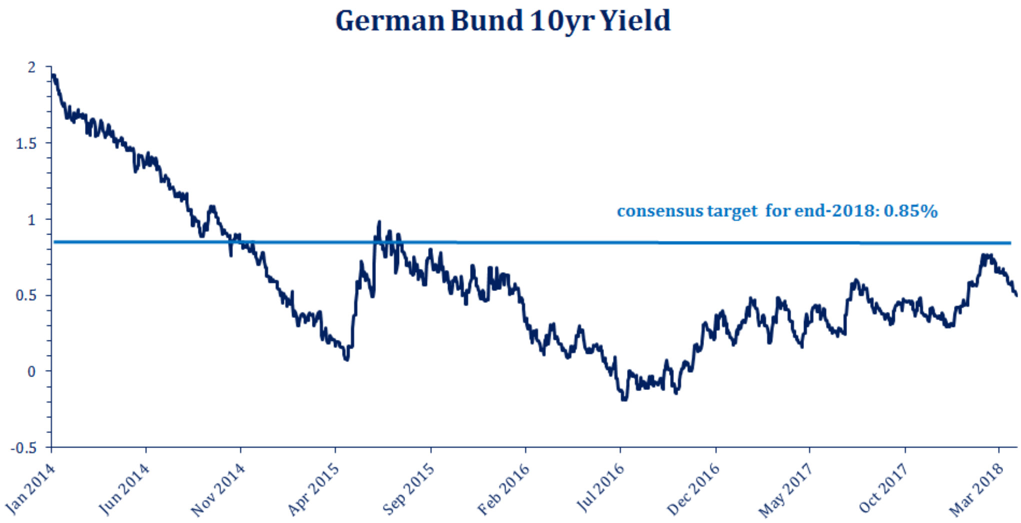
In the **US**, stocks recovered part of the February loss
(S&P500 YTD Performance: -1.22%)



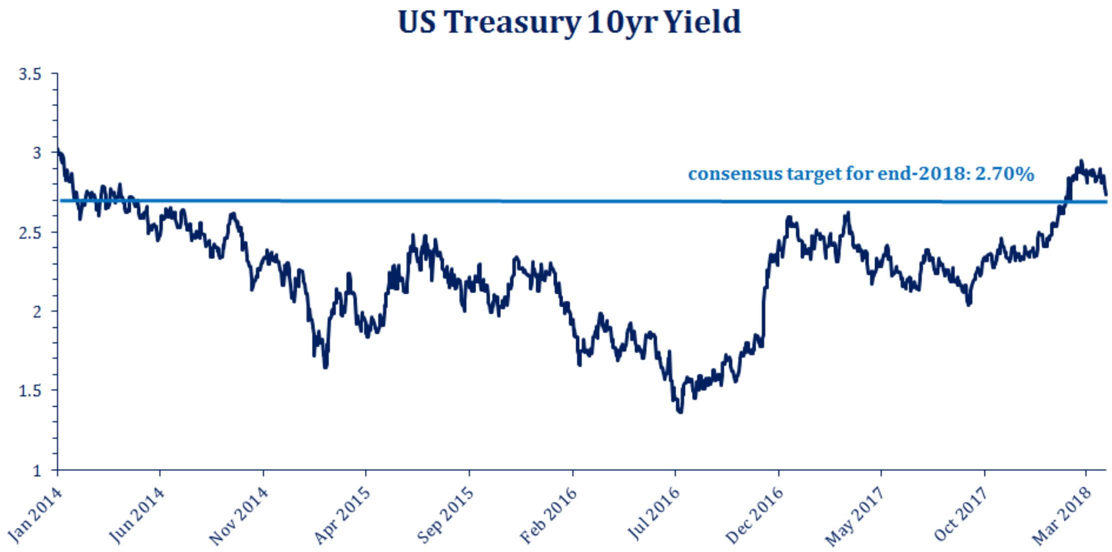
We believe the correction was mainly due to some profit taking after the brilliant results of 2017 and January '18. The current economic environment still favors equities and we keep our positive view on this asset class for the medium term.

In the **Fixed Income** universe, rates rallied on the back of the inflation scare in February. In just a couple of months, the Bund almost reached the consensus target for the end of the year, while US Treasuries even reached higher levels.

The **German 10-year Bund** yield closed the quarter at 0.50%.



The **US 10-year Treasury** yield closed the quarter at 2.74%.



Credit suffered from important outflows. Unlike last year, credit underperformed Government bonds, mainly following the correction in equity. Given our positioning on equity and the correlation between the two asset classes, we maintain our positive view on credit as well.

Throughout the quarter, we observed a remarkable resilience of **peripheral assets**, and in particular of Italy, against all forecasts. Italian assets have been well supported, even if more than one month after the elections there is still no agreement on the governing coalition. The FTSE MIB is among the best performing European equity indices year-to-date and the BTP-Bund spread is tighter than its pre-elections level.

For the months ahead, we forecast an economic scenario characterized by **synchronized growth** and **inflation still below central banks' targets**.

CENTRAL BANKS

Together with politics, central banks have been the main market movers in the past months.

In the **US**, new Fed chairman Jerome Powell first interventions received a lot of attention, as he proved his term would not be simply a continuation of Yellen's policy. He might be ready to remove the "Fed put" that markets have been enjoying for the past years. However, his first Fed meeting in March went almost unnoticed as investors' attention was focused on news about the trade war.

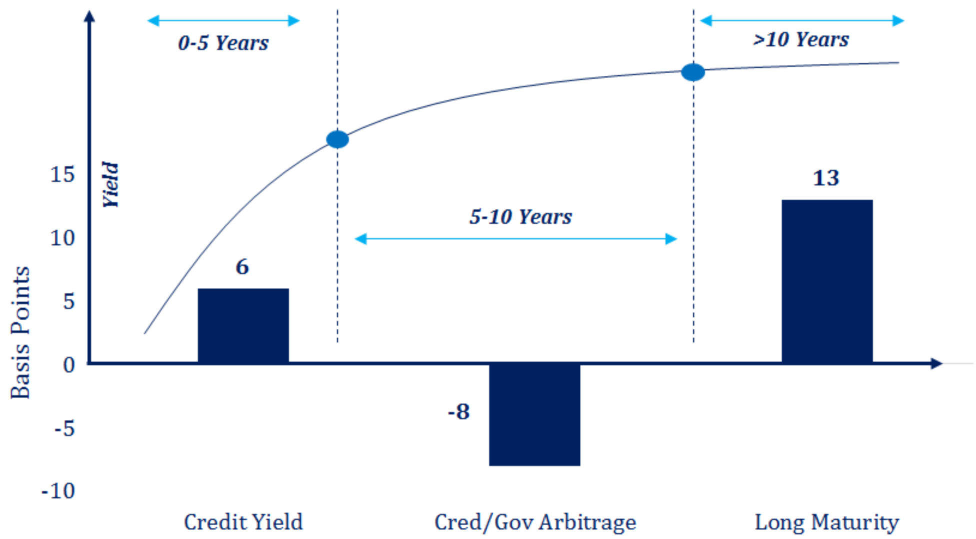
In the **Eurozone**, Draghi dropped the possibility to extend QE monthly purchases in size after September, leaving the door open to a potential extension in duration. For hints on what will happen after September, we will have to wait until the summer, while the 26th April ECB Meeting will most likely be a non-event. In general, markets expect the end of QE this year and the first rate hike in the second half of 2019.

EGB PERFORMANCE UPDATE (as of 29th March 2018)

EGB registered a **performance of +0.74% YTD** versus a performance of +0.73% for the reference index of its category (EUR Aggregate Bond).

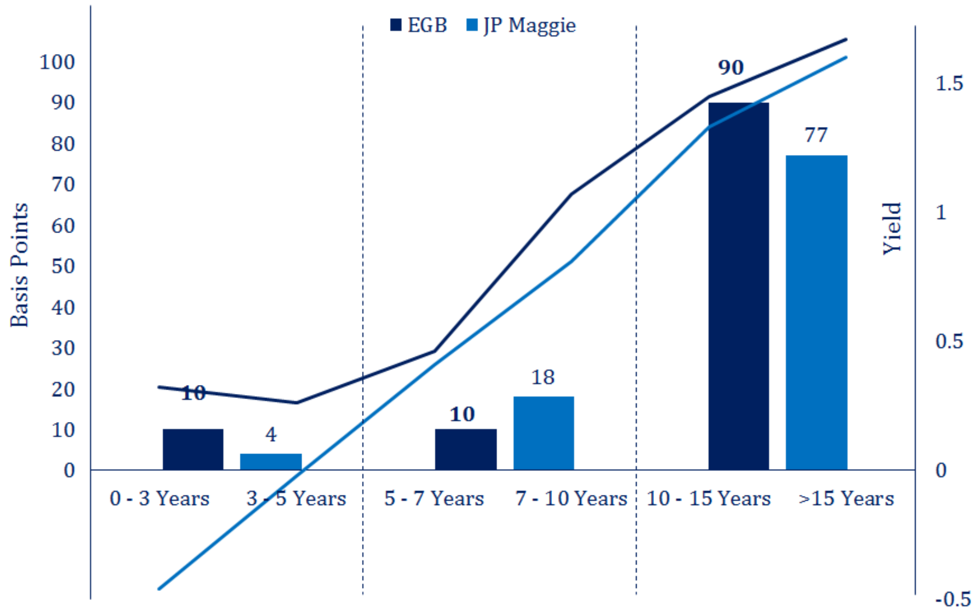
EGB ALPHA ATTRIBUTION PER STRATEGY (Gross of Fees)

The following graphs show the sources of our alpha versus the reference index.
Most of the outperformance comes from the 0-5 years portion of the curve, thanks to our bond picking of Corporate Bonds, and from the long maturities, where we were positioned to profit from the curve flattening.



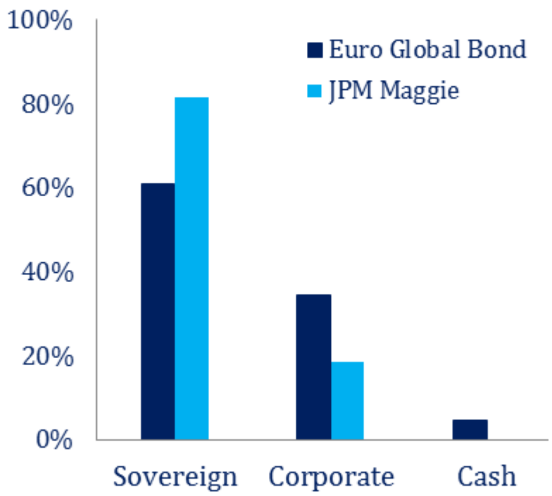
GFG Groupe Financier de Gestion
(Monaco) SAM

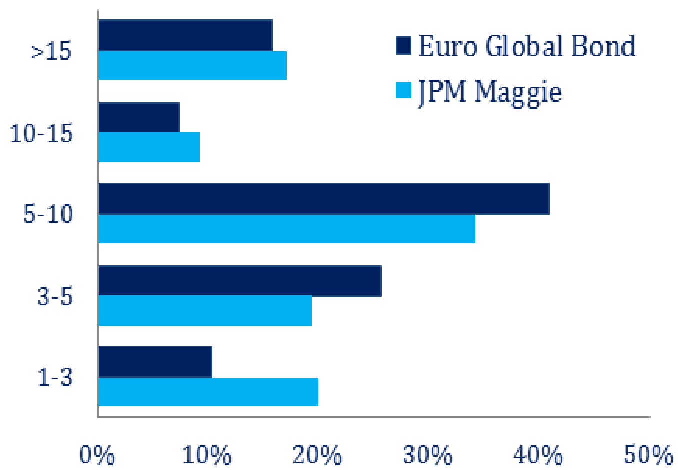
EGB PERFORMANCE ATTRIBUTION PER MATURITY BUCKET (Gross of Fees)



EGB's positioning is overweight on Credit in comparison with the reference index. This is one of the current main convictions of the EGB strategy.
In particular, in the 0-5 years portion of the yield curve, we avoid negative yielding Government Bonds and we are exposed to Credit only.
Another main conviction has been the flattening of the curves. This is why our duration distribution is skewed towards higher durations in comparison with the index.

EGB Asset Allocation & Duration Distribution as of 29th March





We remind you that EGB is a UCITS V fund available on the Allfunds platform.

For any further information about our company and products, please visit our company website www.gfggroupe.com and our SICAV dedicated website http://egfund.it/.

In case you want to receive a weekly or monthly update on EGB, please do not hesitate to contact us:

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