

- Continued Volatility
- October Surprises

October followed the trend of volatility we have seen during the year with the VIX index holding steadily above 25 for the month. The last week of the month saw a large drawdown with the S&P 500 falling more than 5%. This started on the 25<sup>th</sup> when SAP reported their earnings which was a disappointment driving the stock down - 21.94%, the effect was notable on the DAX index in which SAP constitutes a 10% weight causing the index to drop over 2%. Following this increasing cases of Covid and signals of a second wave drove markets lower, during the week big tech presented their earnings and though it was overall stronger than expected reports investors found small pieces of negative news driving down the market. The response so far has been for the central banks to print more money to fund increased stimulus, but with the average household having increased savings during the pandemic and the decrease in velocity of money what is really needed is increased spending.

September has ended and with it Q3, during October we have seen a majority of earnings come out. While most people expect October surprises in an election year it has been a comfortable change of pace to see it in company's' earnings this year. So far a whopping 86% of companies have reported earnings surprises and 81% revenue surprises. To put this into context, this is the broadest earnings surprise since the metric has been tracked. In the earnings reports we have also seen positive news in terms of guidance with 31 companies revising guidance up. It should be noted that the quarter still has not been good and what we are seeing is not growth, but rather smaller declines than anticipated.

Under normal circumstances a strong earnings season would drive the markets, how ever 2020 is anything but normal. Ignoring the events of the last 9 months the rest of the year still holds two key events. The US election, which is widely debated and not only do the outcome remain unclear, but the timeframe of an outcome also remains uncertain. Covid-19 which continues to ravage businesses and communities, both from the illness and the ensuing lockdowns. With the uncertainties in the world markets during October has been spooked, pun intended, and investors are weary of the volatility choosing instead to take profit following the reports. Which so many times have been the case in the past, the markets dislike surprises and wants certainty. A vaccine and a clear election would be the ideal scenario, though nothing is certain.

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## Markets – October 2020

Equity indices	Oct 2020	2020
MSCI ADWI	-2.50%	-2.52%
MSCI World	-3.05%	-2.09%
S&P 500	-2.77%	1.21%
Euro Stoxx 50	-7.37%	-21.01%
DAX	-9.44%	-12.77%
FTSE 100	-4.92%	-26.05%
Nikkei 225	-0.90%	-2.87%
OMX 30	-6.11%	-3.06%
OMXC 25	-1.54%	18.44%

Bond indices	Oct 2020	2020
Global Treasuries	0.13%	6.25%
Global High Yield	0.07%	-0.51%

Currencies	Price	Oct 2020
EUR/USD	1.1647	-0.63%
EUR/SEK	10.3638	-1.28%
USD/SEK	8.8977	-0.66%
USD/DKK	6.392	0.63%

Interests	Oct 2020
US T-bill 3M	0.088
Euribor 3M	-0.523
Libor Fix 3M	0.045
Stibor Fix 3M	-0.073
Cibor Fix 3M	-0.227

Other	Oct 2020	2020
Gold	-0.37%	23.83%
Brent Crude Oil	-8.52%	-43.24%
HFRX Index	-0.06%	1.56%

- Market outlook

### Equities

2020 continues to be a year when norms are broken and estimates are all over the place. The Q3 estimates on the 30<sup>th</sup> of September prior to any earnings report was a decline by -21.1%. The actual figure was -9.8%, there are multiple interpretations of this, it's a very strong relative quarter while in absolute terms it's very bad.

With the dip we saw in equity markets during the end of the month we are again increasing our equity exposure, taking advantage of the recent downturn.

### Fixed income

During October we continued our strategy of only making small adjustments in terms of individual bonds and we have been taking profit from strong short term gains in selective individual bonds.

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

Though we have seen some short term volatility in the currency market October has been another rather calm month compared to earlier this year.

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### Holding of the Month Morgan Stanley Global Fixed Income Opportunities

Even with rough market conditions during the year the fund using its unconstrained fixed income mandate has managed to deliver a slightly positive return.

YTD the fund has delivered 2.11% performance and during the month of October when markets were down the fund still delivered a slightly positive +0.25%.