CORE CAPITAL

MARKET OPPORTUNITIES

December 2019

• Reflection on economic fundamentals

Financial markets have been riding high during 2019, signalling optimism about the same global economy that the IMF just a few weeks ago described as “precarious”.

With 2019 looking certain to post the worst global economic performance for a decade - reflecting rising US-China trade tension and impact on exports and production - investors see possible signs of recovery next year and do not want to miss out on any future gains.

Some of this is not surprising. The IMF and other forecasters expect 2020 to be better than 2019, but market movements in recent weeks raise the question whether the outlook has really improved much or not. Investors’ enthusiasm may be overblown, and that the evidence so far suggests that the slide is coming to an end, but the pace of the recovery is still expected to be weak.

Financial markets which pride themselves on an ability to identify trends before they are obvious in the economic data, have certainly been pointing towards a broad recovery. With many equity markets close to record highs, investors believe the prospects for corporate profitability have improved sharply since the start of the fourth quarter. Government bond yields, a good indicator of economic optimism, have risen across advanced economies, suggesting central banks will not have to work hard to stimulate economic growth and inflation.

Much of the anxiety aired in October stemmed from fears that trade wars would intensify. However, during the past month news has been positive. The chances of a disruptive no-deal Brexit have dropped sharply after Boris Johnson, the UK prime minister, withdrew objections to a customs border in the Irish Sea. US-China trade tension also eased and Donald Trump missed his mid-November deadline to impose tariffs on European cars.

These trends have become visible in trade data, with global goods trade volumes growing in the most recent two months of data from July and August. This month’s JP Morgan Export Order Element, which tracks orders of foreign goods and services, improved by the largest amount in 4 years, albeit from a low base.

While the improvement in the trade outlook has buoyed markets, it has yet to find its way into economic forecasts. The 2020 growth outlook has stopped getting worse, but upticks in forecasts are still tiny. Although many survey indicators have continued to deteriorate, among them the regular forward looking economic sentiment indicator from the European Commission, others are looking up and that is important.

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Markets – December 2019

Equity indices	Dec-19	2019
MSCI ACWI	2.64%	17.28%
MSCI World	1.88%	20.70%
S&P 500	2.04%	21.17%
Euro Stoxx 50	0.98%	20.09%
DAX	3.53%	21.86%
FTSE 100	-2.16%	7.73%
NIKKEI 225	5.38%	14.55%
OMX 30	5.22%	23.07%
OMXC 25	0.68%	15.53%

Bond indices	Dec-19	2019
Global Treasuries	0.48%	6.36%
Global High Yield	0.81%	9.64%

Currencies	Dec-19	Price
EUR/USD	1.1152	2.32%
EUR/SEK	10.7642	0.37%
USD/SEK	9.652	-1.91%
USD/DKK	6.6994	-2.21%

Interest rates	Dec-19
US T-Bill 3M	1.50
Euribor FIX 3M	-0.39
Libor FIX 3M	0.81
Stibor FIX 3M	0.00
Cibor FIX 3M	-0.43

Other	Dec-19	2019
Gold	2.75%	17.97%
Brent Crude Oil	-0.90%	11.95%
HFRX Index	0.31%	6.22%

PMI indices for manufacturing in October improved in most countries, including Germany, the US and South Korea. In Europe, data on industrial output increased for the most recent 2 months, interrupting a period of deep contraction. Even Germany, hit hard by the downturn, reported stronger than expected export growth and industrial orders In September. That improvement is important as German indicators are highly correlated with global trade dynamics. Nevertheless, the outlook is still muted and Eurozone Industrial production is still contracting on an annual basis.

The modest uptick in data has yet to provide convincing evidence of a broad recovery. Monthly data remain volatile, and many of the more positive industrial indicators represent small proportions of the world economy.

We expect global growth to edge up over the course of 2020, but the pace of the recovery will be weak by past standards and we therefore also expect monetary policy to remain very accommodative and hence a positive environment which favours equities over bonds and cash.

Far more movements in the data is needed before economists will join financial markets in believing the worst of the economic slowdown is over.

Portfolio update

Late November we have added exposure to Partners Group Infrastructure SICAV.

Market outlook

- Fixed income

During 2019 our fixed income holdings have generated significant return with some holdings hitting double-digit returns. We are managing the duration exposure by having a combination of short floating rate exposure, as well as a longer dated duration risk.

- Equities

Although we have increased equity exposure slightly, we remain underweight equities and maintain some cash positions and short term bonds. As described on the previous page, we do not believe there are reasons enough to be overweight equities just yet.

- Alternative Investments

Currently we see no added value in the alternative space.

- 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.

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Holding of the Month
Blackstone GSO Loan Financing

Blackstone GSO Loan Financing invests in the structured credit sector, more specifically in European and US floating rate senior secured loans.

BGLF has seen a very positive trend since end of October, and thus, is among the top performers in our portfolio for November. YTD the performance is up 20.6%, including dividends.