CORE CAPITAL

MARKET OPPORTUNITIES

July 2020

- ## The Times They Are a-Changin'

56 years ago Bob Dylan released The Times They Are a-Changin', though we doubt he was referring to the first half of 2020 it has been a wild ride. The old knowledge says that markets like certainty, even a bad scenario is better than not knowing. So does this explain the drop and rally this year? Not really, yes it can explain the drop, but things are not much clearer now than 3 months ago. With increased tension and political concerns globally it would make little sense to say that the future would be certain.

The future is in fact a mess, it's not that the equity markets have adjusted to a new normal, but rather that everything else has. The interest rates in the US have been lowered to near zero, massive stimulus packages have been announced and QE has returned. It's not that the stock markets now look more attractive than 4 months ago, but rather that the comparison make equities more favourable. For the last couple of years there have been potential returns in investment grade bonds in the US and in Emerging markets, those are now nearly gone. At the same time a US treasury no longer provides the yield it did just a year ago. With the global change in financial markets and interest rate policies old metrics and wisdoms about the stock markets no longer hold water and what was is now much less relevant than this moment.

Market participants are struggling between being positive about the recovery due to reopening economies boosted by huge policy support from central banks and governments or being concerned about a second wave in the pandemic. While Europe is seeing signs of rising optimism, the virus situation in the US is currently deteriorating fast. Are the equity markets on each side of the Atlantic pricing in the relative performance when it comes to fighting the virus ? It is at least historic that the EUROSTOXX 50 index outperforms the S&P 500 Index by as wide a margin as for this month of June (almost 6% as of 29 June). Looking back in time for these two benchmark indices, there has only been four months where Europe has outperformed US by more than 6%, 3 of these months being just in the beginning of the post dot-com bear market. IMF adjusted their projections for the world economies, and they were more gloomy than what equity investors were pricing in during the month. IMF now expects a much deeper recession in 2020 that earlier forecasted, and they see the US economy detracting by -8% and Europe by -10.2%.

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Markets – June 2020

Equity indices	Jun 2020	2020
MSCI ADWI	3.03%	-7.14%
MSCI World	2.36%	-5.34%
S&P 500	1.84%	-4.04%
Euro Stoxx 50	6.03%	-13.65%
DAX	6.25%	-7.08%
FTSE 100	1.53%	-18.20%
Nikkei 225	1.88%	-5.78%
OMX 30	2.12%	-6.07%
OMXC 25	1.57%	7.50%

Bond indices	Jun 2020	2020
Global Treasuries	0.50%	3.22%
Global High Yield	2.28%	-4.66%

Currencies	Price	Jun 2020
EUR/USD	1.1234	1.89%
EUR/SEK	10.4706	-1.07%
USD/SEK	9.3211	-2.96%
USD/DKK	6.6339	-2.12%

Interests	Jun 2020
US T-bill 3M	0.138
Euribor 3M	-0.422
Libor Fix 3M	0.141
Stibor Fix 3M	0.058
Cibor Fix 3M	-0.177

Other	Jun 2020	2020
Gold	2.93%	17.38%
Brent Crude Oil	16.47%	-37.65%
HFRX Index	1.75%	-1.09%

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Holding of the Month

BB Healthcare Trust

The trust is one of our long term thematic holdings which has greatly outperformed the markets this year. The trust has also outperformed the broader healthcare indices showing the prudence of the managers.

YTD the return is +16.03% and for June it was +1.25%.

- ## Market outlook

Equities

During June we increased our exposure to Fiera Capital. We have held the fund for a prolonged period of time during which the fund has provided a strong return and we remain confident in the manager's ability to outperform the markets.

We are now also approaching the Q2 earnings season where we expect to get a clearer picture of the impact of lockdowns than Q1 earnings provided. With other possible near-term headwinds such as increased political risk (US/China, US election, Trump introducing more tariffs on EU), resurgence of new virus cases (especially in Latin America and the US), and the traditionally low liquidity during the summer months, we have our finger on the trigger to raise our long-term strategic equity exposures when the right buying opportunity arises.

Fixed income

Fixed income markets have recovered and yield is now low, there is still some room for selective corporate bonds, but the space is shrinking. Government debt still provides safety, but with a yield close to zero.

During June we increased our exposure to Morgan Stanley Global Fixed Income Opportunities, the fund is unconstrained and have displayed discipline earlier in the year and provided a solid historical return. In the current environment we prefer an unconstrained fund which can quickly adjust to the changing markets.

Alternatives

We remain cautious 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

With the changes in interest rates in the US hedging is now considerable much cheaper than a year ago. We remain cautious on currency risk and are mindful of our USD exposure.

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