CORE CAPITAL

MARKET OPPORTUNITIES

May 2018

• Strong corporate reports, but mixed reactions
• Subdued industrial PMI’s in Europe

We are currently in the middle of an intensive reporting season and many large companies have now announced their first quarter results. The results have been really good so far, and the reports are showing solid sales growth. If we study the real figures of this, we see an annual sales growth of 9% on S&P 500. Profits are on average 7% higher than analysts expected, thus many companies have also seen upward revisions and increased profit estimates from analysts. Despite the impressive corporate results, the response from US equity investors has been mixed and US stock prices have not posted corresponding gains. It appears that strong results and upward earnings revisions are not enough to lift US stocks in today's unsafe environment. The improved corporate earnings have, however, contributed to a more attractive valuation of US stocks. Since we believe that the earnings improvements can continue during the year and the valuations do not scare, we decided to increase our equity exposure to the US somewhat. In contrast to the more moderate reception of the US corporate reports for the first quarter, European equities have enjoyed significant price gains in April. It seems that expectations for the European companies first quarter have been lower in advance - with more positive price reactions as a consequence. The market reaction has been a bit harsh on cyclical sectors like industrials, but more positive on telecom operators and utilities.

Although the strong corporate earnings season continues in Europe, we still see some weak economic data coming in. What is the current state of the Eurozone? It is nice with industrial PMI numbers that are still in expansion phase. However, these barometers have had a marked downward trend this year and above all we saw a dampening in February and March. Even April offered a lower figure, but at least showed a softer deterioration rate. All this points to a lower growth rate in industrial output and depending on how fast this slowdown may be, it may affect the pace of the ECB in the phasing out of quantitative easing. The central bank had a meeting at the end of April, but no message about this was given on this matter. Are there any bright spots in Europe? The strong euro was bad for exporting companies in 2017, and trade concerns linked to Brexit increased investor caution. These trends have not escalated or worsened in 2018. Recently we have seen a weaker euro against the US dollar, but our view is pointing toward a stronger euro versus the dollar in 2018. We also think that it should be emphasized that consumer confidence has not at all been subdued in the same way as industrial sentiment. The high consumer confidence is probably due to steadily falling unemployment and low interest rates.

Since we hold both Investor AB and the Didner & Gerge Nordic Small Cap Fund (Småbolag), it is bad news that Sweden's industrial PMI barometer for April was weaker than expected. Although, the Swedish industrial companies are more optimistic than the ones in the retail and service industry. It is important to remember that Sweden has a completely different currency situation than many other European countries, and Swedish exporters get a tailwind from a weak domestic currency.

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Markets – April 2018

Equity indices	Apr-18	2018
MSCI ACWI	+0.77%	-0.65%
MSCI World	+1.94%	-0.31%
S&P 500	+0.27%	-0.96%
Euro Stoxx 50	+5.21%	+0.93%
DAX	+4.26%	-2.37%
FTSE 100	+6.42%	-2.32%
NIKKEI 225	+4.72%	-1.30%
OMX 30	+2.30%	-0.39%
OMXC 20	-0.55%	-5.18%

Bond indices	Apr-18	2018
Global Treasuries	-2.01%	+0.83%
Global High Yield	-0.23%	-0.59%

Currencies	Price	Apr-18
EUR/USD	1.2078	-2.00%
EUR/SEK	10.5672	+2.79%
USD/SEK	8.7492	+4.88%
USD/DKK	6.1684	+1.98%

Interests	Apr-18
US T-Bill 3M	+1.799%
Euribor FIX 3M	-0.329%
Libor FIX 3M	+0.710%
Stibor FIX 3M	-0.364%
Cibor FIX 3M	-0.285%

Other	Apr-18	2018
Gold	-0.76%	+0.97%
Oil crude. Brent	+6.97%	+12.41%
HFRX Index	+0.09%	-0.93%

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Portfolio update

At the end of April, we decided to exit the remaining part of our ETF with exposure to the Europe STOXX 600 Index. By this decision we reduced our regional overweight to European stocks.

We decided to invest in Morgan Stanley US Growth Fund and at the same time reduced our cash compartment slightly. The fund's investment approach is to seek out high-quality established companies with sustainable competitive advantages, strong free cash flow yields and favourable trends in returns on invested capital. We have a positive view on the fund's focus on long-term growth rather than short-term events.

Since volatility has come back to more normal levels this year, we currently advocate more active portfolio management. The above described portfolio change, selling a passive ETF and investing in an actively managed equity fund, is a clear example of how we also realize this view.

Market outlook

- ### Fixed income

We believe that government bond markets look expensive against a backdrop of tightening central bank policy. Therefore we think it is favourable to have a limited duration exposure, and are positioned for rising bond yields with our holdings in senior secured loans with floating rate coupons.

- ### Equities

Considering the positive trend in global growth, we still expect equities to outperform other asset classes. The longer term fundamental picture remains solid, and the outlook for corporate returns continues to be bright. Concerns over inflation, trade and greater regulation of the tech sector could potentially hit sentiment, and volatility is expected to be more frequent during 2018. We slightly increased our overweight position in stocks in late April, given our positive view on global growth, and interest rates rising only gradually.

- ### Currencies

We expect the EUR/USD spot rate to rise further due to several factors:

- Current global growth encourages successful exporters like the Eurozone.
- The US trade deficit is expanding, which weighs on the USD.
- Global investors are already dollar-rich by this time and have built up the USD share of their portfolio thanks to the attractive yield difference between the US and the Eurozone.
- The US fiscal stimulus is deficit financed.

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Holding of the Month
Didner & Gerge Småbolag

Didner & Gerge Småbolag is a Swedish UCITS fund that invests primarily in smaller companies in the Nordic market. At present, the fund's largest exposure is in Swedish stocks. The portfolio is actively managed and aims to deliver a 5-year return that exceeds the relevant small cap benchmark. The fund has an investment horizon of 3-5 years and a concentrated portfolio of around 40 companies.

The fund company has a tradition of having two portfolio managers per fund. Currently Carl Gustavsson and Kristian Åkesson co-manage the Småbolag fund.

Didner & Gerge Småbolag has returned 140% over the last 5 years and to a lower risk than the benchmark. The fund has delivered very good risk-adjusted return.

Return year-to-date is +4.0%, net of fees.

DIDNER & GERGE