CORE CAPITAL

MARKET OPPORTUNITIES

July 2018

• Increased risk on global stock markets since last market letter
• Escalating trade conflict between the US and China

Core Capital Management S.A.

46 Place Guillaume II, L-1648 Luxembourg
info@corecapital.eu Tel:+352 2621 1969

www.corecapital.eu

The perceived risk of holding equities has increased lately. Several emerging markets and their currencies have been under pressure in the last few weeks. What is going on? The differences in monetary policy has strengthened the dollar since Fed had a very hawkish tone at the meeting in June. Shortly afterwards, the ECB had a meeting and instead took a very dovish stance. This strengthened the US dollar and, in turn, has impacted emerging markets and now also the slightly younger, so-called frontier markets. A strong American currency implies a heavier debt burden on countries and companies with large loans denominated in US dollars. In addition, some disappointing economic data from China and a weaker Chinese stock market have contributed to this turmoil.

Monetary policy and the US dollar create uncertainty. In addition, increasing trade worries have materialized. We have previously been on the verge of a serious trade conflict and recent events show that the scale has tipped over to an escalating trade war. Our assessment is that this escalation could last until the US mid-term elections in November. Trump has now introduced steel and aluminium tariffs against Europe and Canada, with expected additional tariffs on Chinese goods in July and September. 25% on Chinese goods, equivalent to a value of USD 50 billion, directed against cars, machines and electronics. China directly responded with tariffs on agricultural products and at a later stage also on energy. After China responded Trump increased his second tariff threat, saying that he could now see tariffs on goods worth USD 200 billion. These large volumes cannot be matched by China and you might wonder why? That is because their total US imports do not amount to that much, it is only around USD 170 billion a year. But China can consider other things than tariffs. They have mentioned monetary policy (the country is a major buyer of US Treasuries) and they have also talked about qualitative countermeasures. Apple and Boeing could potentially be targets with their significant operations in China at risk.

It is important to mention that Trump is not the only one who is tough on China when it comes to trade. The tone hardens overall. Congress does not want to roll back the sanctions against ZTE in China - even though Trump wants it. Both US Secretary of State Mike Pompeo and US Secretary of Commerce Wilbur Ross have used strong words lately. They have called China a “predatory government” and said that the tariffs against the country need to be painful. There are many trade hawks in the US, not just Trump, and it worries.

With the situation described above, we have lowered the risk slightly on the clients portfolios and recently trimmed the position in the Credit Suisse Robotics Fund.

Markets – June 2018

Equity indices	June-18	2018
MSCI ACWI	-0.70%	-1.53%
MSCI World	0.33%	1.29%
S&P 500	0.48%	1.67%
Euro Stoxx 50	-0.32%	-3.09%
DAX	-2.37%	-4.73%
FTSE 100	-0.54%	-0.66%
NIKKEI 225	0.46%	-2.02%
OMX 30	0.58%	-1.15%
OMXC 20	-1.67%	-6.10%

Bond indices	June-18	2018
Global Treasuries	-0.59%	-0.73%
Global High Yield	-0.45%	-2.53%

Currencies	Price	June-18
EUR/USD	1.1684	-0.08%
EUR/SEK	10.4492	1.40%
USD/SEK	8.9428	1.47%
USD/DKK	6.3767	0.17%

Interests	June-18
US T-Bill 3M	1.89%
Euribor FIX 3M	-0.32%
Libor FIX 3M	0.67%
Stibor FIX 3M	-0.35%
Cibor FIX 3M	-0.30%

Other	June-18	2018
Gold	-3.54%	-3.85%
Oil crude. Brent	2.38%	18.80%
HFRX Index	-0.19%	-0.85%

MARKET OPPORTUNITIES
July 2018

Portfolio update
Portfolio composition was not changed in June. However, we have gradually been taking some profits in the Credit Suisse Robotics Fund while adjusting it back to the original weighting.

Market outlook
- Fixed income

Inflation continues to track higher in the US, helped by a rising oil price, and is likely to mean further interest rate hikes from the US Federal Reserve. With recent weak economic data, European central banks appear to be adjusting to an easier monetary policy path. We are overweight convertible bonds and senior secured loans with a short duration.

- Equities

We think the equity market has further to run but we would not be surprised to see a wider trading range over what promises to be a messy summer in economic terms. Economic data continues to come in on the soft side of expectations, especially outside of the US. Markets have also declined over the last couple of weeks, but investors are not yet too bearish and volatility is still low. We stand ready to buy a dip in stocks if pessimism gets out of hand.

- Currencies

The recent drop in EURUSD, or more precisely broad USD strength, resulted from the unwinding of US short positions and uncertainty about European politics and growth. Overall solid global growth, which tends to run against the US dollar, and the unwinding of the ECB's ultra-easy monetary policy should support EURUSD later this year. The risk case of more severe trade protectionism in combination with deteriorating domestic conditions have recently hit emerging market currencies particularly hard.

Core Capital Management S.A.

46 Place Guillaume II, L-1648 Luxembourg
info@corecapital.eu Tel:+352 2621 1969

www.corecapital.eu

Holding of the Month
Global Value & Growth

The strategy focus on large cap companies growing long term 8-15% p.a. Historically, the portfolio manager has been successful in establishing positions in these companies when their stock price is attractive compared to their long term multiple history. The portfolio is relatively concentrated with fewer holdings, so-called "high convictions".

We have been invested in the fund for a long time now and are very pleased with the consistency and performance over time.

Return year-to-date is +3.6%, net of fees.