CORE CAPITAL

MARKET OPPORTUNITIES

October 2019

• The ECB paradox

At the heart of Europe's 20-year-old currency union lies a disturbing paradox. The beating heart of the eurozone economy is Germany. Yet, from the highest levels of policymaking to the lowest levels of the mass media, Germans are the most outspoken critics of the unconventional measures taken over the past decade to ensure the eurozone's survival. The paradox captured attention last week when Sabine Lautenschläger, Germany's representative on the European Central Bank's executive board, said she would resign more than two years before her eight-year term is up. This makes her the third German to resign from the ECB's 25-member governing council, either wholly or partly because of disagreements with its policies, since 2011. No representatives of the eurozone's other 18 countries have ever resigned from the ECB council because of policy disputes.

Mario Draghi, the ECB president, announced the bank's latest monetary stimulus measures on September 12, and Dragi made it absolutely clear that there was not much more monetary policy could do and now it would be up to the respective EU governments to decide which role fiscal policy should play going forward.

Across the political spectrum, and across society, mistrust of the ECB's actions is widespread. Chancellor Angela Merkel has lent quiet support to Mr Draghi and taken care not to make public criticisms of his initiatives. However, many politicians, economists, business leaders and media pundits display less restraint. The flood of attacks on Mr Draghi is submerging the once sacrosanct German principle that a central bank must be independent from political pressure. Germany's outlook reflects a certain reading of 20th-century history as well as the nation's present-day circumstances. Furthermore, the ECB's unorthodox interest rate policies have handed a windfall to not only the German government but also to the EU member states who are now able to borrow at the lowest level for decades. A paradox example is that Greece can now borrow cheaper than the US Government. With borrowing costs so cheap and the economy on the edge of recession, a chorus of voices are calling for Germany to loosen its fiscal strings and launch an infrastructure investment plan.

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Markets – September 2019

Equity indices	Sep-19	2019
MSCI ACWI	1.91%	14.26%
MSCI World	2.34%	18.47%
S&P 500	1.72%	18.74%
Euro Stoxx 50	4.16%	18.93%
DAX	4.09%	17.70%
FTSE 100	2.79%	10.11%
NIKKEI 225	5.08%	8.70%
OMX 30	4.48%	16.96%
OMXC 25	0.70%	14.75%

Bond indices	Sep-19	2019
Global Treasuries	-1.33%	5.86%
Global High Yield	0.47%	8.76%

Currencies	Sep-19	Price
EUR/USD	1.0899	-0.76%
EUR/SEK	10.7248	-0.69%
USD/SEK	9.8403	0.00%
USD/DKK	6.8508	0.91%

Interest rates	Sep-19
US T-Bill 3M	1.79
Euribor FIX 3M	-0.42
Libor FIX 3M	0.76
Stibor FIX 3M	-0.09
Cibor FIX 3M	-0.43

Other	Sep-19	2019
Gold	-3.15%	14.81%
Brent Crude Oil	0.58%	12.97%
HFRX Index	0.45%	5.90%

Dieter Kempf, head of the BDI, Germany's most influential business lobby, says it is time for the government to relax its insistence on balanced budgets. Bruno Le Maire, France's finance minister, says: "Germany must invest and invest now. "The Christian Democrat-Social Democrat "grand coalition" that holds power in Berlin may one day take this advice. Its reluctance to do so reflects the view that Germany must set an example of budgetary prudence to other countries, mainly in southern Europe. Germany's caution also illustrates a lack of firm direction at the heart of government. Ms Merkel is near the end of her long reign. Each ruling party senses that the CDU-SPD partnership — the third "grand coalition" out of four governments since 2005 — has outlived its usefulness. At the ECB, the problem for Christine Lagarde, the IMF chief who will replace Mr Draghi on November 1, is that Germans are not the only critics. Nine ECB council members expressed opposition or reservations about the new measures at the September 12 meeting. They included the national central bank heads of Austria, France and the Netherlands, as well as Germany. Independent experts have doubts, too.

The financial markets fear that heavily indebted governments will have to bail out European banks, which have difficulties returning to sensible profitability as long as interest rates are solidly anchored sub-zero. In principle, Europe's central bankers and politicians can strike a bargain that balances tighter monetary policy and fiscal expansion. Without such a deal, the risk is that markets will focus on eurozone's flaws and the ECB's internal disputes.

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Portfolio update

During September we increased equity exposure slightly by adding exposure to Morgan Stanley Global Brands fund, which include global names like Microsoft, SAP and VISA – Early October we have also taken advantage of the equity market set-back and added equity exposure to Partners Group Infrastructure SICAV.

Market outlook

- Fixed income

We remain positive on Senior collateralized loans currently offering attractive yield compared to more traditional fixed income investments. We have also prepared our potential buying list to take on exposure if we see an increase in yield for corporate bonds, both high yield and investment grade. Given the speculation on US rates we are ready to enter should we see attractive levels.

- Equities

With the current risk/reward in the equity markets we remain underweight equities and maintain significant cash positions and short term bonds. With the current interest rate speculation, trade disputes and geopolitical concern we await a dip to add further to equities.

- Alternative Investments

Last year we saw a large number of hedge funds closing down and we retain our view that it's an expensive asset class which simply does not deliver.

- Forex

We maintain our strategic approach to actively hedge currency risk. With the uncertainty around Brexit the future of the Sterling remains uncertain and the ECB continue seeing downside risk which could harm the EUR as well as a potential rate cute. Trade and political risk continue to put the USD at risk, the US Federal Reserve has cut the rate, however further cuts remain data dependent.

Holding of the Month

Partners Group Infrastructure SICAV Fund

The fund invest in global infrastructure companies within transportation, communication and utilities. The philosophy centres around new infrastructure projects, stable long-term cash-flows, inflation link and portfolio diversification benefits. Currently the fund has a very strong 2019 YTD performance of 27.4 %. The fund has been purchased beginning of October.