

# Some optimism on US equities but fears over the dollar and Europe

As America struggled to find its way out of its worst financial crisis in decades, fund selectors were buying back into US equities. But it looks as if some asset allocators believe the commodity run is now coming to an end, as Drazen Jorgic discovers.

This month our asset allocating panel of fund selectors turned their sights towards US equities as they cut commodities from their portfolios. However, the element of caution remains a prevailing theme.

François Nordhof, head of fund selection and asset allocation at Banque de Commerce et de Placements in Geneva, was one of the more bullish asset allocators as he looked to capitalise on his cash pile amidst the financial crisis. In the last few weeks, he has been increasing his North American exposure through US exchange-traded securities, including the Diamond Trust ETF, which tracks the Dow Jones Industrial Average. He was swayed by the American authorities' decision to inject cash in the markets.

'The last of the investors are capitulating from the market. But for me it is more an opportunity to increase current equity exposure, as we have been underexposed to equities and we had a cash-rich portfolio. An ETF is very flexible because you can buy and sell it the same day, so it is very convenient,' said Nordhof.

Similarly, Daniel Flück, a fund of funds manager who is actively involved in asset allocation at HwV Research in Frankfurt, was also convinced by recent global market falls that it was time to invest in US equities.

He said: 'I feel more bullish on equities than fixed income. From this level right now there are a lot of opportunities for increasing stock prices for US equities so we think it's a good idea to invest.'

Alberto Bossini, a portfolio manager at Farad Investment Advisors in Luxem-



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Banque de Commerce et de Placements

bourg and Thomas Pachernik, another portfolio manager actively involved in asset allocation at Schilling in Vienna, are rather more cautious. They have both built up cash reserves and acquired defensive stocks, such as healthcare and consumer staples, but see future opportunities in the US.

Bossini explained: 'I've just bought into US and EU healthcare equities which are consumer discretionary. They are the best sector that we are buying into at the moment.' He plans to invest in a US-based ultra-long financials ETF once the banking situation becomes clearer, but for now he is looking at products which he deems more interesting in difficult conditions. He cites the Life Settlement asset class as a little-known sector that is 'performing quite well, with monthly returns averaging 0.6%, 0.7% and 0.8%.'

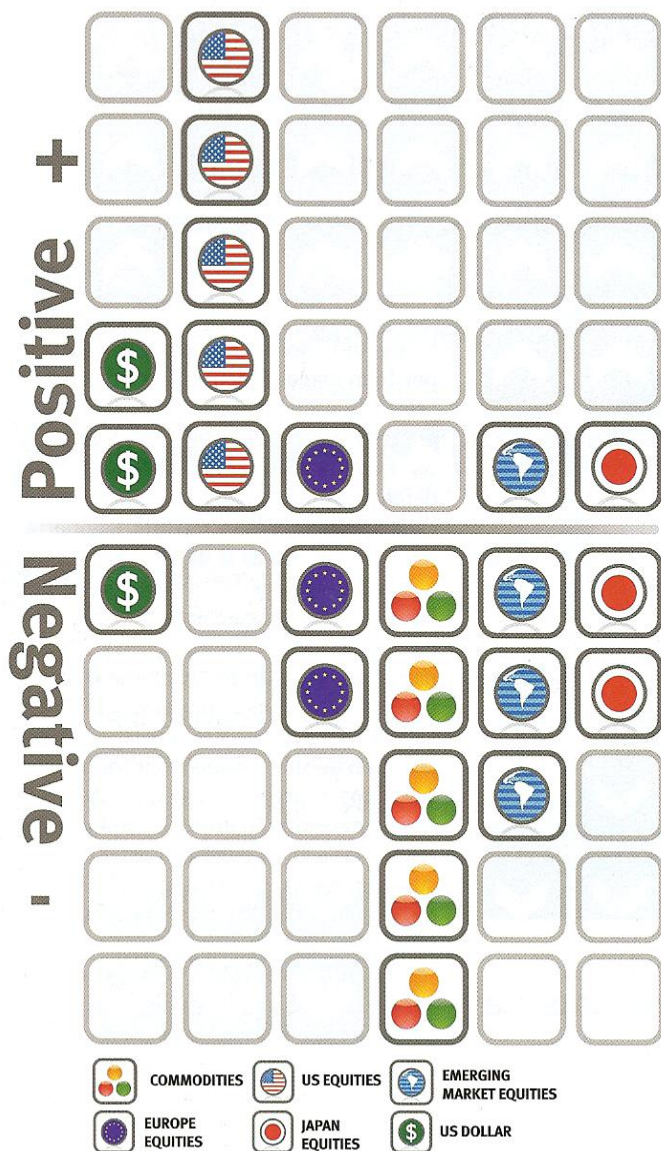
Pachernik meanwhile, is 65% invested, as he has recently been piling into cash (35%), having reduced his exposure to Asia, Europe and Japan. However, he has been increasing his exposure to the dollar as he expects the US currency to increase in strength as the true state of European financial institutions is revealed.

He said: 'We think that Europe is simply doing too well, and we expect some fall out to happen here too. Plus, we think the euro is still overvalued by around 10% to 15%. The US stock markets might outperform once it gets clearer that continental European financial institutions are not doing as well as they still appear to be.'

The dollar was an issue of contention amongst the panel. Flück, for instance,

## Asset Allocation Monitor

Our diagram shows how many of our panellists are increasing or decreasing their weightings to a range of major asset classes



was on Pachernik's side and is investing in the dollar, while generally erring on the side of caution.

He said: 'We are currently looking for funds with a low correlation to stock markets so we've added some positions to markets with neutral funds. Amongst others, we bought into JP Morgan's Highbridge Statistical Market Neutral fund. It is market neutral positioning with a hedge fund strategy, but it's a UCITS III fund. We believe in a stronger US dollar and we've increased our US dollar weighting. We've bought some ETFs on

Nasdaq and the S&P 500.'

Meanwhile, Sergio Cola, who is head of asset allocation at Laménik private banking in Luxembourg, has changed his positive allocation on the dollar to an underweight position in the wake of high-profile bail outs in the U.S.

He said: 'We have already reduced our exposure to the dollar. I think in the short term, we will be negative on the dollar if there is a bounce on oil or gold. The fact that they need a lot of money for Fannie Mae, Freddie Mac and AIG is a negative for the dollar.'

Cola has been increasing his allocation towards the US, as the Federal Reserve 'has already lowered the rates and is more active and supportive in the markets.' He contrasts the actions of the Fed with that of the ECB and is underweight Europe as a result.

'In Europe, we are more worried because the main goal of the ECB is inflation and we fear that they will be more reluctant to lower rates and it will make European markets weaker,' Cola explained.

Overall, European equity valuations were perceived to be low, but the asset allocators remained wary. 'At the moment, it's true that some stocks are very cheap, but they could get even cheaper,' Flück said. Pachernik added: 'There may be a bottom in a few



FLÜCK: bullish on equities

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Sergio Cola  
Laménik

weeks or a few months, but I don't think it's here yet.'

Our panellists have also been making a general exodus from the commodity theme. Nordhof sold all of his exposure to commodities in the second week of July and Bossini thinks that: 'at the moment, there are other products that are more interesting than commodities.' Pachernik believes the oil price will go down, 'to as low as \$60, or even possibly \$50, and we are expecting a global recession.' Cola meanwhile, is somewhat more bullish on oil, but argues that, 'From a strategic point of view, it's a buy, but from a tactical point of view, we are more sceptical.'

Emerging market equities are out of favour with our panel and Nordhof, who has a 7.5% allocation, admits he may have been 'too aggressive.' However, he sees local emerging currencies as a great opportunity. He has been using the ING Global Emerging Local Currencies fund as an investment vehicle. He also singles out Raphael Kassin for praise in recent times. He says the Brazilian bond fund manager did a brilliant job at ABN Amro and is 'doing a marvellous job at Credit Suisse.'