MONACO ASSET MANAGEMENT

MAM Market Meeting

30 August 2019

Equities: Performance Illusion

On a standalone basis, world equity markets have had a good year so far. The MSCI World Index performance of +10.6% YTD is very satisfactory on an historical basis. However, the table below shows that looking at YTD performance alone provides a flawed picture of the state of equity markets. Indeed, on a 1-year basis, all equity markets are either flat in the case of the US or still significantly down in the case of emerging markets and Japanese equities. As such, we don't follow the general belief that equity markets have been on a healthy bull run.

	Change YTD (%)	Change 1Y (%)
US	15.2	-0.9
Europe	11.6	-2.5
MSCI World	10.6	-4.3
Emerging Markets	0.0	-9.8
Japan	2.2	-10.4

Data as of 29/08/19

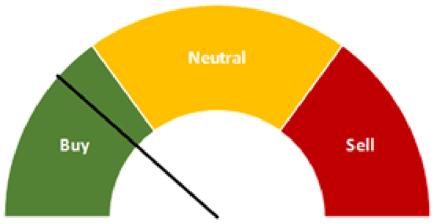
Technically, the picture is similar. The chart below shows the S&P 500 Index barely at the same level than a year ago. The index has been stuck in a 2830-2950 trading range for the past month. A successful break of this range either way is likely to determine the direction of equity markets into year-end.

S&P 500 Index (Daily)

Part of MAM's perceived underperformance in 2019 is based on our cautious positioning in equity markets with exposure to tail-risk funds (Io Macro/MAM Absolute Return Certificate) and hedging activity in May. Based on the above we will adapt our equity positioning view over the coming weeks.

A key area of research has been in finding ways to better "call" the short and medium-term direction of equity markets. In the publication dated 01/08/2019, we provided an updated on the MAM Bull & Bear Indicator. At the time the indicator was at 4.5 (using a 0-10 range) which is Neutral. Today, with the consolidation in equity markets and relatively low market positioning, the indicator is at 3. This is a level which historically corresponds to market bottoms (barred any significant market crisis).

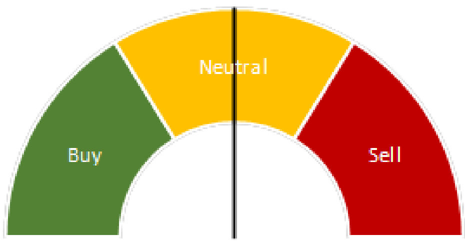
MAM Bull & Bear Indicator:



Latest: 2.3	1 W Ago: 3.0	1 M Ago: 4.5	1 Q Ago: 3.8	1 Y Ago: 5.0

In addition, we developed a shorter-term timing model to take advantage of market movements in a much shorter timeframe. This indicator is mostly based on volatility, short-term market technical and option positioning. The current reading of the signal of 5 (using a 0-10 range) suggests that the market is neither oversold nor overbought on a shorter timeframe.

MAM Bull & Bear Indicator:



Latest: 5.00	1 D Ago: 5.00	3 D Ago: 4.75	1 W Ago: 4.75	1 M Ago: 4.50

It is the combination of these two models that we intend to use to improve our decision to partially hedge (or not) equity market exposure. This is the result of our relentless mission to develop tools that take out our emotions from decision making. Selling futures to hedge a portfolio combining these two models has generated an annual return of c. 3% since 2005. Our aim here is to continue to improve our capacity to call market tops, short and medium term, to hedge portfolios more efficiently and ahead of the crowd.

This combined model, also comforts us in our view that equity markets have upside potential in the medium-term.

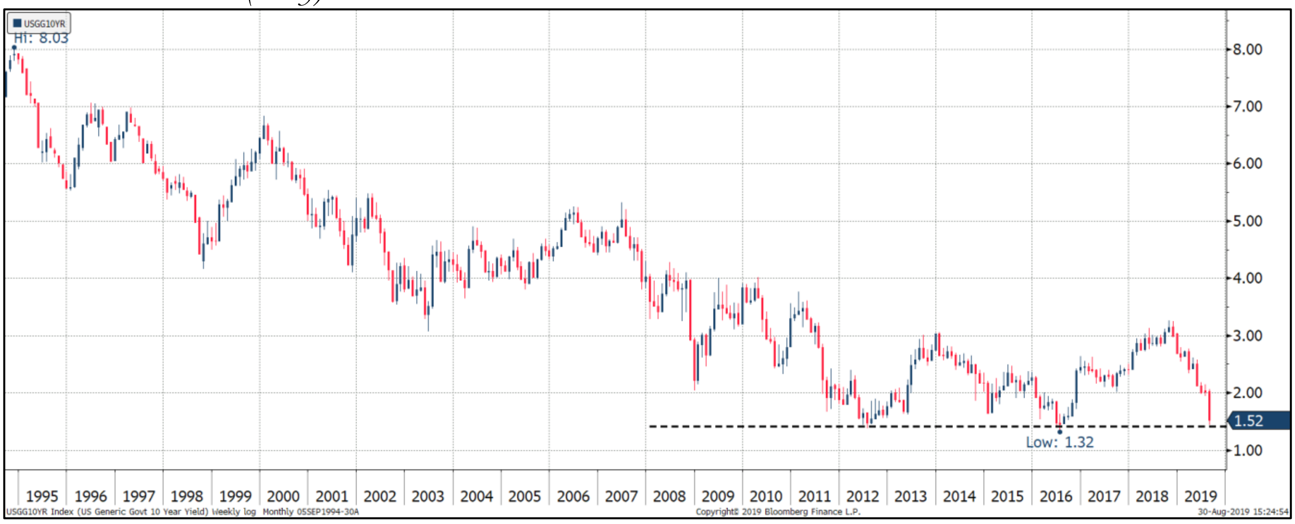
Fixed Income: Remain Underweight

We have been negative on corporate credit for some time and it paid off in 2018 as credit lost value across the board. Admittedly, we missed the stealth relief rally in bonds in H1 2019. The Global aggregate bond index is +7.5% YTD. This is mostly driven by falling government bond yields. Credit spreads, as shown in the chart below are still 75bps higher than 1-year ago. This is consistent with the message from the yield curve and economic data generally that the global economy has slowed down substantially.

US Credit Spreads (Daily)

With the current direction of credit spreads, we see no reason to dramatically change our overall cautious stance. Rising leverage and poor value remain the key themes across US and European credit. In addition, we believe that US sovereign yields will reverse their recent sell-off over the coming months. Indeed, US 10-year bond yields are clearly finding support around 1.4% as the chart below suggests. Our base case scenario is for US 10-year bond yields to rise back towards 2% before year-end. We would only consider a position in quality US investment grade issuers. Within credit, we continue to prefer Emerging Market local currency debt and alternative funds.

US 10Y Bond Yields (Daily)



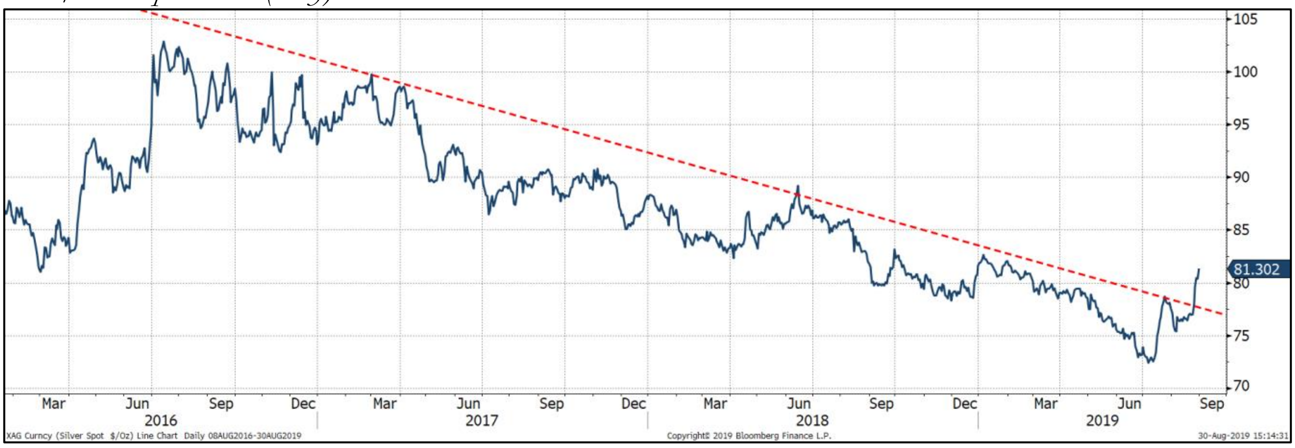
Commodities: Taking Profits on Gold

Commodities is an asset class in which MAM has had a positive track record recently. Admittedly we were slightly early, but we did call the bottom in gold in Q4 2018. We have been advocating a 7% allocation to commodities and in particular precious metals for the past year. Since then, gold prices have rallied +29% despite the headwind of a strong USD. Spot gold prices are approaching our target of US$1,600/oz. Considering the elevated positioning in the market. We believe gold could enter a period of consolidation before resuming its uptrend.

Gold Prices (Daily)

As we intend to keep commodity exposure constant, we looked for laggard plays likely to catch up on gold's strong performance. An obvious candidate is silver. Silver tends to outperform gold in a late stage of a precious metal rally as market participants look for substitutes. The following chart shows silver is starting to outperform gold. Historically, such a breakout has tended to last a couple of months. We believe we are in the first innings of silver outperforming gold prices.

Silver/Gold Spot Prices (daily)



As a result of the above, we are advocating a sale of 50% of the Long position in gold and use the cash raised to buy exposure to silver.

The other investment we have been advocating for some time in commodities is the "iPath Bloomberg Commodity Index ETF". This ETF is diversified basket of commodities. Its performance is flat YTD. Despite the strong performance in precious metals and energy, the sell-off in agriculture prices has reduced the overall performance of the ETF. We strongly believe that agriculture prices are close to a bottom based on 1) general supply scarcity 2) higher frequency of extreme weather 3) relentless demand from emerging markets. As such, we would use dips in this ETF to add to the position.

iPath Bloomberg Commodity ETF (Daily)

Investment Implications

As a summary, we believe that equity markets have displayed a subdued performance over the last year. We are broadly positive on a medium-term basis. We will adapt equity exposure in portfolios depending on the direction of the equity market breakout over the coming weeks. In fixed income, we are remain cautious based on poor overall value. No changes to our allocation in the near-term. In commodities, we are taking some profit on gold positions and re-investing the proceeds in silver, the precious metal laggard play of choice.

As usual, please let us know if you have any questions.

Kind regards,
MAM Investment Team