MARKET OPPORTUNITIES

October 2018

- Italy rattles Europe
- US-Canada deal agreed, next stop China?

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Italy rattled European markets during the last weeks of September by creating investor concern over the government's proposal to increase the budget deficit to 2.4% of GDP, putting it in breach of EU rules ensuring fiscal responsibility. The 10-year bond yield spiked which made the EUR show significant weakness. The confrontation with the European Commission may worsen in coming weeks, and there is a real risk of a downgrade by rating agencies, which, in our view, could put further pressure on Italian assets. As mentioned in our previous market letter we prefer US equity markets over European equities.

The last-minute trade deal between Canada and the United States, which also includes Mexico, has been dubbed the United States-Mexico-Canada Agreement, or USMCA, and will need to be ratified by all three governments. The trilateral agreement reduces the risks of a harmful inflation shock for US producers and consumers, particularly in the automotive sector. This should support the Federal Reserve's approach of further gradual rate hikes. It also expands market access for US agricultural exports to Canada. This deal, like all other trade deals involving US, is crucial for global growth to continue at a steady pace.

Despite the US-Canada trade deal, we continue to witness heightened US-China tensions with US Defense Secretary James having cancelled a planned visit to China in September. In addition to this the US has imposed 10% tariffs on USD 200 bn of Chinese goods, and warned that they will be raised to 25% by 1 January 2019 unless an agreement is reached by then. The US has also threatened to immediately start proceedings on the next tranche of tariffs if China "retaliates". While we still feel that a negotiated solution remains the most reasonable outcome for both sides, these latest announcements put more pressure on the process by imposing a fairly tight time line on reaching an agreement. We still see scope for a settlement, although both parties will need to make some progress on negotiations before year end.

During the month the US Federal Reserve hiked interest rates. As expect the Fed funds rate was raised by 25 bps and they reiterate the case for gradual rate increases. They also dropped the phrase "the stance of monetary policy remains accommodative". The fed made modest upward adjustments to its near-term economic projections but made no major changes to its medium to longer-term views.

Markets – September 2018

Equity indices	Sep-18	2018
MSCI ACWI	0.26%	2.19%
MSCI World	0.73%	6.64%
S&P 500	0.43%	8.99%
Euro Stoxx 50	0.19%	-2.99%
DAX	-0.95%	-5.19%
FTSE 100	1.05%	-2.31%
NIKKEI 225	5.49%	5.95%
OMX 30	0.25%	5.42%
OMXC 20	-4.21%	-4.43%

Bond indices	Sep-18	2018
Global Treasuries	-1.18%	-2.44%
Global High Yield	1.37%	-0.59%

Currencies	Price	Sep-18
EUR/USD	1.1604	0.02%
EUR/SEK	10.316	-2.71%
USD/SEK	8.8894	-2.89%
USD/DKK	6.4258	0.00%

Interests	Sep-18
US T-Bill 3M	2.17%
Euribor FIX 3M	-0.32%
Libor FIX 3M	0.80%
Stibor FIX 3M	-0.46%
Cibor FIX 3M	-0.30%

Other	Sep-18	2018
Gold	-0.86%	-8.59%
Oil crude. Brent	6.85%	23.70%
HFRX Index	-0.69%	-1.23%

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Portfolio update
A few changes were made to our discretionary portfolio. We took profit on our holding in BB Biotech since the company traded with a significant premium to NAV and we see a risk that this premium may evaporate over time.

We also exited our investment in iShares MSCI Japan due to the fact the investment case was fulfilled in terms of fundamentals and performance. The decision was also supported by our view to decrease equity exposure outside of Europe and US.

The proceeds from Japan was allocated capital into the US equity market through a Vanguard Russel 1000 index ETF. With this investment we get exposure to the US Value market with wide diversification.

The proceeds from BB Biotech will be reallocated to BB Healthcare which is an open-ended investment company with a wider investment spectrum than BB Biotech and with an insignificant premium to NAV.

Market outlook
- Fixed income

Emerging market bonds recovered slightly during the month but volatility will most likely stay high during the coming quarter due to uncertainty of local currencies and potential trade conflict tensions. US-10 year Treasury yields touched 3.10% in September but we remain cautious on Government debt given the bias towards higher interest rates.

- Equities

The reporting season for the third quarter will start mid-October and focus is once again on earnings-growth among a positive sentiment on global equity markets. As our new allocation indicates we are positive on US equities backed by a strong US economy.

- Alternative Investments

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

- Forex

As mentioned in our last market letter a number of event have impacted the EUR negatively during the month. Feds expected rate hike also gave push to the USD and we expect a continuous strong USD over the coming months.

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Holding of the Month
Invesco US Senior Loan Fund

The fund invest primarily in senior, secured loans to non-investment grade corporations with interest rates that float and resets about every 60 days. To manage risk, the team keeps the portfolio broadly diversified and generally avoid industries they believe to be speculative.

The Fund has returned +3.69% YTD net of fees which shall be seen as excellent considering the risk profile of the fund.