MONOGRAM

NEWSLETTER *It is a noisy World out there…*

February 2019

Performance update.

The MONOGRAM fund returned -1.2% net in January 2019 and -7.8% net in 2018.

Although performance was disappointing, 2018 should be seen against an extremely volatile end to the year in which all major asset classes lost money in USD terms: US Aggregate Bonds lost around -0.4%, High Yield -1.5%, Gold over -1%, and of course the major Equity indices with the S&P 500 down -4.4%, Emerging Market ($-hedged) lost over -11% (and unhedged over -17%), and Developed ex-US (EAFE $-hedged) over -9%. The Hedge Fund universe had its worst year since 2011 losing over 4% on average[1], and many of our competitors suffered far worse than us.

While December 2018 saw the worst end-of-year monthly return for the S&P 500 since 1931 of -9.0%, January saw a dramatic snap back of 8.0%. This certainly is less than encouraging, though we must remember that the whole purpose of a strategy such as Dual Momentum is to avoid such volatile extreme movements.

It is a noisy World out there…

The world is as genuinely uncertain (and hence unpredictable even for those who aspire to professional crystal ball gazing) as we have seen it since the emergence from the global Financial Crisis.

The issues are well rehearsed by now but, as always with markets, with ongoing twists and turns.

The Fed is making softer noises regarding upcoming interest rate rises, both through 'unofficial' regional governor comments and FOMC official minutes, and this must be good for risky assets generally. The market has been rather surprised at the speed of the Fed's reassessment, yet the extent to which this is a response to pressure from Mr. Trump will be a task for historians to reflect upon, along with developments more generally in central bank independence. However, with inflation still subdued, there is little to fear regarding economic stability at present.

Similarly, the trade talks with China are veering (these last few weeks at least!) to a more positive conclusion, though the inherent unpredictability of Mr. Trump will ensure further 'noise'.

The weakness of the major European economies (Italy is in recession, again) has crept up on markets focussed obsessively on the actions of the US, and now, along with a slowing China economy, is contributing to a weakening world economy.

Yet, if we are seeing a shift to a weakening USD then the EM countries will soon provide a boost to world growth.

Early 2019.

The New Year saw an encouraging run of US Equity gains which excited some investors, with an equal number pointing to a '*dead cat bounce*', namely, a short revival in what is ultimately a bear market.

That is the nature of markets! Who knows if 2019 will mark a reaction to a poor 2018 in any of the asset classes? One could point to the very high CAPE (cyclically adjusted PE ratio) of nearly 30, which has only rarely occurred historically and could be considered by some as an indicator of the extreme overvaluation of US Equities… at least over a 10-

[1] HFRI Fund Weight Composite Index.

year horizon. But equally, the ratio has no predictive power over shorter tactical investing horizons.

Where does this leave us in constructing portfolios?

Firstly, as we have emphasised on a number of occasions, there is no established relation between the real economy and investment returns, whether contemporaneously or in a predictive sense. The whole asset management industry relying on such methods is an exercise in entertaining narrative unrelated to investment performance.

Secondly, with a clear lack of Momentum in the returns of our chosen asset classes our methodology is advocating 'play safe' and take risk off the table until a clearer Momentum environment is established. The abject confusion displayed by investment strategists regarding markets and asset classes suggests 'risk-off' is the place to be.

Portfolio positioning.

Our strategy moved to an even more defensive stance in the beginning of January, allocating 100% to USD Cash (yielding in excess of 2%), as we wait for clarity in Momentum going into 2019.

About MONOGRAM

MONOGRAM Capital Management is an investment boutique founded in 2014 and headquartered in London. We take an innovative empirical, evidence-based approach to investing and believe there are fundamental, identifiable, persistent, and exploitable sources of return; risk is the permanent impairment of capital (peak-to-trough drawdown) and not volatility in its various forms.

There are two options for investors to access MONOGRAM's investment strategy. Investors can invest in the Luxembourg Domiciled MONOGRAM Fund or in MONOGRAM's bespoke segregated managed account, provided the investors meet the minimum subscription requirements. Further details are available on request.

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