CORE CAPITAL

MARKET OPPORTUNITIES

February 2021

- Stimulus
- Is it ever different?
- Volatility and Diversification

January has been strange to say the least, perhaps the most public discussion regarding financial markets have been around GameStop and the Reddit trade. Last year the US household savings rate increased, it has been rather stable for the last decade, but during the pandemic it surged. With increased savings and stimulus additional retail investors have entered the market. The influx of new investors is causing disruptions, most notably a few stocks mentioned on an online forum. Though this has had a limited impact on the broader market, it's an indication. There are an increased number of investors in the market and an oversupply of cash.

One of the most expensive thoughts in the financial markets is "this time it's different" and though last year was unmatched in history it does not mean that 2021 will be. Yields are low, as we have mentioned in previous letters, this has been pushing stock prices higher as investor chase any return they can find. Valuations are stretched and a good example is Apple, the worlds largest company presented a blow-out earnings 18% higher than expected driven by outperformance in critical segments, the result? The stock dropped. Not even a stellar report could drive the stock higher, the valuation was already far too stretched. There are always people saying this time it's different, however most times they are wrong.

It's important to remember that even when markets fall some assets increase in value and a well diversified portfolio is key. In our portfolios we hold a wide variety of investments, including a number of long term themes which focus on long term secular trends rather than the short term markets. Volatility is expected to be at higher levels than pre-2020, offering good entry points for deploying cash in new investments and driving a push for active management. Hedge funds, an asset class which we have long avoided are now suffering record losses while still charging high fees. We maintain our view that transparency and understanding is important for a portfolio and focus on investments with sensible long term investments which are clear and straightforward.

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Markets – January 2020

Equity indices	Jan 2021	2021
MSCI ADWI	-0.52%	-0.52%
MSCI World	-0.77%	-0.77%
S&P 500	-1.11%	-1.11%
Euro Stoxx 50	-2.00%	-2.00%
DAX	-2.08%	-2.08%
FTSE 100	-0.82%	-0.82%
Nikkei 225	0.80%	0.80%
OMX 30	3.95%	3.95%
OMXC 25	-3.83%	-3.83%

Bond indices	Jan 2021	2021
Global Treasuries	-1.16%	-1.16%
Global High Yield	-0.16%	-0.16%

Currencies	Price	Jan 2021
EUR/USD	1.2136	-0.65%
EUR/SEK	10.1542	1.04%
USD/SEK	8.3656	1.68%
USD/DKK	6.1291	0.61%

Interests	Jan 2021
US T-bill 3M	0.054
Euribor 3M	-0.548
Libor Fix 3M	0.039
Stibor Fix 3M	-0.051
Cibor Fix 3M	-0.237

Other	Jan 2021	2021
Gold	-2.67%	-2.67%
Brent Crude Oil	7.88%	7.88%
HFRX Index	-0.17%	-0.17%

- ## Market outlook

Equities

Our view has not changed since last year and despite increased valuations and volatility we still view equities as the most attractive asset class. We believe in the need for a well diversified portfolio and not being focused on the noise. In January we allocated to two new thematic exposures, clean energy and gold miners.

Though many concerns from last year have been resolved, most notably vaccine, elections and Brexit, we still expect a higher volatility. There are many obstacles and the market has largely priced in a perfection, though history has taught us that things are rarely perfect and we expect corrections. When we see these events we are ready to tactically allocate accordingly.

Fixed income

Quantitative easing has caused an abundance of cash which has dragged down the yield in the markets. We expect the long interest rates to rise while the short term remaining low with limited action possible from central banks. This combination makes us more inclined to take on credit risk rather than duration risk, or simplifying we prefer lower grade bonds with shorter maturity over higher grade bonds with longer maturity.

Alternatives

January proved our position on hedge funds right, at least for certain long/short funds, however we remain open to the broader alternatives space. Our philosophy goes against much of the asset class historically, though there have been changes with regulations and the market is now more transparent which has prompted us to make a full review of the asset class.

Foreign Exchange

We expect the USD to weaken slightly, there is no longer the same interest rate spread between US and Europe as we have seen previously. Despite the interest rates we remain cautious on the dollar as we believe the US are likely to be the first to raise rates.

With Brexit now finalized we expect the GBP to continue to stabilize.

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Holding of the Month
Credit Suisse Global Robotics

The fund focus on pure-play investments in the robotics and automation space, a theme which we see as an attractive long term secular growth trend.

Historically the fund has proven to outperform in good as well as poor markets.

For January the fund returned 3.99% and in 2020 the fund delivered a strong 35.05%