

- Justice is no longer blind, but the economy might be
- A financial theory of relativity

Justice is blind, an old saying which brings up images of lady justice with her blindfold, but does this concept still hold in today's society? With a mix of riots and protest, while taking no side, it's clear to see that there is a disagreement on what "justice" means, turning it almost to something relative. While an increasing number of institutions, organizations, and concepts turn political and take sides one remains rational and blind, the economy. Figures for unemployment, GDP growth and company earnings are clear, they are figures black (or red) on white. Though politics may impact it, the economy as such does not take sides, it's not subjective. We are coming out of one of the most volatile summers in recent memory in regards to geopolitics. Few days pass without any news on riots in both Europe and the US, Covid updates, and political grandstanding in both directions. The markets during the summer have also been unusual, they have not declined, there has been no summer dip, the old saying "sell in May and go away" would not have worked very well this year. Since the 31<sup>st</sup> of May the S&P 500 has rallied 15% with the strongest August in over 30 years.

What many have now noticed is that some stock markets, especially the tech heavy Nasdaq 100, is at an all time high. How does this square with the massive decline in earnings for Q2, the increase in unemployment and the contraction of the economy? Well, basically it's down to two things, firstly the benefit of low expectations. The expectations were very low for Q2 and the beat should not be seen as a runner setting a world record, but rather a surprise that they reached the finish line standing. The second is relativity, simply put it Covid made the US greatly reduce the interest rates and there are now fewer options for investors. If a Nestle 2024 bond carries a negative yield of 0.5% The stock, even with just 2.5% dividend yield, becomes much more attractive.

Einstein's theory of relativity stipulates that as we get closer to the speed of light concepts like time changes and passes at a different rate. We still experience that time the same, regardless of speed, and only notice the difference when we can compare it to a reference. The financial markets have entered a similar state, previously small returns now appear larger simply because our reference now is 0. Everything is relative except the point from which we observe it. In physics this is the speed of light. In economics we have no constant, but we still tend to compare it all to interest rates and right now we are standing still.

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## Markets – July 2020

Equity indices	Jul 2020	2020
MSCI ADWI	5.14%	-2.36%
MSCI World	3.39%	-2.13%
S&P 500	5.51%	1.25%
Euro Stoxx 50	-1.85%	-15.24%
DAX	0.02%	-7.06%
FTSE 100	-4.41%	-21.81%
Nikkei 225	-2.59%	-8.23%
OMX 30	2.58%	-3.64%
OMXC 25	5.62%	13.54%

Bond indices	Jul 2020	2020
Global Treasuries	3.35%	6.68%
Global High Yield	4.55%	-0.32%

Currencies	Price	Jul 2020
EUR/USD	1.1778	4.84%
EUR/SEK	10.3388	-1.26%
USD/SEK	8.7795	-5.81%
USD/DKK	6.3229	-4.69%

Interests	Jul 2020
US T-bill 3M	0.090
Euribor 3M	-0.463
Libor Fix 3M	0.084
Stibor Fix 3M	0.026
Cibor Fix 3M	-0.193

Other	Jul 2020	2020
Gold	10.94%	30.22%
Brent Crude Oil	5.22%	-34.39%
HFRX Index	1.35%	0.25%

## • Market outlook

### Equities

During August we increased our weights in a couple of our existing holdings, we are now close to neutral weight in equities and continue to monitor the markets. The increase was made on the basis of strong fundamentals and Q2 earnings exceeding expectations.

This year we did not see any dip over the summer, adding to an already strange year.

### Fixed income

During August we made no changes to our fixed income portfolio other than small adjustments in terms of individual bonds. The market has been moving quickly and investments which initially provided a good yield has rallied and no longer remain attractive.

We remain underweight fixed income given the low yields. Potential persist, though it grows increasingly rare and we remain 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

USD has continue to be a drag on performance and for many European investors it has eaten up a large chunk of any performance from US markets.

The SEK has continued a strong rally against both the EUR and the USD.

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#### Holding of the Month Fundsmith Global Equity Fund

We added the fund earlier this year and it has provided a strong return, with YTD performance of 6.38% and 4.93% in August.

It should be noted that this performance is in EUR and has outperformed the markets.