MARKET OPPORTUNITIES

January 2020

- End-of-year bond sell-off

An end-of-year sell-off in global bond markets has helped shrink the pile of negative-yielding debt by 6tr USD since the summer peak. This is a clear sign that recession fears are abating.

This market move has pushed the total amount of negative yielding debt from a peak of 17tn USD during the summer to just above 11tn – the lowest since June.

Austria's century bond which was launched in 2017 at a price of 100 and peaking at 210 in August 2019 is now trading at 159 after dropping 15 price points in December alone.

Tentative signs of an emerging US-China trade deal two weeks ago fed a drop in bond prices that pushed Japan's 10 year yield above zero for the first time since March. Ten-year US yields climbed to a five week high of 1.92 %. Yields in the Eurozone also rose sharply.

The drop in prices has surprised some fund managers who had been betting on even lower yields. Three factors have come together to push yields higher despite reaffirmation from central banks that the ultra-low interest rate regime is here for longer. 1) less bad global growth indicators – don't misunderstand this as a sudden positive global growth scenario, 2) de-escalation of the trade tensions and 3) a technically market move catching the market wrong-footed with too many investors looking for further yield compression.

Some investors have grown increasingly uncomfortable about debt with negative yields, particularly given the growing backlash against the use of sub-zero interest rates by central bankers. Sweden's Riksbank recently ditched negative rates as it lifted its benchmark rate to zero, despite signs of a weakening economy. Other central banks may soon come to similar conclusions as the impact of sub-zero rate seems to have little or no justifiable impact.

A brighter outlook for the global economy resulting from a trade truce could further dim the appeal of holding negative-yielding debt, which only guarantees a nominal loss if held until maturity.

Some investors expect bonds to resume their rally next year, particularly as US-China trade talks are prone to hiccups. Therefore expect sub-zero bonds to be volatile next year with significant price swings as a direct result.

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Markets – December 2019

Equity indices	Dec-19	2019
MSCI ADWI	3.39%	24.05%
MSCI World	2.28%	27.34%
S&P 500	2.86%	28.88%
Euro Stoxx 50	1.12%	24.78%
DAX	0.10%	25.48%
FTSE 100	2.67%	12.10%
Nikkei 225	1.56%	18.20%
OMX 30	2.40%	25.78%
OMXC 25	2.88%	26.03%

Bond indices	Dec-19	2019
Global Treasuries	0.44%	5.59%
Global High Yield	2.59%	12.56%

Currencies	Price	Dec-19
EUR/USD	1.1213	1.77%
EUR/SEK	10.5008	-0.52%
USD/SEK	9.3650	-2.19%
USD/DKK	6.6627	-1.75%

Interests	Dec-19
US T-Bill 3 M	1.52
Euribor 3 M	-0.38
Libor Fix 3 M	0.79
Stibor Fix 3 M	0.18
Cibor Fix 3 M	-0.40

Other	Dec-19	2019
Gold	3.64%	18.31%
Brent Crude Oil	5.72%	22.68%
HFRX Index	1.27%	8.68%

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- Active versus passive investing.

Over the past decade there have been numerous articles and opinions about active asset management and passive index investing with the latter receiving immense positive comments, usually claiming that active managers were not worth their management fee.

In the context of Core Capital's asset allocation strategy it is worthwhile highlighting a couple of interesting facts about our selected actively managed investment funds and their achieved 2019 performance :

The below tables compare some selected active funds to selected benchmarks :

Equity Funds	2019 Performance
Global Value & Growth Equity fund	31.13%
Morgan Stanley Global Brands Equity fund	29.86%
Fiera Capital Global Equity fund	32.54%
MSCI World (excl. Japan)	24.62%
S&P 500	28.88%

Bond Funds	
Blackrock Emerging Markets Emerging Bond Fund	14.65%
Morgan Stanley Global Fixed Income Opp. Fund	9.95%
Blackstone GSO Loan Financing	22.81%
Iboxx High Yield Corp. Bond ETF	8.43%
Iboxx Euro Corp. 3-5 YR Return Index	4.01%

Core Capital has since 2009 extensively been using active managers that are able to deliver superior returns compared to the passive investment. It is our firm belief that this strategy will continue to deliver excellent results.