

- The economic consequences of a pandemic and lockdown

July has ended and under a normal year, we would be in a quiet news cycle with summer holidays, beaches and barbecues. This year however, has been anything but normal. News during the summer has been intense and with social restrictions there are more investors who read them. There are two different kinds of economic news, the macro news which includes unemployment figures and GDP, and company specific news including earnings. Although the end of the lockdown has been completed, the current situation has put it into question as cases spike. We now have a good reading of the economic impact of the Q2 lockdown.

So what do we know? Well the outlook was grim, undoubtedly in part because bad news sells and drags down the sentiment, but the results, though negative, have mostly been significantly better than expected. With over 60% of the S&P 500 companies reporting Q2 earnings we can see that if the trend holds the decline in earnings (-35.7%) it will be the largest decline since the financial crisis. Meanwhile the number of companies reporting positive EPS surprise have been 84%, if this figure holds it will be the highest since FactSet started recording the metric in 2008. During July the EPS estimates for Q3 was also revised up and for the companies which have provided updated guidance a vast majority have been positive.

When we look at a macro level the story is similar, US unemployment for June came in at 11.1% and GDP Annualized Q/Q for Q2 came in at -32.9%. These figures look grim at first glance, however the expectations were 12.5% and -34.5% respectively. The news was bad, but the expectations were worse. In Europe, unlike the US, the figures have been more mixed. The Italian GDP shrank -12.4% which was less than expected while Germany, Europe's largest economy, shrank 10.1% during Q2, the worst decline recorded for the country. Spain is now in its deepest recession in modern times, the country is reliant on tourism which contributes over 10% of the national GDP and over 20% of tourists come from the UK, which has now imposed strict quarantine rules for arrivals from Spain.

What all of these figures tell us is that it's difficult, if not impossible, to predict the impact of the COVID 19 pandemic. A rebound is expected during Q3, but given the large swings it's becoming increasingly difficult to accurately predict the outcome. While estimates have been beaten we should not forget that the bar was set rather low.

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Markets – July 2020

Equity indices	Jul 2020	2020
MSCI ADWI	5.14%	-2.36%
MSCI World	3.39%	-2.13%
S&P 500	5.51%	1.25%
Euro Stoxx 50	-1.85%	-15.24%
DAX	0.02%	-7.06%
FTSE 100	-4.41%	-21.81%
Nikkei 225	-2.59%	-8.23%
OMX 30	2.58%	-3.64%
OMXC 25	5.62%	13.54%

Bond indices	Jul 2020	2020
Global Treasuries	3.35%	6.68%
Global High Yield	4.55%	-0.32%

Currencies	Price	Jul 2020
EUR/USD	1.1778	4.84%
EUR/SEK	10.3388	-1.26%
USD/SEK	8.7795	-5.81%
USD/DKK	6.3229	-4.69%

Interests	Jul 2020
US T-bill 3M	0.090
Euribor 3M	-0.463
Libor Fix 3M	0.084
Stibor Fix 3M	0.026
Cibor Fix 3M	-0.193

Other	Jul 2020	2020
Gold	10.94%	30.22%
Brent Crude Oil	5.22%	-34.39%
HFRX Index	1.35%	0.25%

- Market outlook

Equities

During July we made no changes to the portfolio, instead we have been watching the Q2 earnings in order to build a strong foundation for any decision.

With the Q2 earnings released in July it's clear that we are in a stock pickers market. Though COVID 19 has had a negative impact it's also created a positive drive for some companies like Amazon. We maintain our overweight in Healthcare and Technology, while preparing to increase our equity exposure when we see a good entry point.

Fixed income

During June we made no changes to our overall fixed income portfolio, we did however make some changes to our individual bond preferred holdings in reaction to the selectively strong rally seen during H1.

We remain underweight fixed income given the low yields. Potential persist, though it grows increasingly sparse and we remain cautious on the risk/reward profiles to avoid hunting a slight increase in yield at a great increase in risk.

Alternatives

We remain adverse when it comes to hedge funds, looking back at the first half of the year it showed us that the asset class continues to underperform.

Foreign Exchange

So far during the year the USD exposure has been a drag on performance and we remain mindful of our exposure. With near zero interest rates now having spread outside of Europe global markets have fluctuated and the weakening in the USD have created ripple effects in commodities as well as emerging markets.

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Holding of the Month Morgan Stanley Global Brands

The fund invests in companies that are able to build strong business advantages through the use of intangible assets such as brand names and copyrights.

YTD the return is +6.12% with a return in July of +6.53%, outperforming the S&P 500 Index.