CORE CAPITAL

MARKET OPPORTUNITIES

March 2019

• What does it mean when the Fed is behind the curve?

Not long after indicating further gradual rate increases were on the horizon, the US Federal Reserve four weeks ago made a mysterious U-turn and signalled that its hiking cycle was over for now. This perplexing decision led many to believe it was a response to red flags about the US economy.

Doubtless, the global economy has slowed. But the various measures of US economic performance are almost universally strong. The latest ISM manufacturing survey rebounded smartly, indicating solid growth; retail sales have remained strong; inflation is near the Fed's 2 per cent target; and the latest jobs report showed tremendous payroll growth, beating consensus expectations by a wide margin.

The US economy is in good health — recession fears were, and are, overdone. Jay Powell, the Fed chairman, pointed to factors such as slowing global growth, tighter financial conditions and geopolitical trouble. Yet on all three counts the world is more positive: stimulus measures introduced since last June should eventually stabilise China's economy towards the second half of the year; the Bloomberg US Financial Conditions index is at its strongest in nearly three months; and negotiations between the US and China are reportedly progressing well. It seems more credible that the Fed's decision is predicated on two factors. First, lingering slack in the labour market. The January employment report highlighted that robust economic growth continued to pull workers back into the labour force, pushing the participation rate higher and keeping a lid on wage growth. It is almost inconceivable that the labour market is operating at full capacity yet. Second, a capitulation to markets; investors perennially talk about the "Fed put", counting on the central bank to support equities by shifting to easier money when times get tough. There is method to the madness of the latter. Market tantrums can feed on themselves as confidence starts to plummet — self-fulfilling market meltdown.

If financial conditions deteriorate significantly, negative market performance might weigh heavily on business investment intentions and consumer confidence. This script appeared to be playing out in December. Investors seemed to catch the idea that a recession was on the cards precisely because the stock market was going down. As the market stumbled, sentiment among business leaders dropped too. In December's Duke CFO Global Business Outlook survey, nearly half of respondents said they thought the US would be in recession by the end of 2019, with 82 per cent predicting a slump before the end of 2020. Financial markets were at risk of not just being a leading indicator of recession, but a driver in itself. We exist in the perfect world for the next downturn to be the victims of a collapse of confidence. At the time of the previous financial crisis there were approximately 300,000 tweets per day; 10 years on, there is more than this number in a single minute, or more than half a billion in a day. This amplifies the market anxiety to such an extent that had there been an economy on Mars, it would certainly also be heading into recession.

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Markets – February 2019

Equity indices	Feb-19	2019
MSCI ACWI	2.50%	10.49%
MSCI World	3.34%	10.82%
S&P 500	2.97%	11.08%
Euro Stoxx 50	4.39%	9.89%
DAX	3.07%	9.06%
FTSE 100	1.52%	5.15%
NIKKEI 225	2.94%	6.85%
OMX 30	3.78%	11.64%
OMXC 25	6.27%	10.62%

Bond indices	Feb-19	2019
Global Treasuries	-1.00%	0.39%
Global High Yield	1.39%	5.84%

Currencies	Feb-19	Price
EUR/USD	-0.67%	1.1371
EUR/SEK	1.44%	10.5061
USD/SEK	2.11%	9.2386
USD/DKK	0.61%	6.5614

Interests	Feb-19
US T-Bill 3M	2.39%
Euribor FIX 3M	-0.31%
Libor FIX 3M	0.85%
Stibor FIX 3M	-0.07%
Cibor FIX 3M	-0.32%

Other	Feb-19	2019
Gold	-0.60%	2.40%
Oil crude. Brent	6.69%	22.73%
HFRX Index	0.63%	2.77%

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Portfolio update

During February we sold our remaining exposure to Maj Invest Global Value Equities. With this we further reduced our equity exposure in line with out more defensive approach for the near future.

Market outlook

- Fixed income

We remain positive on Senior collateralized loans currently offering attractive yield compared to more traditional fixed income investments.

We are also dusting off our potential buying list to take on exposure if we see an increase in yield for corporate bonds, both high yield and investment grade.

- Equities

Although we have reduced our overall equity exposure, we have continued to enjoy strong returns in February. We remain cautious on growth during the year, as shown in recent trades we believe we have to be active. With slowing global growth we no longer believe the growth companies are attractively priced.

- Alternative Investments

Last year we saw a large number hedge funds closed down, we retain our view that it's an expensive asset class which simply don't deliver.

- Forex

We maintain our strategic approach to actively hedge currency risk. With the uncertainty around Brexit it's unclear regarding the Sterling, US shutdown and political risk put the USD at risk and the ECB seeing downside risk could harm the EUR.

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Holding of the Month
Fiera Capital Global Equity

We added the fund in January in order to benefit from the drop in December. The fund invests in global equities based on a systematic screening and a comprehensive scoring model.

So far the fund has provided a stellar return and is up 11.8% YTD and 4.38% in February.