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• The Alternative Cost

We are in the middle of summer and as every year news is slim, however this also amplifies the few news that actually come out. In the last few days of July all focus from the financial markets was on the Federal Reserve and what would happen with the interest rates in the US. Recently there have been discussions on the state of the US economy and President Trump has been tweeting aggressively to see a lower interest rate to drive up equity markets. This can easily been interpreted as a paradox, when the economy is strong it's easy to assume that markets would go up and when it's weak the markets would go down. This is a very intuitive thought, however when it comes to investing as in other parts of life it's always important to think "what's the alternative?". For financial markets there are always a number of options and investor will choose the one offering the superior return at any given time. If rates are lowered then the return provided by bonds are reduced, as such the equity market is seen as more attractive and is driven higher, even if the expected absolute return might even have been driven lower. Jerome Powell was clear in his statements, any further rate cut will be data dependent, for now the data is still strong and much of the language was similar to the June meeting implying that not much has changed.

In Europe there is also the issue of alternative cost, with the current negative interest rates in the Eurozone ECB is giving out free money. In a situation where you have to pay to hold cash and ECB is giving out money the price of other assets are bound to go up. We are now in a situation where investments do not have to provide any return to be preferable to holding cash. The alternative cost calculation becomes rather absurd.

The alternative cost is not only applicable to financial markets, in the UK Boris Johnson was chosen as PM during the month. He has taken a very aggressive stance against the EU in the Brexit negotiations, it's very easy to see why he would take this approach. First of all, the obvious stance in any negotiation would have to be that you are not simply willing to accept anything that is offered. Secondly this is also the alternative cost, there is a consensus view that a hard Brexit would harm the economy of both the UK and the EU, however the question for both sides is what is the impact of the deal and which carries the higher cost.

Even if the news flow is thin in the summer months that does not stop companies from reporting their quarterly earnings. With the holiday season impacts are often overstated both on the up- and downside. This means it's important to take volatility with ease during the summer and remain calm. There has been speculation about an earnings collapse, however so far we have not seen it and though some company reports are worse than expected the market as whole has seen a decent reporting season.

Markets – July 2019

Equity indices	Jul-19	2019
MSCI ACWI	0.17%	15.07%
MSCI World	1.18%	18.07%
S&P 500	1.31%	18.89%
Euro Stoxx 50	-0.20%	15.51%
DAX	-1.69%	15.44%
FTSE 100	2.17%	12.76%
NIKKEI 225	1.15%	7.53%
OMX 30	-1.40%	13.56%
OMXC 25	0.14%	13.01%

Bond indices	Jul-19	2019
Global Treasuries	-0.45%	4.58%
Global High Yield	0.43%	9.95%

Currencies	Jul-19	Price
EUR/USD	-2.61%	1.1076
EUR/SEK	1.37%	10.7051
USD/SEK	4.10%	9.6652
USD/DKK	2.74%	6.7421

Interest rates	Jul-19
US T-Bill 3M	2.02
Euribor FIX 3M	-0.38
Libor FIX 3M	0.77
Stibor FIX 3M	-0.07
Cibor FIX 3M	-0.40

Other	Jul-19	2019
Gold	0.30%	10.24%
Brent Crude Oil	-2.07%	21.13%
HFRX Index	0.77%	5.02%

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Portfolio update

During July we made no changes to the portfolio, we remain cautious with the current market conditions and are ready to deploy cash should we see an attractive entry point.

Market outlook

- Fixed income

We remain positive on Senior collateralized loans currently offering attractive yield compared to more traditional fixed income investments. We have also prepared our potential buying list to take on exposure if we see an increase in yield for corporate bonds, both high yield and investment grade. Given the speculation on US rates we are ready to enter should we see attractive levels.

- Equities

With the current risk/reward in the equity markets we have further reduced our overall equity exposure and have kept the proceeds on the side-lines. With the volatile summer months and geopolitical concern we await a dip to potentially re-enter the market.

- Alternative Investments

Last year we saw a large number of hedge funds closing down and we retain our view that it's an expensive asset class which simply does not deliver.

- Forex

We maintain our strategic approach to actively hedge currency risk. With the uncertainty around Brexit the future of the Sterling remains uncertain and the ECB continue seeing downside risk which could harm the EUR as well as a potential rate cute. Trade and political risk continue to put the USD at risk, the US Federal Reserve has cut the rate, however further cuts remain data dependent.

Holding of the Month
Morgan Stanley Global Fixed Income Opportunities

The fund is an unconstrained fixed income fund and manages a well diversified portfolio in the fixed income space.

The holding provides a good absolute return and we have a strong positive view on this manager.

Currently, the fund's performance is +8.09% in 2019 and the fund returned +0.84% in July.