THE IFA's Wealth Gram

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LE COIN TECHNIQUE

Focus on Defensive sectors

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In our early June contribution, we warned of turning to negative too quickly. At the time, we expected a rally between mid June and late July/early August. We confirmed this view in our luncheon presentation to the GSCGI on the 22th June. That said, we believe it is now time to call an end to this rally and, in our view, the market's risk/reward is negative for the next few quarters at least. Today, we will focus on Defensive sectors, which may provide additional absolute performance into the Fall, and probably well into 2019 on a relative basis.

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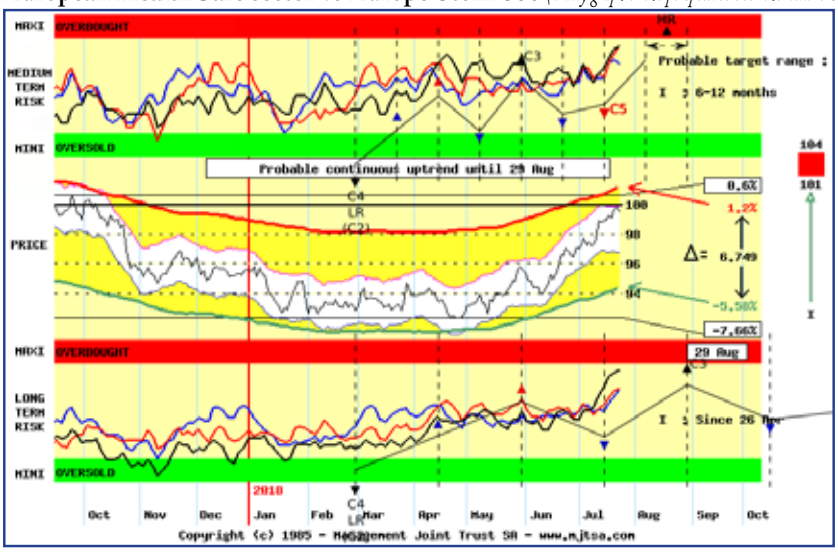
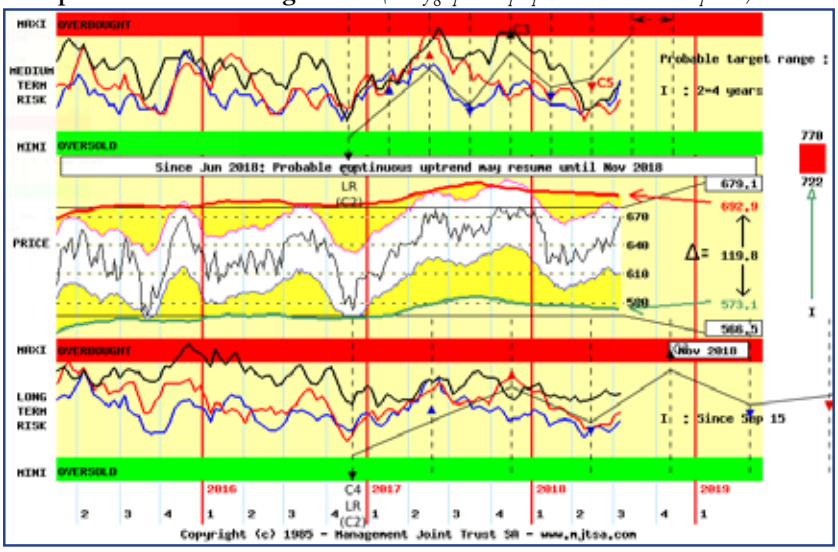
European HealthCare sector vs Europe Stoxx 600 *(Daily graph or the perspective over the next 2-3 months)*



European Food & Beverage sector *(Weekly graph or the perspective over the next 2 to 4 quarters)*



Concluding Remarks: We believe that the current Summer rally on main equity indexes is probably coming to an end, and are currently switching to take-profit mode. That said, Defensive sectors may still provide an interesting alternative for the next 2 to 4 quarters. We would probably hedge these sectors for general market risk during August *(when we expect an initial equity correction)*, but would then let them run again *(unhedged)*, probably towards early/mid Q4, when they could still make new highs. Beyond that, we expect a more widespread market correction into next year. These Defensive sectors should then hold up better than the market *(relative outperformance)*, yet should also start to correct on an absolute basis *(i.e., we would then hedge them again for general market risk)*.

While US markets have participated quite strongly in the recent rally, and Europe and Japan have tagged along, the rest of the world has found it more difficult to rebound for their May and June sell-offs. This is an environment where risk is gradually creeping in, and it is interesting to note ***how much Defensive sectors have already outperformed since early May.*** *In this daily graph (next months), we review the European Healthcare sector vs the market. Both our oscillators series (lower and upper rectangles) suggest that* ***the current uptrend should continue to accelerate, probably until the end of August*** *(29th of August according to our automatic messaging). According to our I Impulsive targets to the upside (right-hand scale), its outperformance potential may still be as high as 5% until then.* ***Following that, we expect the sector to retrace vs the market during September and perhaps October, before it outperforms again towards year-end and 2019.***

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On an absolute basis, these sectors are still strong. *Indeed, while we expect general market indices to top out again soon (if they haven't already done so earlier this year),* ***Defensive sectors may still see new highs towards this Fall.*** *For example, on this weekly graph (next quarters) of the European Food & Beverage sector, we are still expecting further upside, and probably new highs, into November this year (as expressed by our automatic messaging) with interesting upside potential (right-hand scale). Such strength on defensive sectors is typical of late cycle developments.*

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