# MARKET OPPORTUNITIES

June 2020

## • Recession still looming and company earnings

Swift and decisive action from central banks and governments over the past couple of months has prevented the kind of collapse in equity and credit markets that has accompanied deep economic downturns in the past. The unique nature of the Covid-19 economic shock and the rapid response from authorities, along with the likelihood of more support to come, leaves investors assessing two important lessons from past recessions. History shows that economic contractions take their time in revealing the full extent of their financial damage. Missed payments, defaults and bankruptcies kick in with a lag.

The pandemic shock has only enhanced the leadership of technology and healthcare stocks over the past two to three years, leaving other sectors trailing further behind. One opportunity for investors, then, would be to buy cheaper sectors and then wait to benefit as they close the gap with the current market leaders. Another view is that companies with impressive growth prospects, strong balance sheets and the capacity for disruption represent better long-term holdings. Such stocks are not cheap, but there are compelling reasons for that. The importance of companies with robust growth prospects is enhanced by ultra-low interest rates. Certainly, the threat of inflation is a wild card and is the subject of much debate.

One indicator is the stark divergence between segments of the stock market. So far big economic shutdowns have rewarded technology, ecommerce and healthcare groups. The laggards include energy, financials, retailers, transports and industrials — along with real estate companies that face slews of missed rental and mortgage payments.

This is one of the obvious reasons why it makes little sense to deploy index investing as a strategy to adapt to these markets. A selective asset allocation strategy choosing the right asset managers, who are able to adapt to the changing outlook seem like a correct and well balanced approach.

In Europe some of the recent data from the European Central Bank and Bank of England suggest that it will take longer for consumer spending to return to previous levels.

Bank deposits have elevated in most European banks as consumers respond to the economic and social upheaval of the coronavirus crisis. Economists fear that consumer spending will not come to the rescue of the continent’s shrinking economy any time soon. In four of Europe’s five largest economies savings rates multiplied 4-5 times according to published March data from the Central Banks. It will be very interesting to see the April and May numbers when these become available.

It is too early to tell for how long households will defer spending. The sharp increases in savings suggest that the consumer reluctance could hinder the scope for a consumption-driven economic recovery. Although savers may choose to boost their spending after the initial crisis period is over, pumping some cash back into the economy, the European Commission forecasts high savings rates will persist this year.

What does this mean for Core Capital and the way we look after your money ? Although we remain underweight equities we have added slightly to your equity exposure and will continue to do so over the coming months. Our preferred holdings and additions have been technology and healthcare, which has also provided superior returns year-to-date. The principal milestone for us is to have a firm eye on the second quarter company reports in July/August. It is impossible to predict how equity prices will react to these reports. Our clear objective is to be able to deploy cash in July/August in case we enter another significant correction phase.

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### Markets – May 2020

| Equity indices | May 2020 | 2020 |
|---|---|---|
| MSCI ADWI | 4.15% | -9.87% |
| MSCI World | 4.72% | -7.53% |
| S&P 500 | 4.53% | -5.77% |
| Euro Stoxx 50 | 4.18% | -18.56% |
| DAX | 6.68% | -12.55% |
| FTSE 100 | 2.97% | -19.43% |
| Nikkei 225 | 8.34% | -7.52% |
| OMX 30 | 3.29% | -8.02% |
| OMXC 25 | 7.45% | 5.83% |

| Bond indices | May 2020 | 2020 |
|---|---|---|
| Global Treasuries | 0.00% | 2.71% |
| Global High Yield | 5.10% | -6.78% |

| Currencies | Price | May 2020 |
|---|---|---|
| EUR/USD | 1.1101 | 0.68% |
| EUR/SEK | 10.4734 | -1.04% |
| USD/SEK | 9.4320 | -1.80% |
| USD/DKK | 6.7164 | -0.90% |

| Interests | May 2020 |
|---|---|
| US T-bill 3M | 0.143 |
| Euribor 3M | -0.307 |
| Libor Fix 3M | 0.228 |
| Stibor Fix 3M | 0.177 |
| Cibor Fix 3M | -0.140 |

| Other | May 2020 | 2020 |
|---|---|---|
| Gold | 2.60% | 14.04% |
| Brent Crude Oil | 39.81% | -46.47% |
| HFRX Index | 1.44% | -2.79% |

- ## Market outlook

### Equities

The medium term visibility for equity earnings remain very cloudy. Many companies have withdrawn their 2020 guidance. Q1 earnings were generally good for most sectors especially healthcare and technology but Q1 will not be any relevant proxy for Q2 earnings. We are primarily trying to avoid sectors such as : airlines, hotel groups, gaming and casino, car manufacturers. Our preferred sectors are : technology, biotech, specialised healthcare, internet security, robotics & automation and stable consumption.

We have added Fundsmith Equity Fund to our equity allocation during May and will continue to add to both equity and fixed income allocation in June but we will overall remain underweight equities.

### Fixed income

High yield and Emerging market debt have recovered in May but both are still trading at higher spreads compared to February. Government debt has provided safety but still with a yield close to zero.

### Foreign Exchange

The “risk on” currencies like AUD, SEK and NOK have performed well in May and at the same time the USD has ended the month on a weak note. The US Federal Reserve has injected significant amounts of liquidity in May and at the same time the FED is buying 125 bn worth of bonds daily, which firstly will make the Fed’s balance sheet increase heavily over the coming months and secondly it will most likely have a further weakening impact on the USD over the medium to longer term.

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### Holding of the Month
Fundsmith Equity Fund

The fund is managed by Terry Smith and follows a no-nonsense approach to investments. We find that the fund take an approach much aligned with our own philosophy and the fund has consistently proven itself.

YTD the return is 0.45% and for May it was 3.11%. During Q1, and the downturn this year, it outperformed S&P500 by 8.11%.