

The Allocation Dashboard

May 22, 2020

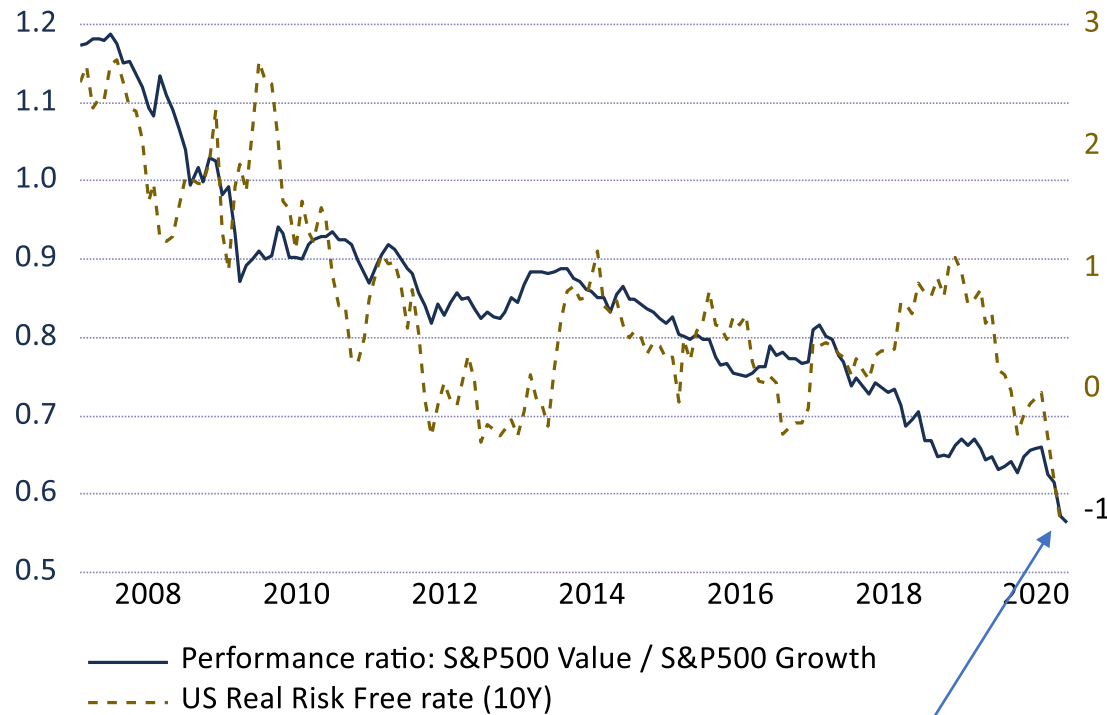
What's behind the value trap?

- Many market observers agree in noting the importance of excess liquidity created by the Fed as a key factor behind the recent stock market rebound.
- Extraordinary as it is, it fits into the longer-term pattern which has seen real long-term rates ever lower.
- Ever lower rates have fed directly into the protracted outperformance of *growth stocks* and the concomitant underperformance of *value stocks*.
- Higher real rates from a significant near-term drop in inflation - which is not matched by lower policy-rates - might interrupt this pattern momentarily.
- But a longer-term change would likely require a re-orientation of monetary policy which does not seem to be in the cards.
- Our Cross-Asset Portfolio Model is implemented in our CAP-M fund. For an in-depth outline of the fund and its methodology: <https://c-a-p.dk/our-fund/>

'Long cash flow' Growth stocks have been a major beneficiary of the downtrend in risk-free long-term real rates. Fed policy in recent years has underpinned this trend. This has been a key factor driving the matrix for equity market fundamentals away from short-term P/E valuation towards long-term growth.

S&P500: Value vs Growth

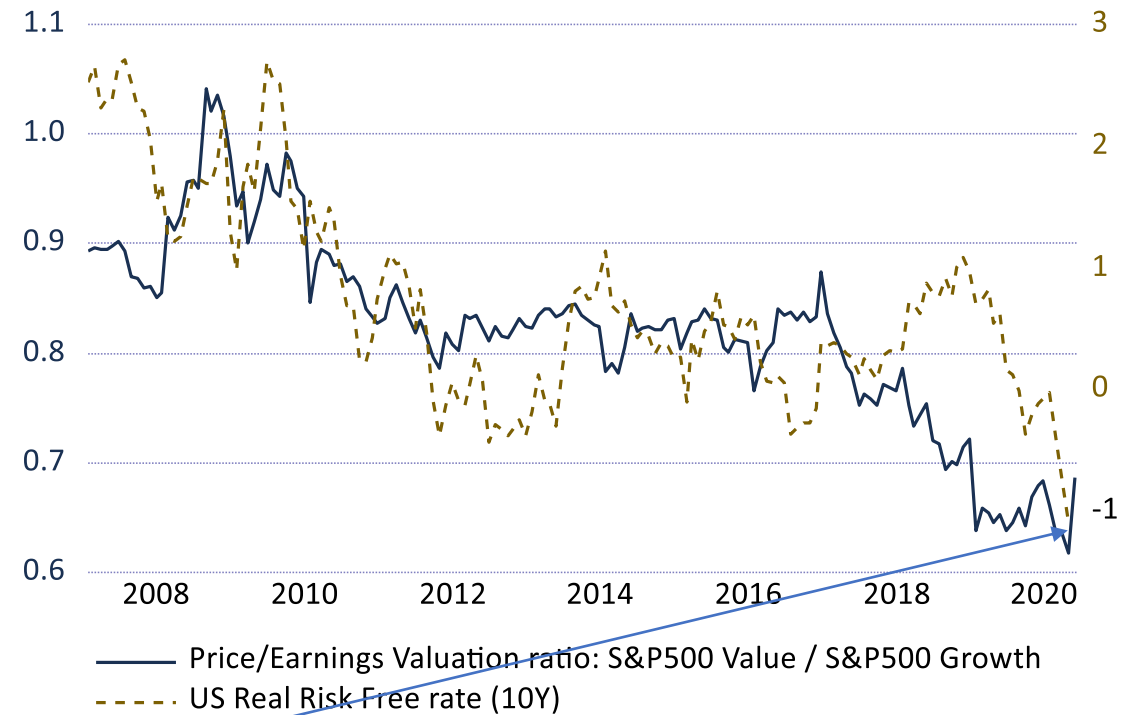
Price performance ratio



Source: Refinitiv Datastream

S&P500: Value vs Growth

Relative PE valuation

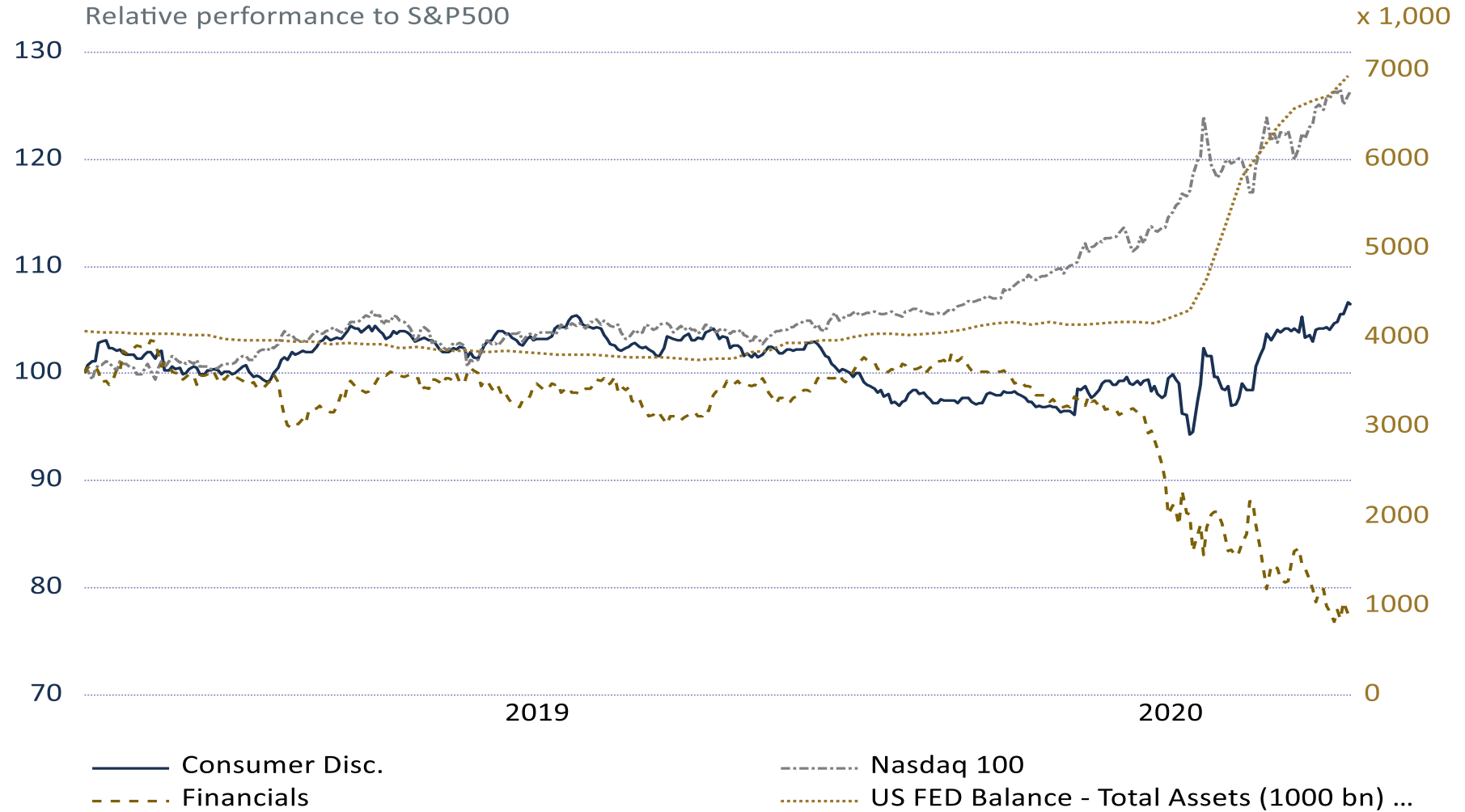


Source: Refinitiv Datastream

40% underperformance for value stocks to growth stocks since 2008. Higher growth-to-value valuation explains most of this development.

Sector performance vs. Fed Balance Sheet

Relative performance to S&P500



Source: Refinitiv Datastream

Fed action has not prevented financials from a performance slump

... but it has stabilized hard hit consumer stocks

.... And fueled growth stocks.

The latter, has been a decade long trend!!

Could it change? We wouldn't hold our breath.

Hedge Asset Performance

Performance (EUR)				
	-1m%	23/3/20	YTD %	-12m%

Hedge Assets

Eurozone Core Gov Bonds	0.1%	0.8%	2.9%	4.0%
<i>BUND- Future (ETF)</i>	0.2%	0.9%	2.6%	3.5%
IG Corporate Bonds (EUR base)	0.6%	3.6%	-3.6%	-1.3%
<i>IG Corporate Bonds - ESG (ETF)</i>	-0.1%	4.7%	-3.5%	-1.3%
<i>IG Corporate Bonds - BBB (ETF)</i>	0.9%	10.3%	-4.1%	-0.4%
Long Bond Risk	-2.0%	-0.6%	21.4%	32.4%
<i>Long Bond Risk - US</i>	-4.4%	-1.5%	31.9%	47.0%
<i>Long Bond Risk - EU</i>	0.5%	0.3%	10.9%	17.8%
Short USD bonds	-0.9%	-1.7%	5.2%	6.9%
<i>US Treasury 1-3Y (ETF)</i>	-0.9%	-1.5%	5.1%	6.8%
<i>USD per EUR (contribution from:)</i>	-1.0%	-2.1%	2.1%	1.6%
US Long High Quality Bonds	-1.2%	-0.3%	14.1%	19.5%
<i>US Treasury 7-10Y (ETF)</i>	-1.4%	-0.4%	12.8%	17.5%
Japanese High Quality Bonds	-0.8%	1.4%	3.3%	3.7%
<i>Japanese Short Gov. Bond (ETF)</i>	-0.5%	1.2%	3.1%	4.2%
<i>JPY per EUR (contribution from:)</i>	-0.8%	1.5%	3.3%	4.0%
Swiss High Quality Bonds	-0.8%	0.0%	2.6%	5.6%
<i>Swiss Franc AAA-BBB 5-10 Bonds (ETF)</i>	0.6%	5.2%	0.4%	4.4%
<i>CHF per EUR (contribution from:)</i>	-0.8%	-0.2%	2.6%	6.2%
Gold (EUR)	2.1%	10.7%	17.3%	38.7%
<i>Physical Swiss Gold (ETF)</i>	2.0%	10.6%	17.6%	38.9%

Risk Asset Performance

Performance (EUR)				
	-1m%	23/3/20	YTD %	-12m%

Risk Assets

High Yield Bonds	0.5%	6.5%	-6.7%	-1.4%
<i>US High Yield (ETF)</i>	-0.4%	10.7%	3.7%	12.0%
<i>EU High Yield (ETF)</i>	0.4%	16.2%	-9.5%	-5.4%
Emerging Debt	3.0%	6.1%	-2.8%	3.5%
<i>EMD Corporate Hard currency (ETF)</i>	2.9%	8.5%	-0.2%	6.2%
Core Equities (EUR based)	6.4%	23.7%	-8.8%	-0.4%
Global Equities	4.2%	28.5%	-8.5%	3.3%
US Equities - Large Cap	4.4%	30.4%	-5.3%	8.4%
<i>US Large Cap - ESG (ETF)</i>	3.7%	32.5%	-2.8%	12.8%
European Equities - Large cap	2.5%	22.7%	-16.8%	-7.6%
<i>EU Large Cap - ESG (ETF)</i>	2.3%	22.2%	-17.0%	-6.7%
Emerging Markets Equities	2.7%	20.7%	-14.1%	-1.9%
<i>EM Equities - ESG (ETF)</i>	3.5%	23.1%	-11.8%	2.4%
Japanese Equities - Large Cap	3.5%	18.8%	-9.2%	2.6%
<i>Japanese Equities (ETF)</i>	5.0%	17.7%	-7.6%	4.0%
US Equities Growth	8.0%	33.0%	12.3%	33.8%
<i>Nasdaq100 (ETF)</i>	7.2%	37.3%	7.9%	26.1%
US Equities Small Cap	10.0%	31.8%	-17.1%	-8.9%
<i>Russell2000 (ETF)</i>	8.7%	33.7%	-17.2%	-8.9%
European Small Cap	9.0%	30.0%	-13.5%	-3.9%
<i>MDAX (ETF)</i>	8.9%	30.2%	-13.6%	-4.0%
CAP-M Equity Bear	-12.9%	-44.7%	10.6%	-10.4%

