MONOGRAM™

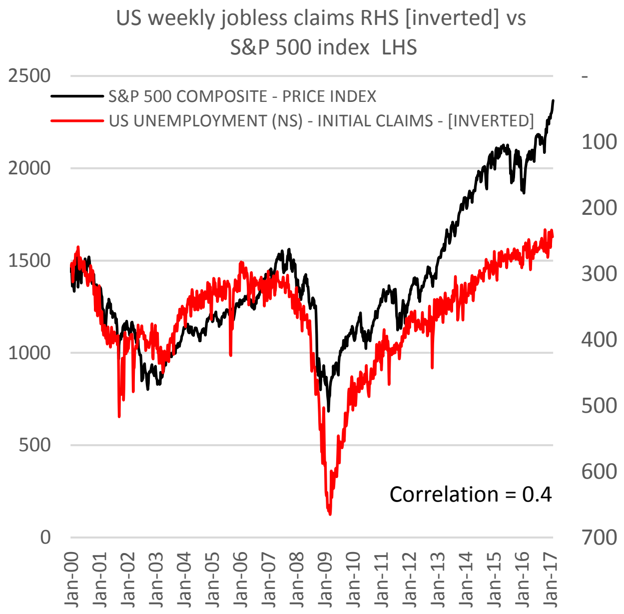
NEWSLETTER *March 2017*

The Fund returned net +3.1% in February, bringing year-to-date return to +4.2%. In a strong month, and consistent with the direction of the last, most asset classes had positive performance: US Equities +3.7%, Developed ex-US Equity +2.2%, US Investment Grade Bonds a modest +0.7%, High Yield Bonds +1.6 % and Gold 3.6%. All our positions contributed to performance.

The recent shifts in the political and sociological zeitgeist of our time may lead one to conclude that an already compromised world economy may falter further into the abyss, yet, recent indicators point to pillars (not strands!) of optimism alleviating even the most cautious amongst us from a sense of anguish. Despite one's political stance, Mr. Trump has jolted the US economy out of stagnation with consumer confidence at levels not seen since prior to the financial crash (ref. previous newsletters). While the bulk of the shift is attributed to low and middle-income households, corporate confidence is also aboard the optimistic train (as measured by NFIBL: Small Business Optimism Index).

Chart 1 points towards a gauge of the overall near-term strength of the US economy, namely, weekly unemployment claims. Recalling our lectures in Economics, we were rightly taught to treat them as a lagging indicator, yet, these data points can also be useful in formulating judgements in the present tense, namely, as an indicator for equity prices. A simple assessment, albeit in the absence of thorough scrutiny from an econometrician, presents us with a correlation coefficient of 0.4 (invert; negative relationship otherwise). Couple this with the lowest (seasonally adjusted monthly average) jobless claims number recorded since July 1973, and you have a cause for optimism. Crickey, if this doesn't substantiate itself as a pillar in support of fundamentals, then what does!? Wait, we have not yet mentioned Trump's stimulus package (at least twice the one proposed by Hillary Clinton's 5-year $275B infrastructure plan), nor have we mentioned the optimism exhibited by the latest Supply Management Manufacturing Index – looking closer into its subcomponents, we observe that new orders are increasing while inventory levels are low… we'll leave it to you to decipher a trajectory.

Chart 1: Near-term strength in the US



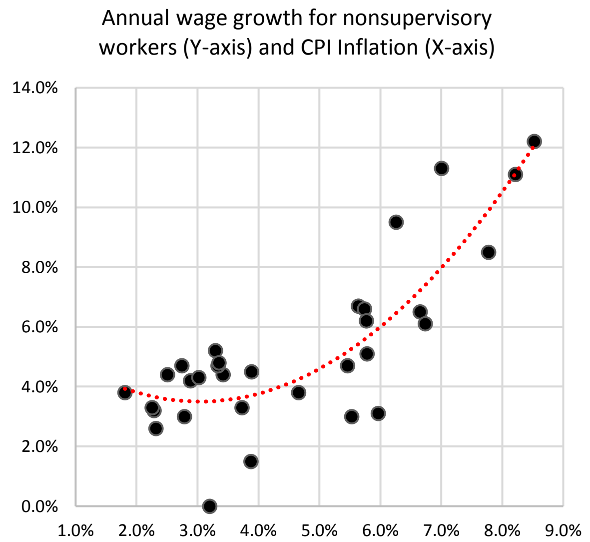
Source: Reuters.

What does this mean for inflation?

Dear Phillips, though your curve was the cause of macroeconomic debate during the 1970s, you claim that any departure from employment's "natural rate" would lead inflation to rise. The traditional concave relationship between unemployment and inflation – much like the lunar phase of a Crescent moon – has lately become tiresome and is now more inclined to recline in a horizontal sleeping position. Chart 2 and 3 summarise this quite pertinently.

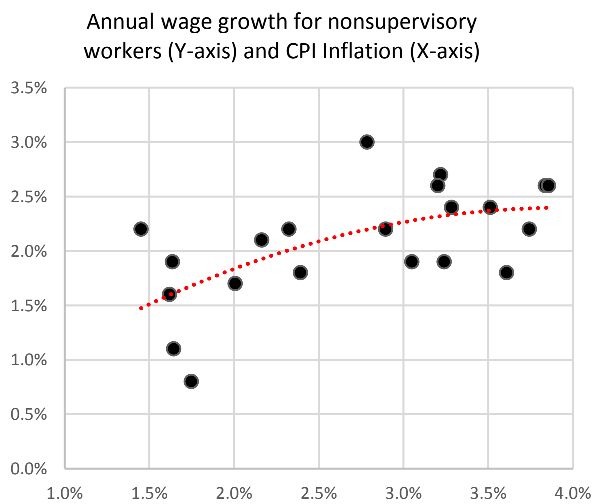
More plainly put, changes in unemployment are found to have had little to no consequence for inflation over the recent past, yet despite this, the ethos of Phillips's position remains firmly embedded in the monetarist psyche as a key determinant.

Chart 2: 1965-1995



Source: Fed reserve data base; Reuters.

Chart 3: 1995-2016

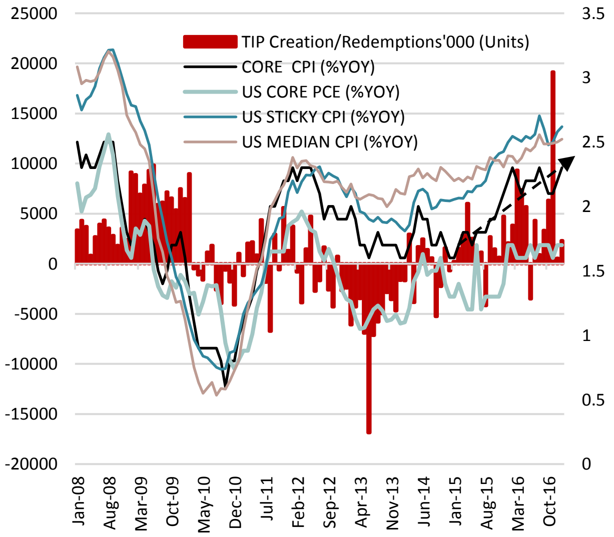


Source: Fed reserve data base; Reuters.

With this in hand, it'll be of no surprise to hear that bond markets are being driven by inflationary expectations. With US jobless claims (monthly average) at their lowest since 1973, full employment, increased commodity prices, increased consumer/corporate confidence, coupled with rising demand, low inventory levels and a stimulus package in the pipeline, it's no wonder market participants are scrambling for inflation protection. The iShares TIPS Bond ETF (TIPS), which provides exposure to US Treasury Inflation Protected Securities, saw its largest inflow in November 2016, while total TIPS inflows have amounted to ~$3B since Trump's election.

US Inflation is on the rise with recent measures ranging from 1.7% to 2.6%. While the current yield on TIPS is lingering around 2%, TIPS locked in gains of 1.7% YTD, and momentum is, all be it modest, in positive territory at ~2%.

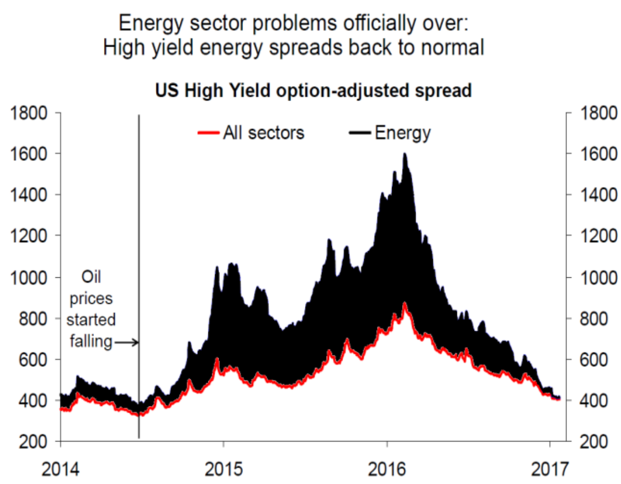
Chart 4: US inflationary pressures trigger largest inflow into TIPS (US Treasury Inflation Protected Securities)



Source: Fed reserve data base; Reuters, iShares (BlackRock).

Inflationary expectations aside, High Yield, to which we hold a 17% allocation, performed well in February, up 1.6% while momentum remains strong at 12%. As mentioned previously, a lot of that gain has been due to a tightening in spreads in the energy sector, though (ref Chart 5). We still see potential for additional gains, particularly in light of the looming stimulus package whose major focus will be in transportation, water, communications and energy. Communications make up ~24% of our holding in High Yield.

Chart 5: US High Yield energy spreads



Source: Bloomberg

Despite our optimistic tone, as always, there are lots of competing pressures and forces at work in global markets, many of which we can identify, but few of which we can predict with any persistency, and we will respond accordingly as events unfold.

About MONOGRAM

MONOGRAM Capital Management is an investment boutique founded in 2014 and headquartered in London. The management team has over 55 years of investment management experience, having met and worked together at Goldman Sachs before holding leading investment positions at other institutions.

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 contained in the subscription documents to the fund.

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