MORA WEALTH MANAGEMENT

Investment Policy

April 2019

- **Macroeconomic data continue to show signs of a global rebound** in economic activity. This is being **supported by two pillars**: (1) The **US consumer** who feels assured by a very strong labor market and moderate wages increases; and (2) The renewed **fiscal and monetary stimulus in China**, which is helping to stabilize the manufacturing sector. The **troubling spot remains Europe**, and in particular the export-oriented sector economies, which could be adversely affected by a substitution of Chinese imports as a result of a trade agreement between China and the United States

- Despite the improvement in macroeconomic indicators, **bond yields have continued to decline**. This may suggest that the bond markets are not convinced about the sustainability of the recovery. However, interest rates have been declining for several decades, and **current levels do not necessarily imply that the bond markets are pricing in a recession**. In fact, **credit spreads have narrowed** to levels similar to those prevailing before the correction

- **Equity markets have also regained levels close to their recent peaks**, but earnings have increased significantly since then, and interest rates are significantly lower. This means that **investors are currently compensated by a very healthy risk premium**. If an economic slowdown does not materialize, the low interest rates combined with low inflation could make us return to the **"Goldilocks" environment** experienced in 2017

- In addition to macroeconomic data, the **evolution of corporate earnings will be decisive in the direction that markets take**. The market currently expects a significant deceleration of profits as a result of the "**base effect" caused by the tax reform in the US**. However, a sharp decline in profits may act as a turning point, outside the US

- **Corporate leverage will weigh on earnings growth** for US companies, but a **weaker dollar could benefit them**. We currently see a very **asymmetric outlook for the US dollar**, as both interest rate and growth differentials will stabilize at current levels, and any positive surprise of growth outside the US will weigh on the dollar

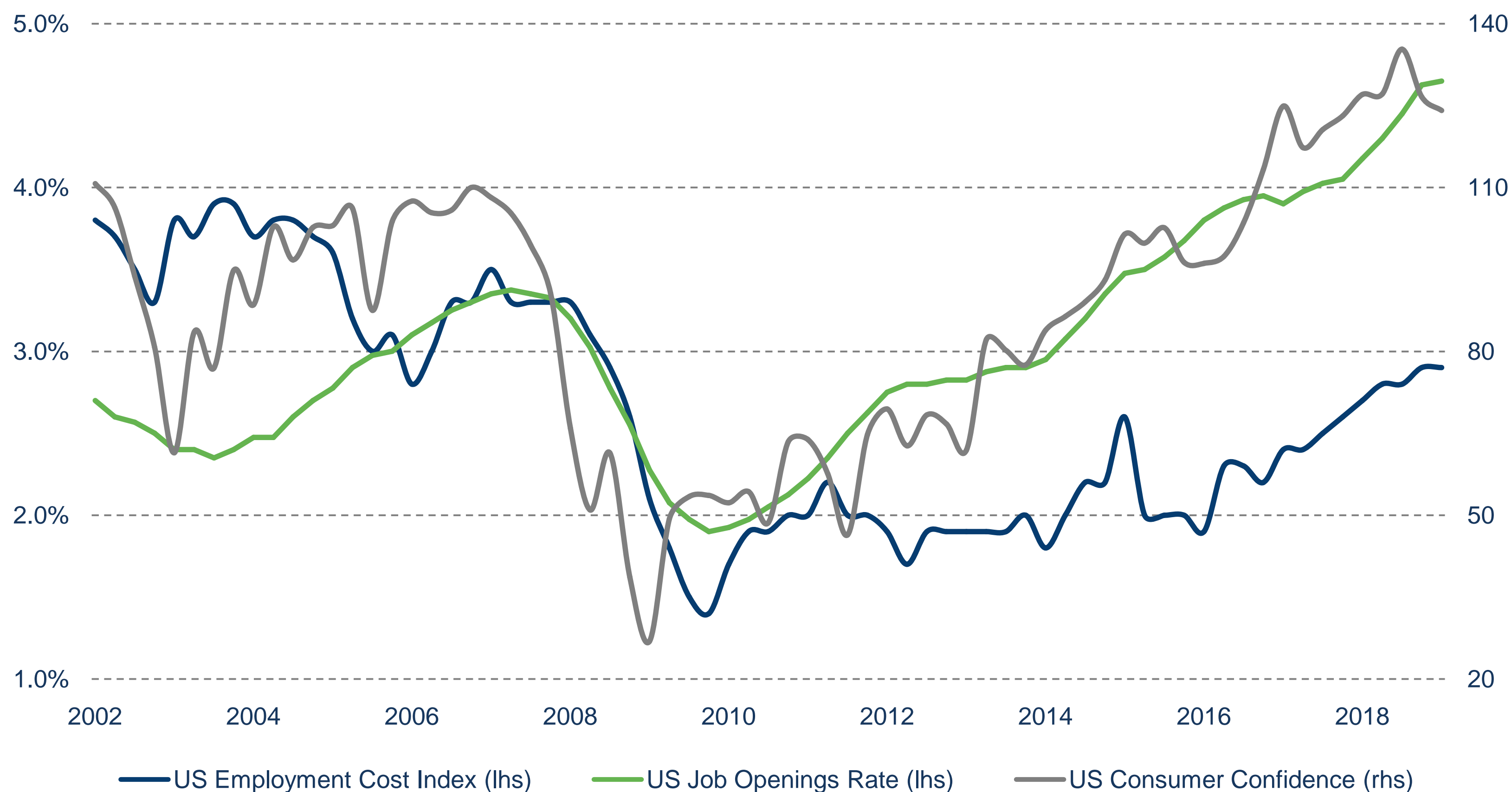
MWM Investment Policy

MORA WEALTH MANAGEMENT

Asset Class		View	Rationale
Fixed Income	US Treasuries	+	Treasuries offer protection from a slowdown in growth, but we believe that current long-term yields are unattractive, preferring shorter maturities
	US Credit	+	Corporate debt and High Yield currently offer the best combination of risk and return. We prefer medium maturities as the yield curve has flattened considerably and there is little term premium to compensate for taking interest rate risk
	European Sovereign	–	High quality debt in Euros presents a very unattractive combination of risk and return as current yields offer very little cushion to weather potential interest rates increases
	European Credit	=	In European credit we only see value in subordinated debt, asset-backed securities and short-duration high yield
	Emerging Markets	=	Emerging Markets currencies and spreads have adjusted significantly to a stronger dollar and the uncertainties around global growth. With the Fed signaling being closer to the neutral rate, we deem current levels to offer fair value
Equities	US	+	After the recent market corrections and the increase in corporate earnings, valuations have improved. We have therefore increased our exposure to US equities, mostly through quality and growth oriented companies
	Europe	=	From a relative valuation perspective, we like European stocks as they trade at lower multiples, and we expect profits to pick up as economic activity accelerates
	Japan	=	Japanese stocks are the cheapest in developed markets, but have suffered recently due to sluggish growth, and concerns about global trade
	Emerging Markets	+	Emerging markets have corrected sharply since the beginning of the year affected by a strong dollar and trade concerns. We deem the correction suffered has been excessive, and continue favoring India, Frontier Markets and Brazil within EM
	Sectors & Themes	+	Amongst others, we favor Biotechnology and listed Real Estate
Alternative Investments	Multi-Strategy Hedge Funds	–	Multi-strategy / multi-manager hedge funds with daily liquidity are having a disappointing performance, particularly when compared with other less risky alternatives, like short-term corporate bonds
	Commodities	=	A diversified commodities allocations, further help us to increase diversification and to protect the portfolios against a scenario of rising inflation
	Private Equity	=	Investing in late-stage private equity provides access to the asset class with liquidity provision up to a certain degree

\+ Overweight – Underweight = Neutral

Robust consumption underpins the US economy

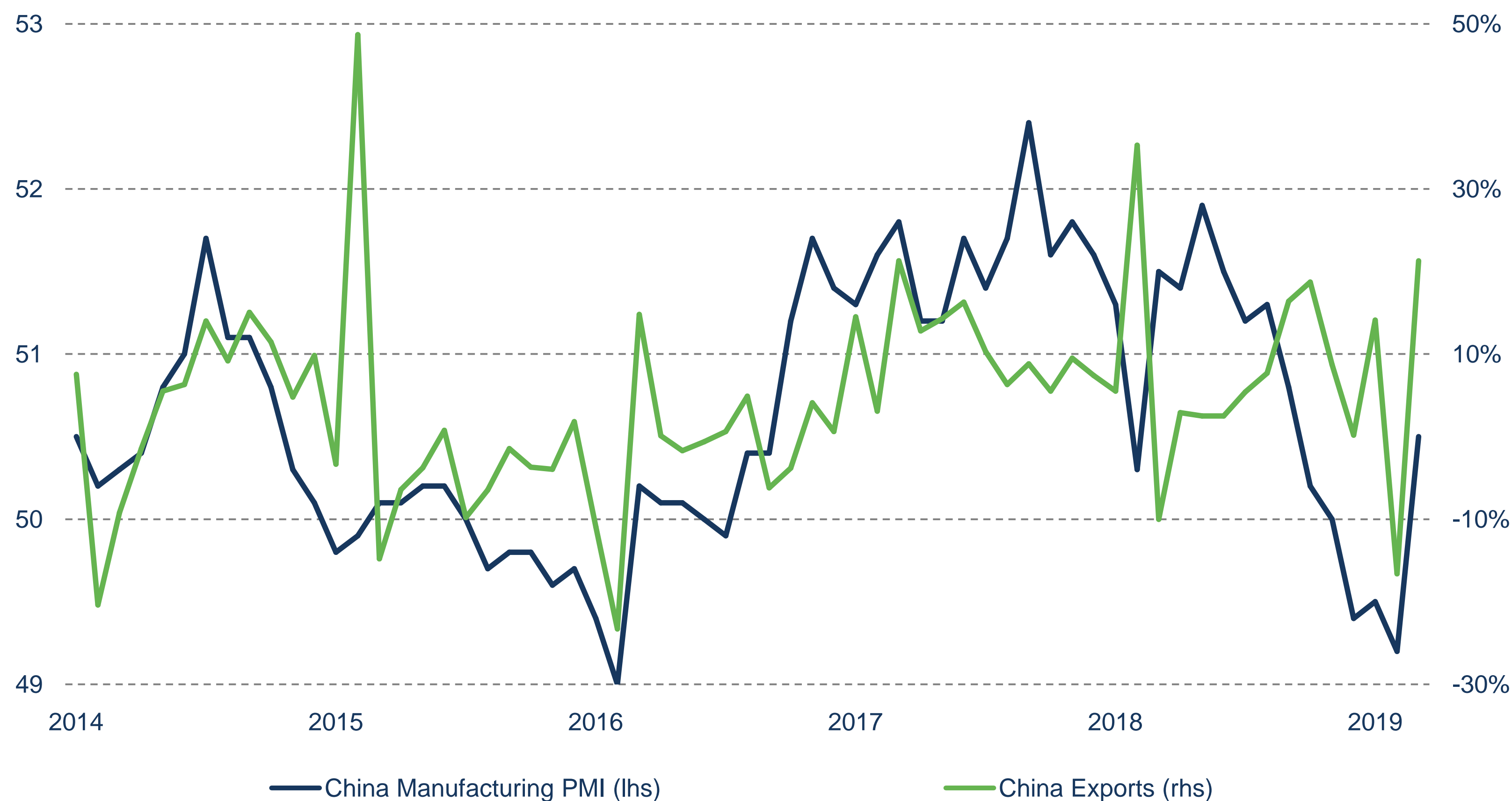


- The **labor market goes from strength to strength**, showing no signs of weakness, providing **support to the US consumer**, the main pillar of the US economy
- Labor supply tightness **does not translate into significant wage growth**, which could be interpreted as if the employees had **"adapted their expectations"**, as a result of the changes in employability brought about by globalization and digitalization

Source: Bloomberg

China stimulus (III) acts as a second pillar

MORA WEALTH MANAGEMENT

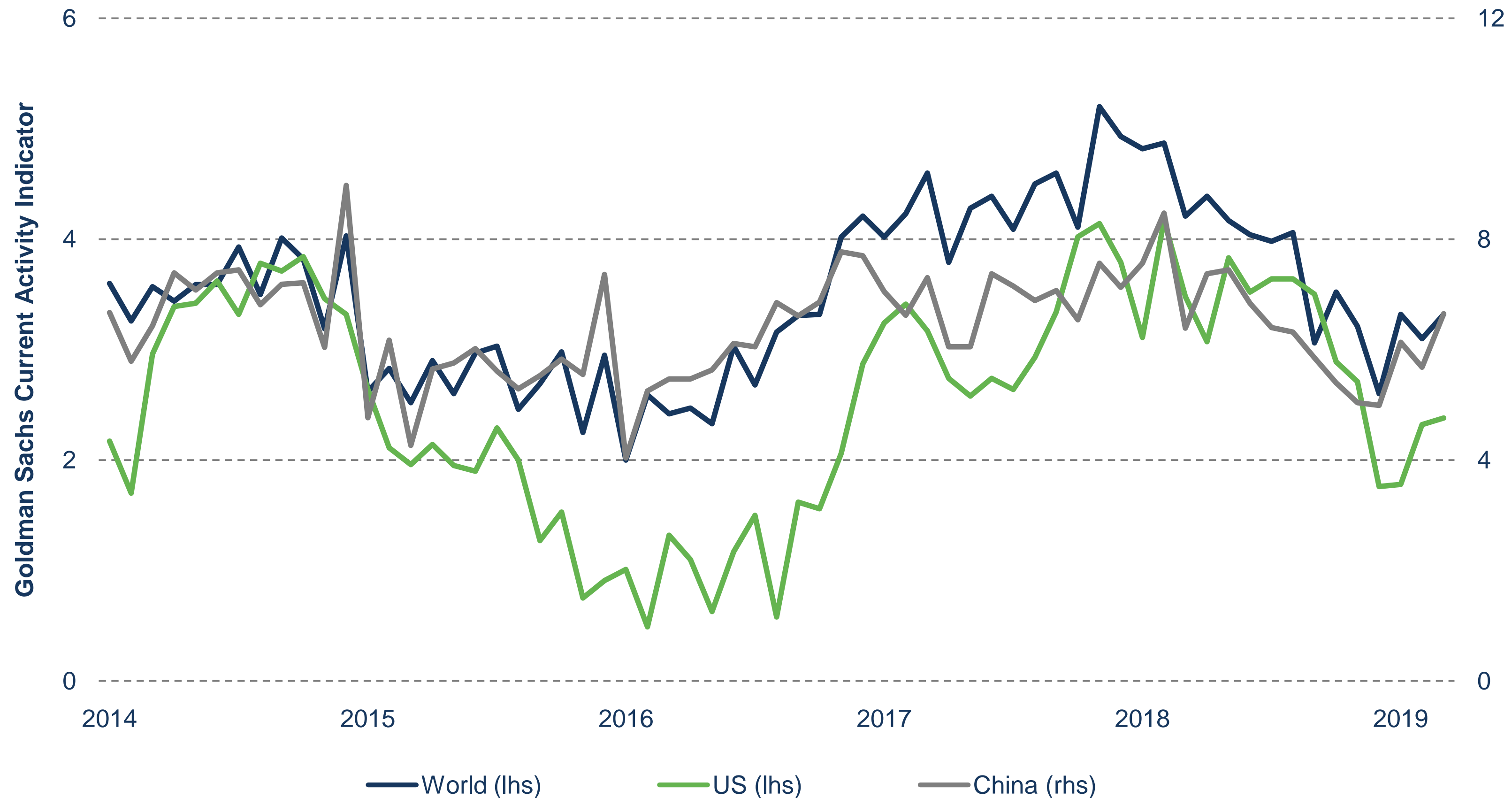


- Chinese decisive – yet more targeted – **monetary and fiscal stimulus begins to bear fruit**, as manufacturing and exports bounced from their lows at the end of 2018
- The less bright side of this recovery is that **it does not address the imbalances of the Chinese economy**, although the change in **momentum has also been felt in the non-manufacturing sector**

Source: Bloomberg

Back to synchronized global growth?

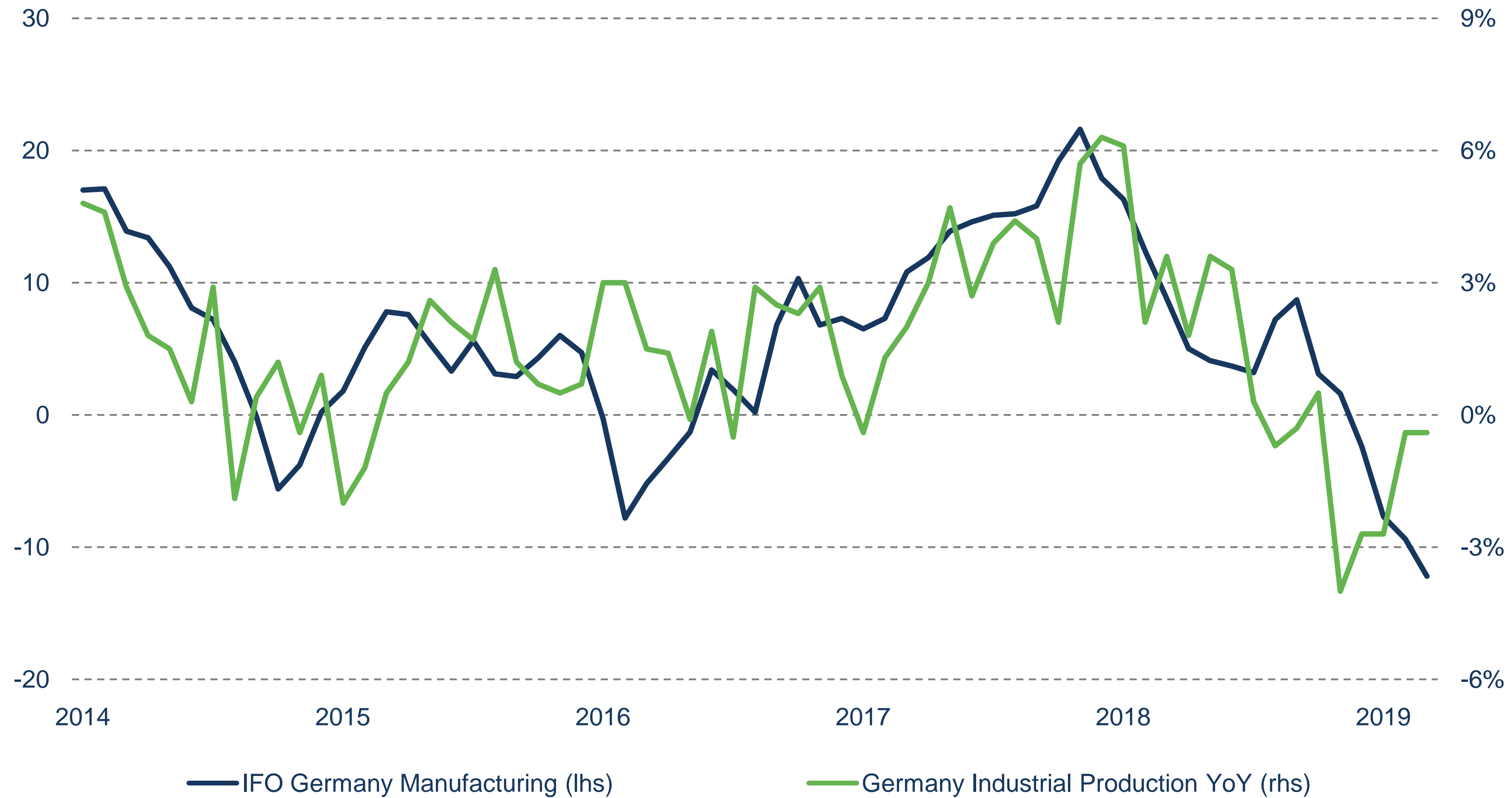
MORA WEALTH MANAGEMENT



- The indicators of current activity show what we believe can be a **turning point**, which would be the third in the current cycle, after the slowdowns of 2011-12 and 2015-16
- It may not be long before we begin to hear about **synchronized global growth** again; and with inflation contained, the **return of the "Goldilocks"** period experienced in 2017

Source: Bloomberg

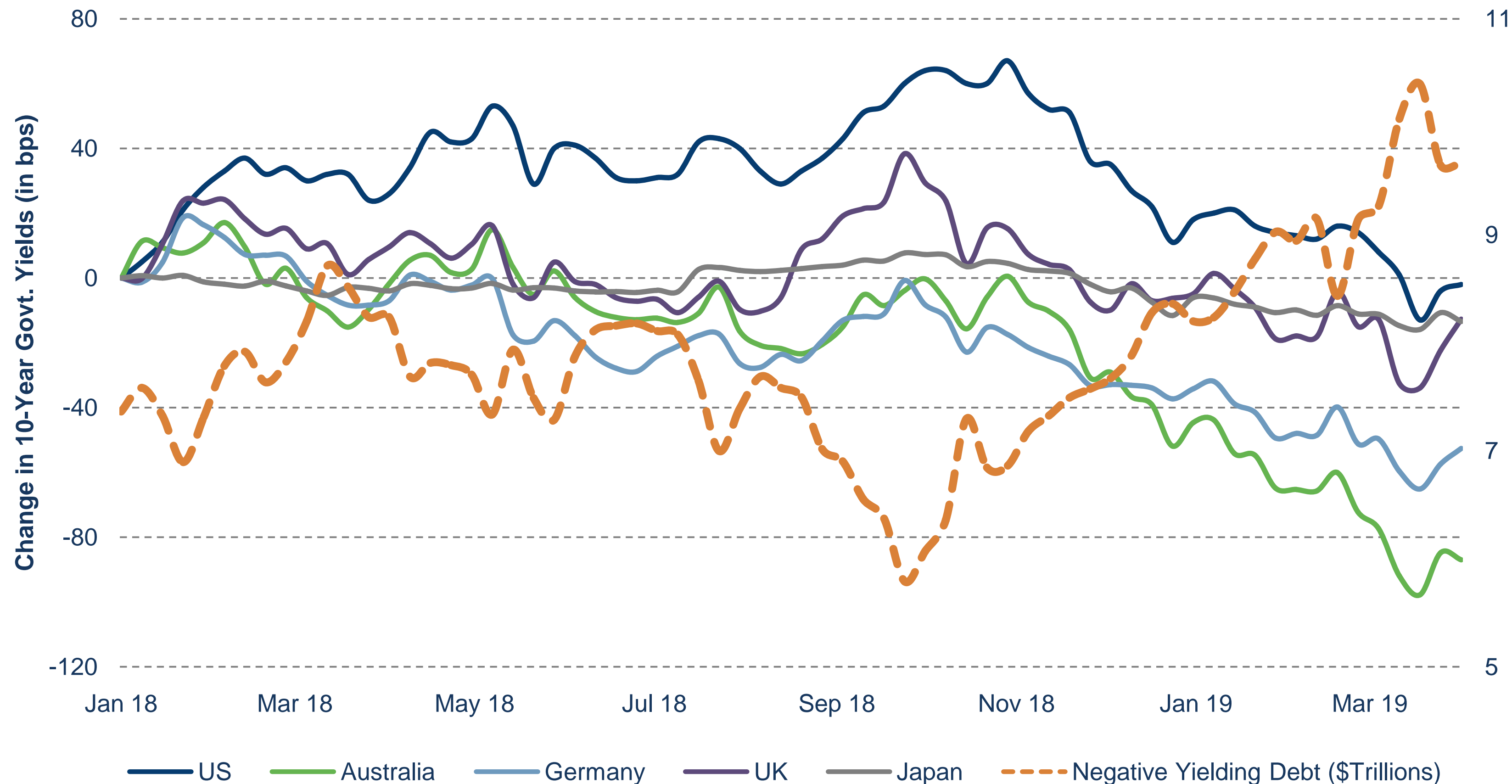
Europe remains the “Achilles heel”



- **Europe**, which has replaced Japan as the sick man of the planet, remains the **weaker spot** in the global economy
- **Germany is particularly vulnerable** to the resolution of the trade war, since part of the latter may imply a **substitution of Chinese imports** from Europe, for American products

Source: Bloomberg

Bond markets remain unconvinced

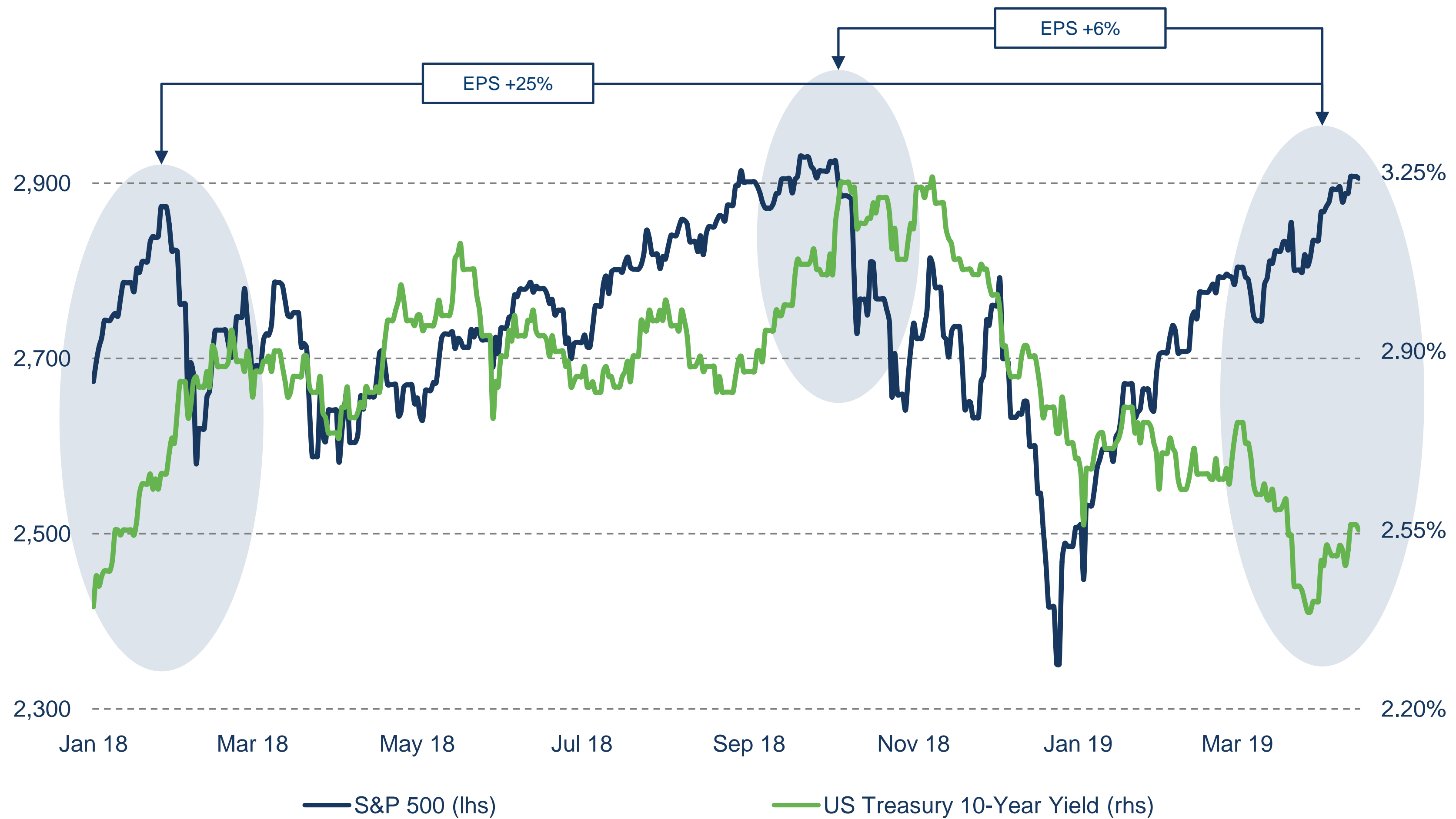


- Despite the improvement in macroeconomic indicators, **bond yields have continued to decline**, with a large part of the market again offering negative returns
- One interpretation is that the bond markets discount a **high probability of recession** in the coming years. However, this is **not reflected in credit spreads**, which have narrowed to levels similar to those prevailing before the correction

Source: Bloomberg

Either equities or bonds should reprice

MORA WEALTH MANAGEMENT

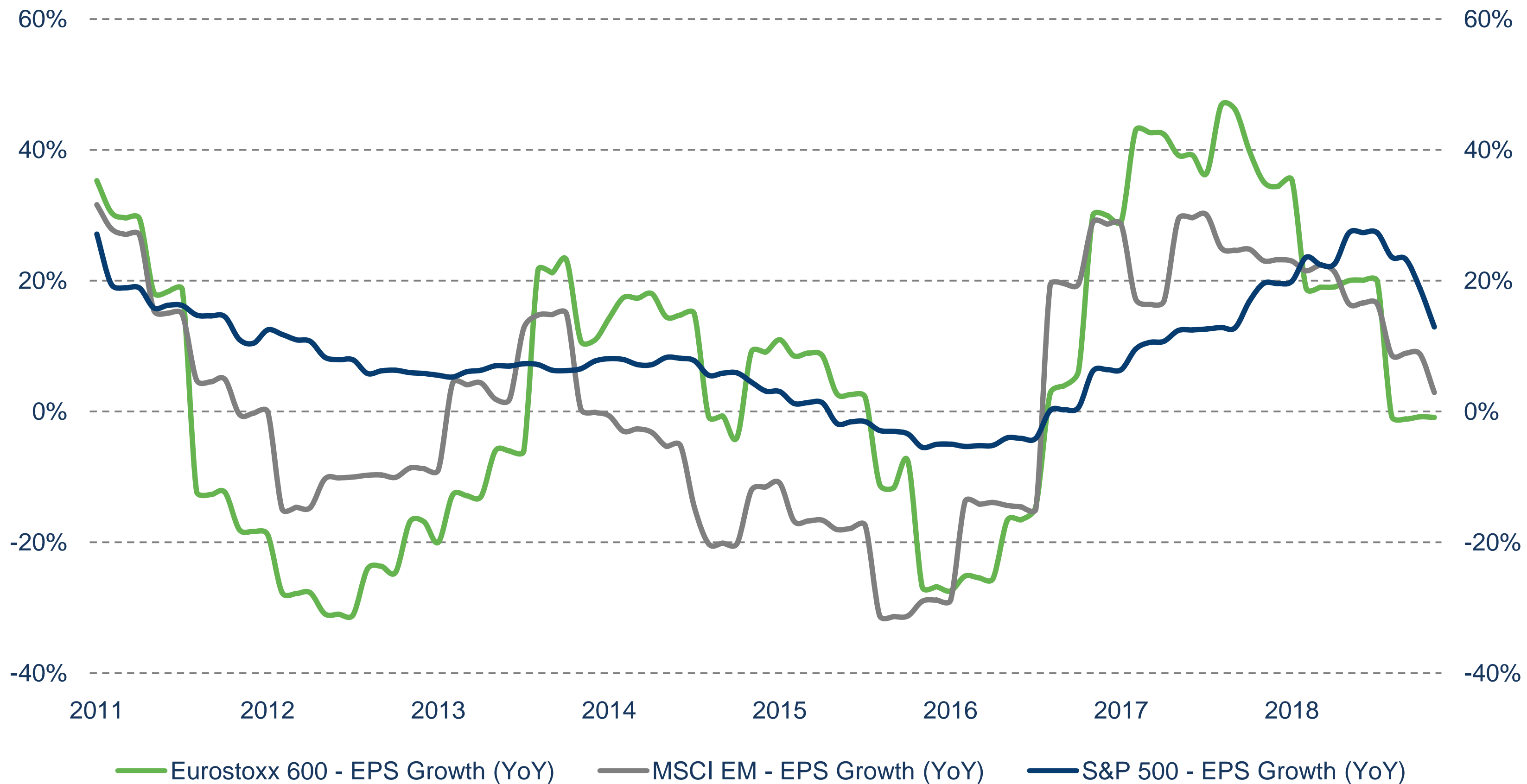


- Bearing in mind that corporate profits grew at an average of +6% during the last quarter of 2018, and that US Treasury yields decreased by 70 bps during the same period, **current multiples offer room for further expansion**
- The **reporting session** which is starting now, will provide investors with more clues of whether current valuations are cheap or expensive

Source: Bloomberg

Earnings will determine where the balance falls

MORA WEALTH MANAGEMENT

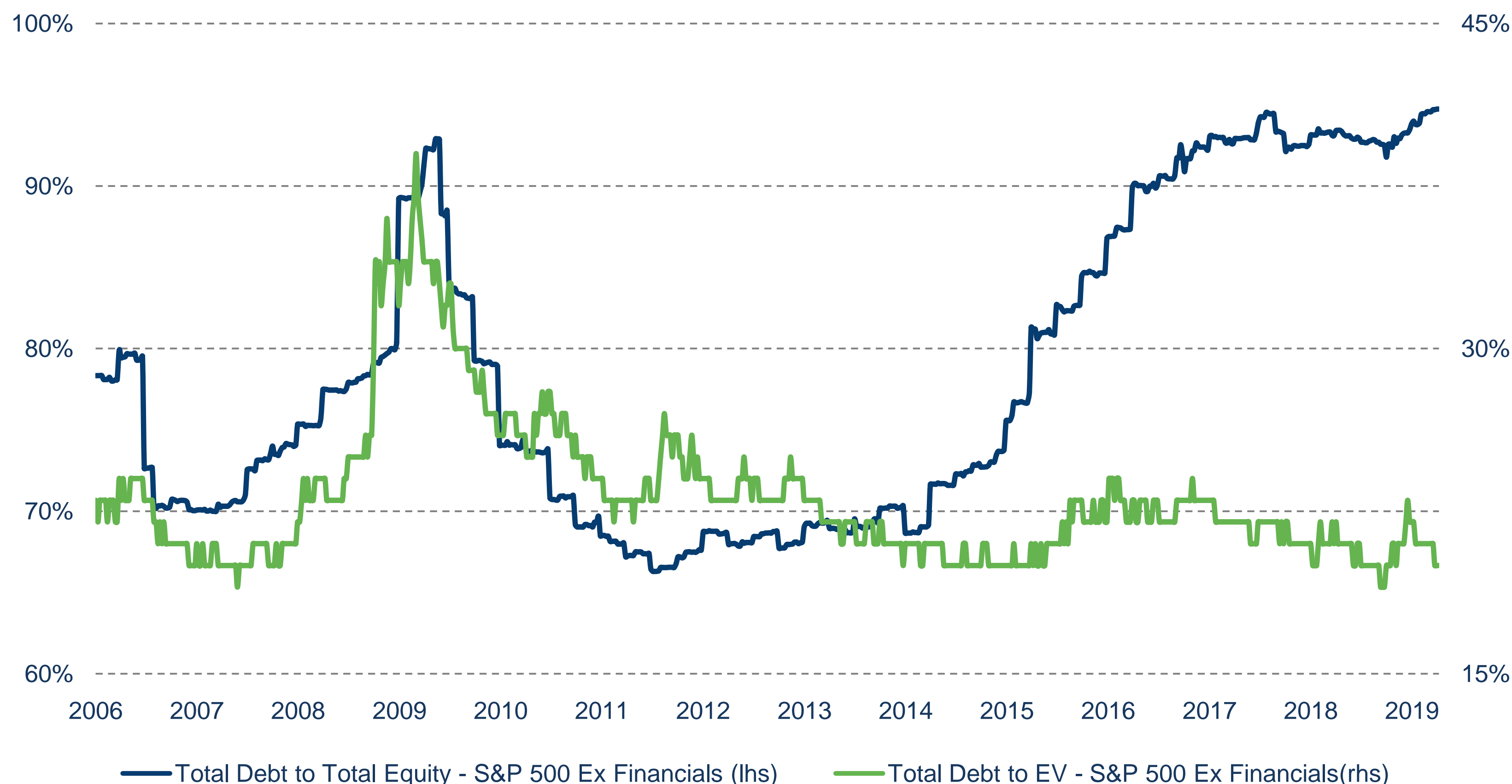


- **Analysts estimates** for the first quarter point to an increase in earnings of around 9% (YoY) for the S&P 500. Should earnings miss by a couple of percentage points, the market will probably digest it well, as we are still **adjusting from the earnings boost brought by the tax reform**
- In those other parts of the world were earnings had started to decline earlier, any disappointment may cause the current **valuation breach** with the US to increase

Source: Bloomberg

Share buybacks cannot support equities forever

MORA WEALTH MANAGEMENT

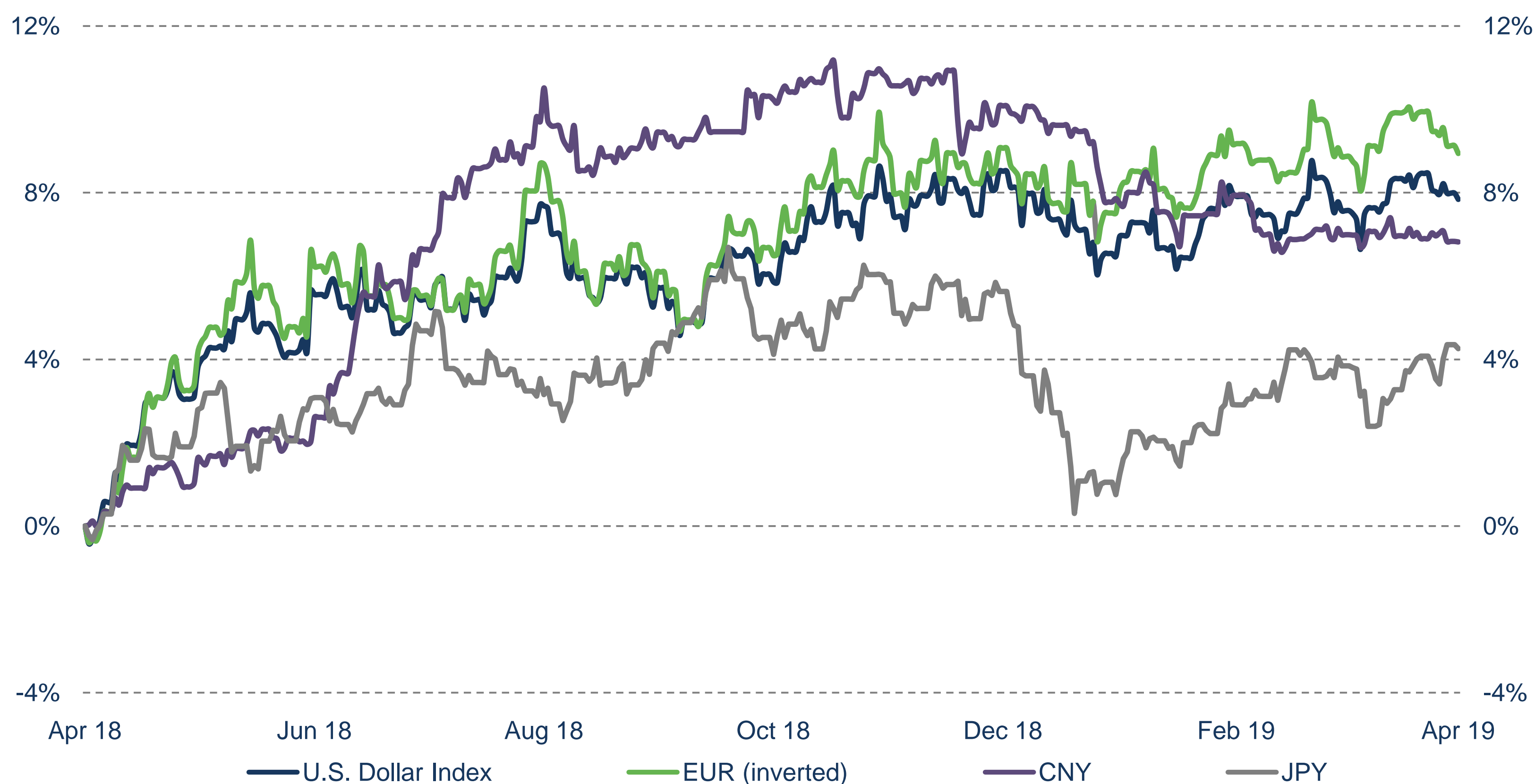


- Another factor that will **weigh on EPS growth** is that, in the recent years **companies have leveraged up their balance sheets** to **finance share buybacks and stock dividends**
- Although **we are not worried about debt levels in the corporate sector**, since companies have simply optimized their balance sheets, adjusting them to an environment of lower interest rates, **leverage expansion cannot continue forever**

Source: Bloomberg

Asymmetric outlook for the US dollar

MORA WEALTH MANAGEMENT

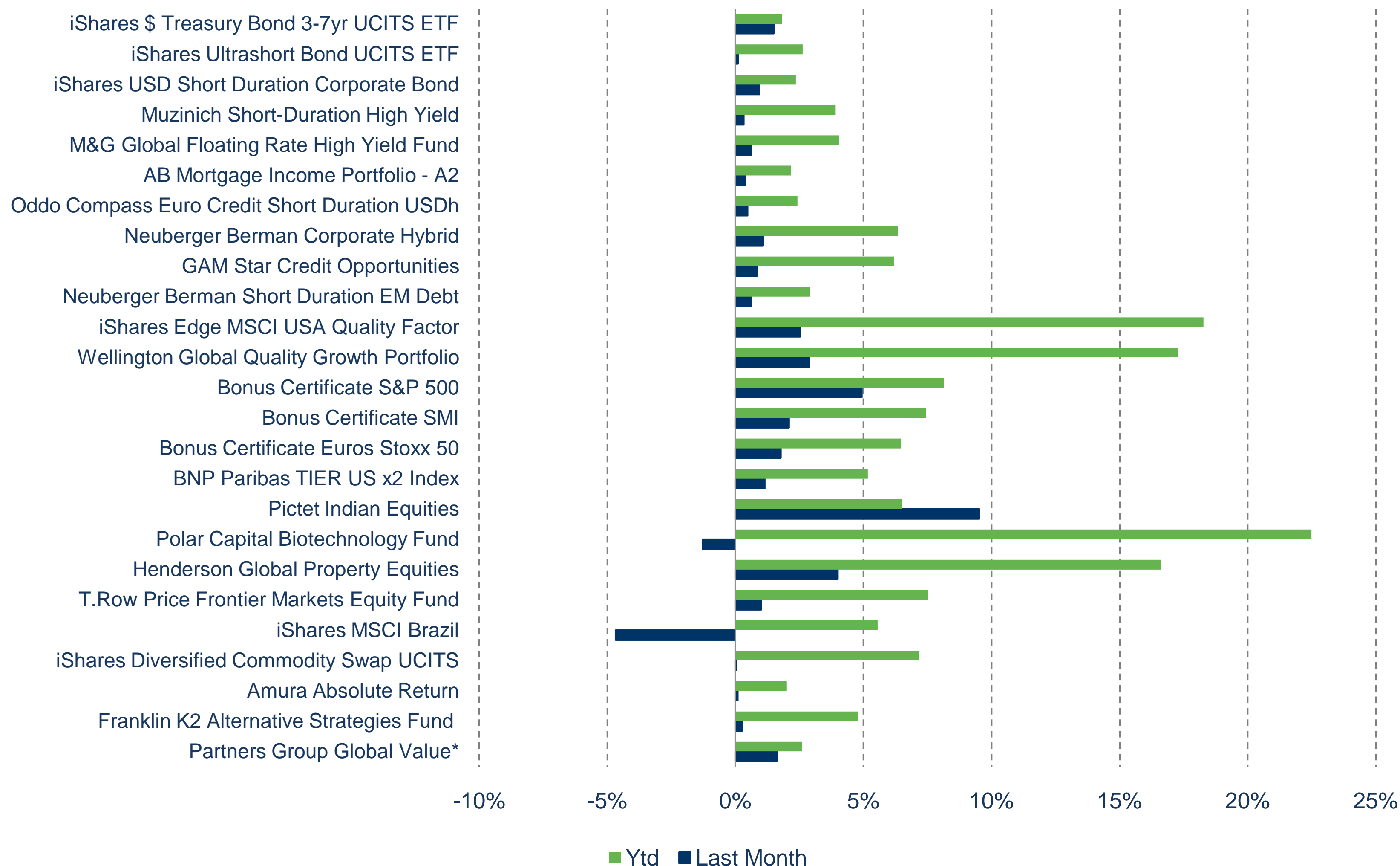


- The steady appreciation of the US dollar over the last year will probably not last, as **growth and interest rate differentials will stabilize at current levels**. This will remove a headwind for US corporate earnings
- In this respect, a return to an environment of **synchronized global growth** would cause other main currencies – particularly the Euro – to **appreciate against the US dollar**

Source: Bloomberg

Model portfolio evolution

MORA WEALTH MANAGEMENT



Source: Bloomberg ,as of April 8, 2019

* Fund publishes monthly NAV with a 1 month of delay

Investment scenarios

MORA WEALTH MANAGEMENT

	Scenario 1 Recession by political/policy accident	Scenario 2 Goldilocks	Scenario 3 New regime
Drivers	• Global economic slowdown caused by political accidents or policy errors (Trade war with China, EU breakup, a too aggressive Fed, etc.) • Deflationary scenario due to a combination of low growth and structural factors, although the rise of protectionism would be inflationary • The Fed will have to reverse course, which would be complicated if inflation is rising	• The fiscal stimulus in the US provides a short-term impulse to the global economy, but not enough to attain a higher growth trajectory • Inflation, particularly in the US will pick-up, but remains subdued globally due to structural factors (demographics, low aggregated demand, deleveraging) • The Fed hold rates, or increase them only marginally	• Growth concerns dissipate, with economic activity accelerating in US, Europe and Japan • Inflation in the US increases, as a consequence of president Trump's fiscal stimulus, and pulls other developed economies off deflation • The Fed will have to step up the pace of rate increases and/or reduce balance sheet
Market impact	• Correction in credit due to a rise in defaults and a widening of corporate spreads • Correction in equities due to lower projected earnings, though declining rates will offer support • Sovereign and IG credit to profit due to flight to quality and the continuation of an ultra-loose monetary policy globally • USD neutral to weak as flight to quality is counterbalanced by low interest rates • Commodities will fall	• Equities appreciate moderately, with growth outperforming value • Credit spreads remain stable as the credit cycle is further elongated • Short-term sovereign and IG offer interesting yields with little risk • USD remains strong due to positive interest rate differentials, but upside is limited • Commodity prices will rise moderately, as prices remain still relatively depressed	• Impact on equities will depend on how much real economic growth is sustained, and how accommodative the Fed remains • Sovereign and IG bonds will face steep losses due to higher rates, particularly if long-term inflation expectations rise • Corporate credit will correct moderately if inflation comes together with higher growth • The USD will appreciate, particularly against those currencies facing deflation • Commodities will gain from higher inflation
Probability	35%	40%	25%

Short-term catalyzers

End of trade dispute, improvement in macro-data globally, lower geopolitical tensions

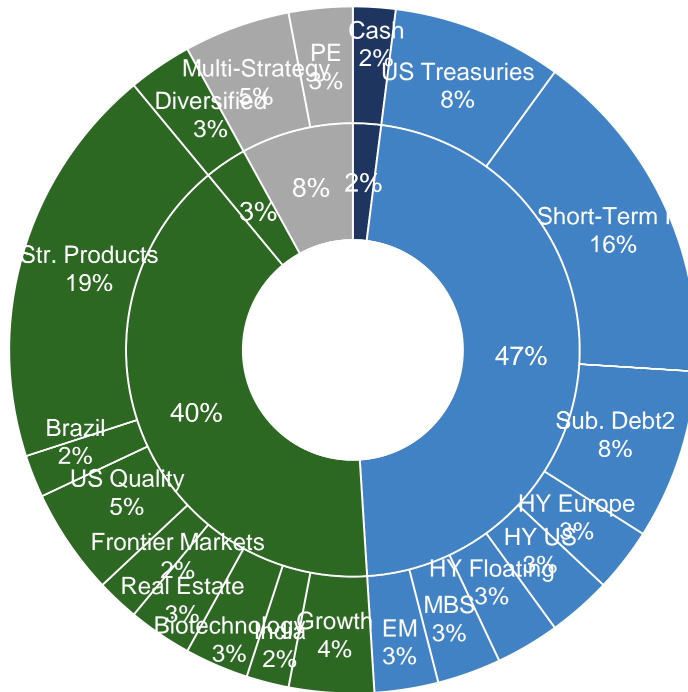
Other risks

Trade wars, EM crisis, Spread of populist political parties, China slowdown, Terrorism

MWM Model Portfolio Balanced USD

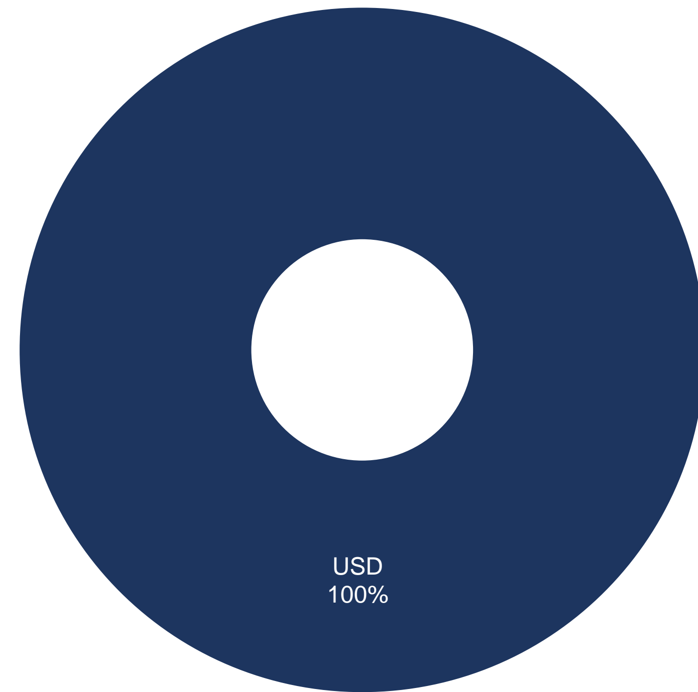
MORA WEALTH MANAGEMENT

Asset Allocation



■ Cash ■ Fixed Income ■ Equity ■ Commodities ■ Alternative Inv.

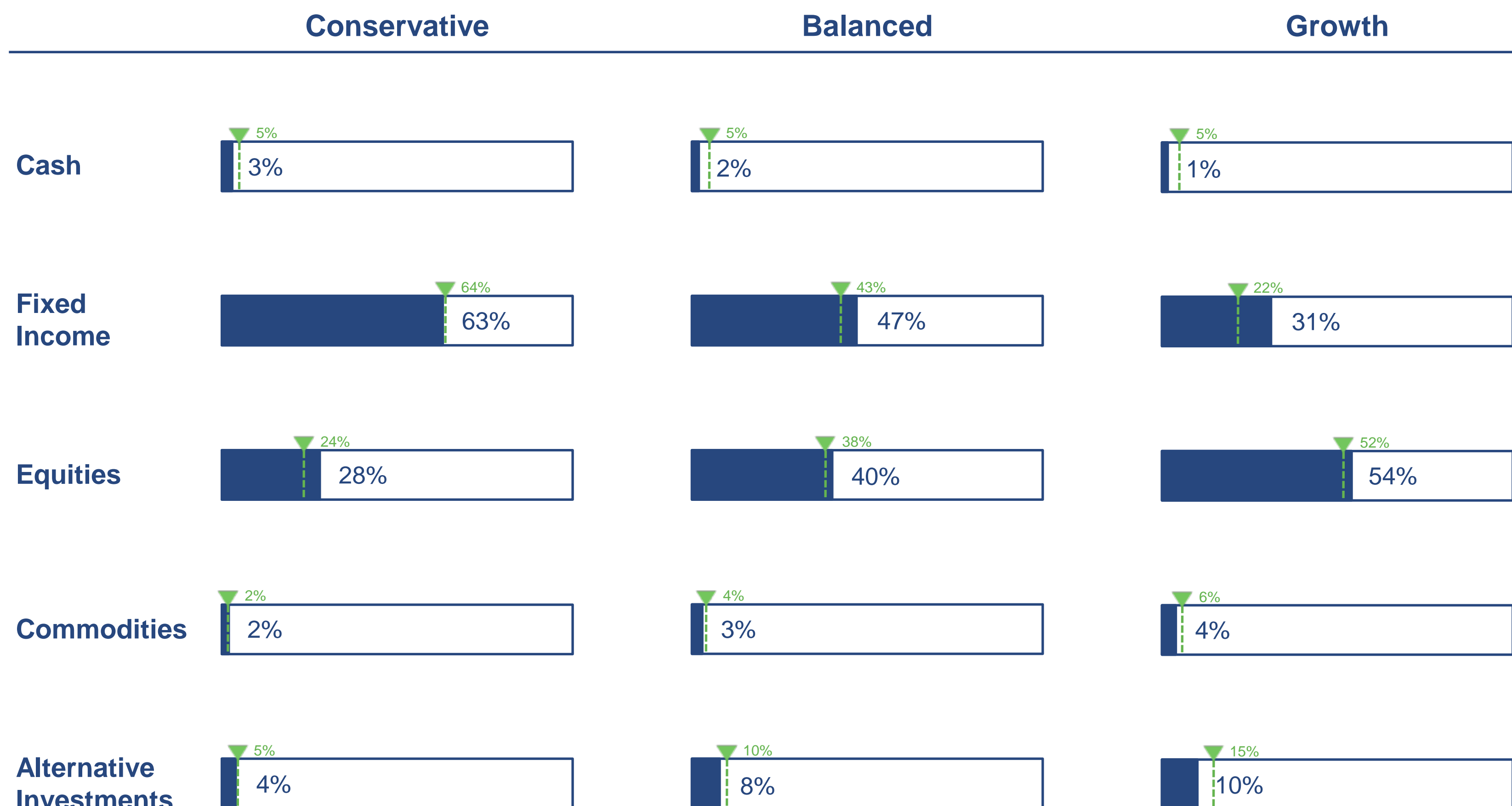
Currency Allocation



■ USD

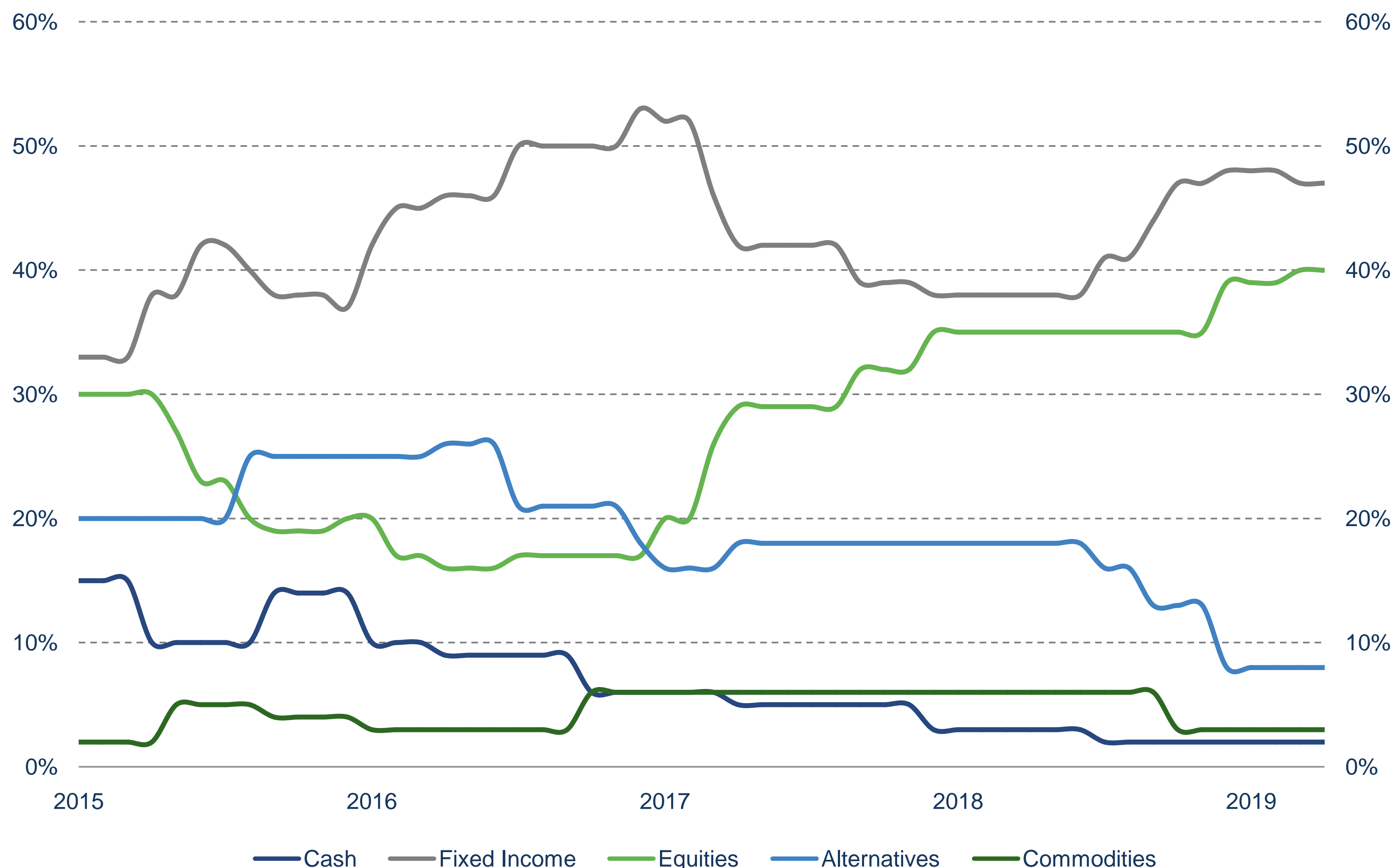
MWM Investment Profiles

MORA WEALTH MANAGEMENT



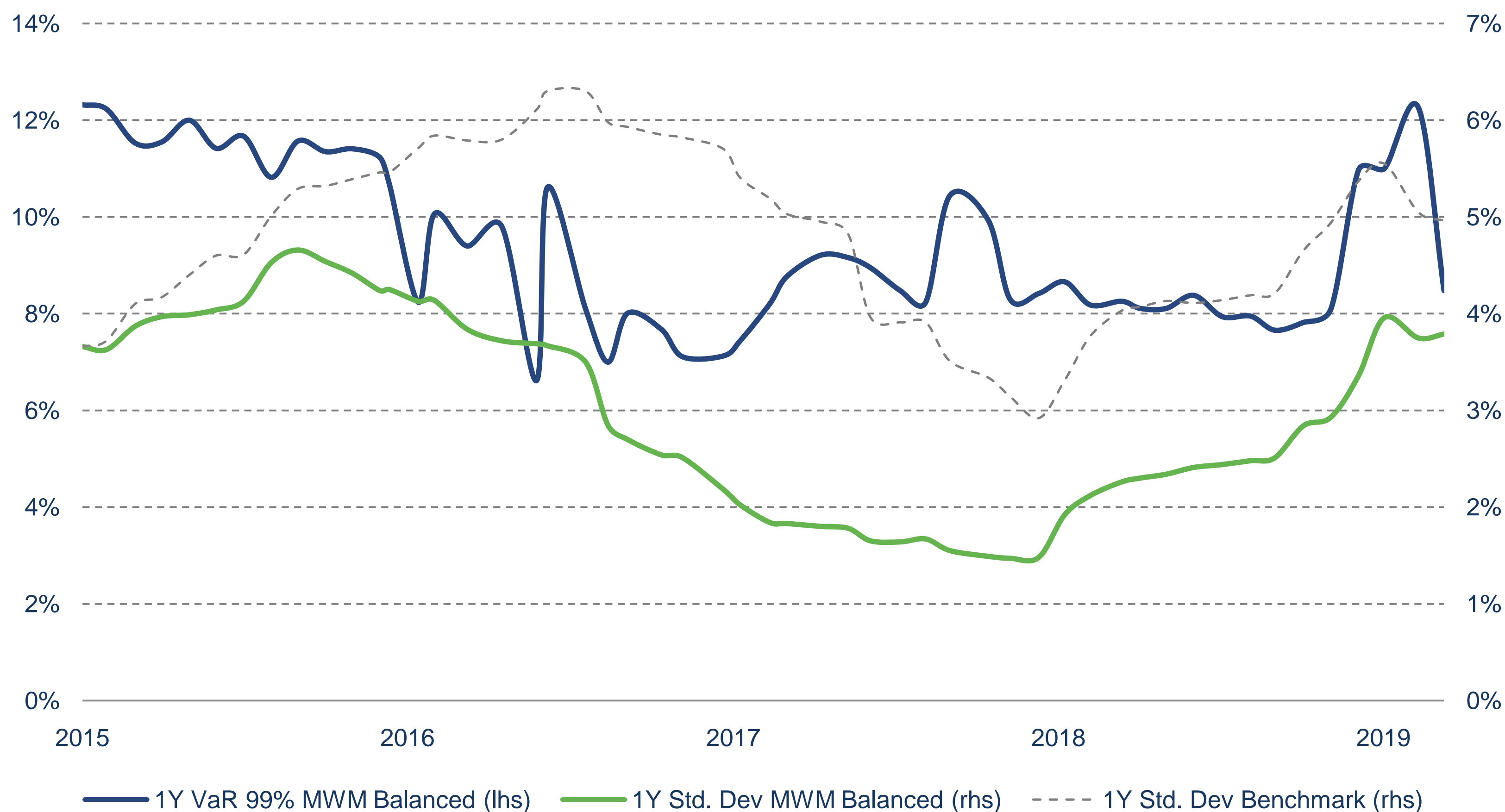
MWM Model Portfolio – Asset Allocation evolution

MORA WEALTH MANAGEMENT



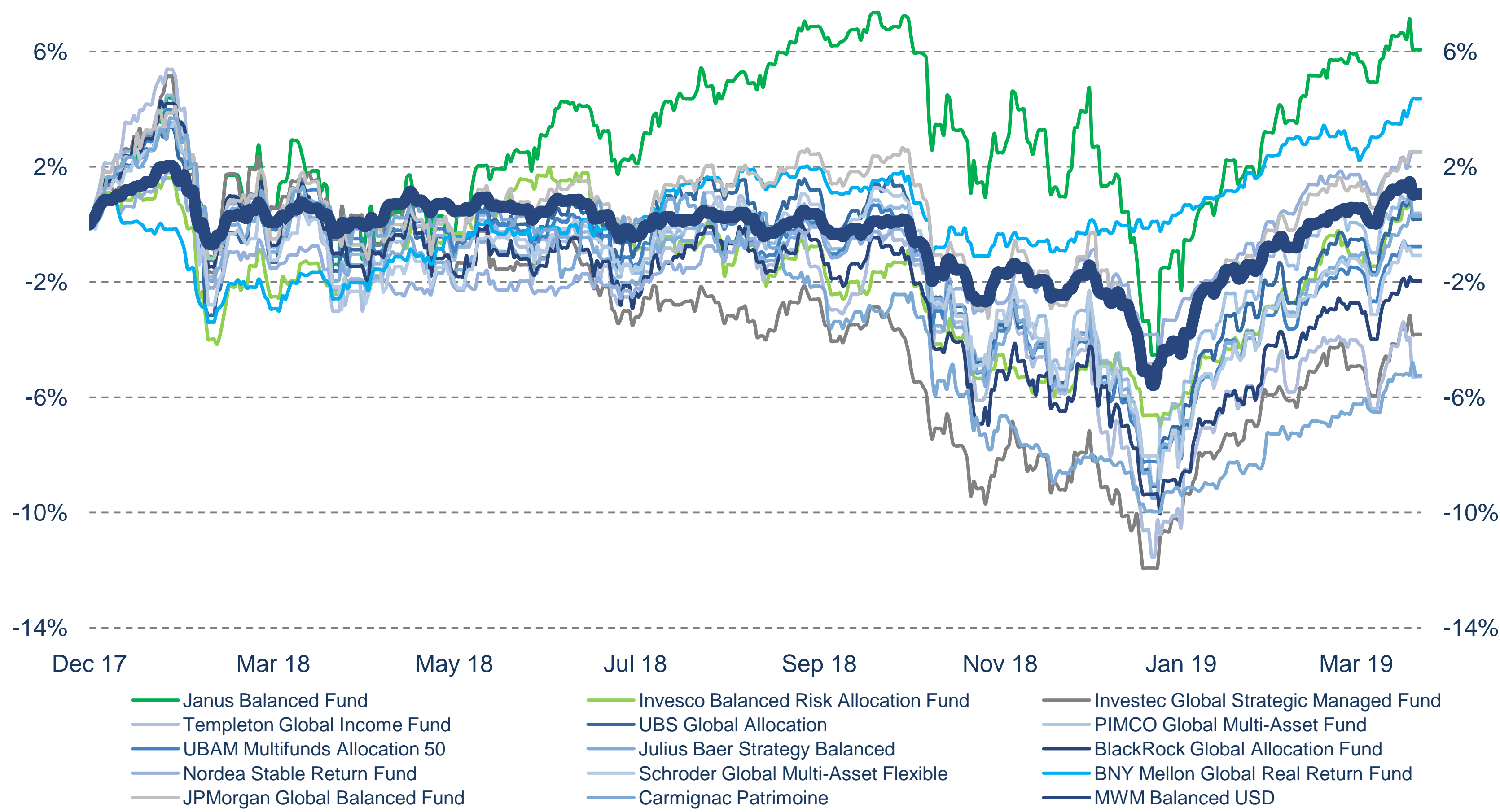
MWM Model Portfolio – VaR evolution

MORA WEALTH MANAGEMENT



[1] As of February 28, 2019
Source: Bloomberg

MWM Model Portfolio – Peer comparison

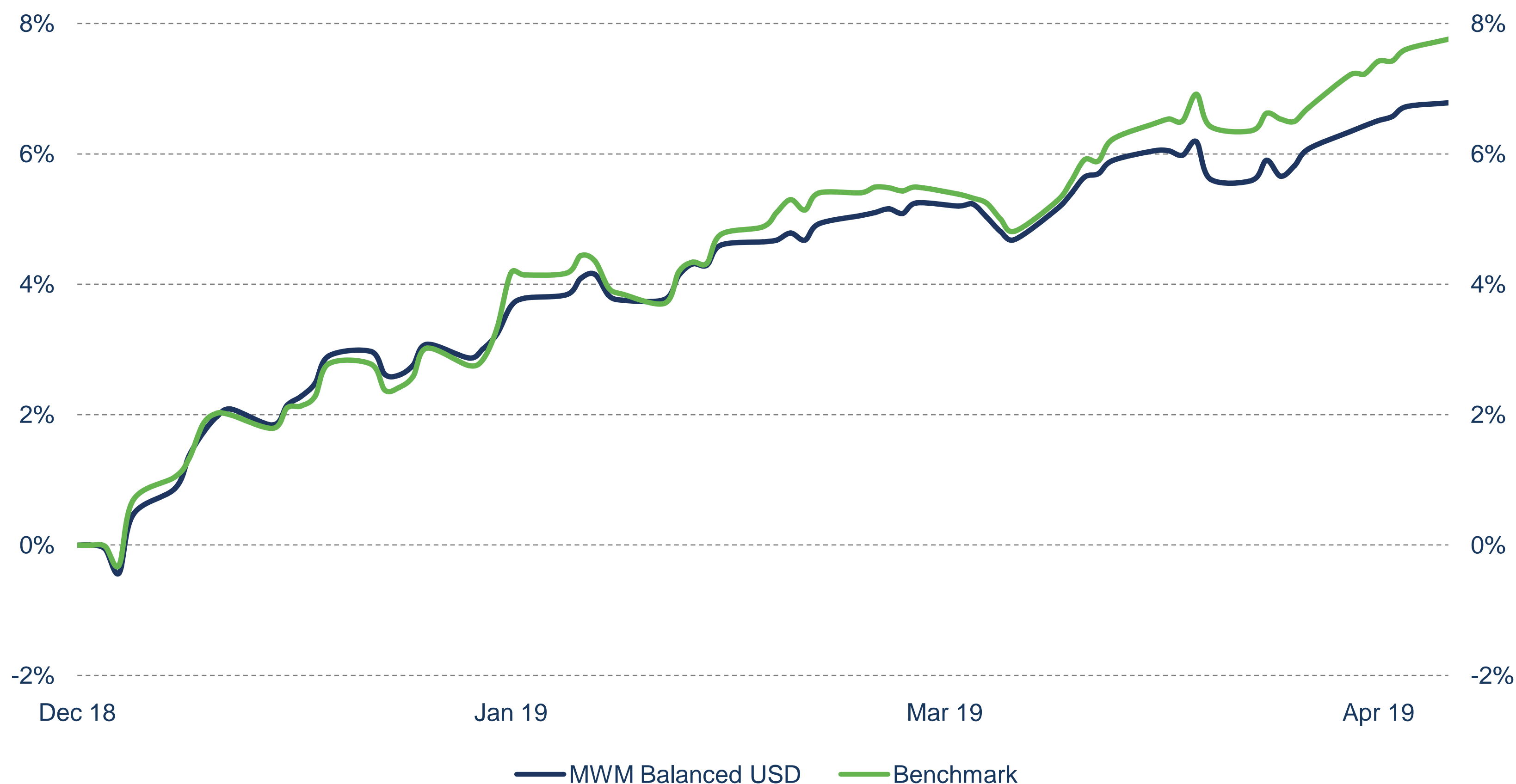


- **Total Return** (Ytd[1]): **12th out of 15**
- **Standard Deviation** (1 year[1]): **1st out of 15**
- **Downside Risk** (1 year[1]): **1st out of 15**
- **Sharp Ratio** (1 year[1]): **n/a**

[1] As of March 31, 2019
Source: Bloomberg

MWM Model Portfolio – Ytd performance

MORA WEALTH MANAGEMENT



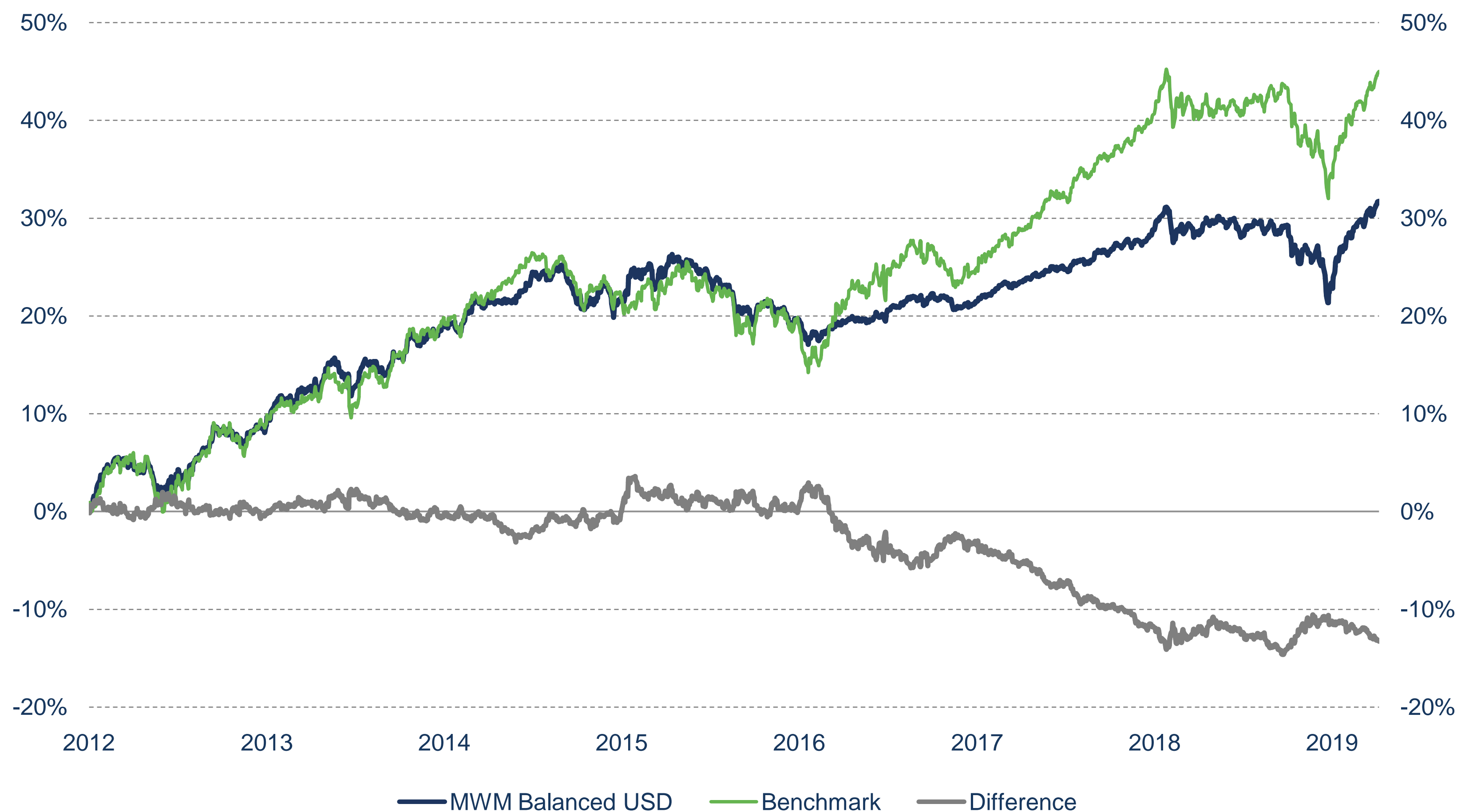
- **Total Return** (Ytd[1]): **6.77%** vs. **7.76%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **3.64%** vs. **4.26%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **2.56%** vs. **2.76%** Benchmark[2]
- **Sharpe Ratio** (Ytd[1]): **6.96** vs. **7.00** Benchmark[2]

[1] As of April 8, 2019

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

MWM Model Portfolio – Historical performance (1)

MORA WEALTH MANAGEMENT



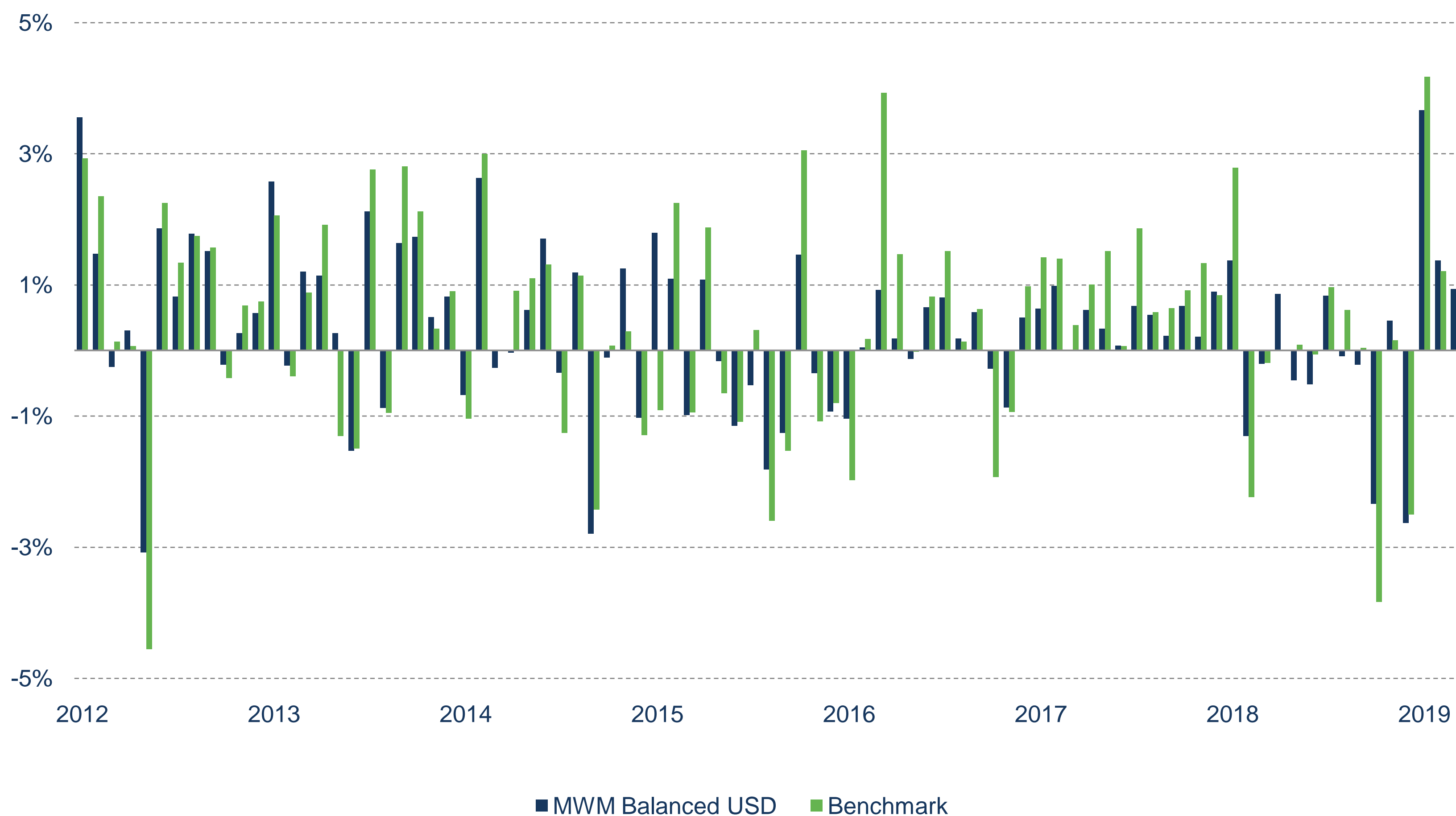
- **Total Return** (1 year[1]): **2.46%** vs. **3.34%** Benchmark[2]
- **Total Return** (3 year[1]): **10.22%** vs. **19.22%** Benchmark[2]
- **Total Return** (Since Jan 12[1]): **31.69%** vs. **45.00%** Benchmark[2]

[1] As of April 8, 2019

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

MWM Model Portfolio – Historical performance (2)

MORA WEALTH MANAGEMENT



- **Standard Deviation** (1 year[1]): **3.79%** vs. **4.96%** Benchmark[2]
- **Downside Risk** (1 year[1]): **2.79%** vs. **3.55%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **0.09** vs. **0.26** Benchmark[2]
- **Var 95% - 1day** (1 year[1]): **-0.41%** vs. **-0.50%** Benchmark[2]

[1] As of April 8, 2019

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

This document is for information purposes only and does not constitute, and may not be construed as, a recommendation, offer or solicitation to buy or sell any securities and/or assets mentioned herein. Nor may the information contained herein be considered as definitive, because it is subject to unforeseeable changes and amendments.

Past performance does not guarantee future performance, and none of the information is intended to suggest that any of the returns set forth herein will be obtained in the future.

The fact that MWM can provide information regarding the status, development, evaluation, etc. in relation to markets or specific assets cannot be construed as a commitment or guarantee of performance; and MWM does not assume any liability for the performance of these assets or markets.

Data on investment stocks, their yields and other characteristics are based on or derived from information from reliable sources, which are generally available to the general public, and do not represent a commitment, warranty or liability of MWM.

MORA WEALTH MANAGEMENT

www.morawealth.com