MARKET OPPORTUNITIES

March 2018

- A firm year ahead for the U.S. economy
- Very limited near-term recession risk

In the recent years the U.S. has shown a trend toward first-quarter economic softness. Whether the phenomenon mirrors difficulty in seasonally modifying economic data or pure randomness, GDP during the current expansion has grown roughly a percentage point more slow on average in the first quarters than in the rest of the year. Initial signals indicate this pattern may be repeating itself in 2018. Retail sales growth has been disappointing, and capital goods orders – a leading indicator of business investment spending – have cooled lately. While much about 1Q18 remains unknown, U.S. GDP growth seems set to fall slightly short of the early expectations.

Do we consider the economy to be in late-cycle territory? Yes, but does the latest pullback in equity markets and the rise in government bond yields suggest that we need to be more pessimistic about the global economy? Will the United States be the triggering factor for a beginning bear market in equities? For many reasons we assume the world and the U.S. will have a sound year of economic growth in 2018:

- The spending increase just approved by Congress together with the tax cut should kick in during the second half of 2018. Although the tax cuts are primarily biased towards high income earners, they do point the U.S. fiscal policy into stimulative territory as we see the tax cut being deficit financed.

- Financial conditions have tightened in last weeks, but they are still in supportive levels – not a headwind for near-term growth. With the US Federal Reserve Funds rate still below the rate of inflation and with the second and third largest central banks in the world still printing money, we think it is too early to worry about recession risks due to hawkish monetary policy.

- Some of the cooling in consumer spending likely originates from higher gasoline prices. With oil prices having stabilized, this scuff will fade in coming quarters. Continuing high consumer confidence and firm income gains should back further consumption growth.

All this translates to a steady path for both global and U.S. GDP growth during 2018.

The recent revival of inflation concerns threatens our current asset allocation positioning, and a change towards a more aggressive monetary policy would likely hurt most financial assets. For now, however, we expect only a gradual rise in inflation and central banks that continue their prudent tightening courses. Our current outlook of very limited near-term recession risk, along with our anticipation of a more steady growth through 2018 with particular tailwinds for corporate earnings, support our moderate overweight position in equities.

Core Capital Management S.A.

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

www.corecapital.eu

Markets – February 2018

Equity indices	Feb-18	2018
MSCI ACWI	-4.36%	+0.98%
MSCI World	-3.53%	+0.10%
S&P 500	-3.89%	+1.50%
Euro Stoxx 50	-4.72%	-1.86%
DAX	-5.71%	-3.73%
FTSE 100	-4.00%	-5.93%
NIKKEI 225	-4.46%	-3.06%
OMX 30	-0.61%	+0.41%
OMXC 20	-0.59%	-1.21%

Bond indices	Feb-18	2018
Global Treasuries	-0.38%	+1.42%
Global High Yield	-1.39%	-0.22%

Currencies	Price	Feb-18
EUR/USD	1.2194	-1.77%
EUR/SEK	10.1101	+3.36%
USD/SEK	8.2911	+5.23%
USD/DKK	6.1066	+1.85%

Interests	Feb-18
US T-Bill 3M	+1.6263%
Euribor FIX 3M	-0.3270%
Libor FIX 3M	+0.5816%
Stibor FIX 3M	-0.4620%
Cibor FIX 3M	-0.3025%

Other	Feb-18	2018
Gold	-1.99%	+1.19%
Oil crude. Brent	-4.74%	-1.63%
HFRX Index	-2.42%	-0.04%

MARKET OPPORTUNITIES
March 2018

Portfolio update
Portfolio composition was not changed during February.

Core Capital Management S.A.

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

www.corecapital.eu

Market outlook

- Fixed income

The global business cycle is currently characterized by strong growth and rising inflation. Bonds usually suffer on inflation concerns. We therefore think it is best to have a limited duration exposure, and are positioned for rising bond yields by our holdings in senior secured loans with floating rate coupons.

- Equities

Volatility returned and global stock markets dipped in late January / early February on concerns about rising U.S. interest rates and high equity valuations. This sell-off didn't came as a surprise and we went into the sell-off only moderately overweight equities, holding back from a larger position on valuation grounds. Instead we aim to gradually increase our equity exposure at lower levels, especially in growth-sensitive emerging markets. We do not consider economic fundamentals to have changed to the worse, and since the fundamental backdrop is positive for stocks it is almost always good to buy during market panic.

- Currencies

Tax cuts, repatriation and a more hawkish Fed support the USD near term. Positive growth momentum keeps the EUR supported and the currency is still below long-term fair value. NOK and SEK gains are likely to come later in 2018, as both the Swedish Riksbank and Norges Bank catch up to ECB dynamic and transitioning toward a more conventional policy footing.

Holding of the Month
Blackrock Emerging Markets Corporate Bond Fund

The fund seeks to maximise total return by investing at least 70% of total assets in fixed income securities issued by companies domiciled in emerging markets.

Over the past year, emerging markets have benefited from a modest decline in the U.S. dollar and a broad-based upswing in cyclical growth. China's financial markets will have an increasing presence on the global stage over the next decade or two, a trend that will bear close attention for EM debt considerations and support capital inflows.

1-year return is +5.5%.