

Main messages and important changes

Table lists the most recent main messages from our research reports as well as the most important changes.

Good news?	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Y	10	11	18	9	8	13	5
N	6	9	2	8	2	5	12
Ratio	1.7	1.2	9.0	1.1	4.0	2.6	0.4

IR&M publications	Frequency per year	Page count
Risk management update	15-25	60-100
Flash update	25-50	1-20
Earnings momentum monitor	25-40	3
Price momentum monitor	45-50	5-7
Special report	3-4	20-80

Date	Publication		EPS	Price	Main messages and/or important changes	Good news* ?
	Update	Momentum mon.				
	Main	Flash				
03-Mar		✓			Average consumer sentiment, positive since 2016, might have reversed in February.	N
03-Mar		✓			US consumer is very confident, as confident as back in 2000.	?
03-Mar		✓			Multiple measures related to China and France have fallen sharply.	N
03-Mar			✓		EPS mom. for German Industr. turned positive, negative for French and Jap. Utilities.	
03-Mar				✓	Denmark: Long-term price momentum for the KFX Index turned negative.	N
26-Feb				✓	Eurozone: Long-term price momentum for Euro Stoxx 50 turned negative.	N
23-Feb	✓				The music might have just stopped playing, January the point of maximum bullishness.	N
23-Feb	✓				Overall changes were strongly negatively biased.	N
23-Feb	✓				88% of regime tests were positive, compared to 97% in 18 January update.	N
23-Feb	✓				Preliminary PMIs fall sharply.	N
23-Feb	✓				Economic momentum in China and UK reversed to negative.	N
23-Feb	✓				Economic and business sentiment remains negative, consumer sentiment positive.	
19-Feb		✓			Inflation is trendless.	Y
19-Feb		✓			QE is ending. Santa is leaving.	N
19-Feb				✓	Finland: Long-term price momentum turned positive.	Y
12-Feb		✓			US economic health check looks good: only 1 red flag from list of 22 tests.	Y
12-Feb		✓			Economic sentiment remains falling; consumer sentiment remains rising.	
12-Feb		✓			Velocity of money might have bottomed.	N
12-Feb				✓	Long-term momentum in bonds continues turning negative.	N
05-Feb		✓			US non-farm payrolls exceeded expectations and are only falling mildly.	
05-Feb			✓		Canadian Energy: long-term earnings momentum turned positive.	Y
05-Feb				✓	Price momentum in bonds remains negative and US real estate turned negative.	N
02-Feb	✓				Overall changes were positively biased.	Y

Source: IR&M. *Good news from an economic point of view and/or from the perspective of the investor who is long equities, bonds, commodities, etc. The small insert counts the "Y" and "N"s.

Some random remarks

- *Some say “trade wars are good.” Misquoting Gordon Gekko too, I say boring is good.*
- *Your author is Swiss. One of the many stereotypes of the Swiss is that they are perceived—by the global non-Swiss community—as boring. Or, as an English-speaking non-Swiss once put it to me: “The Swiss do not have a monopoly in the humour department.”*
- *One Switzerland-demystifier, Clare O’Dea in “The Naked Swiss,” traces the Swiss-are-dull idea to Fyodor Dostoyevsky, the Russian author who travelled Europe in 1862, including Switzerland, and thought that pan-slavism was a good idea, while capitalism wasn’t. What most stereotypers don’t know, is that humour is actually and quite literally our middle name. “Witz” means joke in German and, literally, it’s part of “Switzerland”.*
- *The Greek philosopher Posidonius (135-51 BC) described the “Swiss,” the Helvetians that were a Celtic people who arrived between 200 and 100 BC, as “rich in gold but peaceful.” (“Peaceful” as in boring.) The Celts were among the first people of Europe to work with iron. They also are credited of introducing money; the latter being something many can relate to Switzerland in one way or another.*
- *My risk management research is often quite boring. This is intentional, not a personality disorder. You are not supposed to be having fun, as per the Soros quote in the upper right. Furthermore, nowcasting is supposed to be pretty dull too. It is forecasting that is the flashy part of our industry, with nowcasters not being finance’s most eccentric.*
- *Markets and economies often trend with the daily or weekly or monthly wiggling around the trend line not being much else than noise. Nowcasting aims to identify those trends through measurement. The measurement allows for high conviction, i.e., allowing for a more efficient asset allocation and risk management process. However, trends reverse.*
- *It is both, trends as well as mean reversion, that are powerful concepts in finance. While trends are boring, the ensuing mean reversion is, sort of, an intermittent departure from dullness. In that sense, I believe my nowcasting research just got a bit less boring during February.*

“If investing is entertaining, if you’re having fun, you’re probably not making any money. Good investing is boring.”

—George Soros (b. 1930), American hedge fund manager*

“[D]ullness in matters of government is a good sign, and not a bad one - in particular, dullness in parliamentary government is a test of its excellence, an indication of its success. The truth is, all the best business is a little dull.”

—Walter Bagehot (1826-1877), British journalist, businessman, and essayist**

“One important difference between researchers and gurus is that while gurus often traffic in exotic, dramatic claims, researchers tend to avoid making extreme claims in much the same way pilots think twice before reporting UFOs—doing so is a good way to be branded a flake by colleagues.”

—David H. Freedman (b. 1954). American science and business journalist***

*As quoted in *The Winning Investment Habits of Warren Buffett & George Soros* (2006) by Mark Tier, p. 217. **“Dull Government,” *Saturday Review*, 16 February 1856. ***Freedman, David H. (2010) “Wrong – Why experts* keep failing us—and how to know when not to trust them,” *Scientists, financial wizards, doctors, relationship gurus, celebrity CEOs, high-powered consultants, health officials, and more.* New York: Little, Brown and Company, p. 84.

Global econ. growth: falling

The average shown rose gradually from 1.8% in Q4 15 to 2.8% in Q3 17. Q4 17 is a 0.1 standard deviation "fall" to 2.7% so far.

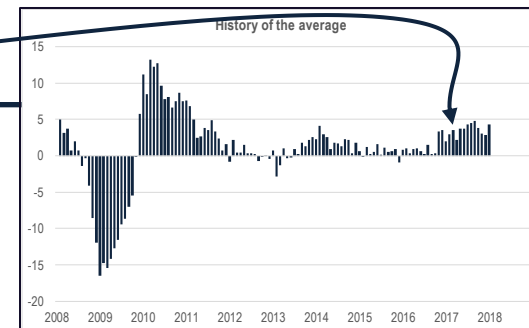
*The most important thing
Average growth rate is
falling a bit in Q4.*

03 2003 to 03 2017		Q2 17	Q3 17	Q4 17	△	SD	
		2.51	2.83	2.78	↓		Average
		2.2	2.3	2.5	↑		United States
Higher but lower than expected.		3.7	3.0	2.9	↓		Canada
		0.4	1.4	2.1	↑		Brazil
Revised upwards a bit.		1.8	1.6	1.5	↓		Mexico
		2.4	2.8	2.7	↓		Eurozone
		2.3	2.7	2.9	↑		Germany
		1.9	2.3	2.5	↑		France
		1.6	1.7	1.6	↓		Italy
		3.1	3.1	3.1	↑		Spain
Higher and better than expected.		3.3	3.0	2.9	↓		Netherlands
		1.9	1.7	1.4	↓		United Kingdom
		0.5	1.2	1.9	↑		Switzerland
		6.9	6.8	6.8	↑		China
		1.5	1.9	1.5	↓		Japan
		5.7	6.5	7.2	↑		India
Lower but Q3 revised upwards.		2.5	1.8	n.a.	↓		Russia
		1.9	2.8	n.a.	↑		Australia
		2.7	3.8	3.0	↓		South Korea
		5.0	5.1	5.2	↑		Indonesia
		2.3	3.2	3.3	↑		Taiwan
		2.8	5.5	3.6	↓		Singapore
		3.9	3.7	3.4	↓		Hong Kong

Source: IR&M, Bloomberg. Notes: Based on real GDP, y/y, SAAR (seasonally adjusted annual rate). The average is equally weighted. △=Direction of latest change. SD=Latest change that exceeds one standard deviation is marked with a green or red dot. If country name is green/red, latest figure is better/worse than expected.

Industr. production: **positive**

Industrial production (IP) is perceived as a coincident economic indicator but is of higher frequency than GDP data.



Feb 2008 to Oct 2017

	Nov	Dec	Jan	△	SD	
	3.1	2.9	4.3	↑	●	Average
	3.8	3.4	3.7	↑		US
	2.8	2.3	2.0	↓		Canada
	4.7	4.3	n.a.	↓		Brazil
	-1.4	-0.7	n.a.	↑		Mexico
	3.7	5.2	n.a.	↑	●	Eurozone
	5.5	6.5	n.a.	↑		Germany
	2.5	4.5	n.a.	↑	●	France
	2.3	4.9	n.a.	↑		Italy
	4.9	6.6	n.a.	↑		Spain
	4.4	5.2	n.a.	↑		Netherlands
	2.6	0.0	n.a.	↓	●	UK
	7.1	8.7	n.a.	↑		Turkey
	6.2	8.1	n.a.	↑		Sweden
	-1.3	0.3	n.a.	↑		Norway
	6.1	6.2	n.a.	↑		China
	3.6	4.4	2.7	↓		Japan
	-3.6	-1.5	2.9	↑	●	Russia
	-1.1	-4.6	4.6	↑	●	South Korea
	5.1	n.a.	n.a.			Indonesia
	1.3	1.2	n.a.	↓		Taiwan
	5.7	-3.4	17.9	↑	●	Singapore

Lower and below expectations.

Higher, better than expected and Dec revised upwards.

Source: IR&M, Bloomberg. Notes: Based on y/y industrial production. Industrial production is generally perceived as a lagging indicator. The average is equal weighted. In the case of a figure not available, the previous one is used to calculate the latest average. △=Direction of latest change. SD=Latest change that exceeds one standard deviation is marked with a green or red dot. If name is green/red, latest figure is better/worse than expected.

Economic sentiment: falling

*The most important thing
Sentiment is falling.*

Table shows a selection of leading economic indicators. The average is measured as average percentile of the underlying indicators. A 3.4-point move of the average represents one standard deviation. The commentary in the table refers to changes since table was last shown.

The average shown has been rising quite gradually from June 2016 to December 2017. December was a 0.7 standard deviation (sd) rise and now is a 0.3 sd rise (after downgrades). January is a 0.1 sd "fall" so far. February a 0.2 sd "fall". (Either "falls" or negatively biased noise.)

Mar 2007 to Nov 2017

	Dec	Jan	Feb	△	SD
Average	82.9	82.5	81.9	↓	
US: Conf. Board	107.0	108.1	n.a.	↑	●
US: Sentix	26.5	32.8	33.4	↑	
Eurozone: Sentix	31.1	32.9	31.9	↓	
Eurozone: ZEW	50.7	56.4	57.7	↑	
Germany: ZEW	89.3	95.2	92.3	↓	
Germany: EC	115.4	116.0	114.4	↓	
France: EC	113.9	112.4	109.7	↓	●
Italy: EC	111.8	110.1	111.6	↑	
Spain: EC	110.0	110.9	110.2	↓	
Netherlands: EC	112.0	112.9	113.3	↑	
Sweden: EC	111.8	110.8	111.1	↑	
Finland: EC	113.4	112.1	113.3	↑	
UK: EC	111.8	111.1	109.5	↓	
Switzerland: KOF	111.3	107.6	108.0	↑	
China: Li Ke Qiang Ind.	7.3	n.a.	n.a.	↓	
Japan: Tankan	25.0	25.0	25.0	↑	
Japan: ESRI	50.0	n.a.	n.a.	↓	●
Australia: Westpac	98.0	97.8	n.a.	↓	●
South Korea: KNSO	4.5	n.a.	n.a.	↓	
Taiwan: NDC	113.4	n.a.	n.a.	↑	

A 1.6 sd rise.

The ratio of risers to fallers was 4:4 with France falling by 1.3 sd.

Higher with a fall being expected.

Source: IR&M, Bloomberg. Notes: The average is equal weighted and is calculated from percentiles. △=Direction of latest change. SD=Latest change that exceeds one standard deviation is marked with a green or red dot.

Business sentiment: stalling

*The most important thing
Business sentiment is
flat.*

Table shows a selection of indicators for business sentiment. The average is measured as average percentile of the indicators. A 6-point move of the average represents one standard deviation (sd).

Business sentiment has been ping-ponging between "stalling" and "rising" and "falling" over the past months. December was a 0.3 sd "fall." January was unchanged. February is a 0.1 sd "rise" so far.

May 2007 to Dec 2017

	Jan	Feb	Mar	△	SD	
	70.3	71.0	n.a.	↑		Average
<i>A 2.0 sd rise and much better than expected.</i>	17.7	13.1	n.a.	↓		US: Empire State Fed
	22.2	25.8	n.a.	↑		US: Philadelphia Fed
	14.0	28.0	n.a.	↑		● US: Richmond Fed
<i>Higher with a fall being expected.</i>	33.4	37.2	n.a.	↑		US: Dallas Fed
	0.1	n.a.	n.a.	↓		US: Chicago Fed
<i>Lower and in line with expectations.</i>	106.9	n.a.	n.a.	↑		● US: NFIB small biz opt.
	8	8	n.a.	↓		● Canada: BoC
	59.0	58.8	n.a.	↓		Brazil: CNI
<i>Lower and below expectations but January revised upwards.</i>	1.56	1.48	n.a.	↓		Eurozone: EC
	117.6	115.4	n.a.	↓		● Germany: IFO
	114	112	n.a.	↓		France: INSEE
<i>Smallest of upticks.</i>	109.9	110.6	n.a.	↑		Italy: ISEA
	1.8	1.9	n.a.	↑		Belgium: NBB
<i>Small fall.</i>	35	33	n.a.	↓		UK: Lloyds
	34.5	25.8	n.a.	↓		Switzerland: CS/CFA
	-3.0	-3.0	n.a.			Russia: FSSS
<i>Sizable reversal after fall.</i>	51.3	50.3	n.a.	↓		China: CFLP
	1.0	7.2	n.a.	↑		● Japan: Small biz (JFC)
	11.8	n.a.	n.a.	↑		Australia: NAB Conf.
	82	77	82	↑		● South Korea: BoK
	-37.8	-19.0	n.a.	↑		● New Zealand: NBNZ

Source: IR&M, Bloomberg. Notes: The average is equal weighted and is calculated from percentiles. △=Direction of latest change. SD=Latest change that exceeds one standard deviation is marked with a green or red dot.

Consumer sentiment: falling

*The most important thing
Sentiment fell in
February.*

Table shows a selection of indicators for consumer sentiment. The average is measured as average percentile of the indicators. A 4-point move of the average represents one standard deviation. The commentary in the table refer to changes since last shown.

Consumer sentiment has been rising more or less gradually from April 2016 to January 2018. February was a 0.5 standard deviation fall (so far). The last fall that was stronger than that was in July 2016 (-0.8 sd).

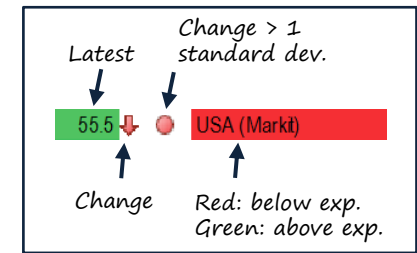
Apr 2007 to Dec 2017

	Jan	Feb	Mar	△	SD
<i>Higher and better than expected.</i>	79.8	78.1	n.a.	↓	Average
<i>Lower.</i>	88.8	87.4	n.a.	↓	US: UoMichigan
<i>Lower and below expectations.</i>	10.8	11.0	10.8	↓	US: Conf Board
<i>A 2.1 fall and below expectations.</i>	115.5	115.6	n.a.	↑	Canada: OECD
<i>Small fall.</i>	-51.0	-53.0	n.a.	↓	Brazil: FGV
	-9	-10	n.a.	↓	Mexico: INEGI
	107.2	104.7	n.a.	↓	Eurozone: EC
	105.1	102.8	n.a.	↓	Germany: GfK
	109.9	108.2	n.a.	↓	France: INSEE
	126.9	127.7	n.a.	↑	Italy: ISTAT
	44.7	44.3	n.a.	↓	Spain: EC
	105.1	102.8	n.a.	↓	Netherlands: CBS
	109.9	108.2	n.a.	↓	Denmark: DNB
	126.9	127.7	n.a.	↑	Ireland: IIB
	44.7	44.3	n.a.	↓	Greece: EC
	105.1	102.8	n.a.	↓	UK: GfK
	109.9	108.2	n.a.	↓	Switzerland: UBS
	126.9	127.7	n.a.	↑	Sweden: NIER
	44.7	44.3	n.a.	↓	China: NBSC
	105.1	102.8	n.a.	↓	Japan: ESRI
	109.9	108.2	n.a.	↓	Australia: Westpac
	126.9	127.7	n.a.	↑	South Korea: BoK
	44.7	44.3	n.a.	↓	New Zealand: ANZ

Source: IR&M, Bloomberg. Notes: The average is equal weighted and is calculated from percentiles. △=Direction of latest change. SD=Latest change that exceeds one standard deviation is marked with a green or red dot.

PMI: sharp falls in Europe

The ratio of risers to fallers was 6:17, i.e., clearly negative. There were more negative outliers than positive outliers. The former are in Europe, the later in the US. France and Eurozone fell by more than two standard deviation, as the preliminary estimates implied they would.



Manufacturing

3-year		Mar 2015 to Dec 2017	Jan	Feb	Δ*	
High	Low					
58.5	48.5		57.2	57.0	↓	Average
60.8	47.8		59.1	60.8	↑	● USA (ISM)
55.7	50.7		55.5	55.3	↓	● USA (Markit)
55.9	47.5		55.9	55.6	↓	● Canada (Markit)
59.9	51.4		58.9	58.0	↓	● EU (Markit)
60.6	51.2		59.6	58.6	↓	● Eurozone (Markit)
63.3	50.5		61.1	60.6	↓	● Germany (Markit)
58.8	48.0		58.4	55.9	↓	● France (Markit)
58.4	48.5		55.3	55.2	↓	● UK (Markit)
63.4	51.7		62.5	63.4	↑	● Netherlands (Markit)
59.0	49.8		59.0	56.8	↓	● Italy (Markit)
56.1	51.0		55.2	56.0	↑	● Spain (Markit)
65.6	47.3		65.3	65.5	↑	● Switzerland (CS)
65.2	51.0		57.0	59.9	↑	● Sweden (Swedbank)
59.1	44.2		58.4	57.5	↓	● Norway (Danske Bank)
54.8	47.7		54.8	54.1	↓	● Japan (Markit/JMMA)
59.8	44.2		58.7	57.5	↓	● Australia (AIG)
59.9	51.1		55.6	n.a.		● New Zealand (BoNZ)
56.9	46.1		56.9	56.0	↓	● Taiwan (Markit)
51.2	46.1		50.7	50.3	↓	● South Korea (Markit)
51.5	44.4		51.1	n.a.		● Hong Kong (Markit)**
53.1	48.5		53.1	52.7	↓	● Singapore (SloPMM)

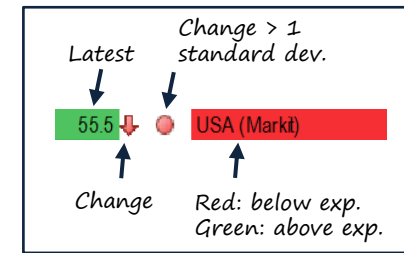
Services

3-year		Mar 2015 to Dec 2017	Jan	Feb	Δ*	
High	Low					
58.8	50.0		56.7	56.5	↓	Average
59.9	51.6		59.9	n.a.		● USA (ISM Non-Man.)
59.2	49.7		53.3	55.9	↑	● USA (Markit)
56.8	51.5		56.8	n.a.		● EU (Markit)
58.0	52.2		58.0	56.7	↓	● Eurozone (Markit)
57.3	50.9		57.3	55.3	↓	● Germany (Markit)
60.4	47.2		59.2	57.9	↓	● France (Markit)
59.5	47.4		53.0	n.a.		● UK (Markit)
57.7	49.8		57.7	n.a.		● Italy (Markit)
60.3	54.1		56.9	n.a.		● Spain (Markit)
64.6	52.6		61.3	n.a.		● Sweden (Swedbank)
53.7	48.2		51.9	n.a.		● Japan (Markit)
57.7	45.0		54.9	n.a.		● Australia (AIG)

Source: IR&M, Bloomberg. Notes: PMI stands for Purchasing Manager Index and is a diffusion index. A figure above 50 means the economy is improving, below 50 means the economy is worsening. The average is equally weighted. *The direction of the latest change is shown with an arrow. Changes larger than one standard deviation are marked with a red or green dot. A green/red highlight means figure was better/worse than expected.

PMI Emerg. Markets: **falling**

Ratio of risers to fallers was 6:8, i.e., not as negatively biased as in developed markets. Two negative outliers in China are consistent with our measure for economic momentum having turned negative recently. Strongest fall was -2.4 sd.



Manufacturing

3-year		Mar 2015 to Dec 2017	Jan	Feb	Δ*	
High	Low					
52.2	48.5		52.0	52.0		EmMa Composite (Markit)
54.9	46.6		53.1	53.0	↓	Average
53.5	41.6		51.2	53.2	↑	Brazil (Market)
53.8	49.2		52.6	51.6	↓	Mexico (Market)
54.7	47.6		52.1	50.2	↓	Russia (Market)
56.1	30.2		55.2	56.1	↑	Greece (Market)
55.7	47.0		55.7	55.6	↓	Turkey (Market)
59.8	49.3		59.8	58.8	↓	Czech Republic (Market)
55.0	50.2		54.6	53.7	↓	Poland (Market)
51.9	47.2		51.5	51.6	↑	China (Caixin)
52.4	49.0		51.3	50.3	↓	China (official)
54.7	47.9		52.4	52.1	↓	India (Markit)
51.9	46.4		49.9	51.4	↑	Indonesia (Markit)
54.9	42.9		49.9	50.8	↑	South Africa (Barclays)
54.8	49.4		53.4	53.5	↑	Vietnam (Markit)
51.2	41.8		49.9	n.a.		Egypt (Markit)**
57.7	52.7		56.8	n.a.		UAE (Markit)
60.1	53.0		53.0	n.a.		Saudi Arabia (Markit)**

Services

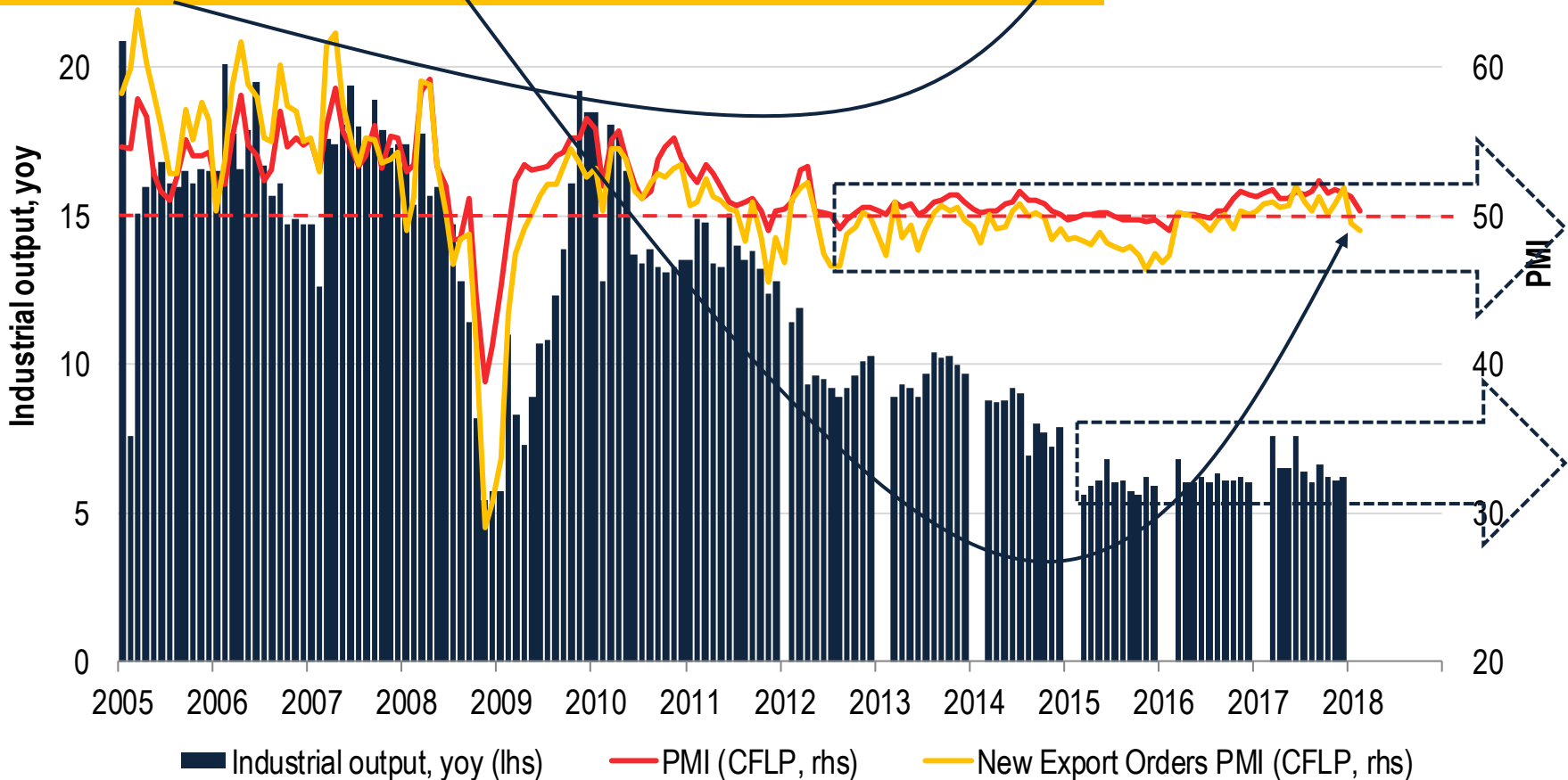
3-year		Mar 2015 to Dec 2017	Jan	Feb	Δ*	
High	Low					
53.7	49.1		53.7	n.a.		EmMa Composite (Markit)
54.8	46.4		53.4	53.2	↓	Average
50.7	36.9		50.0	n.a.		Brazil (Market)
58.4	46.1		55.1	n.a.		Russia (Market)
54.7	50.2		54.7	n.a.		China (Caixin)
55.4	52.7		55.3	54.4	↓	China (official)
54.7	45.9		51.7	n.a.		India (Markit)

Source: IR&M, Bloomberg. Notes: PMI stands for Purchasing Manager Index and is a diffusion index. A figure above 50 means the economy is expanding, below 50 means the economy is contracting. The average is equally weighted. *The direction of the latest change is shown with an arrow. Changes larger than one standard deviation are marked with a red or green dot. A green/red highlight means figure was better/worse than expected.

Economy	Valuation	Risk
Shanghai Composite (Jan 2005-)		
New export orders PMI	Return, pa*	Tenure, %
rising (12M average)	20.7%	50
falling (12M average)	5.9%	50
above 50	14.2%	64
below 50	8.1%	36
PMI	Return, pa*	Tenure, %
No 2 sd fall(s) within last 4M	15.9%	94
2 sd fall(s) within last 4M	-14.3%	6

China industrial output: stable

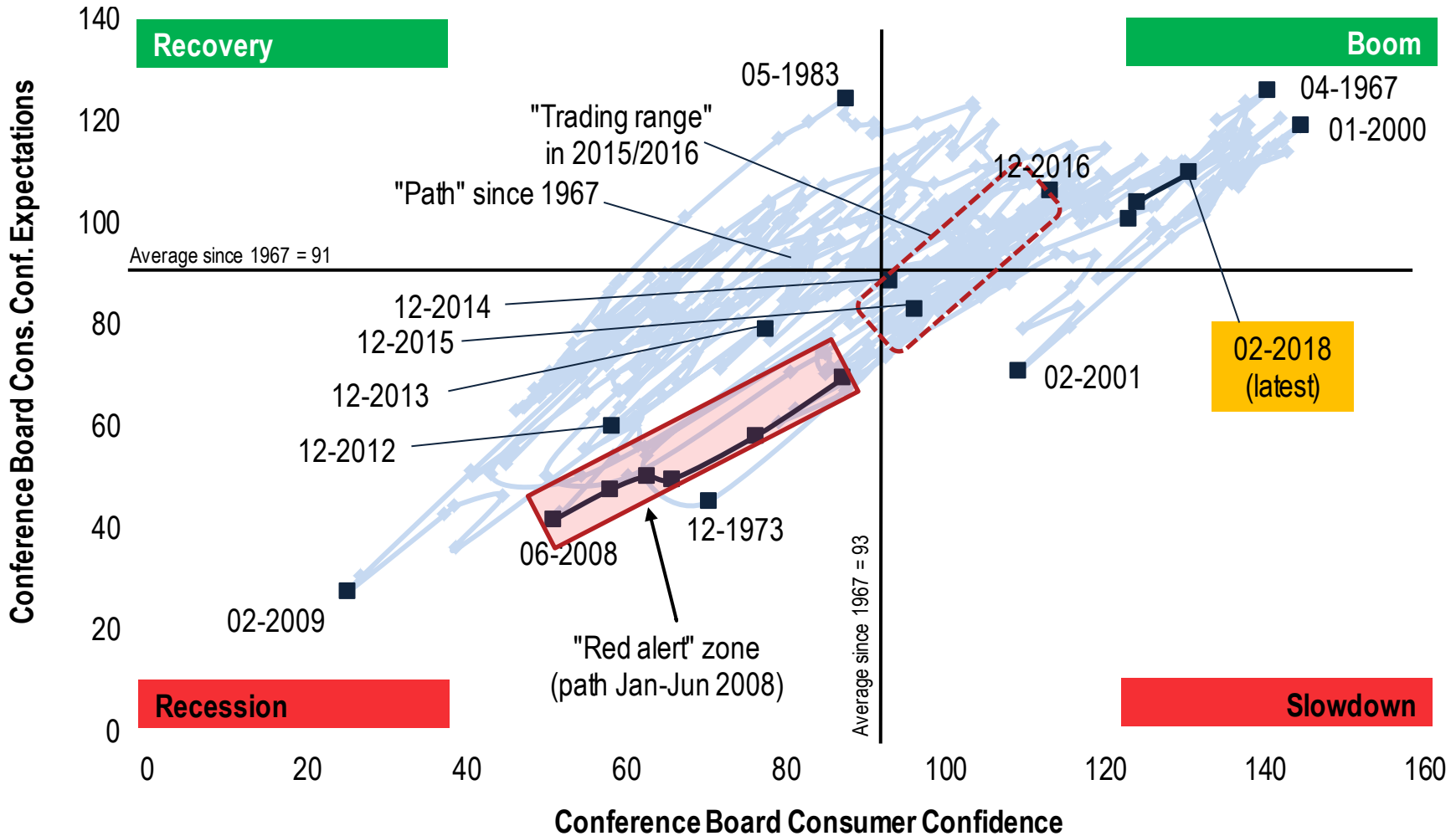
The PMI indicators shown here have been going sideways for years. Industrial production seems stable too. No trajectories breached. However, the new export order that features in our regime test in the upper right fell below 50 for the first time since October 2016, as mentioned in the 2 February update. Now a second regime test turned negative.



Source: IR&M, Bloomberg. January industrial output incorporated in February figures due to Lunar New Year. *Annualised average monthly return in month that follows subsequent month, i.e., March returns for January PMI.

US consumer: confident

The sum of these two measures rose by 0.9 standard deviation to 240.5 in February. The last time this level was reached was from April 1999 to October 2000. The US consumer is now in the 93rd percentile (100th=best) based on this survey since 1967. The last two data points at or higher than 93rd was in November 2017 (93rd) and September 2000 (99th).



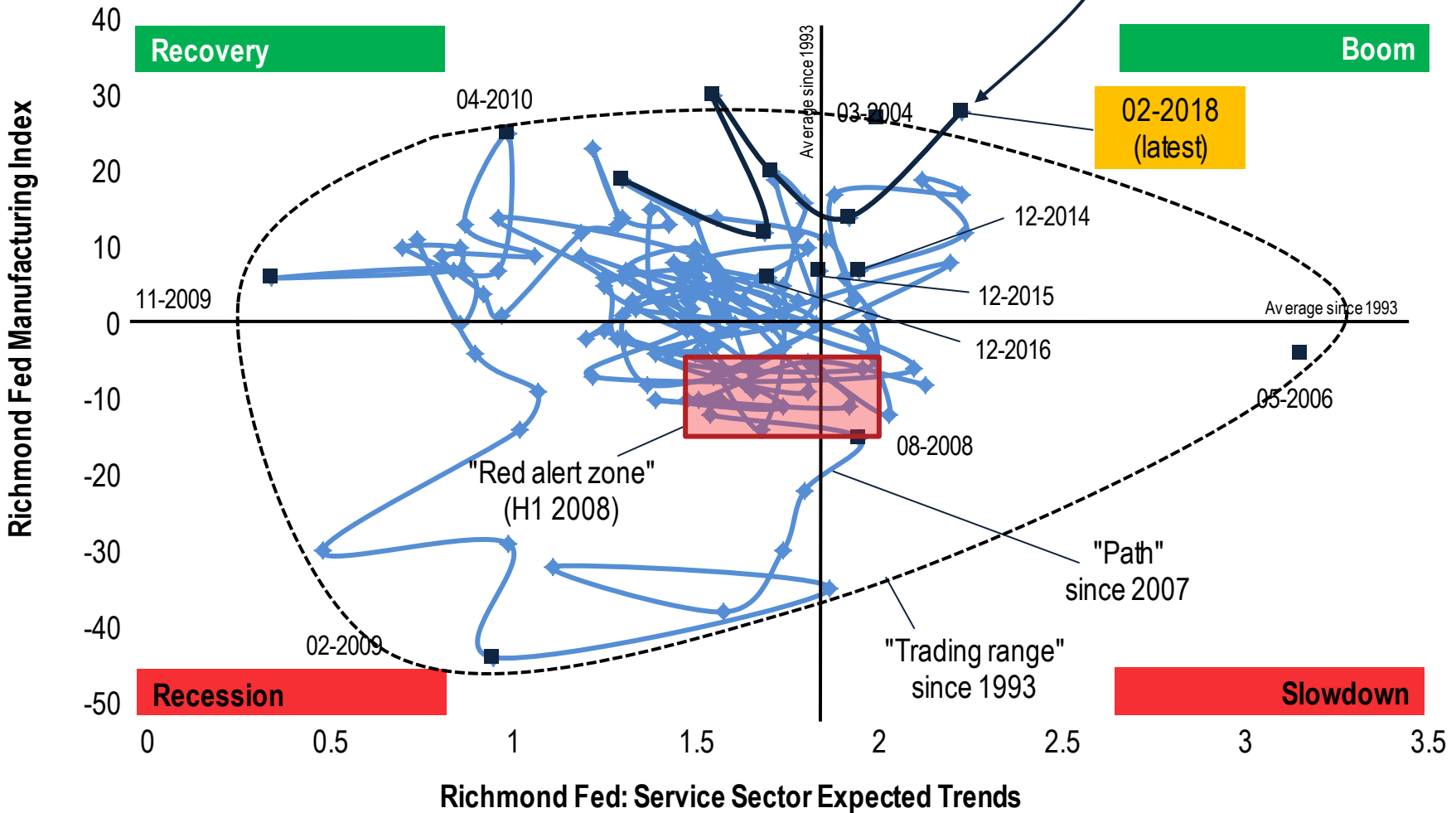
Source: IR&M, Bloomberg. Note: The light blue line shows all combination of consumer confidence (main index) and expectations thereof since January 1967. Extremes and most recent path is highlighted.

Richmond Fed: off the charts

Indicator (vertical axis) is a diffusion index and above 0 means economic expansion.

November we titled "off the charts" as November was outside the dotted line. February is off the charts too. It's the 100th percentile since 1994.

S&P 500 (Jan 1994 -)		
Richmond Fed Manufact. Index	Return, pa*	Tenure, %
above -10	4.3%	87
below -10	-5.5%	13
No 3 sd fall(s) within last 4M	3.7%	93
3 sd fall(s) within last 4M	-14.5%	7



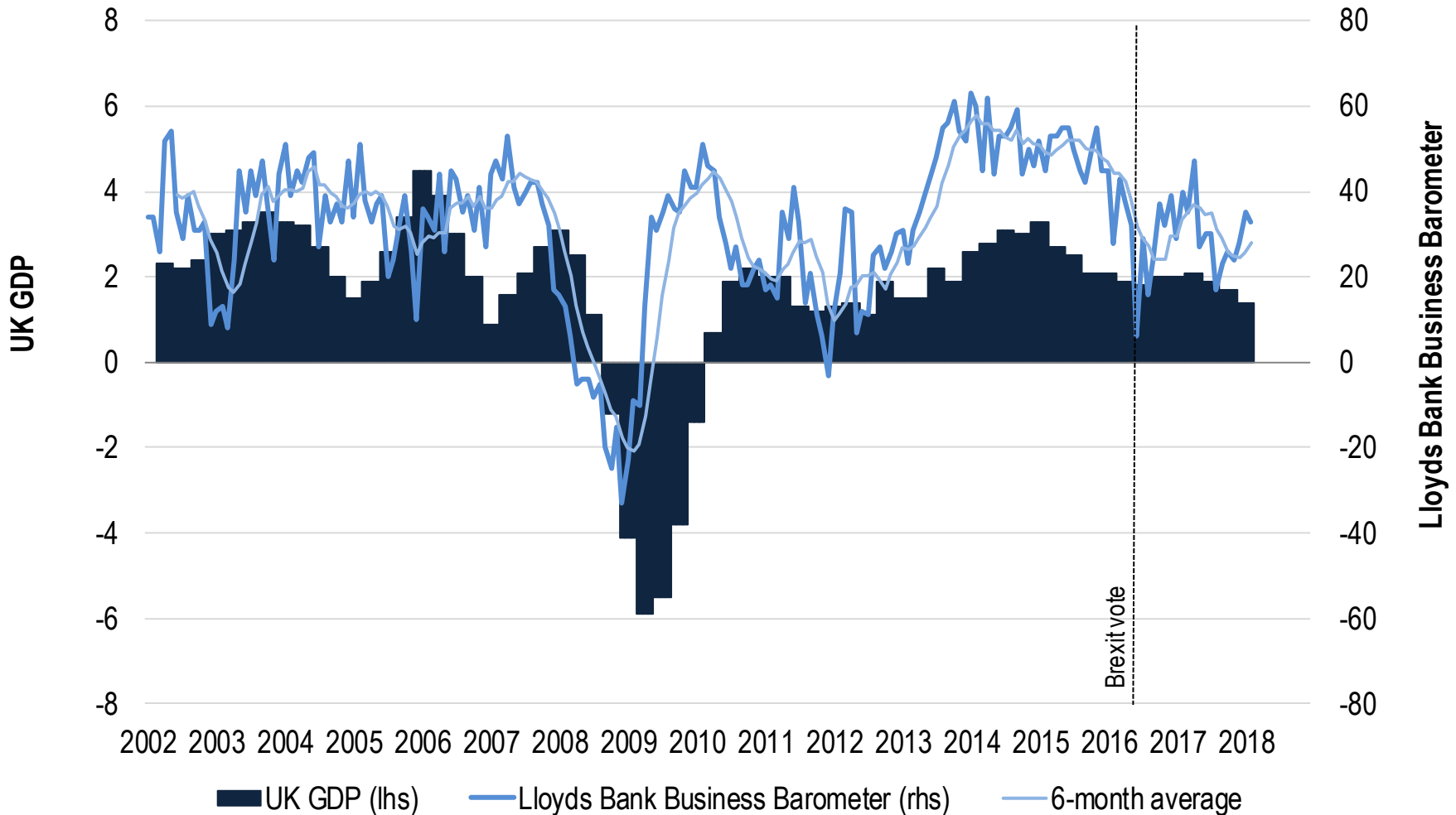
Source: IR&M, Bloomberg.

Notes: Dotted line shows "trading range" since 1993, blue-dotted lines show path since 2007. "Red alert zone" refers to six observations in the first half of 2008. *Average annualised monthly return of subsequent month.

Economy	Valuation	Risk
FTSE 100 (Jan 2002-)		
Lloyds Business Barometer	Return, pa*	Tenure, %
rising (6M average)	4.2%	51
falling (6M average)	2.1%	49
above 0	5.5%	93
below 0	-25.3%	7

UK economy: improving again

The average is rising and the latest observation was a non-event.



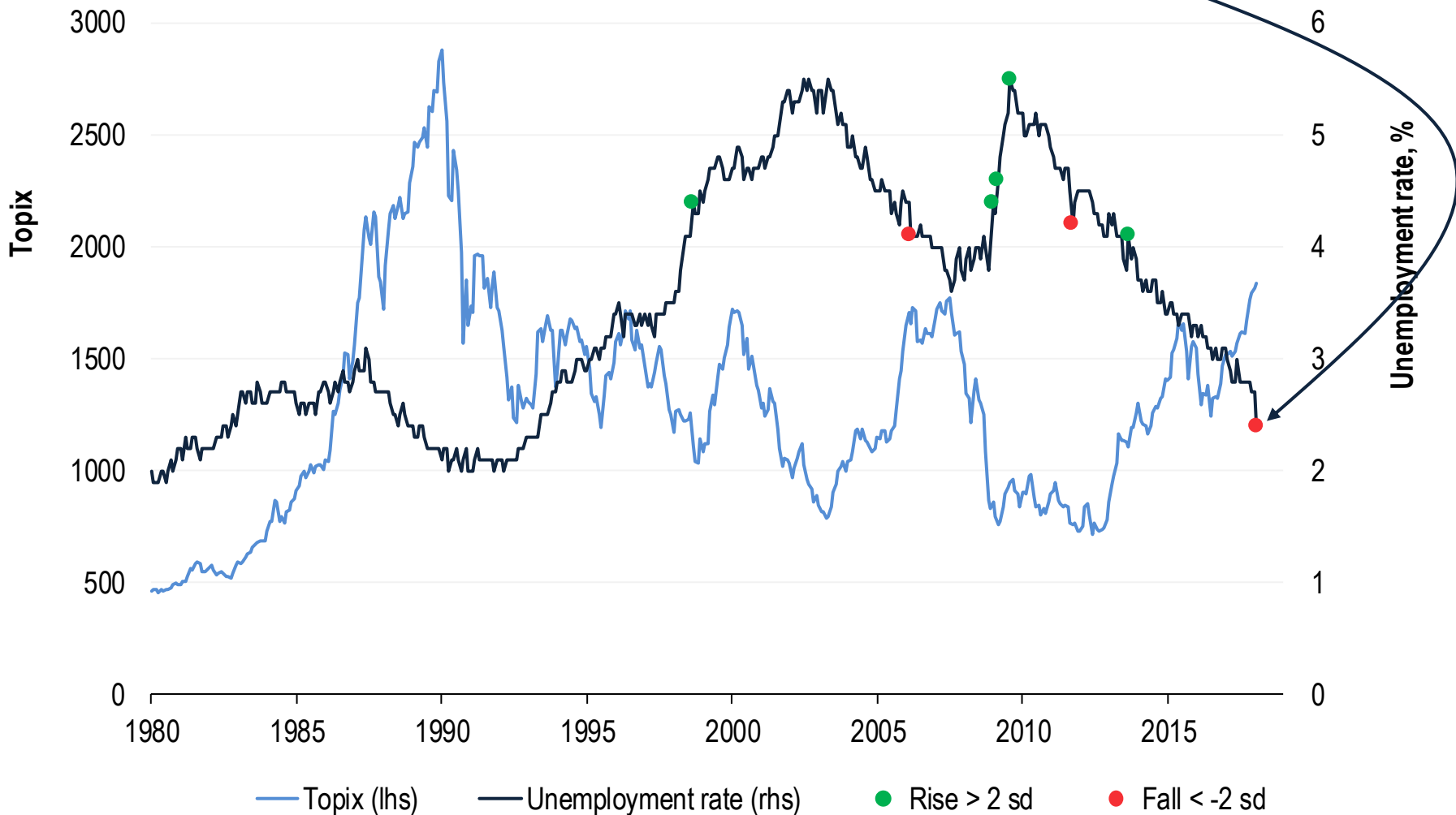
Source: IR&M, Bloomberg. Note: Survey is based on 200 companies with revenues more than GBP1m. *Annualised average monthly returns in subsequent month.

Japan unemployment: low

The graph shows the Topix Index with the unemployment rate, large swings marked.

Unemployment rate fell by 0.3% (2.8 standard deviation) in January to 2.4% last seen in 1993

Topix (Jan 1980 -)		
Unemployment rate:	Return, pa*	Tenure, %
falling (12M average)	7.9%	47
rising (12M average)	3.0%	53



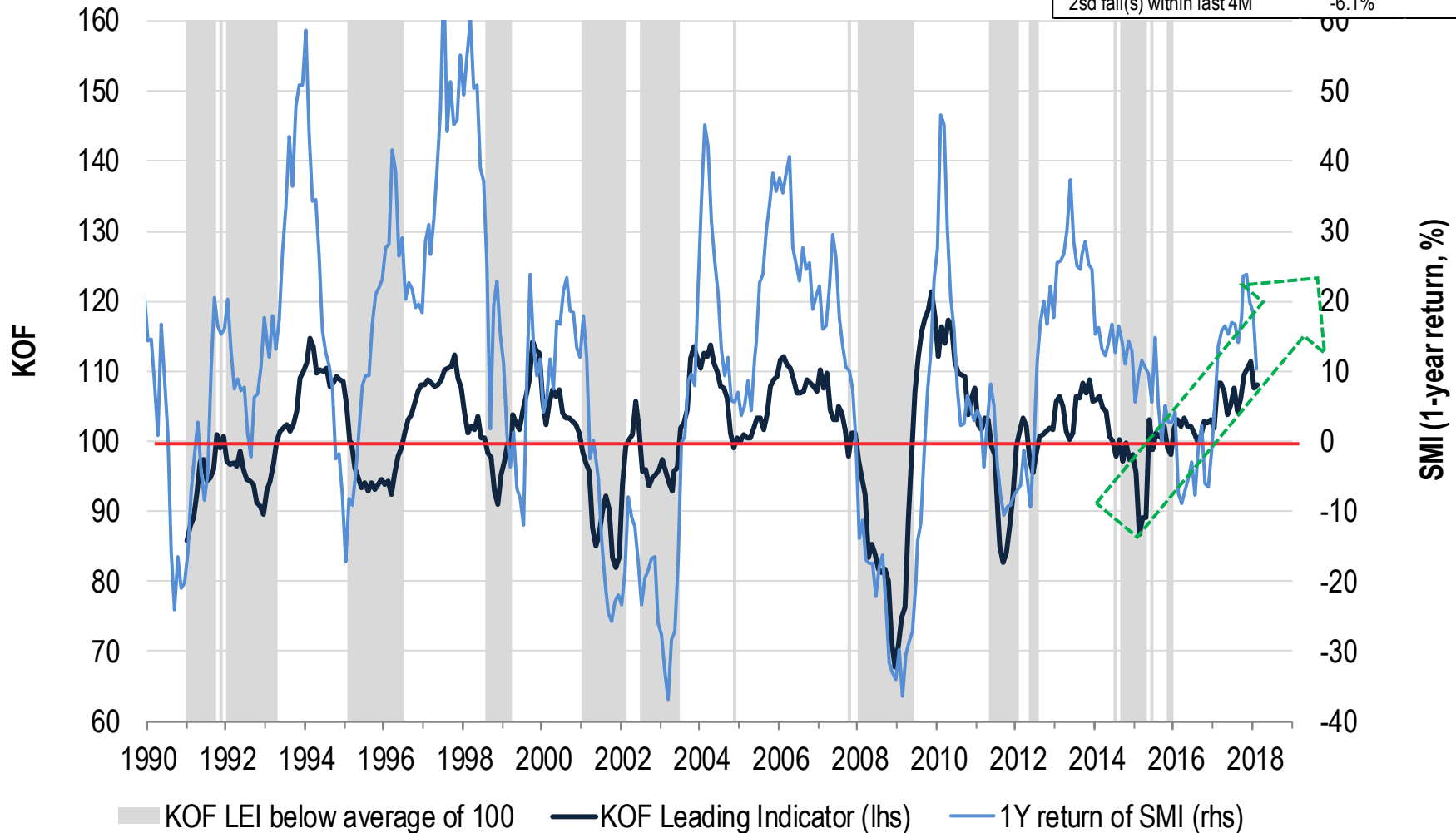
Source: IR&M, Bloomberg. *Annualised average monthly return in month that follows subsequent month.

Economy	Valuation	Risk
Swiss Performance Index (Jan 1991-)		
KOF LEI:	Return, pa*	Tenure, %
rising (12M average)	12.6%	56
falling (12M average)	7.4%	44
above 100	13.5%	63
below 100	5.6%	37
No 2 sd fall(s) within last 4M	11.4%	91
2sd fall(s) within last 4M	-6.1%	9

Switzerland: risk remains on

A reading below 100 is perceived as cyclically negative.

This indicator implies risk is on; the trajectory intact. The January 1.5 standard deviation (sd) fall was revised upwards to a 1.2 sd fall.



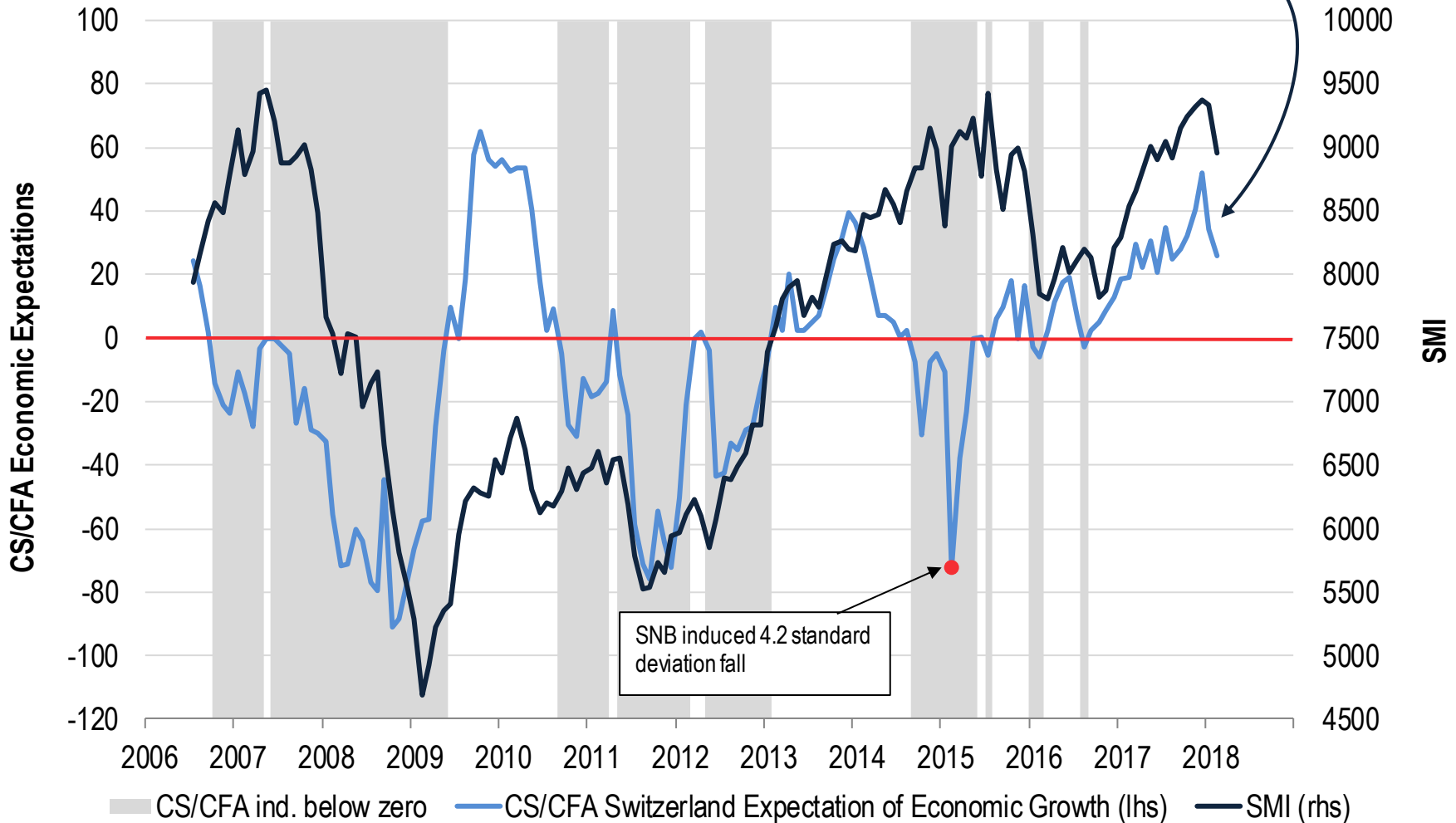
Source: IR&M, Bloomberg. Notes: KOF LEI starts in January 1991. *Average annualised monthly return in subsequent month.

Switzerland: above threshold

A reading below 0 is perceived as cyclically negative.

This indicator fell by 1.2 standard deviation (sd) in January and by 0.6 sd in February.

Swiss Performance Index (Jun 2006-)		
Economic Expectations	Return, pa*	Tenure, %
above 10	11.1%	29
between -40 and 10	7.0%	53
below -40	-8.1%	18
No 2 sd fall(s) within last 4M	7.6%	88
2 sd fall(s) within last 4M	-13.6%	12



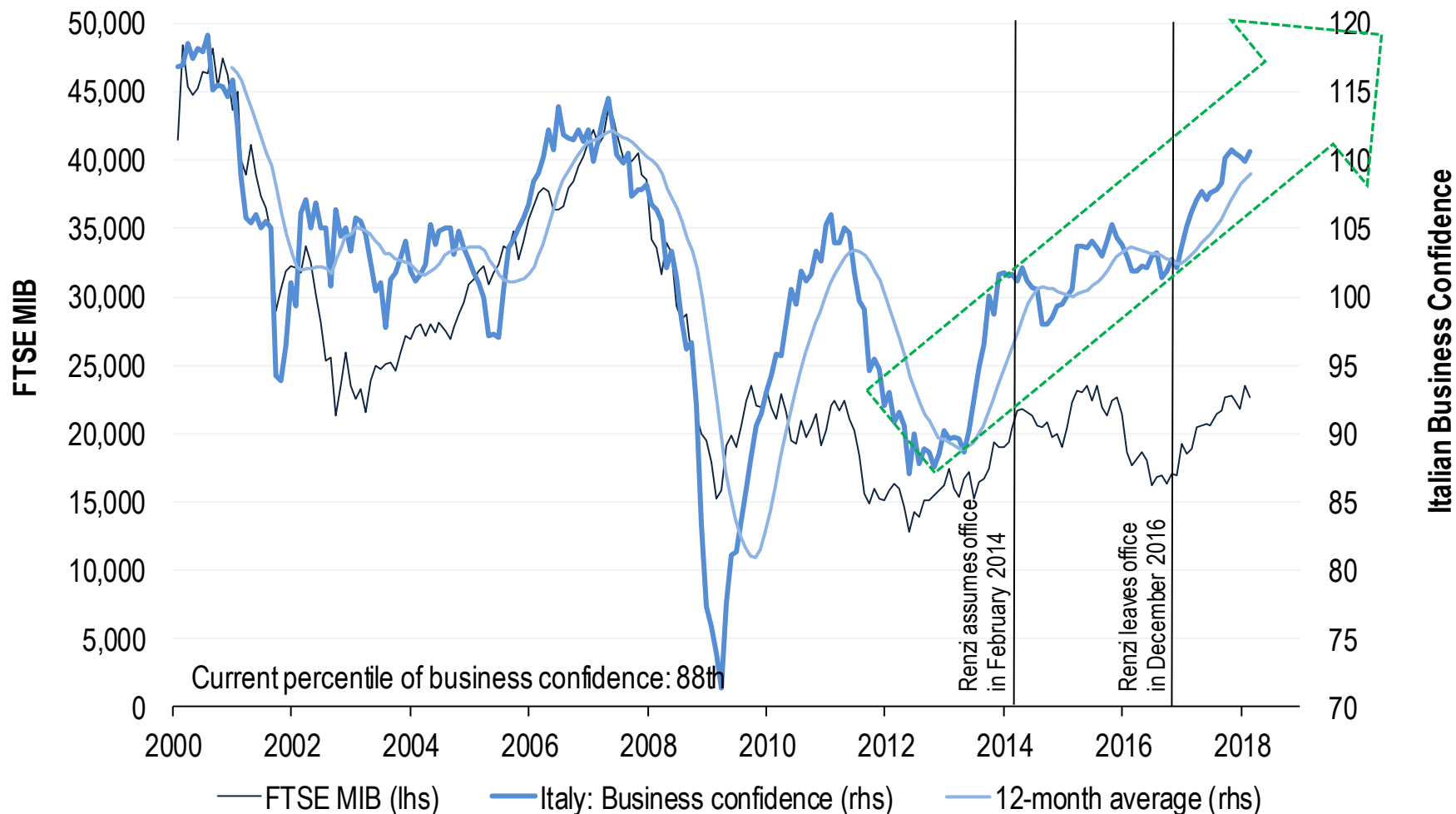
Source: IR&M, Bloomberg, CS. *Annualised average monthly return in subsequent month.

Italy business conf.: rising

Graph contrasts a business confidence indicator with the stock market.

Business confidence is rising and the two tests in the insert imply risk is on. (The 4-month average started falling in January though.)

FTSE MIB (Jan 2000-)		
Italian Business Confidence	Return, pa*	Tenure, %
rising (6M average)	10.1%	52
falling (6M average)	-13.2%	48
rising (12M average)	4.4%	49
falling (12M average)	-7.0%	51

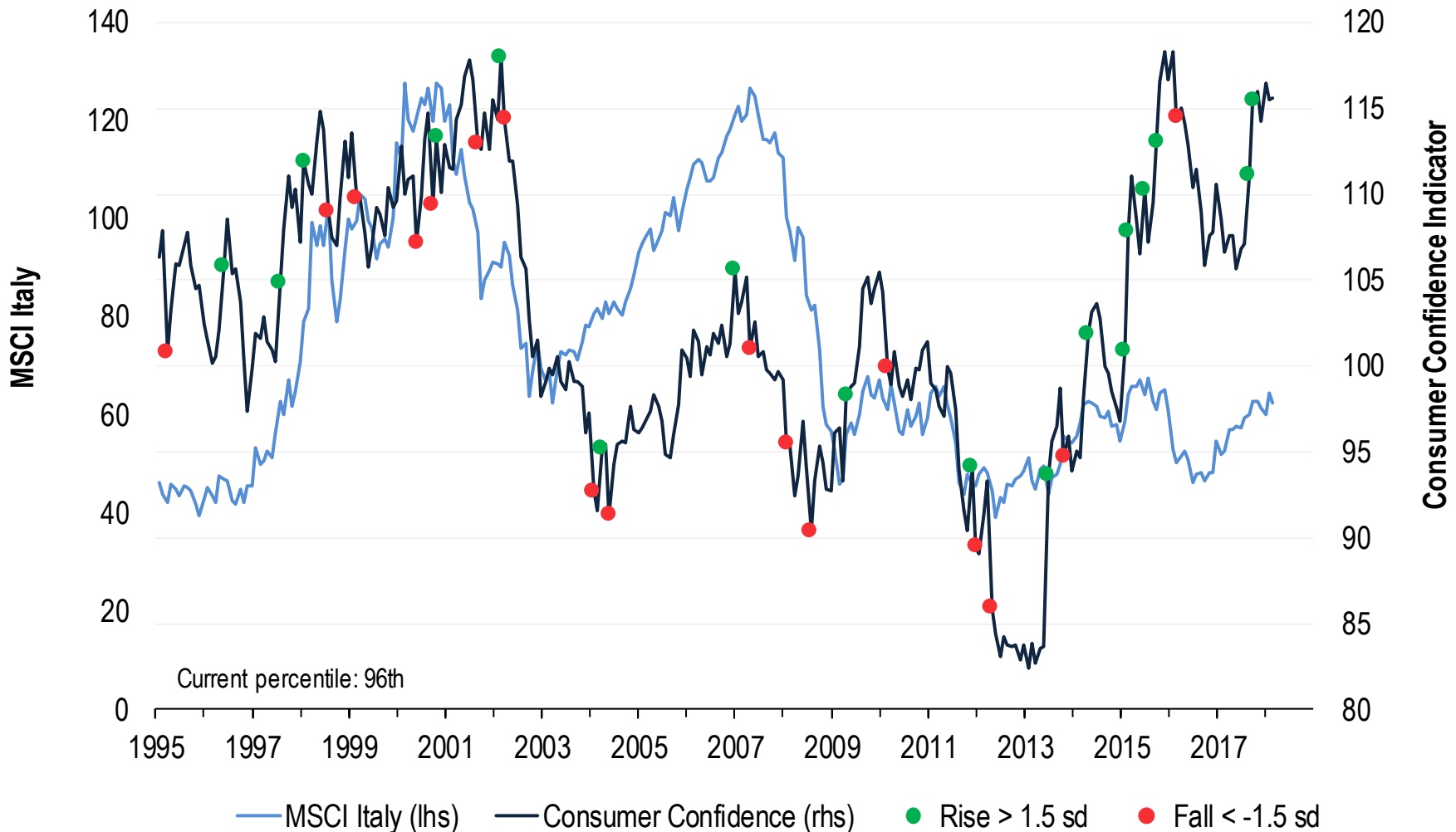


Source: IR&M, Bloomberg, ISTAT. *Annualised average monthly return in subsequent month.

Economy	Valuation	Risk
MSCI Italy (Jan 1995 -)		
Consumer confidence:		Return, pa*
rising (12M average)		9.5%
falling (12M average)		-1.8%
above 100		5.8%
below 100		0.3%
No 1.5 sd fall(s) within last 4M		10.3%
1.5 sd fall(s) within last 4M		-13.4%
	Tenure, %	
		53
		47
		60
		40
		74
		26

Italy cons. confidence: rising

Consumer sentiment is rising when judged by a 12-month moving average. December was a 0.9 sd rise, January a 0.4 sd fall, February a non-event.

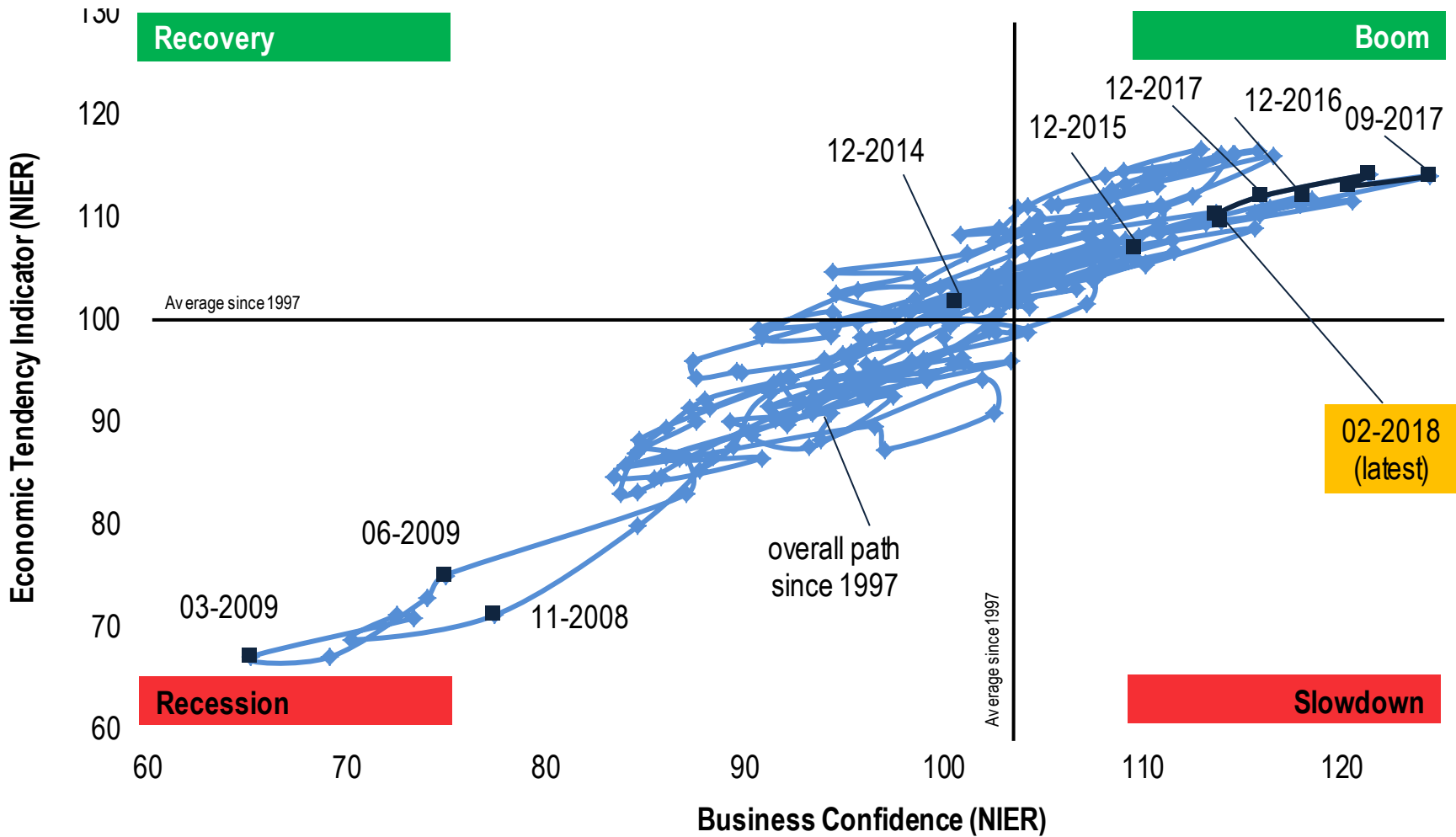


Source: IR&M, Bloomberg, ISTAT. *Annualised monthly return in subsequent month.

Economy	Valuation	Risk
MSCI Sweden (Jan 1997 -)		
NIER indicators:		Return, pa*
in upper/right quadrant and rising**		17.8%
not		2.3%
Economic tendency indicator:		Tenure, %
No 2 sd fall(s) within 4M		92
2 sd fall(s) within 4M		8

Sweden: worsening

Sweden was in the 100th percentile since 1997 from September to November 2017. From December to February 2018 it fell to 95th, 89th, and 88th. The movement, therefore, is from the upper right towards the lower left. One regime test implies lower future returns.

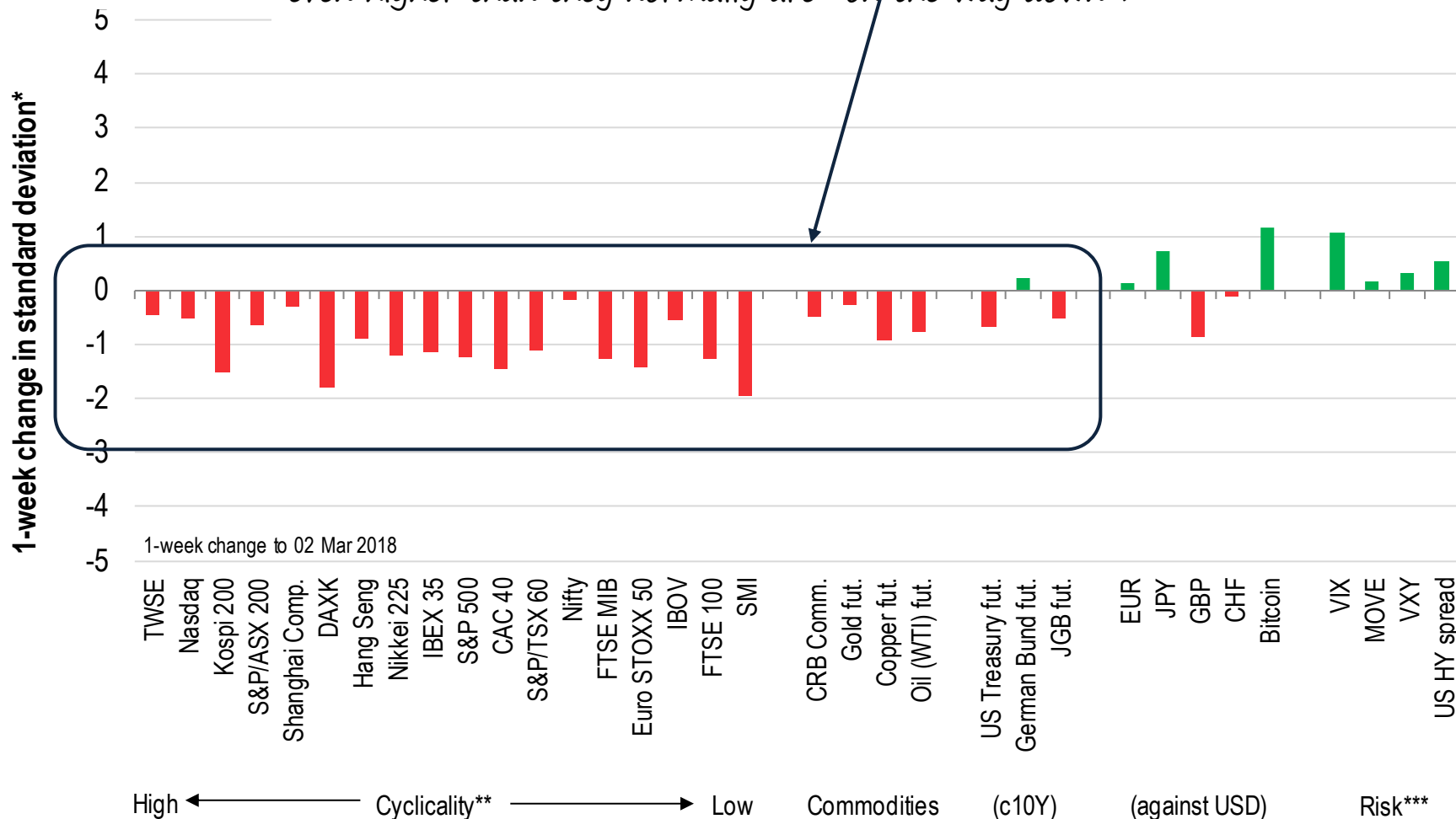


Source: IR&M, Bloomberg, NIER (National Institute of Economic Research). *Annualised monthly return in subsequent month. **Both indicators above 100 and 4-month average of Economic Tendency Index rising.

The week that was

Graph shows change over one week in standard deviation.* This allows for comparing different indices/risk measures with different volatilities.

Off-diagonal correlation is not precisely -1 but close. If the term “everything bubble” is an appropriate term for the last couple of years, and if that period has ended, then correlations on the way down will most likely be very high; even higher than they normally are “on the way down”.



Source: IR&M, Bloomberg. *Based on three-year historical volatility. **Based on sum weight of Consumer Discretionary, Materials, Industrials, Financials, Real Estate and IT. ***VIX is a proxy for “risk” in equities, VXY in FX, MOVE in bonds, and the spread between Treasuries and HY bonds is perceived as a proxy for economic risk as well as investor’s perception for risk.

Technically speaking...

Fundamental analysts as well as finance academics both make fun of technical analysis. (The word “voodoo” is occasionally used.) However, one of the formations that has merit and also has a footing in empirical research is the so-called head-and-shoulder formation, shown in green. (A formation Professor Andrew Lo* “signed off” as being worth the practitioner’s attention in 2000.) It’s a pattern that marks a top. The idea is that if the so-called neckline is taken from above, all bets are off, i.e., the trend is broken and it’s a bear market.



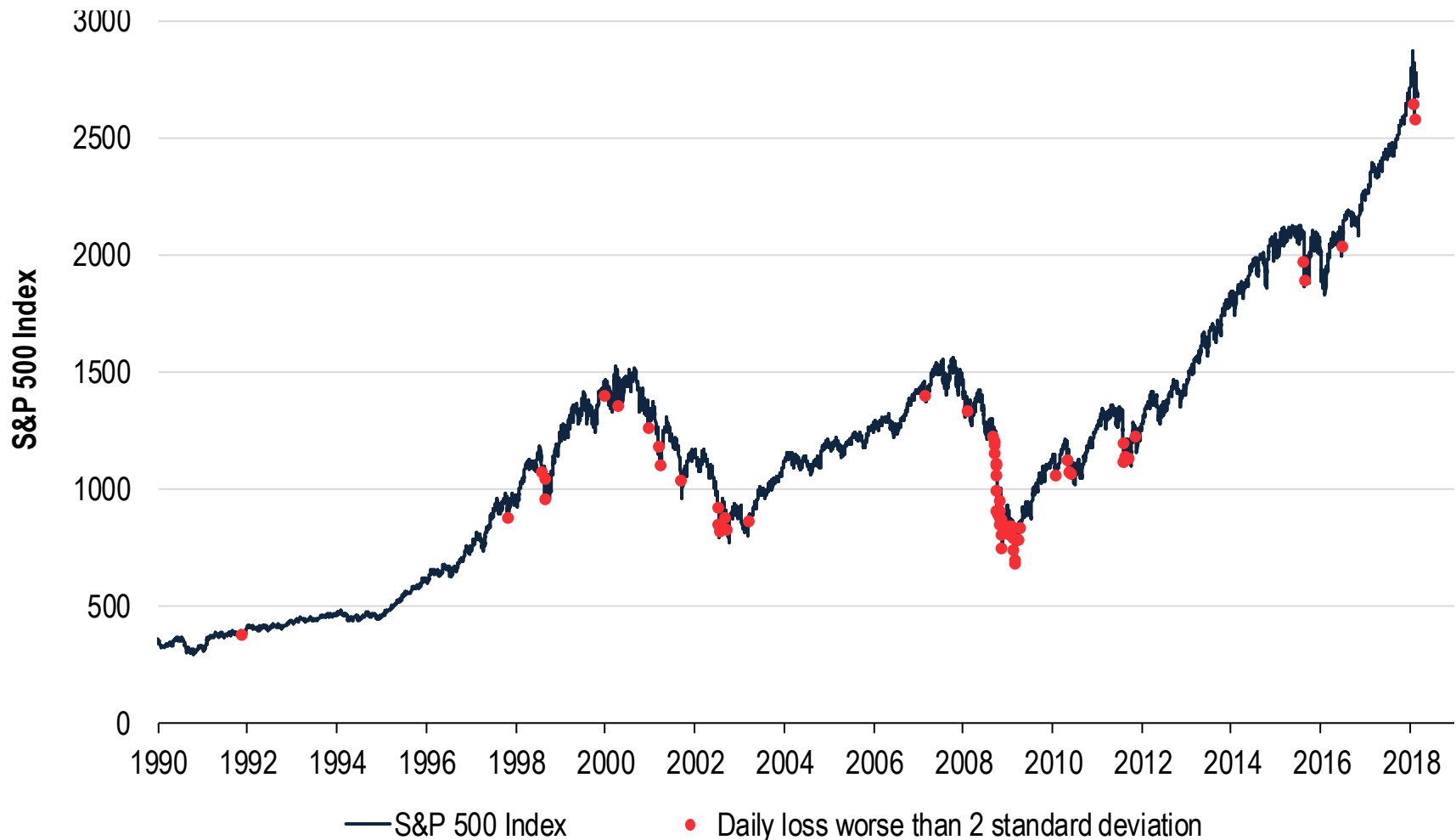
— Ryan Labs 10-year Treasury Total Return Index

Source: IR&M, Bloomberg.

*“Foundations of technical analysis: computational algorithms, statistical inference, and empirical implementation”, by Andrew Lo, Harry Mamaysky and Jiang Wang, Journal of Finance, August 2000.

Trivia: putting things into perspective

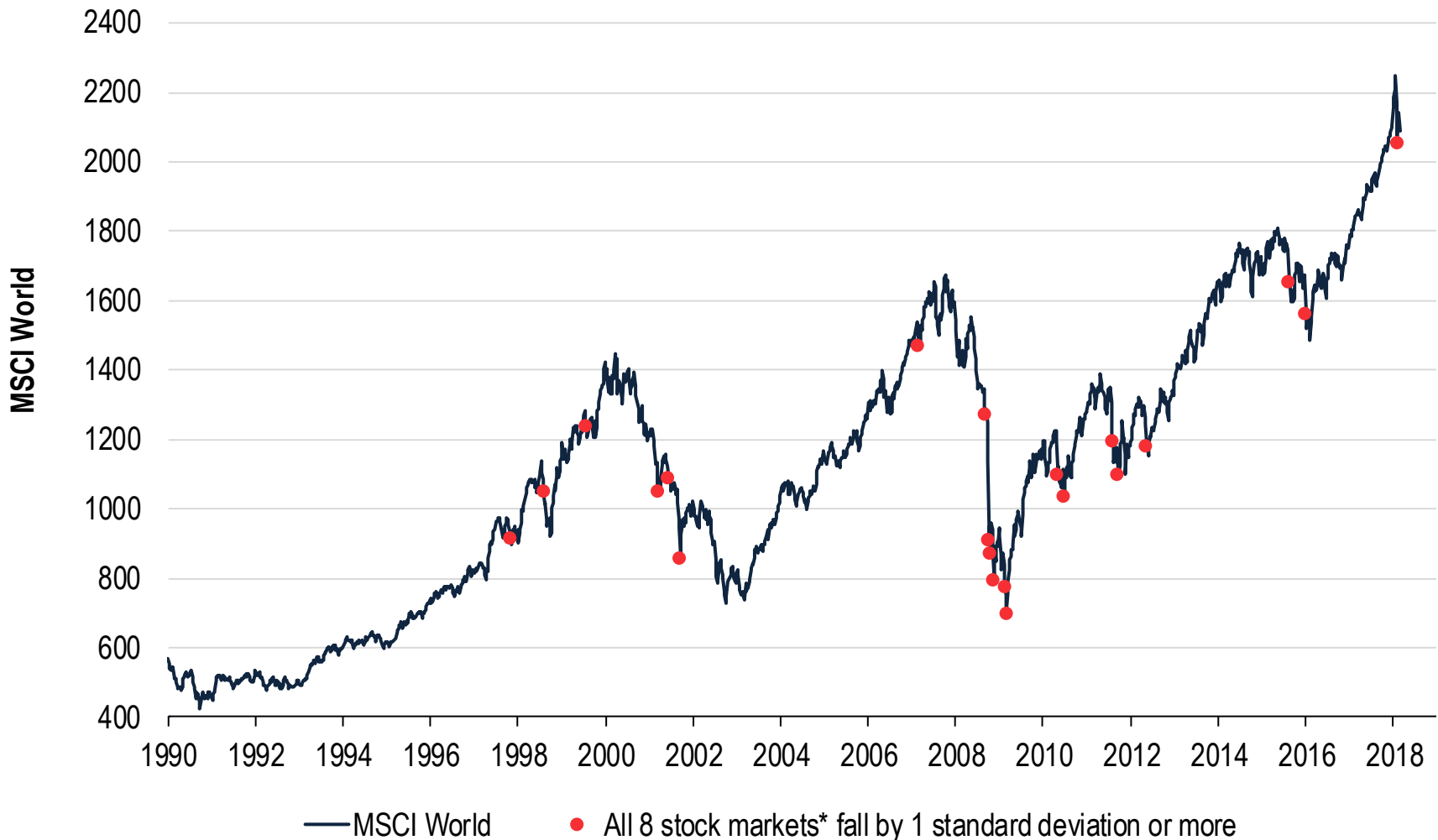
At the moment it is difficult to assess whether the most recent negative outliers resemble 1998, 2000, 2007, 2011, or 2015.



Source: IR&M, Bloomberg.

Graph of the week – for what it's worth...

The graph shows the MSCI World. The red dots mark the weeks in which eight major stock markets* fell by one standard deviation or more. Prior to the week of 9 February 2018, the last occurrence was the week of 21 August 2015. Last week, "only" 5 fell by more than one standard deviation.



Source: IR&M, Bloomberg. * S&P 500, S&P/TSX 60, FTSE 100, DAX, CAC 40, Nikkei 225, Hang Seng, SMI. Based on weekly data.

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