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LE COIN TECHNIQUE

Late cycle dynamics – one last push up on risk assets, and then reduce your risk

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While Yields and Commodities are accelerating up, Equities are struggling. Such cross asset developments, especially following the recent surges in risk assets *(since early 2016, and then more generally since 2009)* are typical of late cycle developments. **Today, we look at two exposures, which usually perform until late in the cycle and then ... reverse, namely High Yield Credit and Emerging Markets.**

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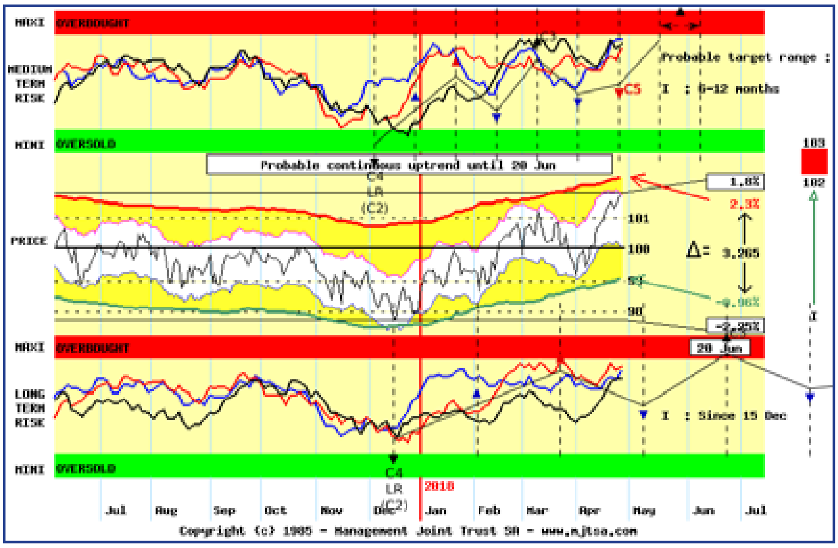
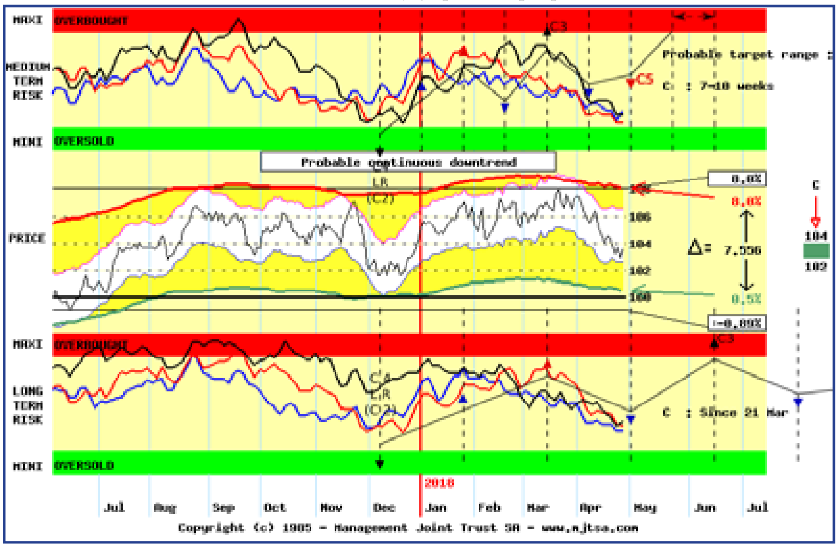
HYG - iShares iBoxx $ High Yield Corp. Bond ETF / LQD - iShares iBoxx $ Investment Grade Corp. Bond ETF *(Daily graph or the perspective over the next 2-3 months)*



As interest rates rise, High Yield offers an appreciable Credit Cushion to bond portfolios. Hence, it often outperforms quite late in the business cycle, while economic growth is still strong. Yet, once the cycle reverses, it is often first in line to correct as financial conditions deteriorate and flight to quality supersedes opportunistic risk taking. The ratio between High Yield and Investment Grade is the proxy to watch to monitor potential inflection points in this credit cycle. The longer term graph (Weekly graph), not shown here, is still pushing higher, yet slowly approaching an important top. On this Daily graphs, both oscillators series (lower and upper rectangles) are also still uptrending, yet both point to possible highs somewhere between late May and late June. The outperformance targets of High Yield vs Investment Grade are also quite extended. Our I Impulsive targets up (right-hand scale) show another, yet limited, 1 to 2 % of outperformance towards mid year. ***High Yield is hence still outperforming for now, yet we will be looking to start reducing Credit Risk and High Yield exposure from late Q2, at the latest during the Summer.***

EEM - iShares MSCI Emerging Markets Index Fund / ACWI - iShares MSCI All Country World Index Fund *(Daily graph or the perspective over the next 2-3 months)*



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We now turn to another late cycle outperformer, namely Emerging Markets, which we compare here to the All Country World Index. Indeed, in the later stages of the cycle, Emerging Markets usually outperform. They offer a levered exposure to mature growth dynamics, and many of them are also linked to Commodities, which usually outperform Equities as late cycle inflationary pressures start to kick in. During such period, the US Dollar typically underperforms as it has done up until recently. *On both oscillator series (lower and upper rectangles), Emerging Markets could be reaching the end of their recent soft patch. We expect them to resume up one last time towards late May, possibly mid June. Our long term graph (not shown here) are also approaching an important top towards mid-year.* ***Hence, we would expect one last period of outperformance for Emerging markets, possibly from now, and into June. Following that, they should top out for the cycle both on an absolute and relative basis.***

Concluding Remarks: Our analysis above may sound biased, and preset towards an imminent reversal of the business cycle *(possibly during H2 2018)*, yet again, an environment of rapidly rising commodities, along with rising inflation expectations and yields, while equities are starting to struggle is typical of such late cycle conditions. Short term, we expect one last push up on all risk assets, possibly into late Q2. From mid year, however, at the latest during the Summer, we expect all these to top out. Credit and Emerging markets may be first in line to suffer from such a reversal.