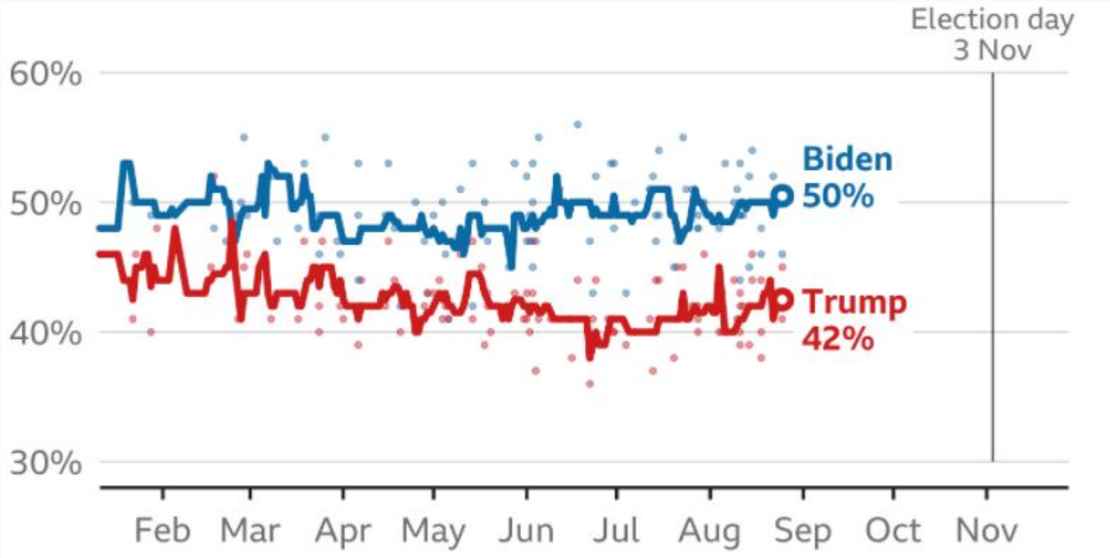
Key Economic Figures/Events of the Week

- The main news of this week has been made by J. Powell's speech in Jackson Hole (27/08) as he outlined a new approach to setting the US monetary policy. The regulator has demoted the 2% inflation ceiling to an average number, which means the Fed will allow it to be higher than 2% in the years to come. Details will probably be known at the next Fed policy meeting which is planned for 15-16 of September. Markets have reacted in a prompt sell-off in longer-dated Treasuries, but economists doubt that the Fed will be able to pull it off. In 2019 average inflation was 1.5%, when unemployment rate set a historical minimum at 3.5%. What is now clear is that the Fed will keep the rates low for longer, letting the inflation to make up for prior undershoots. At the same time investors are afraid that the Fed will lose control of the situation and will unleash the runaway inflation again.
- Elsewhere this week oil prices have tried to go up, on the back of the strengthening hurricane Laura in the Gulf of Mexico. However, the hurricane has significantly weakened after crossing the landmass, downing the net weekly effect to zero for fixed-income market.

Trump or Biden?



Source: BBC, Real Clear Politics, as of Aug. 25

- President D. Trump is now the official candidate from the Republican party in the forthcoming November Presidential elections in the USA. His agenda includes tax cuts, new jobs and affirming the US stance on China. Political news will dominate financials markets in autumn while currently Biden and Trump remain level-pegging.

Weekly Investment Insights

- We keep receiving signals from different sources that the current bull market is approaching its turning point, where another severe sell-off could happen. This week we have seen dismal statistics on US high-yield default ratios, which are already nearing 2008 levels, although analysts forecast default peak for the end of 2020 - beginning of 2021. Another indicator comes from the US equity market where combined market cap, according to Wilshire 5000 Index, has reached 190% of the US GDP. According to Warren Buffet, when this ratio nears

200%, ‘you are playing with fire’. Last time this ratio surpassed 150% was the end of 1999 - beginning of 2000, followed by the dotcom bubble burst in 2002. Such a big event in equity market will inevitably spill over fixed-income markets with the riskiest segments set to suffer the most. And we prefer to ‘get off the train’ one stop earlier than to put our faith into our lucky star and then see it shattered when things do not work out.

Strategy

This week we have continued with the sale of positions most vulnerable to possible correction and decreased leverage further to 25%. We have sold positions across all portfolios which has resulted in some cash position for portfolios that don’t use leverage.

We hope you will find this information useful and we will be glad to answer your questions

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