

# »*The Fisch View*

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**Guide to methodology**

January 2019

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## The objective of and rationale behind *FischView*

In the *FischView* we provide the reader with the views of our investment experts on the financial markets. In particular, we focus on the asset classes most closely associated with Fisch Asset Management, namely credit and momentum.

Each month we publish the perspectives of our Investment Committee. In it, we pay special attention to the outputs of our various models, which provide us with valuable signals in our core disciplines of economics, trends and valuations. On a monthly basis, we provide readers with the highlights of and the most significant changes to our assumptions and findings in a handy two-page format. The quarterly *FischView* editions additionally provide in-depth analysis of our various models and explain in detail our observations on a macro and asset class level, and what impact these have on our top-down investment views.

The *FischView* is based on the monthly Asset Allocation Meeting, in which our specialists in each individual asset class, many of whom have decades of experience, present their analysis and voice their opinions. The presentations of all members are subsequently debated and scrutinised to ensure that the Investment Office is best placed to formulate the top-down investment strategy.

One of the aims of the *FischView* is to make the rationale for our investment decisions open and transparent. Second, the *FischView* contains a list of the current most preferred (and least preferred) country and/or sector allocations by asset class.

We hope the *FischView* offers you in-depth insights and we welcome any comments or critiques you may have.

Kind regards,



**Beat Thoma**  
Chief Investment Officer



## Methodology for the top-down investment process

Across all strategies, Fisch Asset Management uses a combined top-down/bottom-up approach for idea generation. In top-down research, the focus is on the continual analysis of the macroeconomic environment and financial markets. We have a structured analytical process in place and apply proprietary models. The result of this process – the *FischView* – becomes our basis for setting out the relevant exposure ranges in our investment strategies and is also made available to external interested parties each month.

The *FischView* draws on three component models (economics, trends and valuations).

### Macroeconomic model

Analysis of the macroeconomic environment is based on our proprietary macro model and has four input factors:

- The Fisch cycle model, which reflects an overall view on the equity and interest rate environment
- Assessments of monetary liquidity and the overall monetary environment
- An analysis of yield curves
- Key leading indicators with a high predictive value

The macro model produces an economic forecast for the next six to 12 months. In addition, the expected impact on equity, interest rate and credit markets is determined.

### Trend model

In our trend model, we calculate various medium-term trend indicators for the equity, interest rate, currency and credit markets. These indicators are based on historical price data and measure how well each of the asset classes has performed in the past. The better/worse an asset class performed in the past, the higher/lower our expectation for the future. A major factor in our analysis is our proprietary trend indicator, which exponentially weights the historical risk-adjusted returns of the various asset classes.

### Valuations

In the valuation section we give a detailed overview of current valuations for the markets of relevance to us: credit, convertible bonds, equities and interest rates. For interest-bearing instruments, we use the slope of the yield curve (yield on 10-year minus 2-year sovereigns) as the risk premium for duration risk. To judge valuations in the investment grade and high yield credit markets, Fisch predominantly uses short-term credit market outlook indicators, CDS movement, liquidity patterns and fund flows to indicate market richness or cheapness. The output is overlaid with various external fair value models to determine an overall credit score for various markets and regions.

For convertible bonds, we analyse trends in CB valuation by region. The analysis includes input stock volatility, convertible bond implied volatility and rich/cheap measures based on the difference between trading prices and fair value models. The model outputs are intended to indicate the prevalent direction of risk to convertible bond valuations, which are also influenced by net issuance patterns, fund flows and market-maker risk appetite.

Additional top-down inputs are used across the remaining asset classes. These are based upon a number of different approaches, such as forward equity price/earnings multiples for equities.

**Asset Allocation Meeting**

The outputs of these three component models are aggregated and discussed by our team of experienced specialists at the Asset Allocation Meeting each month to form the *FischView*. Key topical investment matters and their influence on our products are also discussed at this meeting, while we also set out areas in which we have a particularly high conviction.

**Portfolio construction and importance of bottom-up analysis**

The *FischView* forms the basis for our top-down-driven overweights and underweights in the portfolio construction of all our strategies. They are also the starting point for the external communication of our market opinion and our key positionings. In conclusion, however, please note that bottom-up analysis (i.e. the analysis of individual securities and the associated sectoral and regional analysis) plays a pivotal role in all our strategies and is typically expected to make a greater alpha contribution than the top-down research.