INVESTMENT NOTES: WEEK OF NOVEMBER 18-25, 2018

Written by Jane Siebels, Global Opportunities Fund

Last week saw our call on UK Brexit and politics begin to take place. We placed our FTSE 100 short and covered our Sterling exposure into Euro. We may see the culmination this week however, we believe the package will not pass Parliament and then the fun begins… We only have a 5% position in the short FTSE 100- but we are poised to cover or add at some stage this week. Shorting currency, beside just covering exposure is impossible in the fund at the moment. UCIT laws, meant to protect investors it seems, more often inhibit opportunities.

We have also covered our USD exposure. We believe that the possibility of a US economic downturn for Q4 2018 and Q12019 has a high probability now that the US equity market looks like it has entered a bear market (we still believe in one more blow-off rally after Thanksgiving). An inventory correction in the US will follow and we believe will force the Fed to pause the rate hike regime. The new Vice-Chair of the Fed, Richard Clarida, has described the neutral rate to be 2.5%-3.5% but no time frame was given therefore we believe that upcoming weakness will be reflected in the Fed's actions.

The resulting weakness in the USD would have two beneficiaries: Commodities and Emerging Markets. Last week we initiated a position in the China A share index. As we wrote in earlier investment notes, we believe China go to great lengths to stimulate its economy. This includes announced tax breaks and a massive tax overhaul, select increased lending and a trade agreement with the US probably announced at the G20 which we wrote about last week. China is also the emerging market that has fallen the most, at one point it had fallen 30% from its recent high. In late 2008-early 2009 when China reflated first, the Shanghai Index bottomed and it was up 20% before the S&P bottomed.

Emerging market equities in general are trading at low double digit PE multiples and have currencies which have decreased substantially allowing their exports/GDP to be at an advantageous point for growth and an expansion of earnings. US equity market outperformance versus Emerging markets which was so pronounced in the first nine months of 2018 has reversed since October. This has been especially so if one looks at NASDAQ which is down 10% from its high. Is this a blip? Although we are still looking for a final rally in the NASDAQ, we do believe that this is not a blip.

The other beneficiary of a lower USD is commodities. We wrote previously that we felt $55 was a floor for oil. We are now in the process of establishing a long oil position (or as much as we can with UCIT regulation). A lower USD will help commodities in general and we are examining the possibilities of buying base metals. However, we are not gold bulls since demand numbers remain weak and supply is continuing to enter the market.

We will be taking Thursday off in order to observe US Thanksgiving. This is our favorite holiday as it only involves, gratitude, family and food and leaves out the commercial aspect that has invaded our other holidays.

With this in mind, we would like to take the opportunity to thank you for your continued support. It is an honor and a pleasure to work for you.

HAPPY THANKSGIVING!

Jane Siebels