CORE CAPITAL

MARKET OPPORTUNITIES

September 2019

Core Capital Management S.A.

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

www.corecapital.eu

• The End of Monetary Policy and the Last Central Bank

Imagine the following scenario, a man walk up to you in the street and offers you a loan of 100 EUR, he says he wants you to pay him back in 10 years and you only have to pay him back 95 EUR. Now if you decline his offer, would you be willing to accept the deal if instead you only have to pay him back 90 EUR? This is the current situation with interest rates in Europe. There is now very little policy the ECB can adopt that will drive up inflation, at some point the world reaches the point where there is no confidence in the party offering you money to accept his money in the first place. With negative interest rates, near no inflation and no significant growth there is little room for monetary policy. In the past recessions have been softened by the central banks, then in the past they have always had the possibility to lower the rates. While the federal reserve has some ammunition one shudders at the thought of Europe. We have been in a long wait for the first ECB rate hike only for the likely scenario now being a rate cut, meanwhile Switzerland and Sweden both also remain at negative interest rates. The one central bank in the western world which still have some confidence and some ammunition is the federal reserve, however even Jerome Powell is facing challenges and the question remains how long monetary policy will have an effect even in the US.

Everyone can see the absurdity of long term negative interest rates, however everyone is also benefiting from it. Yields have been driven lower providing strong returns for bond investors and equity markets have been driven to all time highs. We are not far of from the fable about the Emperor and his new invisible clothes, everyone is benefiting from the situation so nobody wants to be the first to shout out that the Emperor is, in fact, naked. It makes for a fun story, however the truth to the matter is that the situation is entirely new. Never before have investors paid to have a company borrow their money, nor have a bank had to pay clients for their mortgages like they now do in Denmark. The absurdity of the fact is that a third of the international bond market is now providing a negative return, yet demands does not seem to waver. The consensus seems to be that the situation is not sustainable, however nobody wants to lose the boons it provide.

During the year trade, especially between US and China, have been a big subject and constant in the news. This has not changed and the month has been very intensive on the frequency of news related to the trade conflict. Markets react in an instant and a simple letter or news about a potential phone call move the markets. With the constant changes and unpredictability investors should be cautious to take anything for granted and any political speculation remains just that, speculation.

Markets – August 2019

Equity indices	Aug-19	2019
MSCI ACWI	-2.57%	12.12%
MSCI World	-1.95%	15.77%
S&P 500	-1.81%	16.74%
Euro Stoxx 50	-1.16%	14.17%
DAX	-2.05%	13.07%
FTSE 100	-5.00%	7.12%
NIKKEI 225	-3.80%	3.45%
OMX 30	-1.42%	11.94%
OMXC 25	0.83%	13.95%

Bond indices	Aug-19	2019
Global Treasuries	2.59%	7.29%
Global High Yield	-1.56%	8.24%

Currencies	Aug-19	Price
EUR/USD	-0.85%	1.0982
EUR/SEK	0.88%	10.799
USD/SEK	1.81%	9.8404
USD/DKK	0.69%	6.7889

Interest rates	Aug-19
US T-Bill 3M	1.94
Euribor FIX 3M	-0.43
Libor FIX 3M	0.76
Stibor FIX 3M	0.01
Cibor FIX 3M	-0.47

Other	Aug-19	2019
Gold	7.54%	18.55%
Brent Crude Oil	-7.27%	12.32%
HFRX Index	0.23%	5.27%

CORE CAPITAL

MARKET OPPORTUNITIES

September 2019

Core Capital Management S.A.

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

www.corecapital.eu

Portfolio update

During August we made no changes to the portfolio, we remain cautious with the current market conditions and are ready to deploy cash should we see an attractive entry point.

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 have further reduced our overall equity exposure and have kept the proceeds on the side-lines. With the current interest rate speculation, trade disputes and geopolitical concern we await a dip to potentially re-enter the market.

- 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
Blackrock Global Emerging Markets Corporate Bond Fund

The fund invest in emerging market corporate debt and have managed positions themselves well providing a strong return both this year and last year, regardless of market conditions. We continue to have a strong positive view of the manager and the strategy used by the fund.

Currently, the fund's performance is +11.05% in 2019 and the fund returned +0.37% in August.