# MONTHLY NEWSLETTER

**October 2019**

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## The Draghi's Will

Mario Draghi, during the **ECB** press conference held the 12th of September, declared to extend a **five-year stretch of negative interest rates** for the Euro Area. The **FOMC** has also cut by 0.25% the FFR leaving the door open for new cuts and the **FED** has put 53 billion $ liquidity in the system to fix a ceiling to the overnight rate that went over the moon. The same week the central banks of China, Brasil, Saudi Arabia and Taiwan have cut interest rates on FED example. Still the difference between the US policy rate and the average central bank rate of developed countries is still at 1.5%: in terms of comparison US monetary policy is still restrictive and foster a strong dollar.

A **new QE** seems to be pointless in a scenario that shows government debt with negative yield, which didn't succeed in increasing the inflation and in feeding the consume' engine, whereas it can be even more distortive. The small gains perceived in the economy following accommodative actions of the past 10 years, have been realized at a cost of great negative distortions.

The main worry of Central Banks all over the world remains **deflation**. In order to fight it and to trigger the "Wealth Effect" rates must be kept low in theory. That was the main motive for accommodative actions after the Great Financial Crisis of 2008.

Since the the ECB's decisions make it impossible to generate return, the negative interest rates conjugated with new regulations also alter the competitiveness of banks on the costs side, and let them survive only by engaging M&A. However, it is not reasonable to weaken banks like this, also affecting consumers, as in Switzerland where several banks are charging their clients for deposit in francs and euros.

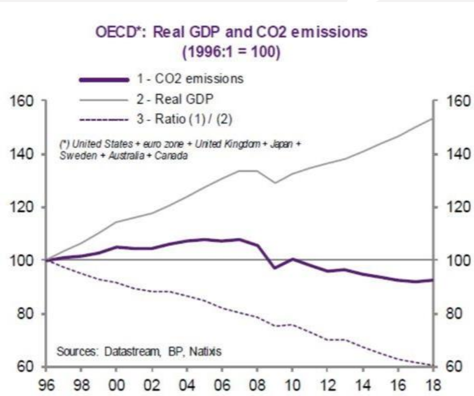
However, the relief provided by tiering will barely offset the lost earnings from lower base rates, according to analysts and executives interviewed by the Financial Times, piling pressure on a sector already struggling to generate acceptable returns.

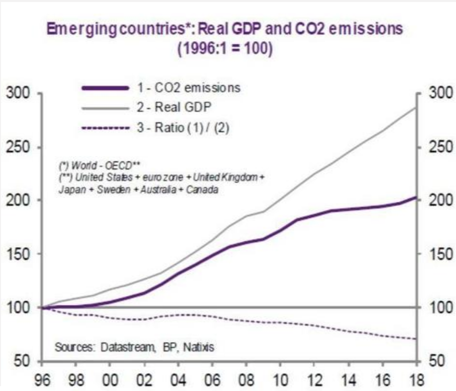
By next year, the ECB is expected to cut its deposit rate again which could lower even further the Euribor rate, on which many loans are priced.

## *MARKET INSIGHTS*

### *GDP and Co2 emissions: a 2 worlds comparison*

In an era in which the need to grow keeping pollution under control is increasingly present, it is interesting to analyze the relationship between GDP trends and CO2 emissions.
These emissions are globally increasing but it is interesting to analyze the details shown in the graph: while the growth in OECD countries takes place in parallel with a reduction in carbon dioxide emissions, this cannot be said of the rest of the world, China and India in head.
When will the rules of the game be the same for everyone?




Source: ourworldindata.org, 2019

### *What to expect for the Equity Market?*

After a September overall positive for the Stock Markets, the ISM Index for September was published and the bulls have reappeared.
We wait for a consolidation at least until the middle of October, before the end of the year, on which we have excellent expectations for various reasons.
From 1945 to today there have been 10 cases in which the S & P500 started the month of October losing over -1% in one day.
At the end of the month the index rose 8 times out of 10 with an average of + 4.6% and in two cases of loss it was on average -0.8%.

FUNDS ANALYSIS AT PAG 2 and 3

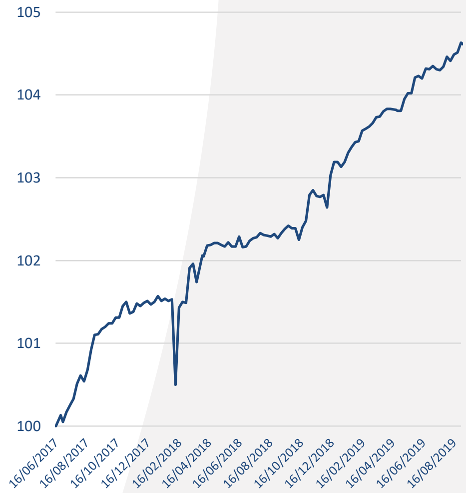
## PHARUS AVANTGARDE

European Volatility (V2X Index) remained below 18% in the month of September with the exception of September 3rd (18.2403%).

We witnessed only two significant spikes of volatility (more than +10% from the previous close), both on Mondays. The hedging strategies worked well to reduce the impact of the mark to market during these episodes.

With volatility below the lower bound of our filter, the Fund will continue to open unlevered structures to protect the previously accumulated profits.

The bond portfolio remained stable while having a duration lower than 0.5 thanks to hedging instruments. The DJ Eurostoxx50 Index rose +3.48% from August 30th to September 27th.

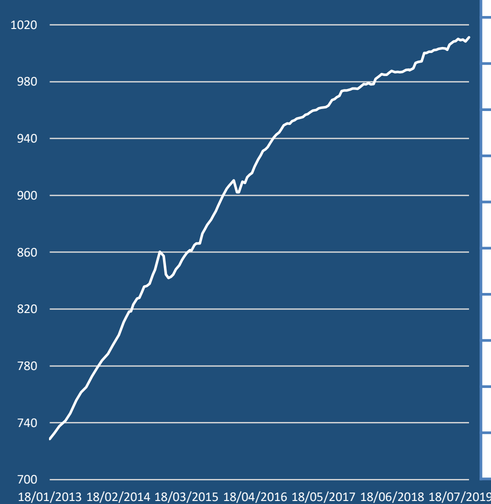



| Share I - LU1620769817 | |
|---|---|
| **Performance** | |
| Last Month | -0.01% |
| YTD | 1.61% |
| Since inception | 6.00% |
| NAV/Share | 104.62 |
| **Statistics** | |
| Volatility | 1.13% |
| Sharpe ratio | 3.88 |
| Sortino Index | 5.27 |
| Average yield | -0.001% |
| Averarge duration | 1 anno |

## KRONOS

Volatility(V2XIndex) remained close to the 18% value for the first part of the period considered in this report, until September 4th, just to strongly decline in the last two weeks, closing at 13.9744% (-31.44% decrease from the 20.3841% value on August 16th). The loosing of the trade war tensions between US and China was the key ingredient for the volatility drop as well as Central Banks ease policies. We witnessed no significant spikes during the period but values within our volatility filter mean efficient option structures. With volatility environment above 18% the Fund will keep building efficient weekly structure, with a more consistent exposure while with low values, the Fund will maintain a low exposure to preserve the accumulated profits.

The DJEurostoxx50 Index (SX5E) performed +7.278% in the considered period. The Index YTD performance lined up at +18.99%.




| Share C – MT7000006888 | |
|---|---|
| **Performance** | |
| Last Month | 0.33% |
| YTD | 39.85% |
| Since inception | 1011.64 |
| **Statistics** | |
| Volatility | 2.34% |
| Sharpe ratio | 2.53 |
| Sortino Index | 1.93 |
| Max DrawDown | -3.47% |
| Worst Month | -2.28% |

n.b. since the strategy for the Kronos fund is the same as the Avantgarde fund, except for the bond's section, its commentary follows the same main points of the second.

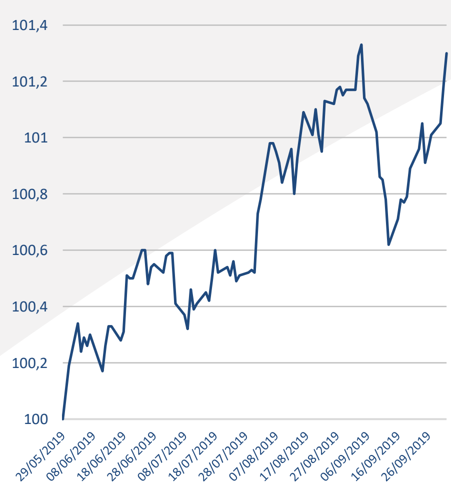
## KYRON FIXED INCOME

Hopes of a near resolution of the ongoing trade war between US and China and economic data not as bad as feared prompted a sharp rebound in US interest rates during the first half of September.

The market optimism however was soon to fade on the back of a potential Trump impeachment, a Fed meeting somewhat disappointing despite a new rate cut and especially the sudden surfacing of troubles in the US repo market that forced the central bank to intervene without delay.

The activity on the Fund focused on taking profit from well performing bonds and reinvesting in securities with a better risk-return profile.

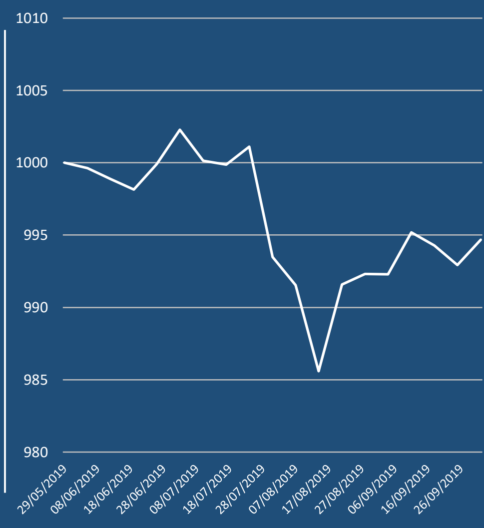
Higher yields provided the opportunity to invest the residual liquidity.




| Share B1 – LU1918787018 | |
|---|---|
| **Performance** | |
| Last Month | -0.11% |
| YTD | 1% |
| Since inception | 1% |
| NAV/Share | 101.05 |
| **Statistics** | |
| VaR | 0.8% |
| Ex-Ante Volatility | 1.5% |
| Sharpe Ratio | N/A |
| Sortino Index | N/A |
| Average yield | 2% |
| Average duration | 2.2 anni |

## KYRON EQUITY ABSOLUTE RETURN

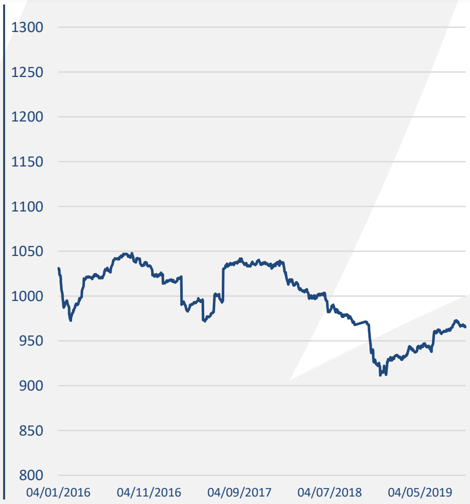
September was a tale of two halves, as global equity markets kept following the gyrations of trade talks between US and China.
Some initial optimism spurred a rebound after the collapse seen in August, helped by employment data still ok. By the middle of the month however the positive sentiment started to fade, with markets seemingly unable to push over the recent peaks. Equity markets closed the month on a positive territory, especially in Europe.
The Fund kept a cautious stance, preferring to avoid the volatility of what proved to be fleeting gains. The activity focused on shedding exposure to underperforming funds and increasing spread bets that should pay regardless of the direction of markets.




| Share A1 - LU1918787364 | |
|---|---|
| **Performance** | |
| Last Month | 0.06% |
| YTD | -0.7% |
| Since inception | -0.53% |
| NAV/Share | 994.67 |
| **Statistics** | |
| VaR | 2.7% |
| Ex-Ante Volatility | 6.3% |
| Sharpe ratio | N/A |
| Sortino Index | N/A |

## LOW VOLATILITY

In September, Central Banks went further in their accommodation narrative. The market seems to worry about the lack of creativity from Central bankers to address global worries. Again, QE announcement and rate cut, what else? Nothing. Pouring liquidity into markets seem not enough anymore. AISM repeated month after month, that when fundamentals will prevail over liquidity, we could expect a sharp rise in volatility. And it happened at the end of the month with horrific figures from the US manufacturing sector, with a strong contraction over the month. The trade war is still ongoing and start to spur a wave of bad news. PMI in Europe are already contracted on, the manufacturing side, the composite PMIs started to dive and especially the German one now contracted, not good for the EU first economy.




| Share I - LU0677960717 | |
|---|---|
| **Performance** | |
| Last Month | 1.07% |
| YTD | 5.71% |
| Since inception | -2.42% |
| NAV/Share | 966.78 |
| **Statistics** | |
| Volatility | 4.57% |
| Sharpe ratio | 0.07 |
| Sortino Index | 0.08% |
| Average yield | 2.23% |
| Averarge duration | 3.52 anni |