MONOGRAM

NEWSLETTER *Autumn Storms*

October 2018

Performance update.

The MONOGRAM fund returned +0.2% in September, bringing the 2018 year-to-date (YTD) net return to +0.7%.

Developed equities had a positive September with US Equities (S&P500) and Non-US Developed Equities (MSCI EAFE Index) rising +0.6% and +1.5% respectively, while Emerging Market Equities (MSCI EM Index) were down -1.3%. US Investment Grade Bonds were down -0.7% while US High Yield Bonds gained +0.5%. Gold continued suffering and lost -0.7%.

Autumn storms.

The continuous tension between fear and greed in asset markets which accompanies a long-lived bull market will always spring painful surprises at times, the only question is when? And, let's be clear, despite media hype, no one knows!

Ex-post pontification by analysts can point to overvaluation of asset classes by conventional metrics, such as Price-to-Earnings or CAPE ratios, but this is of no forward-looking value, except perhaps over 10-year horizons. At MONOGRAM, our strategist has been heavily involved over 30 years in developing such models across asset classes and time-periods and can attest to the fruitless nature of this endeavour: it is impossible to pick turning points with any precision. Markets can stay overvalued for a very long time, arguably, the current US Equity bull market is a case in point.

So what do we make of the first few days of October? The large sell off in equity markets worldwide together with rising US Treasury yields (falling bond prices) is certainly not without pain for investors.

The long-awaited turn in US (and World) interest rates may well be underway, bringing pain, especially, to Emerging Markets as the Fed removes liquidity from the global financial system in response to a tightening US labour market and signs of price inflation.

As the dollar strengthens, interest rates worldwide have to rise in sympathy and suddenly we are not talking Trump, trade and tariffs… rather, Trump and central bank independence as the President lambasts the Fed for doing its (independent) job. A greater threat to long-term prosperity, we believe, is the attack on central bank independence - watch this space.

So we ponder, how should investors respond to such developments? The answer for us is both very simple and complex at the same time. We follow the well-researched investment rules of our strategy while diversification – with 25% positions in each Cash and Fixed Income – gives us protection from such turbulence. The portfolio also has a heavy 50% US Equity weighting (the most defensive of Equities) – diversifying across equity regions is of little value in current market conditions where world equity markets move in step with the S&P500.

Portfolio positioning.

Our strategy retains its defensive stance in October, maintaining a significant position in US Equities and Cash, and smaller allocations to US Investment Grade Bonds and US Short Duration High Yield Bonds.

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.

For further information on MONOGRAM or to invest, please contact Milena Ivanova on milena.ivanova@monograminvest.com or +44 (0)7931 776206.