ICCI CAPITAL research Nº 1

Market outlook October 2019

Reach and limitation:
Given we are publishing this report for the first time allow me to explain what we are looking to achieve and what are our out of bounce topics.

We will give an economic sentiment picture of what happened last month, the general macroeconomic picture and the conclusions we draw from it. No more no less.

This report is not looking for trading ideas, derivatives strategies or single stock recommendations (unless otherwise stated in respective report). We will recommend to have a closer look at certain disequilibria we identified and leave it to the smart reader to draw her/his conclusions in terms of investment strategy. Not withstanding we will point to opportunities we deem interesting to explore.

We have an institutional platform with a servicing structure around it to create a one-shop solution, from the capital requirements when investing in Spain to the retail solutions for the exit. This obviously gives us the possibility to serve corporate and individuals not only for investment purposes but for life style solutions as well. We are Costa del Sol based, covering most coastal areas and secondary cities of Spain, so in any case an investment in property for your live style and long-term return is always recommended and we can help you for sure, just ask us.

Report

The general economic environment is characterized by ultra low interest rates (for those saving in bank deposits or investing in Sovereign fixed income securities) driven by the low economic growth of developed countries and fuelled by various economic conflicts and imbalances. Examples are the trade war between the US and China or the Brexit in Europe. But, one should be warned believing that the retreat from globalization will lead to higher economic growth. Japan adopted since the mid 1990s an economic policy including monetary expansion, cheap money and overinvestment - finally leading to bank closures, low interest rates and low GDP growth, now since 25 years below potential. This should be a warning for other developed economies what the absence of positive real interest rates can bring along.

The other dramatic development that worries us is the lack of understanding of leap frogging in technological progress and in particular the case of decarbonisation of the industry. This next industrial revolution is fully under way and will be a game changer. At any time starting from steam machines in the 19th century technological progress was accompanied by distortions of economic markets. In our days the danger of ecological disasters seems to be the driver of this change of paradigm. But, this is not entirely true. Jeremy Rifkin published in 2014 a book titled "The Zero Marginal Cost Society. The internet of things, the Collaborative Commons and the Eclipse of Capitalism." What a title (apart of being too long....) but what made him an advisor to many politicians including Angela Merkel? Simply, because what he summarized is the upcoming future of developed economies. Why? Well if solar panels, wind energy, 3D printing, internet of things etc. evolve, the marginal advantage in cost tends to be reduced to brand and technology – with all the side effects that we are starting to see right now. The information revolution sparked by more and more interconnected internet and its integration in all aspects of economy and social interaction leads to less comparative advantage of local knowledge. By the way, this explains perfectly why populist politicians like Donald Trump, Boris Johnson and many others are on the rise – ordinary people are scared of loosing jobs, less pay jobs, deteriorating social systems and so on and so forth....

So what about disruptive technology? This is the technology that makes the good better and so obsolete. Examples? Higher efficiency solar panels, better battery technology leading to electric cars, biotech progress and so on. All of it has one thing in common if you are an investor: either you are invested in the leading edge technology company in its sector or you will simply be arbitraged away.

Of course, this development is not complete at all as we write but it is more and more visible. Non-tariff trade barriers as most countries have set up in recent years are only a short term patch – the general movement is based on economic law – global productivity increases and as we can see in the example of Chinese electric car makers popping up like mushrooms, are easy to be implemented.

Now, lets turn to markets and our outlook for end 2019?

Slower economic growth in developed countries and low volatility Forex markets with the exception of the Pound Sterling, of course. No real surprise on equity markets fuelled on the one hand by cheap money but overshadowed by the before mentioned uncertainties arising from all the imbalances present. Interest rates under pressure or negative right away. Given the extreme difficulties industries such as Banking, Automobile, Manufacturing, Chemicals face adopting to the new environment makes us believe that a defensive investment strategy is the best suited option to weather the upcoming storm. Our analysis recommends staying away from broad based equity exposure given the expected high volatility and better look at the following:

In our view we should have a look at lower rating bonds (not junk bonds of course!!), higher yielding issues of fixed income securities. Typically, these bonds are issued by companies, Supranational institutions such as World Bank, EBRD or Emerging Markets Governments. The bond issues may be in USD, Euro or Emerging Markets currencies and offer a sufficient yield to compensate for their lower ratings.

Our suggestion is to have a look at the three exchange traded funds (Spanish SICAV) of Audaris which we especially like. They run diversified long duration strategies with the USD based Wealth Rendite SICAV in the lead during 2019 with a return of 17% (as of 3.10.2019). Should you want to investigate further, here is the link: www.audaris.com