MONOGRAM

NEWSLETTER *In turbulent times… a cry for Cash*

November 2018

Performance update.

The MONOGRAM fund returned -3.9% in October, bringing the 2018 year-to-date (YTD) net return to -3.2%.

Equities had a negative month with US (S&P500), Non-US Developed (MSCI EAFE) and Emerging Market (MSCI EM $-Hedged) Equities all falling -6.8%, -6.3% and -7.7% respectively. US Investment Grade and High Yield Bonds were also down -0.8% and -1.8%. Gold gained +1.9%.

Turbulent times.

October saw the worst monthly performance by hedge funds in seven years with an overall average loss of -3% while equity-focussed hedge funds had their worst monthly loss in 3 years at -4.3%. Against this backdrop, the MONOGRAM fund lost -3.9%, in line with our 50%/50% Global Equities/Bonds benchmark at -3.9%.

As we look to November, the fund is evenly balanced between US Equities and (risk free) Cash.

The momentum signals (i.e. 12-month return) for all equity markets, except the US and Eastern Europe, are resoundingly negative. US Equities with momentum still at over +7% are the clear winner (in our Growth buckets) which results in a 50% allocation to the asset.

The edging up of short-term US rates now delivers 2.2% p.a.[1], which is not insignificant in turbulent times. Hence, it comes as no surprise that Cash dominates Bonds and Gold (in both our Defensive and Income buckets) and becomes our asset of choice at 50% of the portfolio.

The so-called 50-50 portfolio between Bonds and Equities is indeed a standard long-term savings portfolio in the US and is the strategy of choice for such distinguished finance experts as Nobel Laureate Harry Markowitz, father of Modern Portfolio Theory. What is noteworthy about the MONOGRAM portfolio is that our 50% position in Fixed Income is in fact in overnight Cash call deposits (as opposed to longer duration Fixed Income securities) – a strongly protective asset. This effectively represents taking risk off the table for half of the portfolio – probably a sensible strategy at this time of profound uncertainty.

As we look ahead through the post US mid-term excitement, we see markets turning their attention to the gargantuan US financing needs reflecting the fiscal generosity of the Trump administration. In turn, the determination of the Fed to raise rates, in the face of POTUS' criticism, seems not only undimmed but actually enhanced – a realisation perhaps that it is the only macroeconomic *Grown Up* in town.

As the fiscal firestorm offers diminishing stimulus into 2019, the onus is increasingly on the Fed to manage the economy with its single interest rate tool – a delicate balancing act and one with little predictive power for asset valuations and prices.

It is fair to say that with half our assets in Cash, the MONOGRAM portfolio is well positioned for the choppy waters ahead.

Portfolio positioning.

Our strategy retains its defensive stance for the month of November allocating 50% to each US Equities and Cash.

[1] *4 weeks US Treasury Bill as of 16th November 2018*

bout 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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