MARKET OPPORTUNITIES

April 2018

- Fed and the risk of a broad trade war
- First step of Brexit

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It is easy to note that Jerome Powell has had a turbulent start as Chair of Federal Reserve. He has already witnessed a US equity market that has fallen by a couple of percent in March, while at the same time finishing his first press conference with comments on US's announced tariffs vis-à-vis China. Volatility has also returned in 2018 and shows more nervous financial markets. In March, FOMC also executed the highly anticipated interest rate hike of the policy rate with 25 bps, indicating that two more increases are expected in the current year. Although the economic outlook for the United States was revised up in connection with the interest rate hike announcement, the market's view is that the Fed continues to act quite patiently. We think this stance is correct and Fed should not act either excessively hawkish or dovish at this time. Fed should also be extremely vigilant and act on the basis of the obvious risks that a more protectionist trade policy most likely implies.

In Europe, both politicians and companies have applauded that the EU and the UK have agreed on the terms of an 18-month transitional period in connection with Brexit. The deal itself does not offer any eye-breaking surprises. In terms of economics, the UK continues to be a full member of the single market and the customs union while completing its payments to the EU's common budget. Politically the UK will no longer be represented in the decision-making bodies that directly determine the rules for the existing single market. In the short term, this agreement is positive news for the UK companies, who now have more time to change their business into a life outside EU membership. This generally reduces the risk of wounding the British economy and justify a continued growth rate of approximately 0.4% per quarter. Strong domestic economic growth also signals a likely interest rate hike from the Bank of England at the forthcoming policy meeting in May.

It is important to realize that this transition deal is only the first step. Consequently, EU chief negotiator Michael Barnier also stated that 'nothing really is decided until everything is decided'. From our understanding, the established transition phase came through concessions from the UK. The EU appears so far to be the winner in the negotiations between the two parties. Achieving a final agreement will be much more demanding, since both UK and EU politicians may be more uncompromising going forward.

Markets – March 2018

Equity indices	Mar-18	2018
MSCI ACWI	-2.37%	-1.41%
MSCI World	-2.31%	-2.21%
S&P 500	-2.69%	-1.22%
Euro Stoxx 50	-2.25%	-4.07%
DAX	-2.73%	-6.35%
FTSE 100	-2.42%	-8.21%
NIKKEI 225	-2.78%	-5.76%
OMX 30	-3.03%	-2.64%
OMXC 20	-3.48%	-4.65%

Bond indices	Mar-18	2018
Global Treasuries	+1.45%	+2.89%
Global High Yield	-0.14%	-0.36%

Currencies	Price	Mar-18
EUR/USD	1.2324	+1.07%
EUR/SEK	10.2803	+1.68%
USD/SEK	8.3418	+0.61%
USD/DKK	6.0485	-0.95%

Interests	Mar-18
US T-Bill 3M	+1.6969%
Euribor FIX 3M	-0.3280%
Libor FIX 3M	+0.7118%
Stibor FIX 3M	-0.3570%
Cibor FIX 3M	-0.3000%

Other	Mar-18	2018
Gold	+0.54%	+1.74%
Oil crude. Brent	+6.83%	+5.08%
HFRX Index	-0.98%	-1.02%

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Portfolio update
Portfolio composition was not changed during March.

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Market outlook
- Fixed income

Besides raising rates the Fed has begun to reduce the size of its balance sheet, which grew from around $800 billion to around $4.2 trillion in the period of 2008-2014. In October last year the ECB informed that it would continue its asset purchase until at least September 2018, reducing the size of the monthly purchases from €60 billion to €30 billion. Our anticipation is that QE will end in September 2018. We are underweight government bonds, given that the long bull market in fixed income is over as market also concerns around inflation and interest rate risk. Bonds usually suffer on inflation concerns. We think it is best to have a limited duration exposure, and are therefore among others positioned for rising bond yields by our holdings in senior secured loans with floating rate coupons.

- Equities

Stock markets have fallen back aggressively towards their February lows. Even if equities have taken a beating since the market rally at the turn of the year when US corporate tax cuts were the focus, these moves aren't so unexpected. It is quite normal for markets to remain nervous for a month or two after such a sharp reversal and a move back to the initial levels is not surprising. With corporate profits growing and interest rates still below inflation in major developed economies, the fundamentals and outlook remain positive. Given the current weakness, we are once again seeing opportunities adding to equities and remain overweight stocks in the portfolios we manage.

- Currencies

We expect the EUR/USD spot rate to rise further due to several factors:
- Current global growth encourages successful exporters like the Eurozone.
- Global investors are already dollar-rich by this time and have built up the USD share of their portfolio thanks to the attractive yield difference between the US and the Eurozone.
- The US trade deficit is expanding, which weighs on the USD.
- The US fiscal stimulus is deficit financed.

Holding of the Month
CS Global Robotics Equity Fund

The fund assets are invested worldwide following a thematic approach, with a focus on three high-growth subthemes: Improving productivity; Improving quality of life and Performing dangerous tasks. Within these themes, companies invested in will have at least 50% of their exposure attributable to robotics, automation and artificial intelligence.

We consider the fund to provide investment exposure to one of the most exciting growth segments in today's economy. Given the attractiveness of the investment theme, the fund has recorded substantial inflows since our investment. To protect current investors and to ensure that the fund continues to be managed in line with its investment objectives, a recent decision was taken to soft close the fund and limit new subscriptions to a maximum of USD 1 million per order.

1-year return is +32.7%.

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