



Skänderbeg

Investment Management

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Put into perspective

Ahead of the mainstream

December 2018

Written by
Bruno Schneller, CAIA & Miranda Ademaj

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- Markets (page 5)
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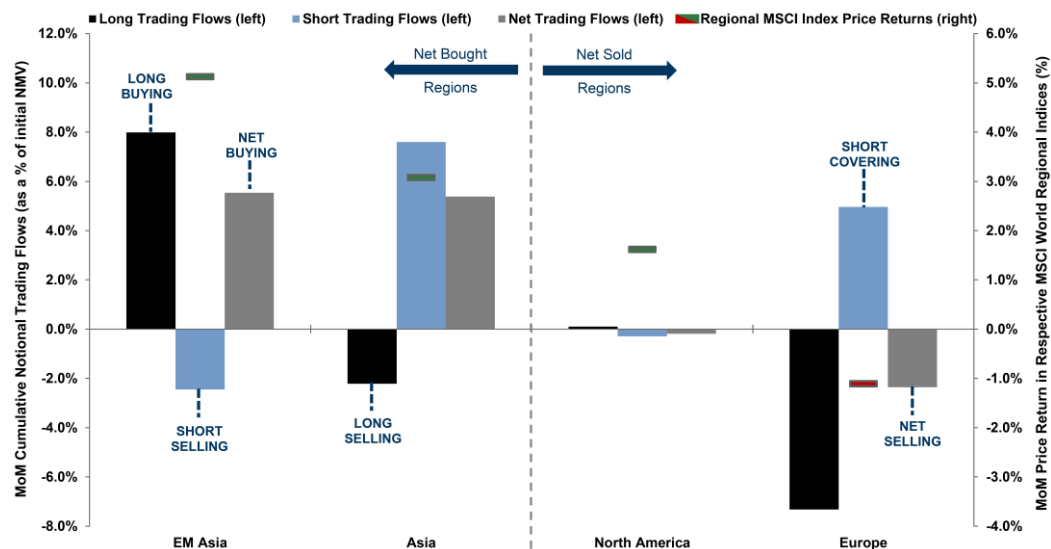
"I love it when people always say I'm always 'too early'. You can be late to a bull market—it's an escalator on the way up. You can't be late to a bear market—because it's an elevator going straight down."

– David Rosenberg

HEDGE FUNDS

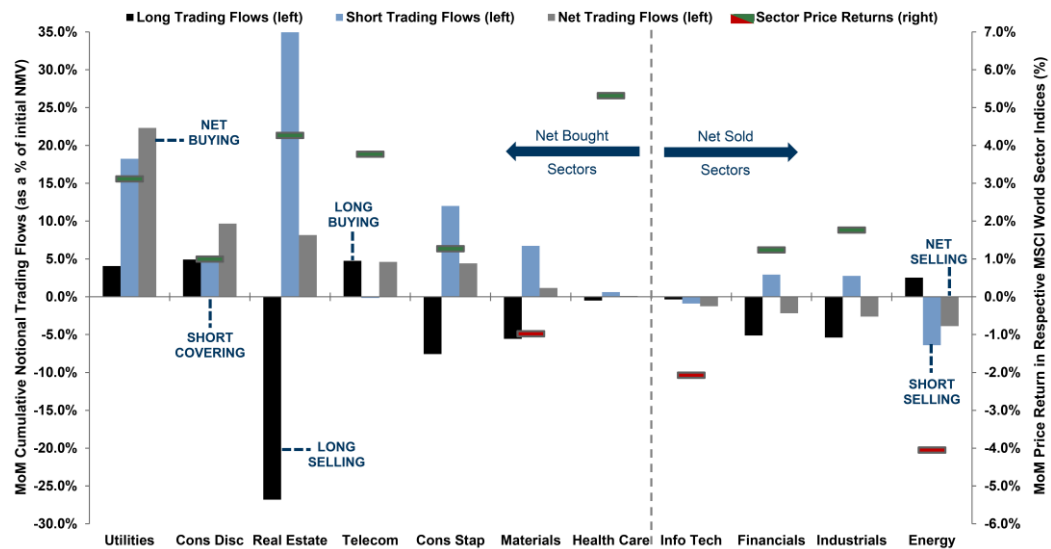
Hedge fund positioning and trading flows

November hedge fund trading flows by region (vs. MSCI World regional price returns)



Note: Each region is calculated on a relative basis (e.g. North America's trading flows are calculated relative to the region's initial net market value of the period).

November hedge fund trading flows by region (vs. MSCI World regional price returns)



Note: Each sector is calculated on a relative basis (e.g. Utilities' trading flows are calculated relative to the sector's initial net market value of the period).

[Goldman Sachs](#)

Compensation soars for hedge fund managers

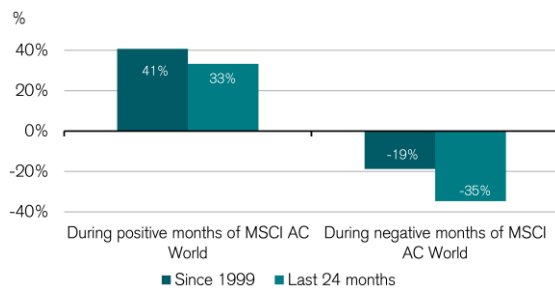
The wallets of hedge fund managers are looking fatter this year. Total compensation for hedge fund portfolio managers is expected to climb 40 percent, to \$1.4 million, in 2018, according to Institutional Investor's second annual All-American Buy-Side Compensation Survey. The hedgies on average reported a 25 percent jump in base pay — to \$346,164 — and more than \$1 million in variable compensation.

Portfolio managers at hedge funds with more than \$5 billion in assets are feeling even more flush, as they are expected to earn \$2.8 million in total compensation. The big gains are due in part to bonuses for 2017 performance — when hedge funds returned 8.6 percent — being paid in 2018.

Institutional Investor noted that hedgies were "broadly optimistic" about their future paychecks, even amid fears of an economic slowdown.

[New York Post](#)

Upside/downside capture ratios (as per cent of MSCI AC World)



[Credit Suisse](#)

Long-term economic consequences of hedge fund activist interventions

[Ed deHaan](#)

University of Washington - Michael G. Foster School of Business

[David F. Larcker](#)

Stanford University - Graduate School of Business

[Charles McClure](#)

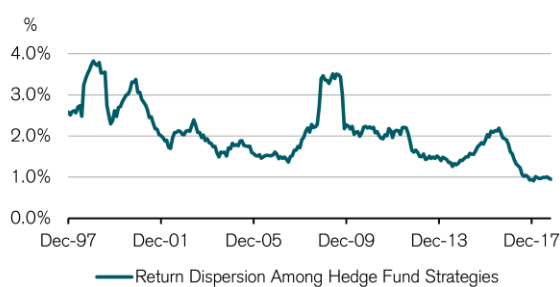
University of Chicago Booth School of Business

Abstract: We examine the long-term effects of interventions by activist hedge funds. Prior papers document positive equal-weighted long-term returns and operating performance improvements following activist interventions, and typically conclude that activism is beneficial. We extend prior literature in two ways. First, we find that equal-weighted long-term returns are driven by the smallest 20% of firms with an average market value of \$22 million. The larger 80% of firms experience insignificant negative long-term returns. On a value-weighted basis, which likely best gauges effects on shareholder wealth and the economy, we find that pre- to post-activism long-term returns are insignificantly different from zero. For operating performance, we find that prior results are a manifestation of abnormal trends in pre-activism performance. Using an appropriately matched sample, we find no evidence of abnormal post-activism performance improvements. Overall, our results do not strongly support the hypothesis that activist interventions drive long-term benefits for the typical shareholder, nor do we find evidence of shareholder harm.

[SSRN](#)

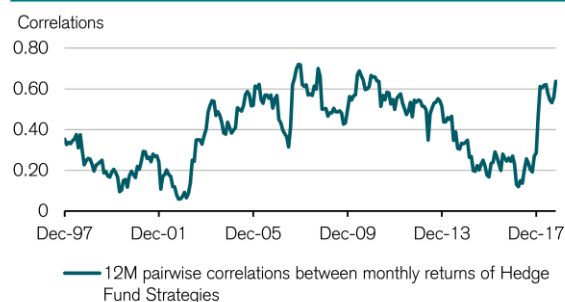
Hedge fund barometer inputs: Breakdown of systemic risks

Return dispersion among strategies



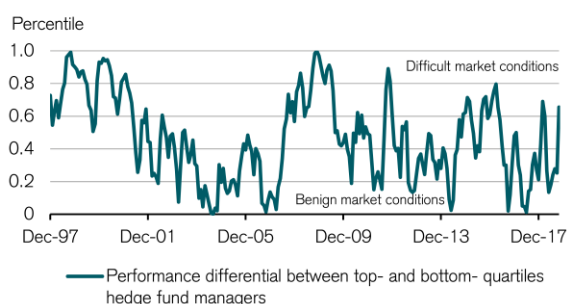
Last data point: 31.10.2018, Source: Datastream, Credit Suisse

Pairwise correlations among strategies

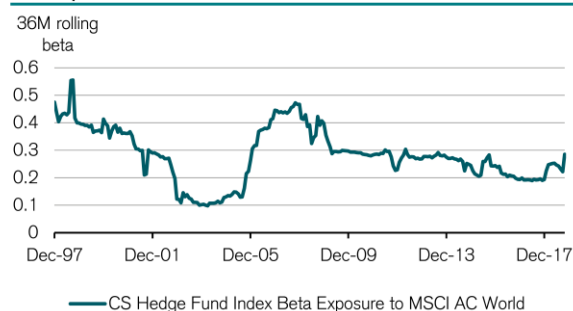


Last data point: 31.10.2018, Source: Datastream, Credit Suisse

Performance differentials between best and worst managers



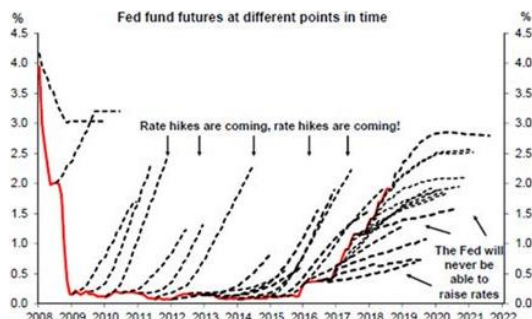
Beta exposure to MSCI AC World



[Credit Suisse](#)

MARKETS

Investors are systematically wrong about the Fed



Deutsche Bank Research

The US stock market has seen one of the steepest declines in price/earnings ratios outside of recessions



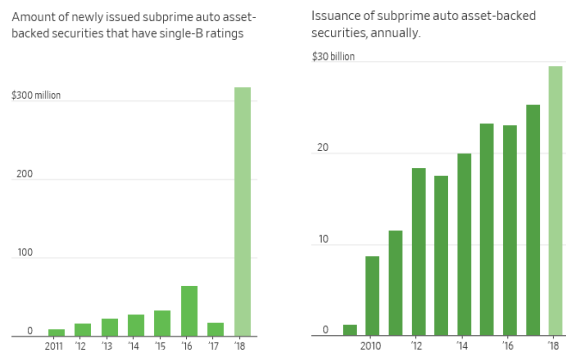
Wellershoff & Partners (via WSJ's Daily Shot)

The ISM new orders vs. China's imports



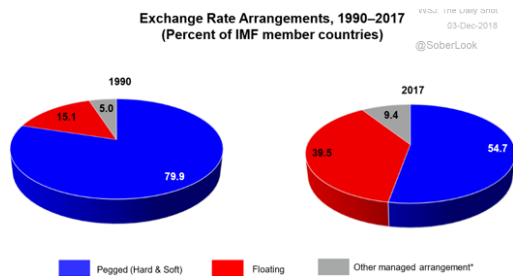
Pantheon Macroeconomics (via WSJ's Daily Shot)

If the economy takes a turn, delinquencies could lead to a wave of closures among auto lending firms



The Wall Street Journal

Fewer currency pegs today



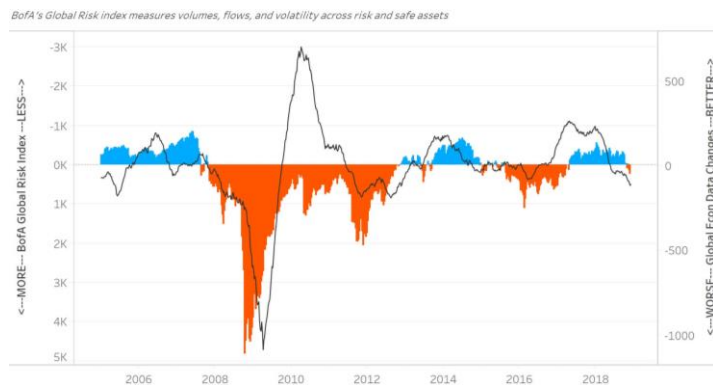
Deutsche Bank Research (via WSJ's Daily Shot)

Trade war having a bigger negative impact?



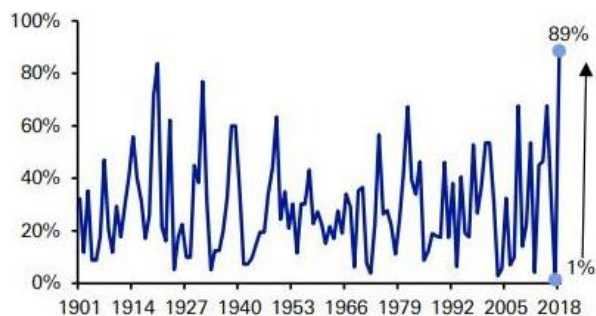
Deutsche Bank Research

Global risk rising with worsening global economic data changes



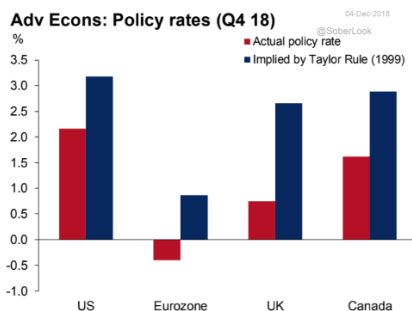
Bianco Research

The 2018 increase in the percentage of assets with negative total returns has been unusual



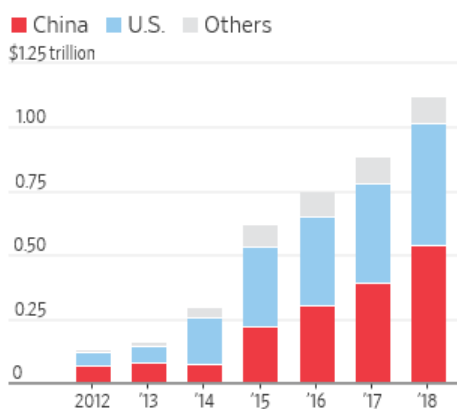
Deutsche Bank Research

Taylor Rule suggests central banks still cautious about raising interest rates



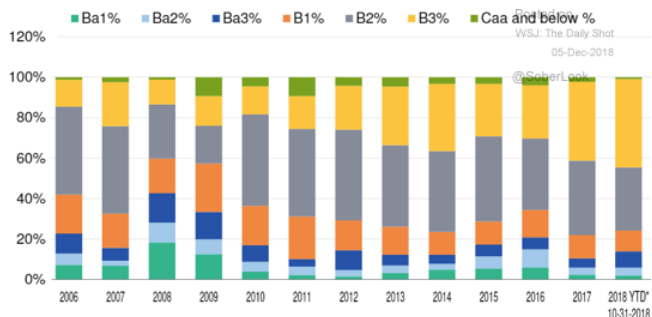
Oxford Economics (via WSJ's Daily Shot)

China now rivals the US as a source of "unicorns": Private companies valued at a billion USD or more



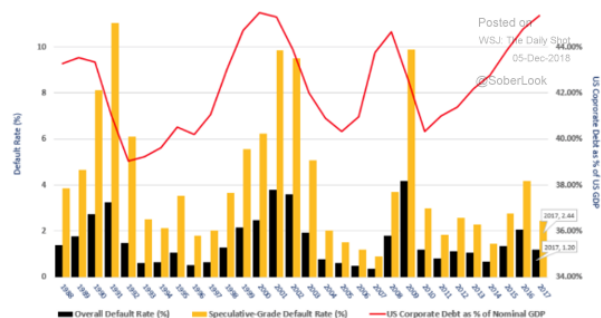
The Wall Street Journal

Here is the rating distribution for new high-yield debt issuers



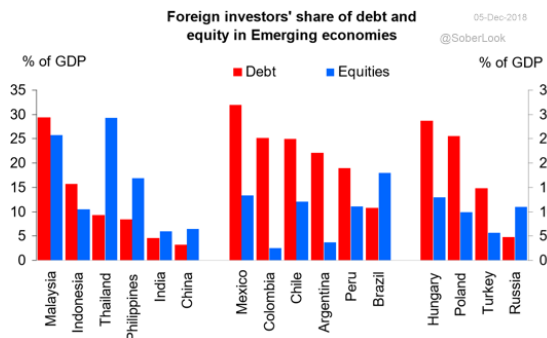
Moody's Investors Service (via WSJ's Daily Shot)

Default rates spike when corporate debt-to-GDP exceeds 44%



Cantor Fitzgerald (via WSJ's Daily Shot)

Foreigners own debt in Latam and EMEA and equities in Asia



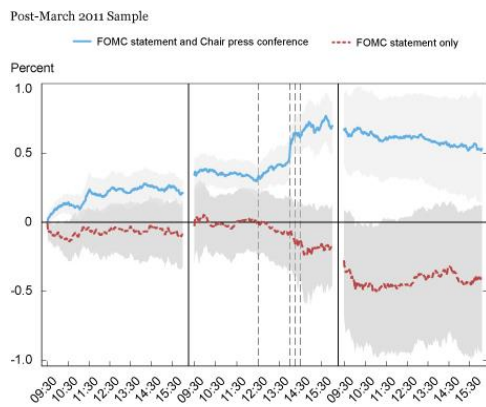
Deutsche Bank Research (via WSJ's Daily Shot)

The Redbook points to substantial upside for retail sales



Pantheon Macroeconomics (via WSJ's Daily Shot)

Cumulative returns of the S&P 500 Index around FOMC announcements



Liberty Street Economics

The rise of the zombie stocks



FactorResearch

Does higher wage growth translate into stronger inflation?

Figure 1: Prior to the early 1990's wage growth and inflation were strongly correlated but...

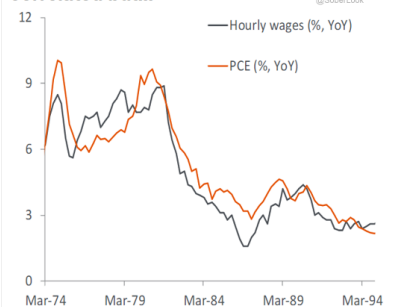
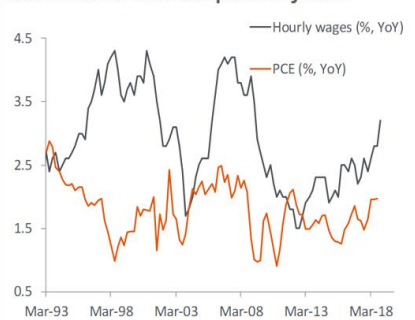
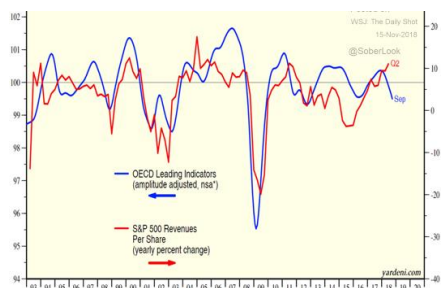


Figure 2: ...that relationship seems to have broken over the past 25 years.



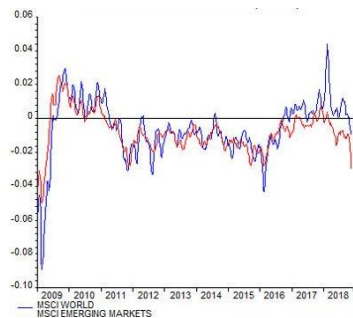
Piper Jaffray (via [WSJ's Daily Shot](#))

OECD leading indicators vs. S&P 500 revenues



Yardeni Research (via [WSJ's Daily Shot](#))

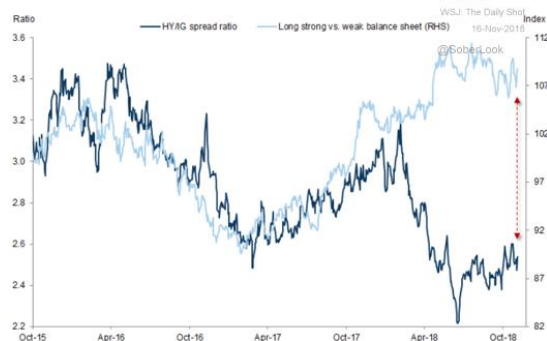
Earnings revisions ratios (5W MA)



Janus Henderson Investors

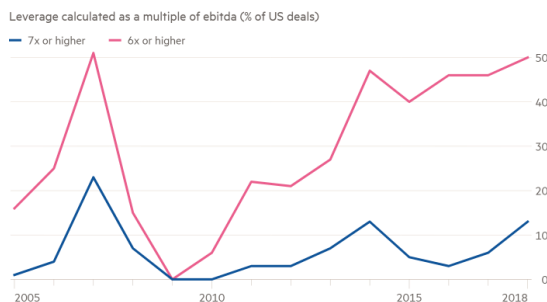
2018 has seen strong balance sheets outperform in the equity market, but not in credit

USD HY/G spread ratio and cumulative return on long strong vs. weak balance sheet equity baskets



Goldman Sachs (via [WSJ's Daily Shot](#))

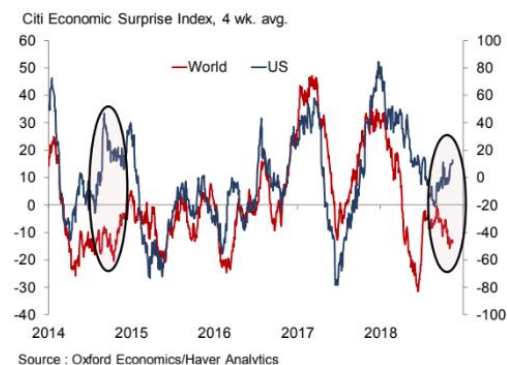
Return to pre-crisis levels: Proportion of buyouts with high leverage



[The Financial Times](#)

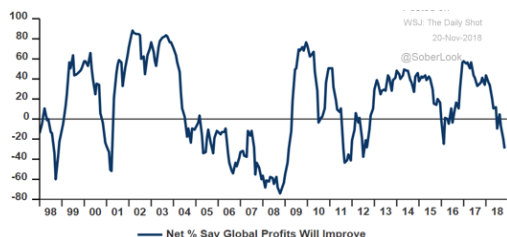
US economy decoupling from the world

In late 2014, the US and global Citi economic surprise indices started decoupling as global growth slowed and the US economy picked up some steam. Since September, these two indicators are diverging again, highlighting the strength of the US economy against a slower global growth backdrop.



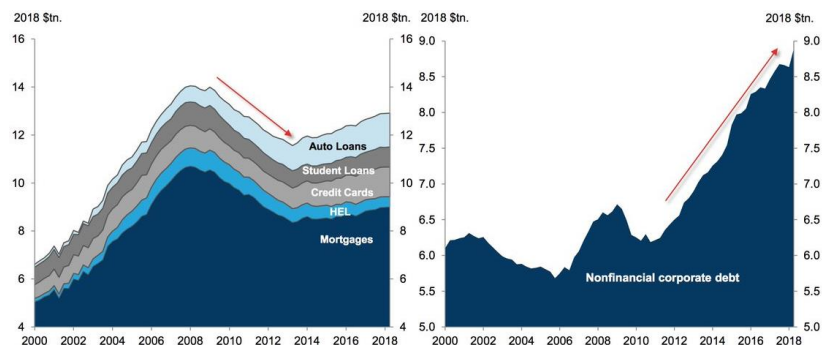
[Oxford Economics](#) (via [WSJ's Daily Shot](#))

Investors are increasingly uncertain about corporate profits



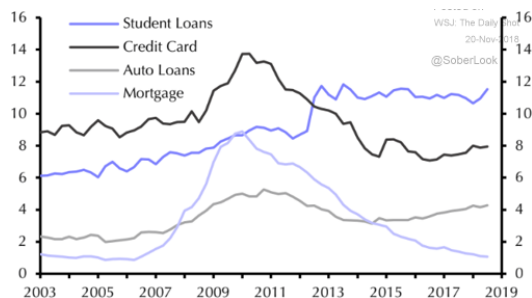
[BofA Merrill Lynch](#) (via [WSJ's Daily Shot](#))

A tale of two cycles for households vs. non-financial corporations



[Goldman Sachs](#)

Seriously delinquent loans (90+ days, % total)



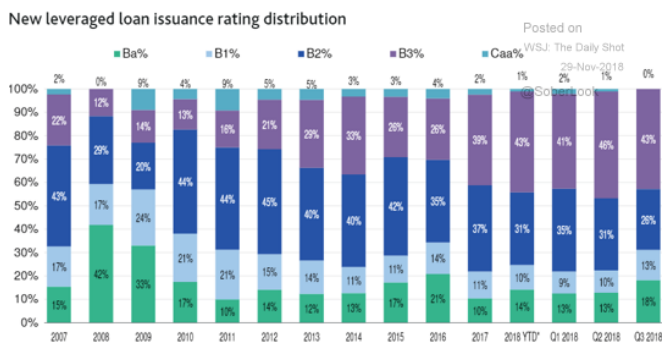
Capital Economics (via WSJ's Daily Shot)

Aggregate systemic risk score



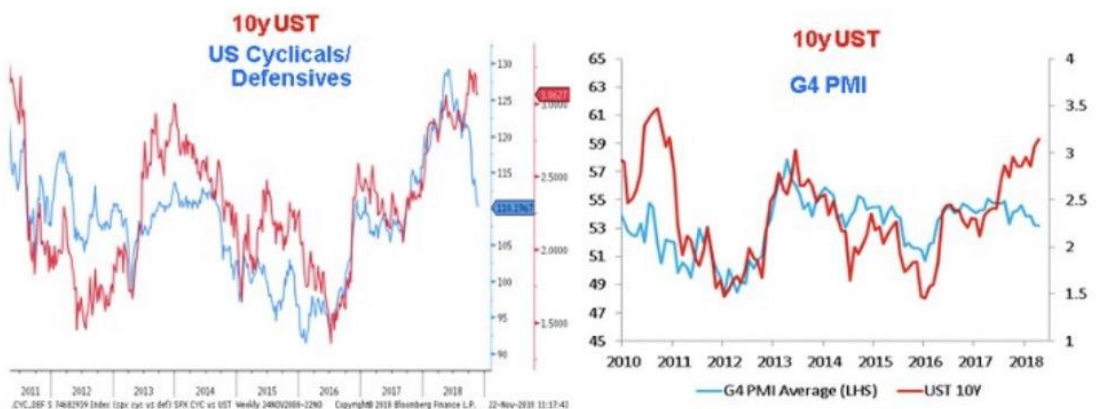
Credit Suisse

The share of new B3 issuers remained historically high in 2018 Q3



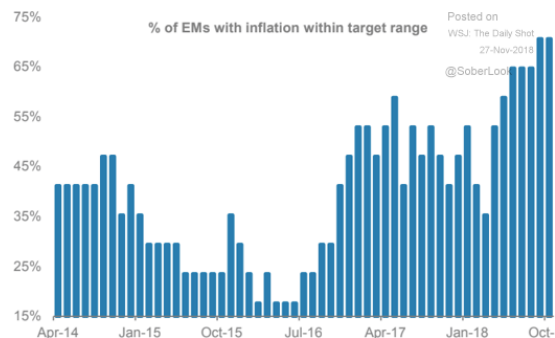
Moody's Investors Service (via WSJ's Daily Shot)

Yields can fall



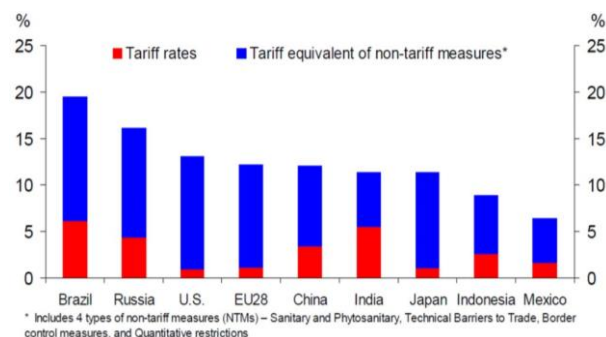
Citi Research (via LongConvexity)

Majority of EMs have inflation within central banks' target range



Morgan Stanley Research (via WSJ's Daily Shot)

US less open to trade than EU, Japan, and China



Deutsche Bank Research

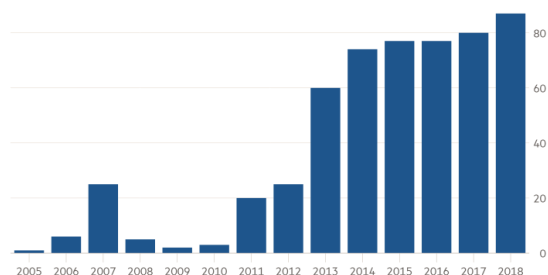
Global monetary base, deflated by US CPI, is now shrinking



BofA Merrill Lynch (via Business Insider)

Vanishing protections: Rise of covenant-lite loans

Covenant-lite as a % of US institutional loan issuance



The Financial Times

Video of the month

Legendary investor Steve Cohen with Glenn Fuhrman: On investing, philanthropy and art

Steven A. Cohen is the Chairman and Chief Executive Officer of Point72, a 1,250+ person registered investment advisor. He talks with Glenn Fuhrman, the co-managing partner of MSD Capital and the founder of The FLAG Art Foundation. They have a fascinating conversation that includes everything from Steve's incredibly successful career as an investor to his philanthropic efforts on behalf of our nation's veterans and his well-known passion for modern and contemporary art.

Mr. Cohen founded SAC Capital in 1992 and converted his investment operations to the Point72 Asset Management family office in 2014. An avid philanthropist and entrepreneur, Mr. Cohen has founded and holds active leadership roles in a number of nonprofit organizations, including the Steven & Alexandra Cohen Foundation, Cohen Veterans Network and Cohen Veterans Bioscience. He serves on the boards of MOCA in Los Angeles, the Robin Hood Foundation and MoMA.

Recorded Nov 13, 2018 at 92nd Street Y.



[Click to watch](#)

[92nd Street Y](#)

Tweet of the month



Jim O'Shaughnessy

@jposhaughnessy

Following

I am almost always against predictions, but this seems like a reliable way to think you're near a top.



9:12 AM - 17 Nov 2018

63 Retweets 263 Likes



[Jim O'Shaughnessy](#)

Joke of the month

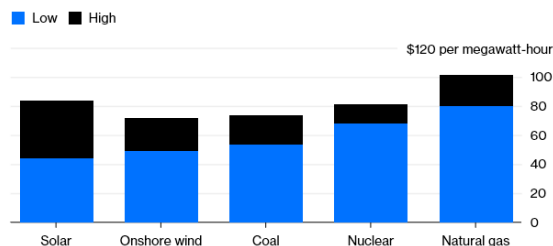
Amazon is one of the few companies that actually listen to their shareholders. Mainly through Alexa, but still.

Cartoon of the month



THINK TANK

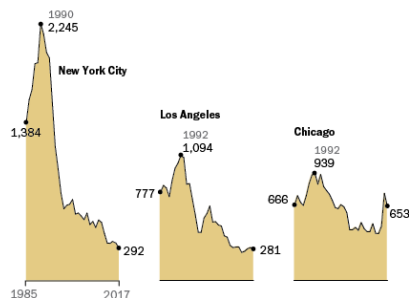
New solar and onshore wind-power are both competitive already with new coal plants in China



[Bloomberg](#)

Murders have decreased in America's largest cities since early 1990s – especially in New York

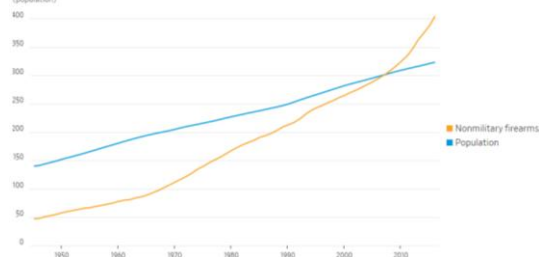
Number of annual murders



[Pew Research Center](#)

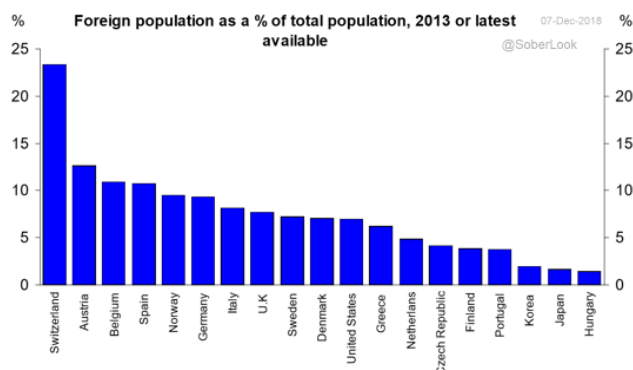
Guns outnumber people in the US

Source: 2015 National Firearms Survey and Bureau of Alcohol, Tobacco, Firearms and Explosives (Firearms), Census Bureau and Moody's Analytics (population)



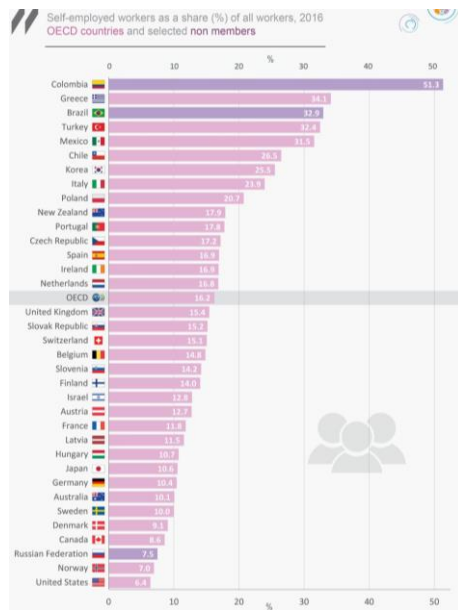
[The Wall Street Journal](#)

Share of foreign-born population



[Deutsche Bank Research](#) (via [WSJ's Daily Shot](#))

Self-employment



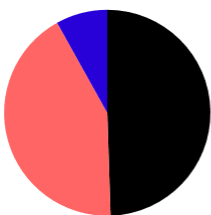
[OECD](#)

Smartphones drive US holiday-shopping traffic, but most purchases made on desktop

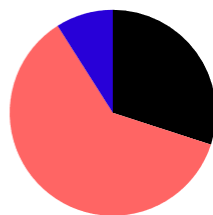
■ Smartphone ■ Desktop ■ Tablet

Traffic

Purchases



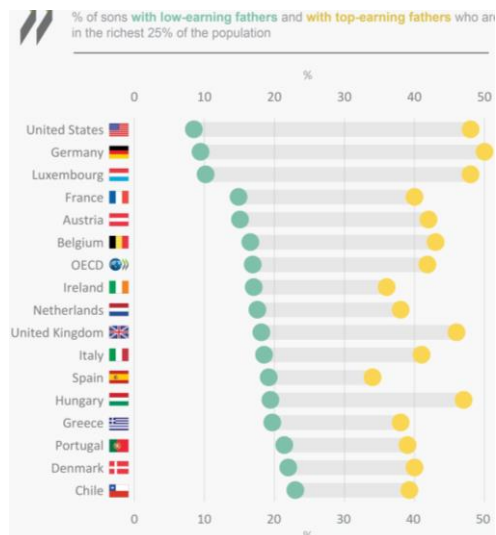
■ 49%
■ 42%
■ 8%



■ 30%
■ 61%
■ 9%

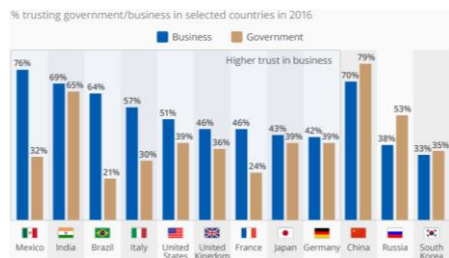
[Bloomberg](#)

What are the chances of rising to the top?



[OECD](#)

How global trust in business compares to government



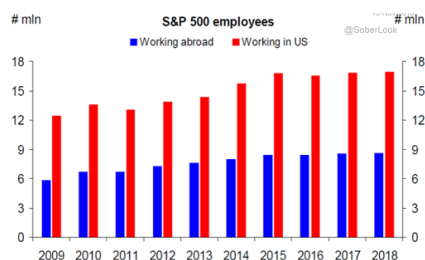
Statista

There were 814 billionaires in Asia Pacific and China in 2017, up from 178 in 2007



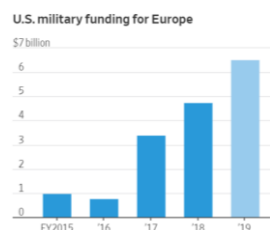
The Guardian

Roughly 1/3 of employees in S&P 500 companies work abroad



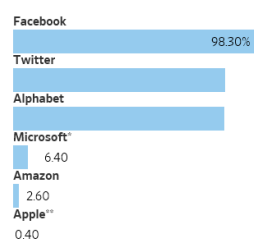
Deutsche Bank Research (via WSJ's Daily Shot)

The Pentagon is reinforcing European operations despite trans-Atlantic tensions over defense spending



The Wall Street Journal

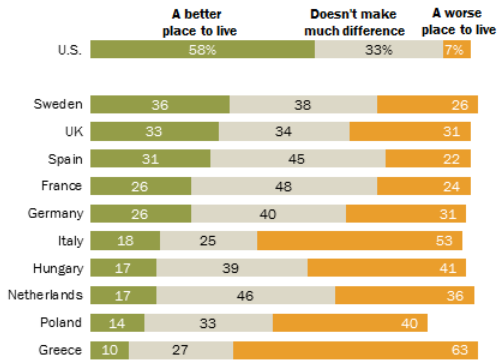
"The price of free": Advertising share of total revenue



The Wall Street Journal

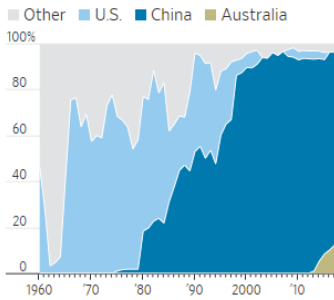
In views of diversity, many Europeans are less positive than Americans

Do you think having an increasing number of people of many different races, ethnic groups and nationalities in our country makes it a better place to live, a worse place to live or doesn't make much difference either way?



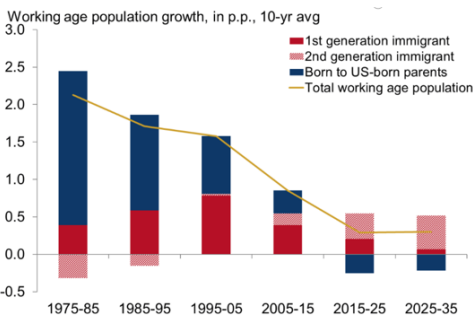
[Pew Research Center](#)

China's heavy hand: Share of global rare earth production



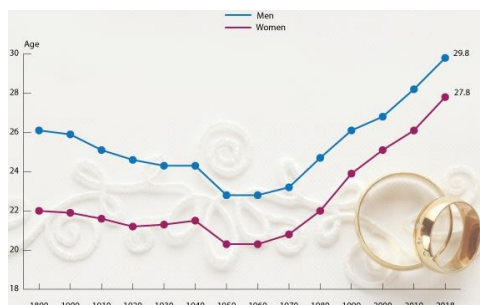
[The Wall Street Journal](#)

US: Immigration driving growth in labor force



[Oxford Economics](#)

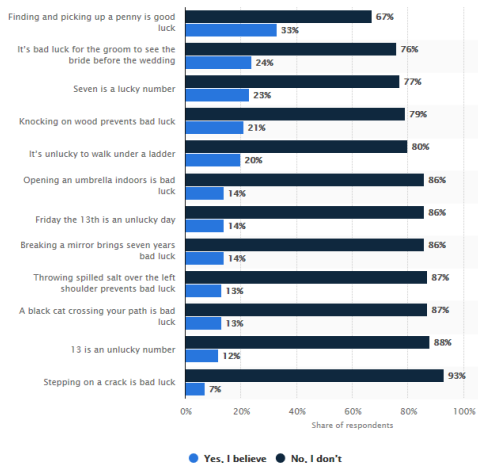
People are waiting to get married: Median age at first marriage: 1890 to present



[United States Census Bureau](#)

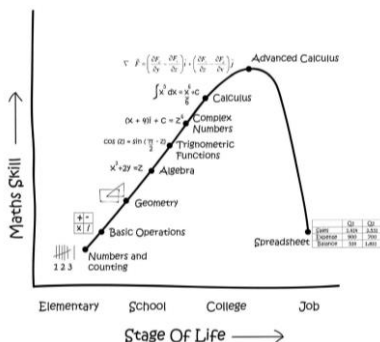
TIME OUT

Superstition: Do you believe the following, or not?



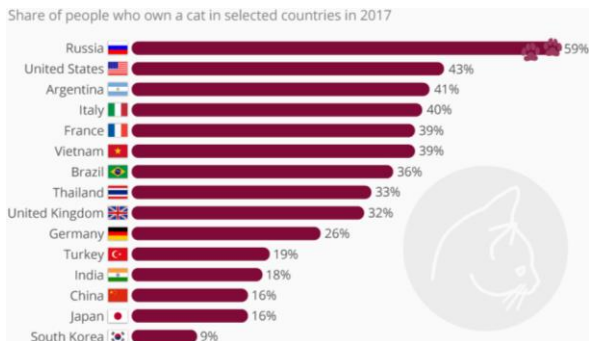
Statista

Sounds about right



Zee Kay

Which countries have the most cat owners?



Statista

"Bringing home the bacon": Idioms referencing meat may become obsolete as veganism rises

You may think phrases like "bringing home the bacon" and "putting all your eggs in one basket" are harmless quirks of the English language, but they could be offending vegans and vegetarians, with one academic claiming they might end up being avoided altogether as a result. As research shows more [people are removing animal products](#) from their diets than ever before, Shareena Hamzah of Swansea University says idioms involving animal products could be rendered obsolete because they are out of touch with the zeitgeist.

Writing for [The Conversation](#), the researcher explains how meat-based metaphors are a popular staple of our everyday vernacular but that an increased awareness in the environmental and ethical issues surrounding meat production "will undoubtedly be reflected in our language and literature" and that this language may no longer be so widely accepted. "In today's reality, meat is repeatedly the subject of much socially and politically charged discussion, including about how the demand for meat is contributing to climate change and environmental degradation," she continues.

"Given that fiction often reflects on real world events and societal issues, it may very well be that down the line powerful meat metaphors are eschewed. "The increased awareness of vegan issues will filter through consciousness to produce new modes of expression." Hamzah highlights the violent imagery proposed by popular idioms such as "flogging a dead horse" and "killing two birds with one stone" and suggests we may move to kinder alternatives such as "feeding a fed horse" or "feeding two birds with one scone".

Animal rights organization PETA has been campaigning for more vegan and vegetarian-friendly idioms for years, urging teachers not to use phrases that perpetuate violence towards animals. "These old sayings are often passed down in classrooms during lessons on literary devices," a [blog post](#) on its website reads. "While these phrases may seem harmless, they carry meaning and can send mixed signals to students about the relationship between humans and animals and can normalize abuse. Teaching students to use animal-friendly language can cultivate positive relationships between all beings and help end the epidemic of youth violence toward animals." Adding to Hamzah's list of cruelty-free alternatives, PETA suggests "bringing home the bagels" as opposed to the bacon and instead of "putting all your eggs in one basket", why not try "putting all of your berries in a bowl"?

[The Independent](#)

Professor accuses God of being a sexual predator for impregnating Virgin Mary "without her consent"

- Associate professor Eric Sprankle made the critique via Twitter
- He teaches psychology and 'sexuality studies' at the public Minnesota State
- Accused Christian God of sexual misconduct for impregnating the Virgin Mary
- Said even though Mary agreed, her consent was negated by power differential
- Sprankle is a Satanist who decorated his Christmas tree with Satanic symbol

[Daily Mail](#)

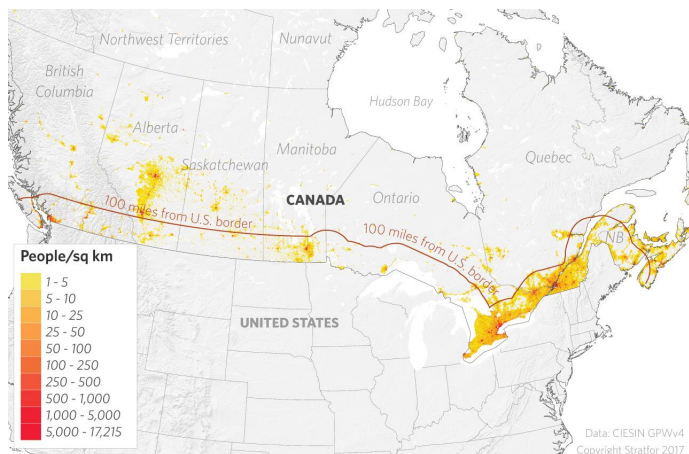
Nigeria's Buhari denies dying and being replaced by lookalike

Nigeria's President Muhammadu Buhari denied claims that he had died and been replaced by a Sudanese impostor, breaking his silence on a rumor that has circulated on social media for months. Buhari, who is running for re-election in February, spent five months in Britain last year being treated for an undisclosed illness. One theory widely aired on social media - and by some political opponents - was that he had been replaced by a lookalike from Sudan called Jubril.

No evidence has been presented, but videos making the claim have still been viewed thousands of times on YouTube and Facebook. "It's real me, I assure you. I will soon celebrate my 76th birthday and I will still go strong," Buhari told Nigerians in a town hall session in Poland, where he was attending a conference, when asked about Jubril. "A lot of people hoped that I died during my ill health," he said, adding that those who spread the rumor were "ignorant and irreligious". The presidency circulated Buhari's comments in an emailed statement entitled "It's Real Me, President Buhari Responds to Cloning Allegation".

[Reuters](#)

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