2nd Quarter, 2019

Update from Jyske Capital

Jyske SICAV Stable Strategy

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Key Points 2nd Quarter

1. Risky assets lose momentum

2. Portfolio return at par with benchmark

3. Quantitatively, our investment process points towards higher risk utilisation, while the qualitative picture is more cautious.

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Second quarter – Risky assets lose momentum

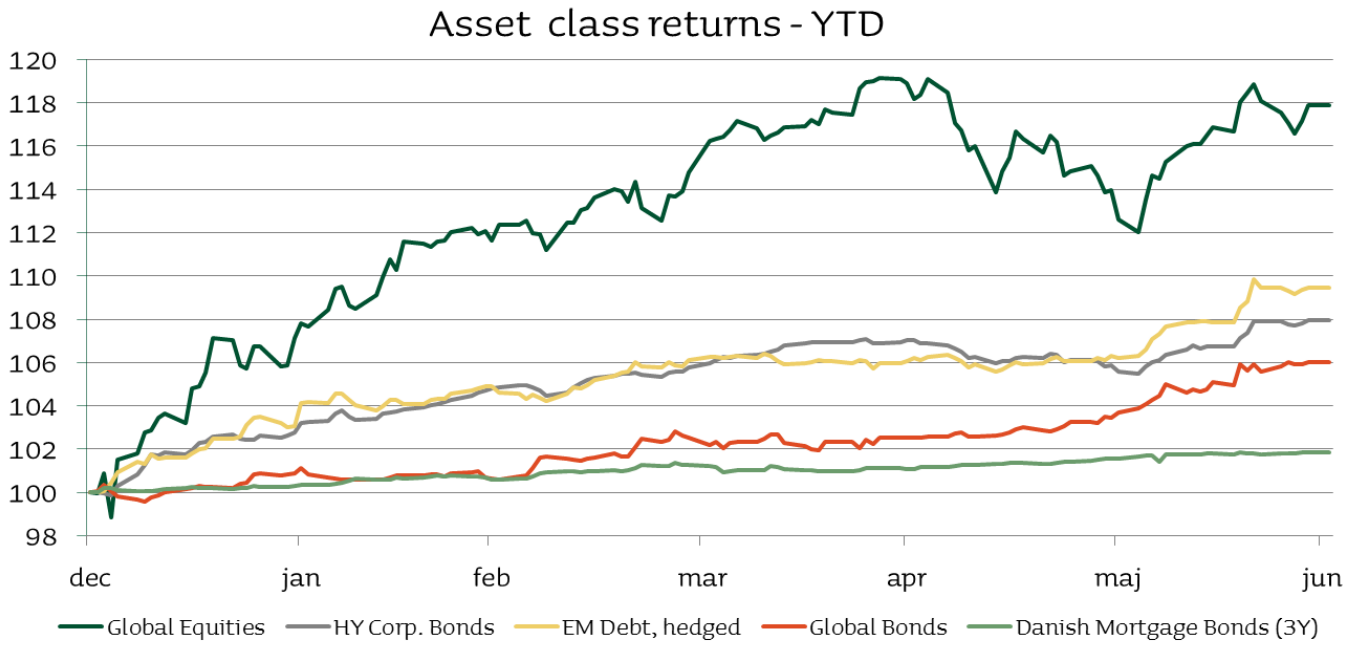
The impressive, excellent market trend in the first quarter was not really able to stay the course in the second quarter. Especially the market trend in May contributed to the rude awakening of investors, and everybody was reminded that investment and risk are correlated. Nevertheless, once again all asset classes managed to post positive returns at the end of the quarter. Actually, June turned out to be the best month for equities in more than 60 years. Consequently, the second quarter will - contrary to the excellent first quarter - be remembered for the return to rather normal returns in the financial market. Contrary to the first quarter, a small negative contribution relative to the market return was seen in the second quarter.

In the second quarter the Fed was the major joker in the pack

Once again, history repeated itself in the second quarter. As in the first quarter, when the Federal Reserve was the decisive factor for the development in the financial markets, the Fed tipped the scales for investors in the second quarter . Following the sudden selling of risky assets in May, the Federal Reserve announced in May a monetary policy turnaround stating expectations of lower interest rates and an end to the number of interest-rate hikes implemented so far.

Investors were quick to welcome this announcement, which resulted in steep price increases for risky assets and pronounced fall in interest rates. Hence, at this moment, the interest rate market anticipates a downright change to the future monetary policy involving a series of interest-rate cuts over the next year or so. Therefore, looking forward, the question is whether the Fed will deliver and meet the market's expectations. Or whether, once again, the market reckoned without its host.

From a macroeconomic point of view, the picture is still the same. The hope that the US will be able to keep global growth expectations alive is gradually fading as the flow of disappointing economic indicators from the US increases. Despite the marginal improvements in Europe with respect to economic indicators, fulfilment of the prospects of macroeconomic leadership is slow in coming. The same goes for EM headed by China, where the on-going trade war between the US and China still is a burden on the development. If anything, the macroeconomic development in the second quarter was a factor fuelling prospects of a downright global recession looming on the horizon.



Source: Bloomberg

Portfolio Commentary

Stable Strategy

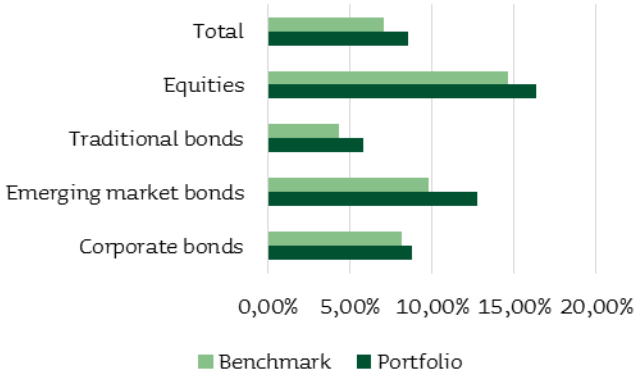
In the second quarter of the year, the portfolios generated a return at par with benchmark. Year to date Stable Strategy has generated a return of 7.91% compared to a benchmark return of 7.02%.

Our broad global **equity portfolio** gained 3.16% in Q2. The return was modestly adversely affected by headwinds for our investment style with focus on value, momentum and quality. Value shares had a difficult quarter, which was almost offset by tailwinds for momentum and quality.

The **high yield portfolios** continued the trend from Q1 with very strong absolute and relative returns, mainly driven by positive security selection. Global High Yield markets had a EUR hedged return of 2.1% during the second quarter, helped by dovish comments from central banks pushing yields lower. The portfolios improved by around 0.4 percentage point.

Investors in **the emerging bond markets** pocketed positive returns in the second quarter of 2019. The excellent returns were driven by a decline in the underlying Treasury yields. This yield decline is ascribed to new tones from the Federal Reserve, which is signalling easing of its monetary policy.

Portfolio Attribution Q2



Source: Jyske Capital

In the market for **developed market bonds,** the fall of the yield level continued from the first to the second quarter of 2019. The yield on a 10-year German government bond fell to a new record low when at the end of the quarter it was –0.33%. The low interest-rate level is widely due to the unsettled trade talks between the US and China. The mutual tariff increases have left their mark on economic growth, and investors fear that the worst is yet to come. The falling yield level resulted in positive returns on bonds in most markets.

ECB President Mario Draghi said that unless economic data recover, an interest-rate cut will be necessary. The Fed indicated the same as several members are now arguing in favour of an interest-rate cut. Therefore we expect to see a continued low interest-rate level for the remaining part of 2019.

Performance

Jyske SICAV Stable Strategy			
	Institutional Shareclass - EUR	Retail Shareclass - EUR	Benchmark
Q2	2,28%	2,28%	2,42%
YTD	7,91%	7,91%	7,02%
Since start	7,34%	7,32%	8,39%
Annualized	3,02%	3,01%	3,44%
Date of launch	FEBR 17	FEBR 17	

Source: Jyske Capital, returns gross of cost

Benchmark: 65% JPM Hedg. ECU Unit GBI Glob., 20% MSCI AC World, net dividend incl., 7.5% JPM EMBI Glob. Div., 7.5% Bank of America Merrill Lynch Blended High Yield Bonds – all hedged to EUR

Rating of corresponding Jyske Invest fund
Source: Morningstar

Current risk utilisation

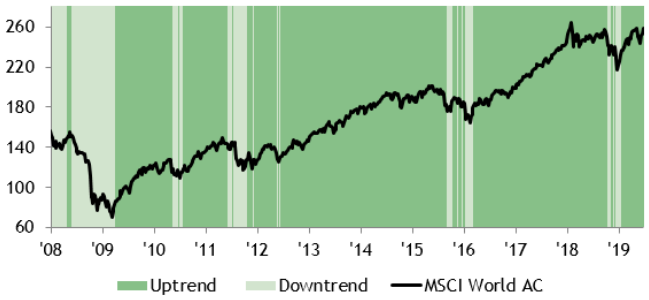
Our indicator of the short-term economic cycle (12-15 months) has over the last 18 months alternated between stabilisation and continued downturn, which is a good picture of the uncertainty relating to the direction for the global economy in the wake of the US-China trade war. In June (data collected before the G20 summit) we stayed in the worst macro phase 'early downturn' where equities generally struggle to generate positive returns.

Our trend indicator has again established itself more clearly in an uptrend. However, the indicator is far from being as strong as we would have liked. It is still a sign of weakness that relatively few equities/sectors/countries are driving global equities higher. Qualitatively, we prefer an uptrend where you buy equities more broadly.

The market sentiment suggested towards late May a fearful investor behaviour - close to an extreme level. In step with the increases on the equity market in June, the indicator has normalised. The majority of the increases related to the fearful level is therefore in our view reflected in the current market sentiment.

However, the market sentiment is not yet euphoric, which means that, seen in isolation, there is room for increases. Combined with an equity market in an uptrend, our quantitative process therefore still paints a picture of risk utilisation above neutral in the portfolios even though the growth picture is challenged.

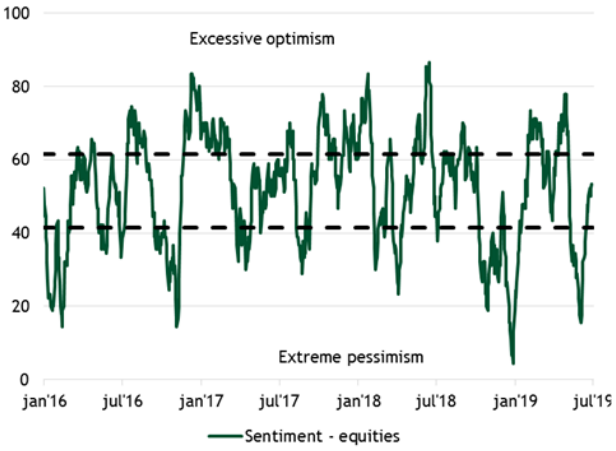
Market trend - equities



Source: Ned Davis Research & Bloomberg

Qualitatively, it was an important point for our higher risk utilisation in December 2018 that US growth did not balance at the edge of a recession. The mix of a slowdown in global growth and recession in the US has historically proven to be poison to the equity market. Right now, the trade war is driving the growth development in the US in the wrong direction. Although the risk is on the increase, a US recession is far from certain - and a softening of the trade war may postpone things.

Market sentiment - equities

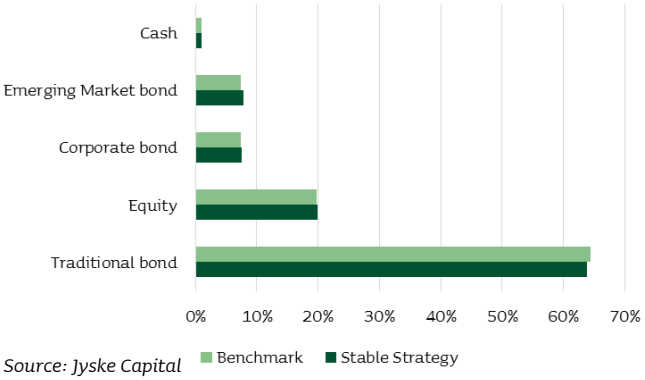


Source: Ned Davis Research

At the same time, we are aware that an accommodative US monetary policy has historically been strongly supportive of global equities (provided we avoid recession). Renewed growth optimism backed by the Federal Reserve may lift equities further. But right now we are missing clarity whether the development is moving in one or the other direction, and we are likely at the crossroads.

Conclusion

Quantitatively, this points towards higher risk utilisation. However, this is to a great extent driven by the market sentiment, while the uncertainty relating to the economic picture is still high. This uncertainty also dominates our somewhat more reluctant qualitative assessment where as a minimum we would like to see proof that growth has stabilised. Until then we will exercise patience, but we intend to take the opportunities offered by the fluctuations in sentiment.



Source: Jyske Capital