CORE CAPITAL

MARKET OPPORTUNITIES

November 2018

Core Capital Management S.A.

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

www.corecapital.eu

- October the worst equity month in 6 years
- US-China trade spat continue

October has been a mixed bag of company earning but in general most companies have reported well. Investors have generally punished companies reporting in-line with expectations and the big culprit has been 2019 outlook where many companies have sounded a word of caution. Can we with determination explain why equity markets corrected significantly in October. The answer to that is no although global industrial production growth recently fell below its long-term average for the first time since 2016. Some of the slowdown was driven by temporary factors including extreme weather, and we expect a reacceleration in growth in Q4.

Consensus is that global GDP will grow 3.3% in 2018. In reality there are two visible drivers for the equity downturn - Trade war between the US and China and the outlook of raising interest rates. Both factors are well known and hardly by now a big surprise to anybody. A normalisation of interest rates on both sides of the Atlantic should be seen as a positive sign rather than the opposite and the is no doubt in our mind that positive interest rates are healthier than negative interest rates. The situation we have been through for many years will hopefully soon come to an end.
When equities decline we also have to remember that computerised trading programs and algorithm trading account for over 80% of the daily volume in order to push the market in either suitable direction. This normally adds fuel to the fire and pushes equities either higher or lower with little sensible consideration to reality.

Short-term growth in China has weakened recently, but we expect it to pick up in the coming months as a range of policy measures start to support activity, particularly infrastructure spending. Fiscal stimulus is still providing a boost to growth in the USA. Trade disputes continue to pose a downside risk, and the latest round of tariffs from the USA and China represent an escalation. The direct impacts on growth are likely to be small, and largely offset by Chinese policy action.

Our credible scenario is that the USA and the Chinese governments will find a deal to prevent further escalation, but we do not expect a situation that ends all tariffs and leaves trade relations better than in, for example, 2016. Inflationary pressure is likely to continue building on both sides of the Atlantic. US core inflation should stay around 2% in the coming quarters. Salaries in the US remain on the rise which give good reason for a continued rise in inflation. European core inflation should be driven higher by improving wage growth, which is now on a clear upward trend.

The Federal reserve hiked rates in September and signalled one more hike in 2018, in line with our expectations. We expect two more hikes in the first half of 2019. ECB is expected to end net asset purchases in December this year. We expect the first 15 bp hike to the deposit rate in Q3 2019 and a 25 bp hike to the whole rates corridor in Q4.

Markets –October 2018

Equity indices	Oct-18	2018
MSCI ACWI	-7.57%	-5.55%
MSCI World	-6.80%	-0.61%
S&P 500	-6.94%	1.43%
Euro Stoxx 50	-5.93%	-8.75%
DAX	-6.53%	-11.38%
FTSE 100	-5.09%	-7.28%
NIKKEI 225	-9.12%	-3.71%
OMX 30	-7.47%	-2.46%
OMXC 20	-7.81%	-11.89%

Bond indices	Oct-18	2018
Global Treasuries	-0.89%	-3.32%
Global High Yield	-1.82%	-2.40%

Currencies	Price	Oct-18
EUR/USD	1.1312	-2.52%
EUR/SEK	10.3689	0.51%
USD/SEK	9.1654	3.10%
USD/DKK	6.5956	2.64%

Interests	Oct-18
US T-Bill 3M	2.28%
Euribor FIX 3M	-0.32%
Libor FIX 3M	0.82%
Stibor FIX 3M	-0.49%
Cibor FIX 3M	-0.30%

Other	Oct-18	2018
Gold	2.01%	-6.76%
Oil crude. Brent	-8.76%	12.86%
HFRX Index	-3.11%	-4.30%

Past performance is no guarantee for future return. The financial markets may rise or fall independently of the performance of portfolio managed by Core Capital Management S.A. The information serves solely as guidance and is for information purpose only. Core Capital Management S.A. takes no responsibility for the correctness of the figures mentioned in this statement. The figures are based on sources that Core Capital Management S.A. deem reliable for such purpose. The information given should not be seen as a buy or sell recommendation. Core Capital Management S.A. recommends all its clients to obtain proper fiscal advice prior to entering any of the investments offered by Core Capital Management S.A. or other financial institutions, brokers or asset managers.

MARKET OPPORTUNITIES
November 2018

CORE CAPITAL

Portfolio update

Following a couple of defensive reallocations made in September we have more or less kept the portfolio unchanged in October with the exception of selling the Groupama Convertible bond fund, which has been a disappointment both when equity markets have been positive as well as negative. We are firmly of the opinion that the latest addition of the Russell 1000 Value index and the BB Healtcare Trust will benefit our investors and add more diversification to the portfolios.

Market outlook

- Fixed income

High yield and emerging market bonds also suffered with equities during October. US Government bonds have solidly anchored with a 10 year yield above 3 % and the expectation remains that the Federal Reserve will raise rates again in December. We maintain our view that Government bonds represent little or no value whereas we do see value in certain corporate bonds.

- Equities

75% of the S&P 500 companies have reported Q3 earning and roughly 80% of these companies have reported in-line or better than expected. Our view is that the October correction has resulted in a somewhat oversold situation if we are to use fundamentals as a fair yardstick. We maintain our positive view on equities, especially US which is backed by a strong economy.

- Alternative Investments

We maintain our view that the risk/reward for alternatives seems unattractive for the time being.

- Forex

The Greenback remains well supported in the anticipation of higher US interest rates. If for one reason or other the expected December rate does not materialize then we expect the US currency to decline against the EUR. Having said that job creation and hourly earnings have been strong and it seems unlikely that a rate hike does not occur.

Core Capital Management S.A.

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

www.corecapital.eu

Holding of the Month
Morgan Stanley Global Fixed Income Opportunities

The fund invests in fixed income on a global basis and aim to return a good absolute return. In a month when equity markets drop the fund is still stable and only see a minor change.

The holding has returned +0.45% YTD compared to global aggregated fixed income which has had a negative return of -3.45% YTD.

Morgan Stanley
INVESTMENT MANAGEMENT

Past performance is no guarantee for future return. The financial markets may rise or fall independently of the performance of portfolio managed by Core Capital Management S.A. The information serves solely as guidance and is for information purpose only. Core Capital Management S.A. takes no responsibility for the correctness of the figures mentioned in this statement. The figures are based on sources that Core Capital Management S.A. deem reliable for such purpose. The information given should not be seen as a buy or sell recommendation. Core Capital Management S.A. recommends all its clients to obtain proper fiscal advice prior to entering any of the investments offered by Core Capital Management S.A. or other financial institutions, brokers or asset managers.