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1805

Tech stocks and high-yield bonds offer higher growth and higher yields - Pictet Asset Management

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"**We continue to favour those sectors most exposed to the upturning economic cycle**" says Luca Paolini, chief strategist at Pictet Asset Management.

"With markets range-bound, the search for value is likely to continue. Technology is upgraded to an overweight after the recent weakness as growth prospects remain intact. Recent underperformance can be largely put down to the sharp declines of a small number of internet-related stocks; established tech companies have, by contrast, reported solid growth and trade at attractive earnings multiples. We are also overweight energy, materials, industrials and financials."

"We are now underweight utilities, the top performing sector this year, as any rise in bond yields should reduce the attractiveness of such stocks' dividend yields. Health care and telecoms are other defensive sectors that may suffer if growth improves. Among cyclicals, we remain underweight in consumer discretionaries."

"European high-yield bonds remain attractive and we are still overweight. Although supply is hovering close to record levels, the quality of the companies issuing these bonds remains high. At the same time, default rates among non-investment grade borrowers are expected to fall this year. What is more, high-yield bonds' low duration versus other fixed income asset classes should serve as a buffer in the event of a rise in benchmark bond yields."

"The market is not devoid of risks. US borrowers are issuing more bonds that offer less protection to investors. A repeat in Europe would be a warning sign. Companies are also increasingly using bond proceeds for activities other than the refinancing of existing debt such as acquisitions; this can bring risks."

"The improvement in economic growth is already reflected in valuations across many markets. Short-term, there are few catalysts to lift global equities out of the recent tight trading range. Monetary policy is less potent; China's recent cut in reserve requirements for rural banks is not having an impact on growth whilst the developing crisis in Ukraine will dampen investor sentiment. Should earnings growth increase and/or a new round of monetary easing materialises, however, we stand ready to re-enter a more bullish position."

"Regionally, we are overweight Japan and emerging markets, neutral on US stocks and underweight Europe. Investors remain cautious on emerging equities but investment flows into the asset class have recently turned positive. Despite the risk of an escalation of the conflict in Ukraine - we have further trimmed our exposure to Russian equities – we still see plenty of opportunity in markets with solid growth prospects such as the Philippines."

"We are now underweight bonds. The recent decline in nominal and real bond yields towards the lower end of recent trading ranges appears excessive at a time when growth is improving and inflation looks more likely to rise than fall."

-Ends-

Notes to the Editor

The Pictet Group

Founded in 1805 in Geneva, the Pictet Group is one of the premier independent asset and wealth management specialists in Europe, with GBP268 billion in assets under management and custody at 31st March 2014. The Pictet Group is owned and managed by eight partners with principles of ownership and succession that have remained unchanged since foundation

Based in Geneva, the Pictet Group employs more than 3,400 staff. The Group has offices in the following financial centres: Amsterdam, Barcelona, Basel, Brussels, Dubai, Florence, Frankfurt, Hong Kong, Lausanne, London, Luxembourg, Madrid, Milan, Montreal, Munich, Nassau, Paris, Rome, Singapore, Turin, Taipei, Tel Aviv, Osaka, Tokyo and Zurich.

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At 31st March 2014, Pictet Asset Management managed GBP90.7 billion in assets, invested in equity and bond markets worldwide. PAM has seventeen business development centres worldwide, extending from London, Geneva, Frankfurt, Amsterdam, Luxembourg, Madrid, Milan, Paris and Zurich via Dubai, Hong Kong, Taipei, Osaka, Tokyo and Singapore to Montreal.

ABOUT THE PSU

The Pictet Asset Management Strategy Unit (PSU) is the investment group responsible for providing asset allocation guidance across stocks, bonds, cash and commodities.

Each month, the PSU sets a broad policy stance based on its analysis of:

• business cycle: proprietary leading indicators, inflation

• liquidity: monetary policy, credit/money variables

• valuation: equity risk premium, yield gap, multiples vs. history

• sentiment: Pictet sentiment index (investors' surveys, tactical indicators