MARKET OPPORTUNITIES

May 2021

- Earnings Blowout
- Spending Bonanza
- A potential show stopper

Earnings have come in strong and the EPS estimates for Q2 2021 have seen the second highest upward revisions since 2002. Overall there has been a blowout in Q1 earnings with over 300 out of the 500 S&P 500 companies reporting earnings growth is near 50%. Comparisons are benefitting from a weak figure for Q1 2020 due to the pandemic, though it’s still the strongest figure since the recovery from the financial crisis. So far for the first quarter the earnings surprise compared to expectations as of 31/03/2021 is above 20% and 86% of companies have reported an earnings surprise, if this holds it will be the strongest figures since tracking started in 2008.

What has driven some of the increase in earnings is rather clear, stimulus checks were paid out earlier this year and additional stimulus is expected. An infrastructure spending bill is also being negotiated in the US congress. In addition to this there are private savings from last year which are now being used for spending. While some have speculated that this will drive a new roaring 20’s, it’s important to remember that the world has changed a lot in the last century. During last year online companies, especially retailers like Amazon benefited greatly from the stay at home economy. This also means that unlike the roaring 20’s, which were driven by a return following World War 1 and the Spanish Flu, global consumers have still been able to spend.

Even though earnings have been strong, reactions by the market have been relatively muted. A possible reason for the subdued response is that much of the recovery so far was already priced in, with stretched valuations and soaring stock prices. There is also another potential wet blanket on markets, the risk of an increased tax rate in the US, in 2017 the Tax Cuts and Jobs Act was passed which across the board lowered taxes and the positive reaction from the markets at the time are likely to reverse should we see a change of this policy.

We have also been monitoring the situation regarding inflation which has been apparent with the soaring commodity prices, most notably timber. The large spending in the US is likely to drive inflation during the year and any lingering effect could put pressure on interest rates.

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Markets – April 2021

Equity indices	Apr 2021	2021
MSCI ADWI	4.24%	8.60%
MSCI World	4.04%	10.43%
S&P 500	5.24%	11.32%
Euro Stoxx 50	1.42%	11.88%
DAX	0.85%	10.33%
FTSE 100	3.82%	7.88%
Nikkei 225	-1.25%	4.99%
OMX 30	1.10%	18.26%
OMXC 25	4.53%	5.35%

Bond indices	Apr 2021	2021
Global Treasuries	1.23%	-4.33%
Global High Yield	1.90%	0.93%

Currencies	Price	Apr 2021
EUR/USD	1.202	2.47%
EUR/SEK	10.1725	-0.67%
USD/SEK	8.4648	-3.04%
USD/DKK	6.1868	-2.43%

Interests	Apr 2021	
US T-bill 3M	0.006	
Euribor 3M	-0.535	
Libor Fix 3M	0.084	
Stibor Fix 3M	-0.035	
Cibor Fix 3M	-0.207	

Other	Apr 2021	2021
Gold	3.60%	-6.81%
Brent Crude Oil	5.84%	29.83%
HFRX Index	1.63%	2.94%

• Market outlook

Equities

We are entering into May remembering the old saying ”sell in May and go away”, though we have not sold out everything we have reduced our overall equity exposure and expect some volatility in the months ahead.

We reduced our equity exposure by exiting our US Growth fund as well as our infrastructure theme. Currently we are defensive with the proceeds and stand ready to deploy the additional liquidity when we see a correction in the market.

Fixed income

We remain cautious on the fixed income markets and view the overall risk/reward of the asset class as rather unattractive. We tactically increased our exposure to long duration bonds following the spike in long rates, so far they have gained some on the back of a slightly flatter yield curve.

For emerging markets we continue to see the asset class as unattractive given the limited yield pickup compared to developed markets.

Alternatives

We have long held a view of scepticism when it comes to hedge funds and it has not changed. Despite this we are still looking at the asset class to identify attractive exposure to diversify our portfolio.

Foreign Exchange

We continue to believe that US will be the first to rate interest rates, however this is still far off and for now we expect the rates to stay flat. During April we saw some reversal for the USD following a strong Q1, this was partially due to some weaker than expected macro figures and a slight flattening of the yield curve.

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Holding of the Month
Blackstone GSO Loan Financing

The investment objective is to deliver returns by gaining exposure to floating rate senior secured loans through CLO Income notes. The fund also pay a sizeable dividend.

For April the fund returned 7.59% and for the year it has returned a stellar 20.83%