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GLOBAL ASSET MANAGEMENT

European Equities are in a consolidation phase right now

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NASDAQ indices are at record highs, but 2018 seems to be characterized by persistent volatility in the stock markets. What does this mean?

The US market has been strong , driven by tax cuts and buybacks, whilst at the same time the FED have been raising rates. Obviously we don't have those factors in Europe hence the struggles the Euro markets have had, hanging on to the coat-tails of the US. This has left the valuation gap between the two at an all-time high.

What is your view on European equities? Can you also tell us something about Italy market?

European Equities are in a consolidation phase right now. The positive economic growth generated by the recovery is beginning to fade and the economy will settle back to a more sedate growth rate of around 1.5%. European PMI's have been weakening all year and we are expecting some earnings weakness in the Industrial sectors. Banks are also coming under pressure as Net Interest margins are begging to fall, whilst volume growth of lending is at best 3%. The banks reluctance to expand lending is one of the factors that is restricting the potential growth rate.

Italy has provided this year's first major shock, or could it be opportunity? The bond market was shaken by the formation of a new government which it had not considered possible....and further worried by the prospect of aggressive fiscal loosening. As a result, the banking sector fell heavily. We think that Italy has one last chance to stimulate growth, after all the ECB's loose monetary policy has failed. A large fiscal programme, if well directed at personal tax cuts and rises in minimum wages could pay for itself and more over three years. There are many risks but this looks like the last path left. If this doesn't work then the inevitable bailout and austerity program from the EU, ECB and IMF will surely happen in the next recession.

Volatility is not only a risk, but also an opportunity, since it leaves more room for active management. What approaches and strategies allow to better manage this market phase?

Volatility is always a dangerous friend ! But every year there are two or three opportunities when the market becomes very over bought or oversold. We saw one such moment at the end of January and responded by reducing our net exposure by 25%. We reduced further in March and May As the economic and earnings outlook has softened. We expect at some stage during the next few months that the markets will become oversold and give us the opportunity to buy again at cheap prices.

Can you briefly present us what are the main features and benefits of L/S strategies? How do investors have to approach these strategies?

The great opportunity of running a long short fund is it allows us to make investors' money by identifying negative and positive trends in stocks, sectors and the economy. We are able to reduce exposure and protect the value of our investors' money. This is exactly what we have done this year and yet we are returning 3% , YTD.

What are sectors/stocks where manager consider as investment opportunities? Where is the fund overweighted and underweighted?

As we move from the early cycle phase to the mid cycle phase, the sectors that will perform best change. Gone are the banks and industrials which are now providing short opportunities as margins come under pressure and monetary tightening begins. In come growth stocks, those with product and pricing power, who can generate significant cash flows and re-invest them in organic or acquisition led growth. The pace of structural change is accelerating for retail, media, banking. Autos (electric cars) and health provision. Radically new cost structures and delivery systems are both opportunity and risk for others. As a short find we are able to benefit from both winners and losers.

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