

PortfolioNet

Currency exposure

PNet allows you to view the currency exposure of your portfolios excluding or including the impact of forward currency hedges. The breakdown can be done based on the instrument trade currency or risk currency. You can analyse the exposures at the individual portfolio level, the client level, client group level or any another grouping. You can also specify your own regional currency groupings.

Trade currency

Currency group	Curr.	Gross currency exposure	Forex forward contracts	Net currency exposure	Exposure (in USD)	In %
Total					1'253'465	89.1%
North America	USD	1'048'203	100'102	1'148'305	1'148'305	91.6%
Euro Zone	EUR	48'415	-83'524	-35'109	-39'104	-3.1%
Switzerland	CHF	5'696		5'696	5'797	0.5%
Japan	JPY	749'268	-530'432	218'836	2'116	0.2%

Risk currency

Currency group	Curr.	Gross currency exposure	Forex forward contracts	Net currency exposure	Exposure (in USD)	In %
Total					1'253'465	100.0%
North America	USD	582'614	100'102	682'716	682'716	54.5%
Euro Zone	EUR	-37'295	-83'524	-120'819	-134'567	-10.7%
Japan	JPY	3'296'126	-530'432	2'765'695	26'738	2.1%
Asia - Pacific	CNY	192'436		192'436	28'815	2.3%
Asia - Pacific	HKD	95'420		95'420	12'302	1.0%
Emerging Markets	EMM				87'184	7.0%
Global	MIX				550'277	43.9%

Market Manager

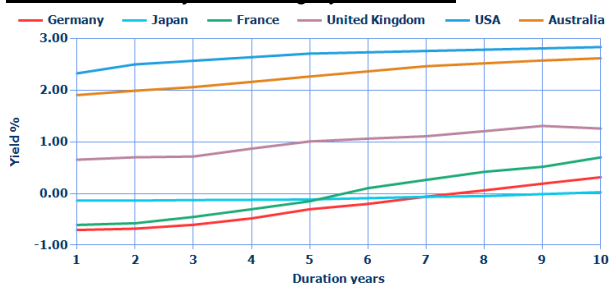
Yield curve analysis

Market Manager provides numerous facilities for bonds and yield curves analysis which we will illustrate by analysing the impact of the recent US rate hikes.

The US sovereign yield curve can be compared, at specific points in time, to those of other countries using the “Yield curves” tool which is accessed by clicking on the icon:



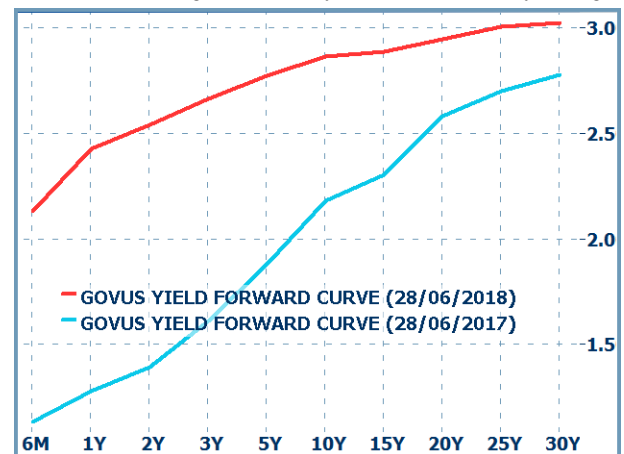
Yield curves: major sovereign yield curves



American interest rates are now the highest of the major developed nations having surpassed those of Australia.

To compare the US government yield curve in two points in time on a single graph, you can search for the GOVUS chain and view it using a “Chain chart”. Duplicating the curve and setting a different date for each will allow to view the change of the curve over time.

Chain chart: US government yield curve versus year ago

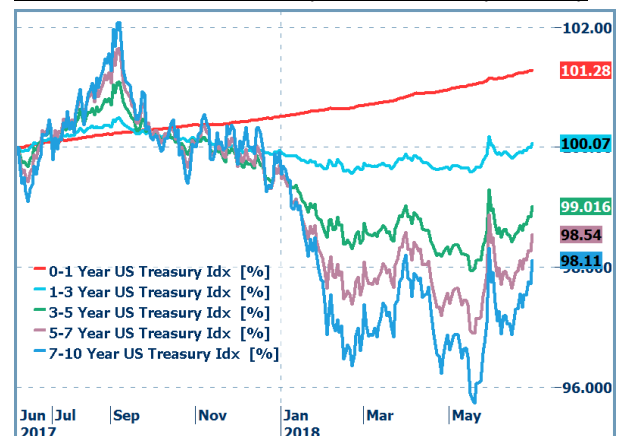


While short term interest rates are up by around 1% longer term rates are up less, with for example the 10-year rates up 0.75%. The curve has shifted upward but also flattened.

To view the impact of the yield curve change on the performance of the bonds let's turn to the BofA US treasury bond indices by maturity. Displaying these indices in a historical chart shows that rising rates have impacted bond performance negatively with the longer maturities performing worst. However, the flattening of the curve has moderated the impact on longer maturity bonds.

Only Treasuries with maturities of less than a year have provided a notable return as new issues with higher coupons replace maturing bonds paying lower interest.

Historical chart: US Treasury performance by maturity



Legislation monitor

Financial Institutions and Financial Services acts

On June 15th the Federal assembly adopted the Financial Institutions and Financial Services acts, the final legislative projects of the four-pronged remodelling of the Swiss financial market architecture. The acts are expected to enter into force on January 1st 2020 alongside their ordinances. While the Financial Institution act provides for transition periods of up to 3 years, the Financial Services acts does not. Financial institutions have 18 months to adapt their services, procedures and infrastructure.

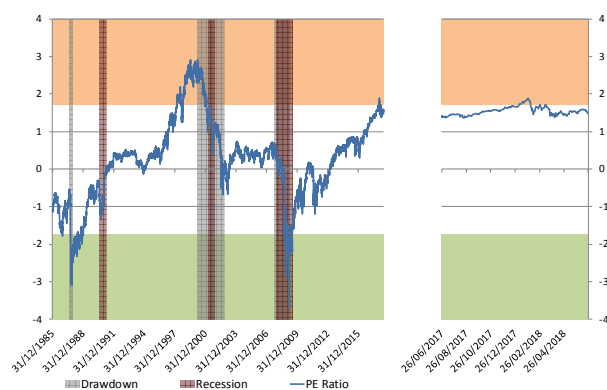
Created following the 2008 crisis, these acts aim to provide better customer protection and to create a uniform legislative and competitive playing field for all financial service firms. The acts are however watered-down versions of the Federal Council's initial projects. For example, gone is the easing of hurdles clients face in bringing disputes to the civil courts. Hopefully the EU will accept this legislation as equivalent to the more stringent European framework and open its markets to Swiss financial institutions.

Exuberance and gloom

Equity cool off

After a strong performance in 2017, the S&P 500 is up just 1% in 2018 as it gyrates to the beat of the tariff war news flow. Driven by tax cuts, 1st quarter S&P 500 earnings surpassed those of the 4th quarter 2017 by 22%. A flat equity market and rising earnings have pushed the S&P 500's cyclically adjusted price earnings ratio down from a peak of 33.5 to 31. This has resulted in the equity investor's confidence indicator dropping below the exuberance level. Now that the great expectations of tax cuts have come true, investors seem concerned that, following subdued company guidance, earnings growth may have peaked. However, with cyclically adjusted PEs at a historically high levels investors are confident earning growth will nevertheless remain strong. This leaves substantial downside where expectations not to be met.

S&P500 cyclically adjusted PE sentiment



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Calculation corner

Profit and loss plain and simple

Calculating a portfolio's P&L can be cumbersome as price changes, fees, taxes, accruals, FX rates all need to be taken into account. The formula is however simple: change in value reduced by net flows contributed. Let's illustrate with a portfolio holding a position and a cash account.

Example for an investment in a position

2 shares are bought at a price of 50 each plus a transaction fee of 5. The share price then falls to 45 and 1 share is sold at a cost of 5. Finally, the share price rises to 60.

Position			incl. fees		Cash account
Price	Amount	Value	<->	Fees	
		0			
50	2	100	100	5	105
45	1	45	-45	5	-40
60	1	60			
Change			Net	Fees	Net
			60	10	65

Gross P/L = 60 – 55 = 5

Net P/L = 60 – 65 = -5, including fees of 10

Example for the cash account used to buy the 2 shares

The account initially received 150 minus a fee of 5. At the end of the period 20 were withdrawn at a cost of 5.

		Cash Acc.		incl. fees		Outside
		Value	<->	Fees	<->	
		0				
		145	145	5	150	
-105		40				
40		80				
		55	-25	5	-20	
Net		Change	Net	Fees	Net	
-65		55	120	10	130	

Gross P/L = 55 – 120 – (-65) = 0

Net P/L = 55 – 130 – (-65) = -10, including fees of 10

Example for the combined portfolio

		Portfolio		incl. fees		Outside
		Value	<->	Fees	<->	
		0				
		145	145	5	150	
5		140				
5		125				
		115	-25	5	-20	
Total		Net	Change	Net	Fees	Net
10		-10	115	120	10	130

Gross P/L = 115 – 120 – (-10) = 5

Net P/L = 115 – 130 = -15, including fees of 20

The P/Ls of the position and the cash account add up perfectly to the P/Ls of the portfolio as a whole.

Please contact us for further discussion.