MARKET OPPORTUNITIES
December 2020

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- The best of the worst
- Relief Rally
- The power of one vote

Earnings in Q3 have mostly concluded and we can now ascertain that the quarter was one of the best, and worst, in modern history. At the end of September an earnings decline greater than 20% was expected but, although earnings did decline, they did so by less than half of what was expected. This lead to one of the biggest and broadest earnings beats of modern time. Since the financial crisis 2008 the two broadest beats of expectations have been Q2 and Q3 2020 during which 84% of companies beat earnings expectations. Though the earnings were in decline, they were still the best of the worst. During this volatile period we believe in being active and take on tactical exposure, as we believe this will lead to a Santa Claus rally and later stabilize during Q1 2021.

During October we saw limited reactions to the strong Q3 earnings, instead markets focused on concerns over Covid and the US elections. In early November it became clear that the Congress in the US will most likely remain divided meaning no radical policies, the market rallied. Less than a week later Pfizer presented trial results for their Covid vaccine with other 90% efficacy ratio, since then both Moderna and AstraZeneca have presented similar results, again the market rallied. Investors dislike uncertainty and despite strong Q3 earnings in October the market plunged, it was only when the uncertainty was reduced that the market reacted to the strong earnings.

When has one vote ever mattered? Well three US Presidents have been elected by just one vote in the electoral college or house of representatives. In terms of the supreme court many cases are decided with a 5-4 split. One vote can in elected offices be very powerful. The reason this discussion matters is in part because of the Georgia run-off elections in January. Joe Biden is the projected President Elect, though formally the title is only awarded after one party concedes or the electoral college convenes on the 14th of December. Unlike previous administrations Biden will enter the white house without a majority in the Senate, even if both the run-offs in Georgia would go Democrat the senate would still be 50-50. This means that most appointments need bipartisan support, further it also strongly limits what Biden can do, including removing the threat of tax increases and any major spending bill.

Markets – November 2020

Equity indices	Nov 2020	2020
MSCI ADWI	12.21%	9.38%
MSCI World	11.97%	9.64%
S&P 500	10.75%	12.10%
Euro Stoxx 50	18.06%	-6.74%
DAX	15.01%	0.32%
FTSE 100	12.35%	-16.92%
Nikkei 225	15.04%	11.74%
OMX 30	11.64%	8.22%
OMXC 25	7.52%	27.35%

Bond indices	Nov 2020	2020
Global Treasuries	1.56%	7.91%
Global High Yield	4.99%	4.45%

Currencies	Price	Nov 2020
EUR/USD	1.1927	2.40%
EUR/SEK	10.2277	-1.31%
USD/SEK	8.5736	-3.64%
USD/DKK	6.2409	-2.36%

Interests	Nov 2020
US T-bill 3M	0.079
Euribor 3M	-0.526
Libor Fix 3M	0.045
Stibor Fix 3M	-0.107
Cibor Fix 3M	-0.220

Other	Nov 2020	2020
Gold	-5.42%	17.11%
Brent Crude Oil	27.04%	-27.89%
HFRX Index	2.82%	4.26%

• Market outlook

Equities

November has been a return to some norms for equity markets with a strong rally following a reduction in uncertainty. With much stronger than expected earnings and market concerns reduced we saw a relief rally.

We took advantage of the downturn to take a two step equity exposure in Morgan Stanley US Growth. The first leg we did following the downturn in late October and following the vaccine news we further increased the exposure due to what we judged as an overreaction in the markets. The fund has since rallied and gained around 16% for the month.

Fixed income

The financial markets have been driving the yield lower which in turn has driven the risk/reward profile for the asset class to uncomfortable levels.

We remain underweight fixed income given the low yields. Potential persist, though it remains rare and we are cautious on the risk/reward profiles to avoid hunting a slight increase in yield at a great increase in risk.

Alternatives

We continue to remain adverse when it comes to hedge funds, the class continues to underperform and we prefer traditional investments.

Foreign Exchange

We have seen some weakening of the dollar during November, returning to the levels we saw in July and August. Our approach remains cautious while we expect the USD to weaken further in the near to mid term.

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Holding of the Month
Global Value & Growth

Facing headwinds for most of the year the fund showed a comeback in November with a sector shift benefiting the fund, showing the boon of a diversified portfolio.

YTD the fund has delivered 3.68% performance and during the month of November the vaccine news drove a rally driving the funds performance to 14.95% for the month.