



Skänderbeg

Investment Management

Skänderbeg Investment Management AG, Aeulestrasse 20, 9490 Vaduz, Liechtenstein
T +423 373 11 30, info@skanderbeg.li, www.skanderbeg.li



Put into perspective

Ahead of the mainstream

February 2019

Written by
Bruno Schneller, CAIA & Miranda Ademaj

Contents:

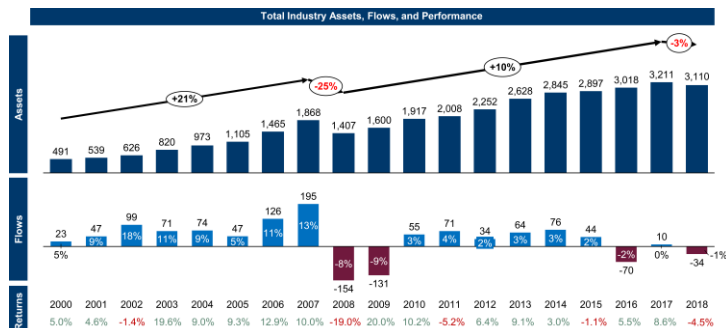
- Hedge funds (page 3)
- Markets (page 6)
- Think tank (page 15)
- Time out (page 19)

***"Investing should be more like watching paint dry or watching grass grow.
If you want excitement, take \$800 and go to Las Vegas."***

– Paul Samuelson

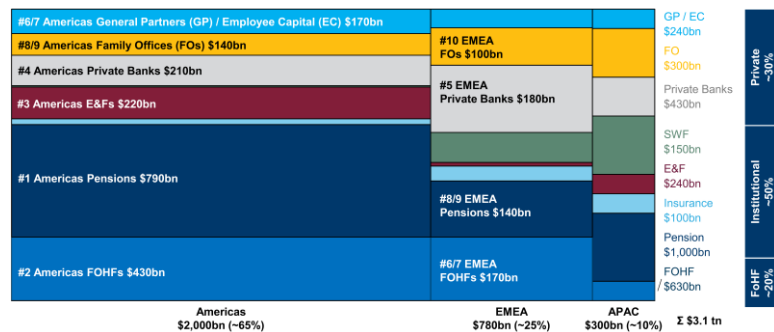
HEDGE FUNDS

2018 was a challenging year for the hedge fund industry both in terms of returns and flows



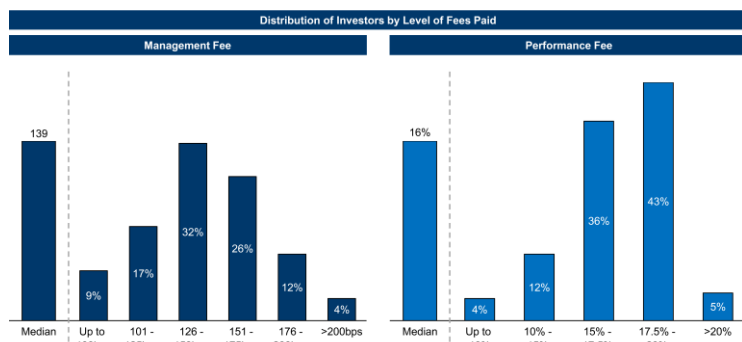
Barclays

Hedge funds AuM by investor type and geography



Barclays

Management and performance fees appear to have significant variation across investors



Barclays

Return dispersion among hedge fund strategies



Credit Suisse

12M pairwise correlations between monthly returns of hedge fund strategies



[Credit Suisse](#)

Performance differentials between best and worst hedge fund managers



[Credit Suisse](#)

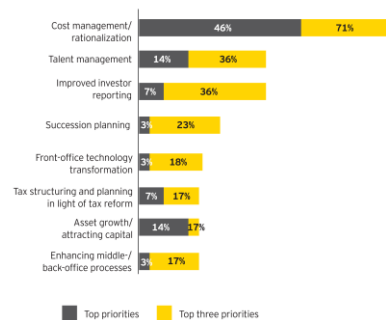
Hedge fund beta exposure to MSCI AC World



[Credit Suisse](#)

Investors want alternative managers to embrace innovation focused on cost management

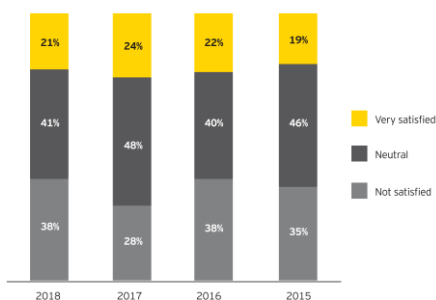
In which of the following areas would you most like to see your alternative fund managers become more "innovative" to positively benefit the business?



[EY](#)

Investor satisfaction with fees is not improving

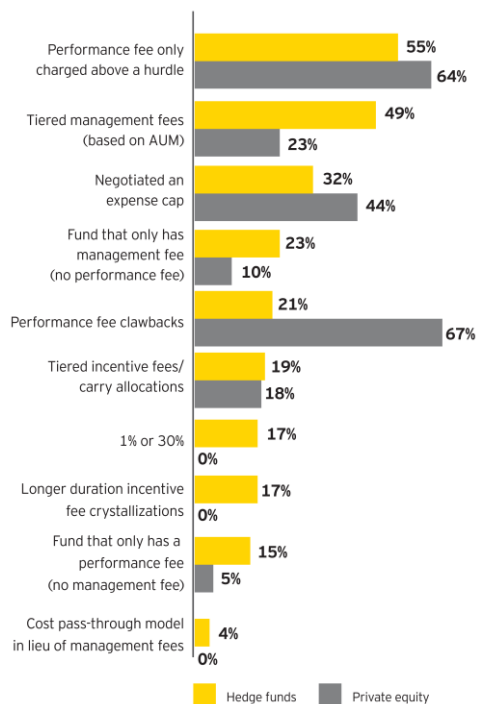
How satisfied are you with the expense ratio of the funds in which you invest?



[EY](#)

Fee structures are rapidly evolving

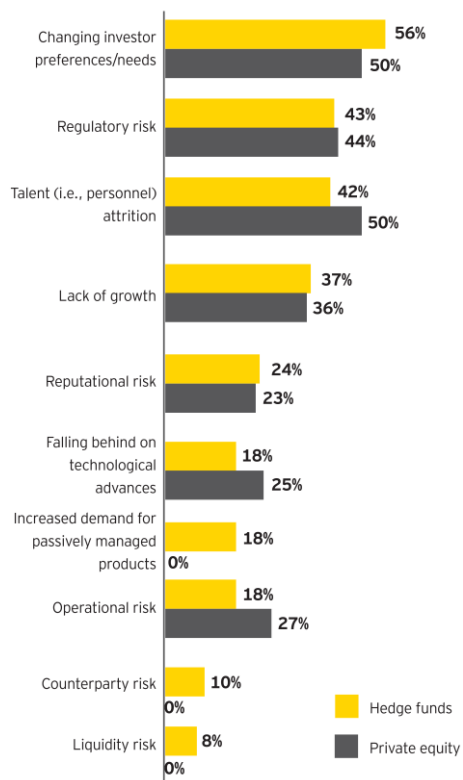
Which of the following nontraditional fee structures do you offer for your commingled funds?



EY

Future risks facing the industry

What do you believe are the greatest risks (excluding performance) facing your organization?



EY

MARKETS

Newsflow indices dropped sharply in January

Chart 2: Global Economic NewsFlow

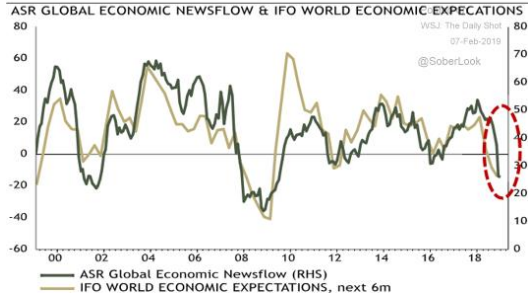
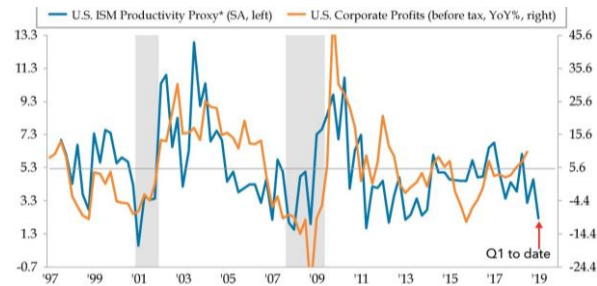


Chart 4: Global Revenues NewsFlow



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

Productivity: No fundamental support for corporate earnings



Quill Intelligence (via [Liz Ann Sonders](#))

Covenant-lite loans and lower recovery levels will become a problem for investors in the next recession

Figure 164: Cov-lite is here to stay

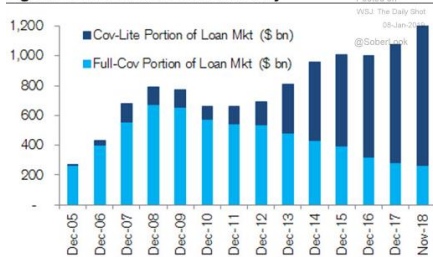
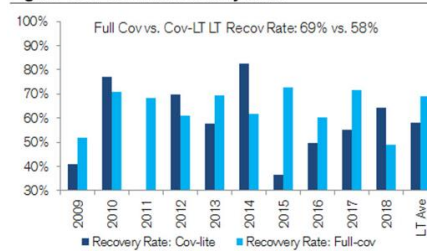
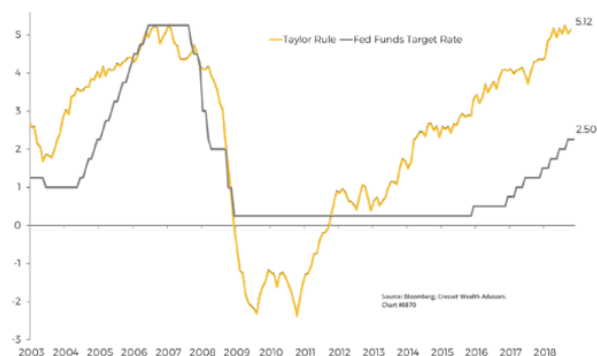


Figure 165: Cov-lite recovery rates



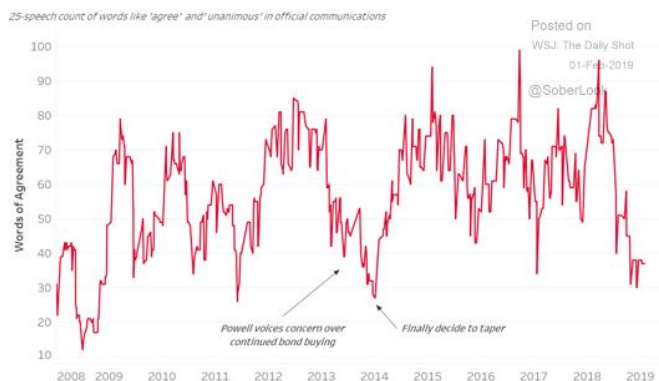
Credit Suisse (via [WSJ's Daily Shot](#))

Here is the Taylor Rule rate for the US vs. the fed funds target



Cresset Capital Management

Federal Reserve in least agreement since taper tantrum



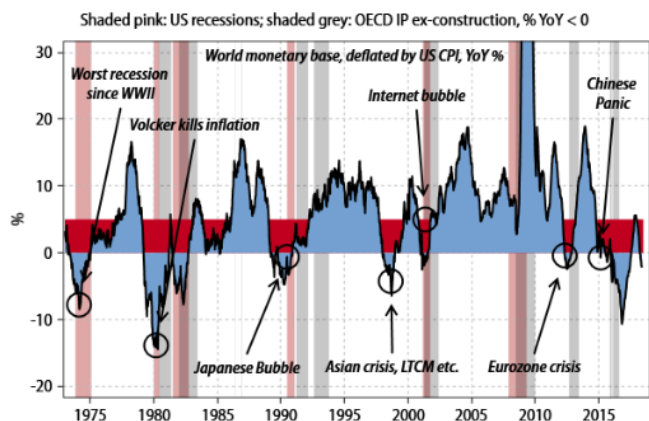
Arbor Data Science (via WSJ's Daily Shot)

No core inflation lift off in sight yet



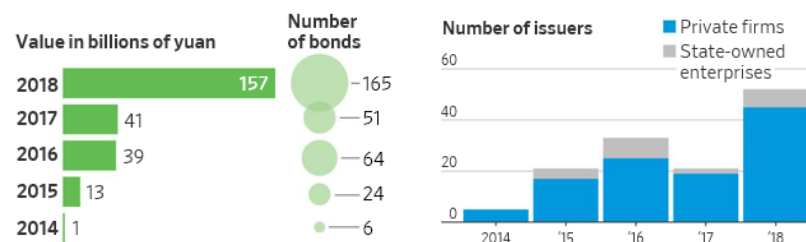
Danske Bank (via WSJ's Daily Shot)

When the world monetary base contracts, trouble soon follows



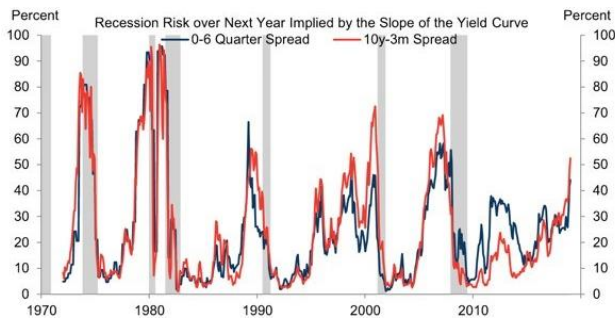
Gavekal (via Zero Hedge)

Defaults in China soared last year



The Wall Street Journal

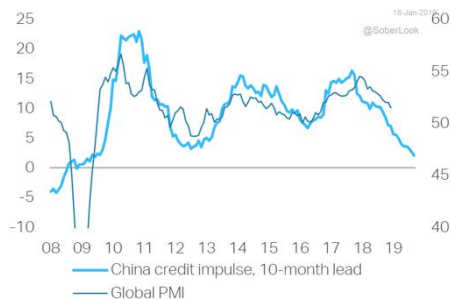
The slope of the yield curve now points to sharply higher recession risk within a year



Goldman Sachs

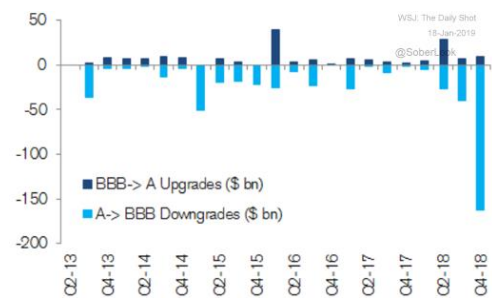
China leads the world

Will China's tighter credit conditions further curtail global growth? Or will the nation's aggressive stimulus efforts stabilize the situation?



TS Lombard (via WSJ's Daily Shot)

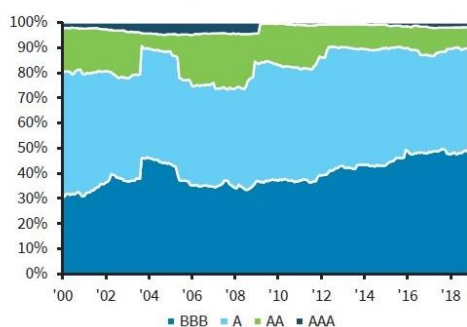
Q4 saw significant surge in IG downgrades



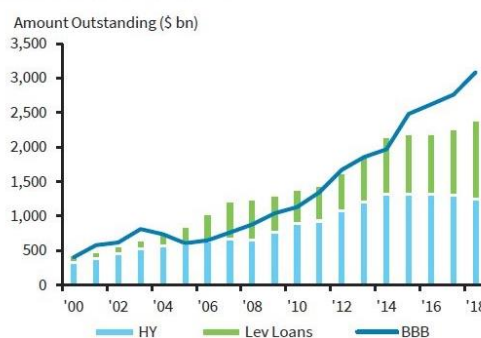
Credit Suisse (via WSJ's Daily Shot)

Amount of BBB-rated debt outstanding is now bigger than the combined HY and leveraged loan indices

BBBs Continue to Represent a Larger Portion of the Investment Grade Index...

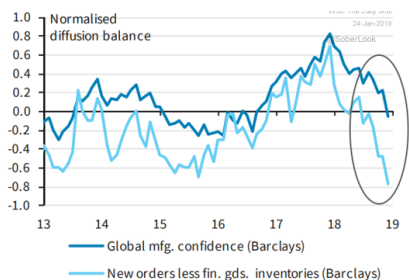


...And Are Now Larger in Size Than the Combined High Yield and Leveraged Loan Indices



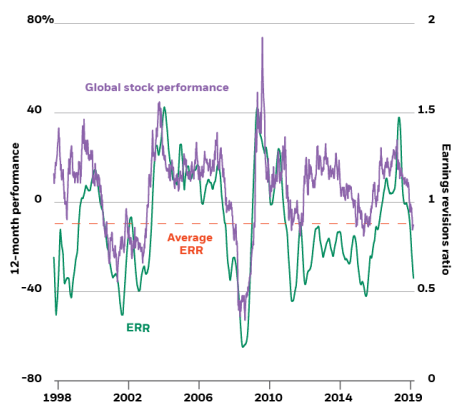
Barclays (via Tracy Alloway)

Global slowdown: This chart shows manufacturing confidence vs. "new orders less inventories"



[Barclays](#) (via [WSJ's Daily Shot](#))

Global stock performance and earnings revisions ratio, 1998-2019



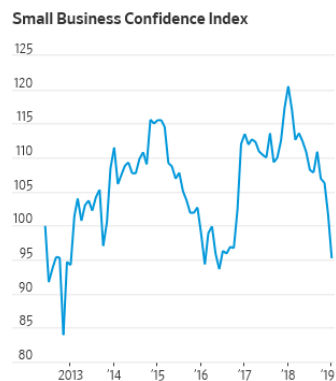
[BlackRock](#)

World industry closely linked to Chinese cycle – substantial downside risks



[Oxford Economics](#)

Small businesses are waving the caution flag



[The Wall Street Journal](#)

No inflows into equity funds despite strong rally



Deutsche Bank Research (via [The Automatic Earth](#))

The average size of earnings beats has been smaller than in the past

Figure 3: Lowest beats in 7 years in terms of both size...

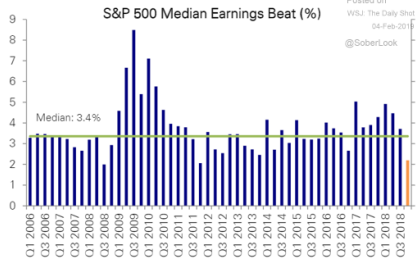
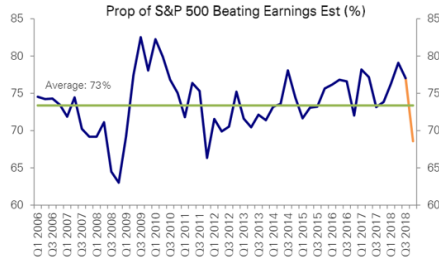
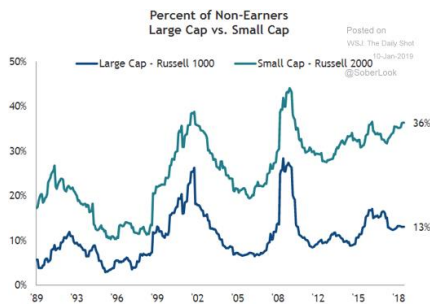


Figure 4: ... and breadth



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

The percentage of small-cap firms with negative earnings continues to climb



SunTrust Private Wealth Management (via [WSJ's Daily Shot](#))

Tighter financial conditions are expected to be a drag on growth this year

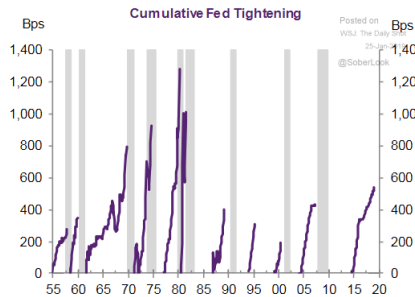


BlackRock (via [Carl Quintanilla](#))

Combination of rate increases and balance sheet reduction resulted in a much sharper policy tightening

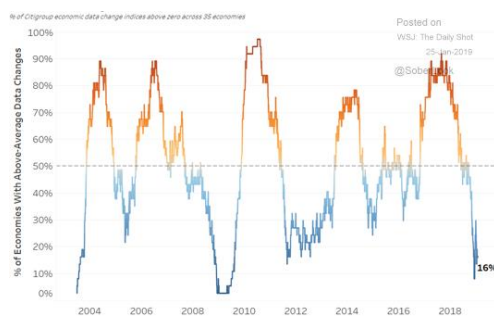
Economists at the Atlanta Fed created a shadow fed funds rate to measure the full effects of quantitative easing and forward guidance on the funds rate during and after the financial crisis. This rate provides a more accurate reading of the "true" level of the fed funds rate given the zero bound. For example, at one stage of the economic recovery, the shadow rate was in sharply negative territory, while the official fed

funds rate was slightly above zero. Since then, the shadow rate has meaningfully increased, and the cumulative amount of monetary tightening has been substantial.



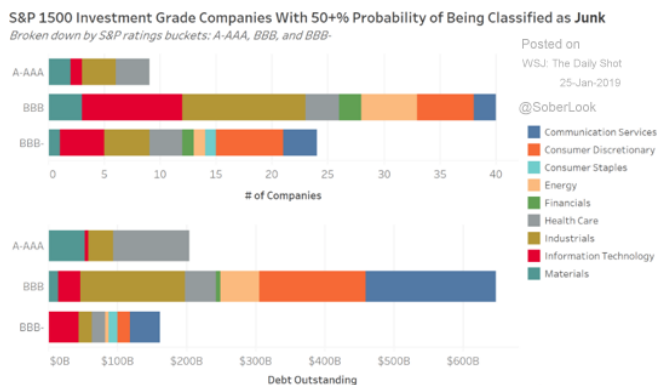
Natixis (via [WSJ's Daily Shot](#))

Economic data changes sour across the globe



Arbor Data Science (via [WSJ's Daily Shot](#))

Fallen angels could become a bigger problem this year



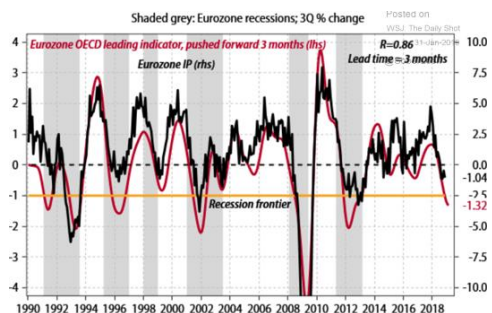
Arbor Data Science (via [WSJ's Daily Shot](#))

Some of the most bearish indicators hint that US unemployment has already troughed



Nordea (via [Zero Hedge](#))

Eurozone OECD leading indicator vs IP looks ugly



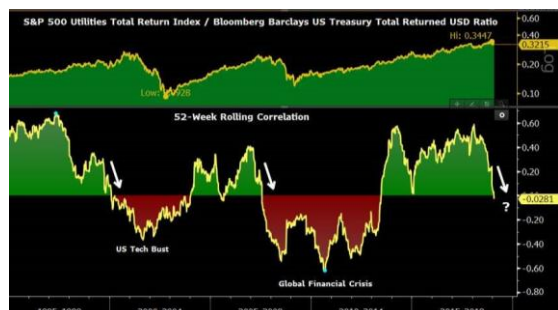
Gavekal (via WSJ's Daily Shot)

Labor inversions are recession signals



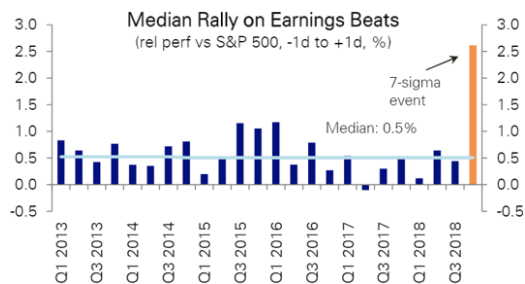
Quill Intelligence (via Liz Ann Sonders)

The correlation between utilities and treasuries has just turned negative again



Crescat Capital

Outperformance after reporting is off the charts



Deutsche Bank Research

Will the Fed's quantitative tightening put further downward pressure on the market this year?

The recent years have shown an uncanny relationship between the variation in the supply of effective marketable Treasury securities, and stock market returns. Presently, the Fed is at a critical juncture: caught between tight financial conditions and a balance sheet runoff that is

on "autopilot." As a result of this, the palpable effects on equities are yet to be fully realized heading deeper into 2019. Monetary policy will continue to be the most pertinent financial market dynamic going forward.



Natixis (via [WSJ's Daily Shot](#))

China: Economic activity indicators point to deterioration that is not fully visible in the official figures



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

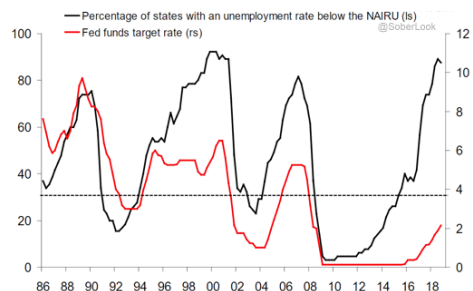
US manufacturing growth continues to outperform China and the Eurozone



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

Getting closer to the terminal Fed funds rate?

The Fed funds rate normally peaks when 80% of states have unemployment below the NAIRU.



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

Video of the month

Paul Volcker & Ray Dalio | State of the US economy & government

Ray Dalio sat down with one of his greatest heroes, Paul Volcker, to talk about the state of the economy and US government as well as learn about the principles that guided his incredible career. They also discuss the decline of civil service and how Paul hopes to revitalize the field with The Volcker Alliance by working with universities and the government to train people effectively and efficiently and minimize the bureaucratic hurdles that deter people from pursuing government jobs.



[Click to watch](#)

[Principles by Ray Dalio](#)

Tweet of the month



Hipster @Hipster_Trader Following

Is this headline from today or 6 months ago?

Streetinsider.com @Street_Insider
White House Adviser Conway says it looks like U.S., China are getting closer to a trade deal - Fox. Says Trump, Xi to meet very soon \$SPY

5:35 AM - 11 Feb 2019

6 Retweets 105 Likes

[Hipster Trader](#)

Joke of the month

IoT is when the toaster mines Bitcoins to pay off its gambling debts to the fridge.

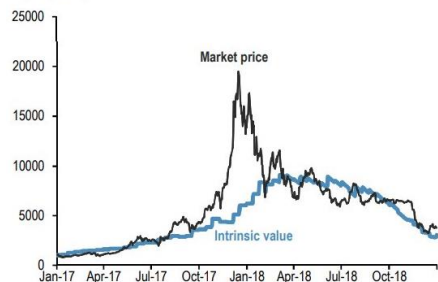
Cartoon of the month



THINK TANK

The cost of mining is now the primary driver of Bitcoin's price

Figure 19: Bitcoin market price and intrinsic value
 \$: intrinsic value estimated using the cost of production approach following Hayes (2018)

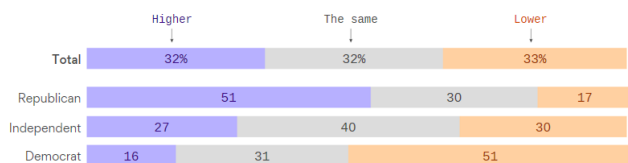


JP Morgan (via Sam Ro)

The partisan split on the stock market

Will the stock market be higher or lower than it is today at the end of 2019?

Survey of U.S. adults on Dec. 17-18, 2018

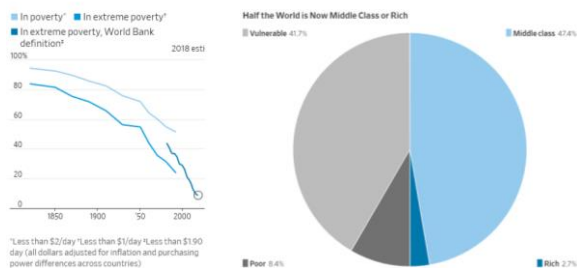


Axios

The world is getting quietly, relentlessly better

Got to Admit It's Getting Better

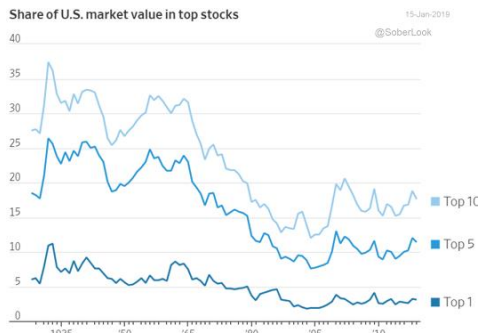
Share of world population living in poverty



The Wall Street Journal

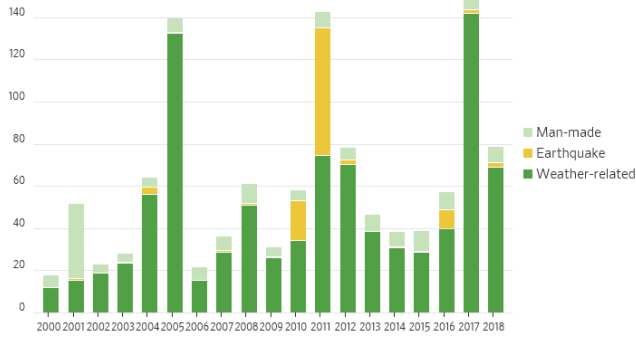
The top stocks of today make up less of the overall market than did the top stocks in earlier eras

Share of U.S. market value in top stocks



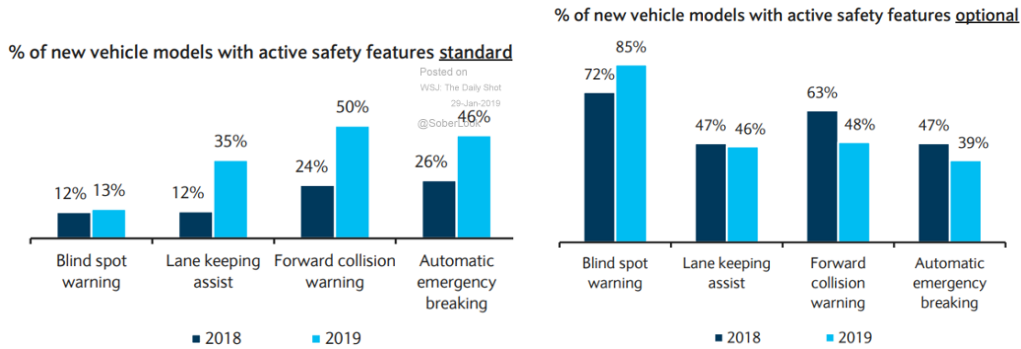
The Wall Street Journal (via WSJ's Daily Shot)

Claims storm: insured losses worldwide



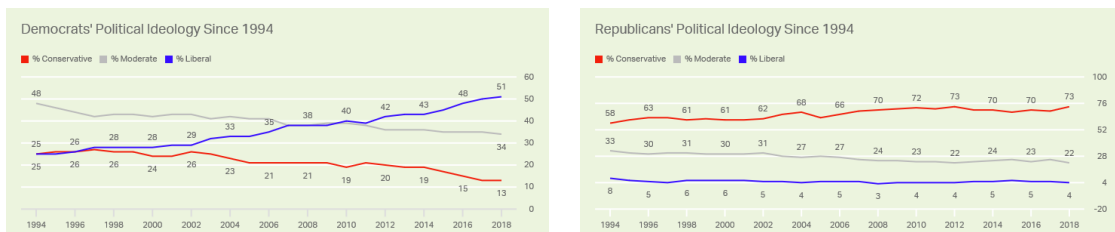
[The Wall Street Journal](#)

Standard and optional safety features in new vehicles



[Barclays \(via WSJ's Daily Shot\)](#)

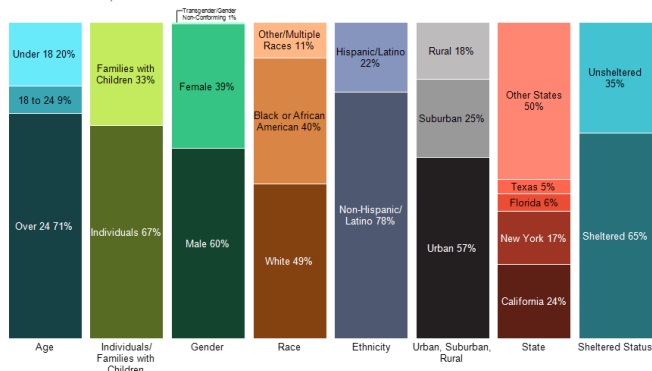
Majority of democrats identify as liberal / Republicans remain a majority conservative party



[Gallup](#)

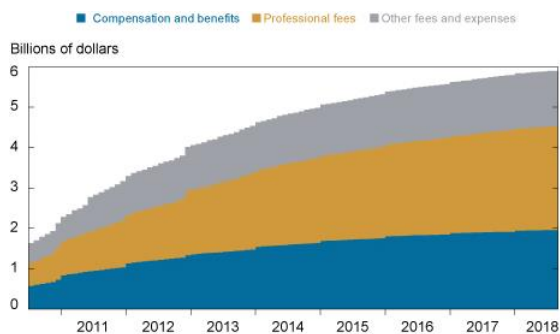
Profile of America's homeless

While the 553,000 homeless in the US are more likely to be over 24, male, and on their own, one third of the homeless are members of families with children.



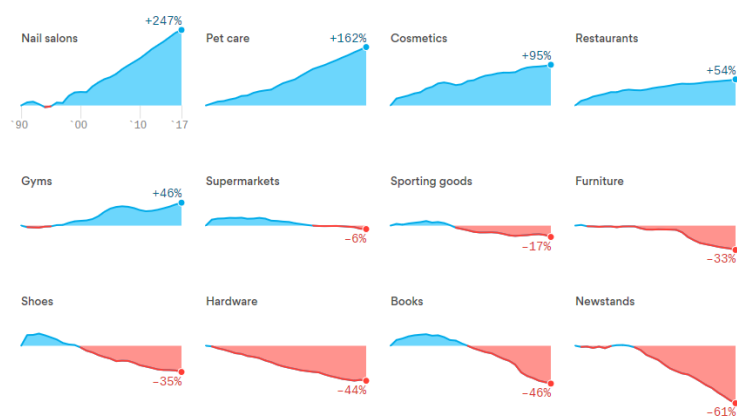
[Mekko Graphics](#)

Lehman's cumulative chapter 11 expenses



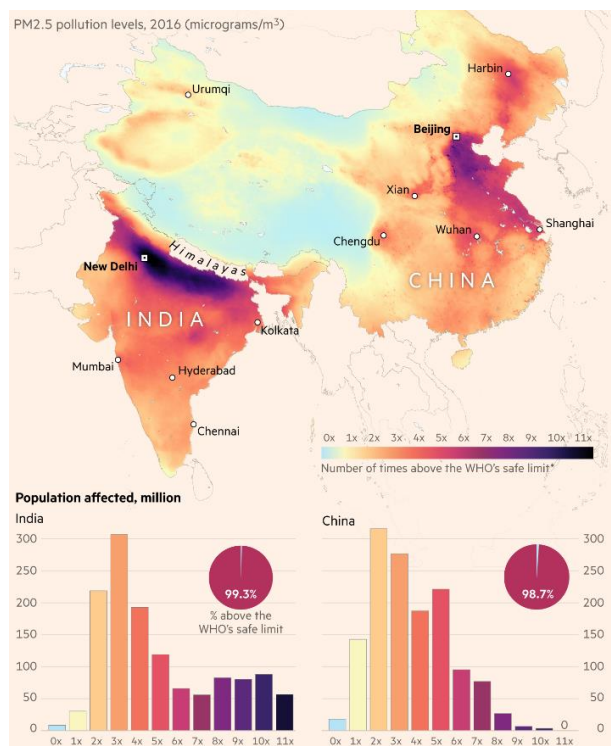
Liberty Street Economics

Change in storefronts per capita, 1990 to 2017



Axios

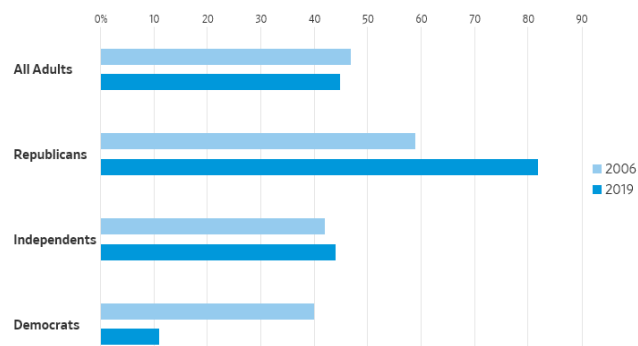
India's air quality is now far worse than China's ever was



Financial Times

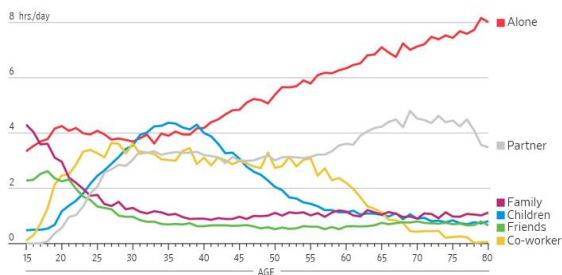
A partisan shift on the border wall

Share favoring a wall or fence between the U.S. and Mexico



[The Wall Street Journal](#)

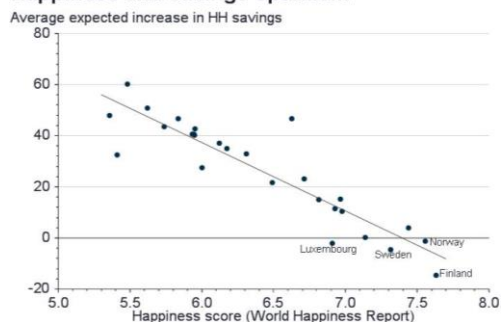
The average time we spend with friends, alone, and with other categories of people, as we get older



[The Wall Street Journal](#)

Savings optimism vs. the happiness score (populations that plan to save less seem happier)

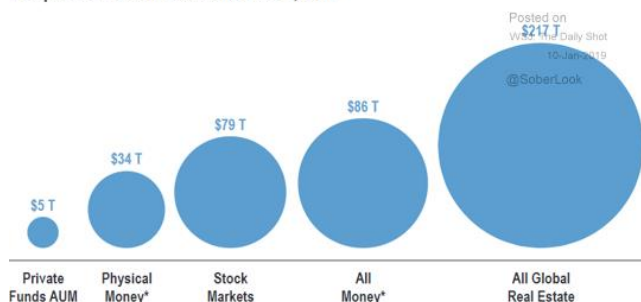
Happiness and savings optimism



[Fathom Consulting](#)

This chart shows the relative sizes of global asset classes

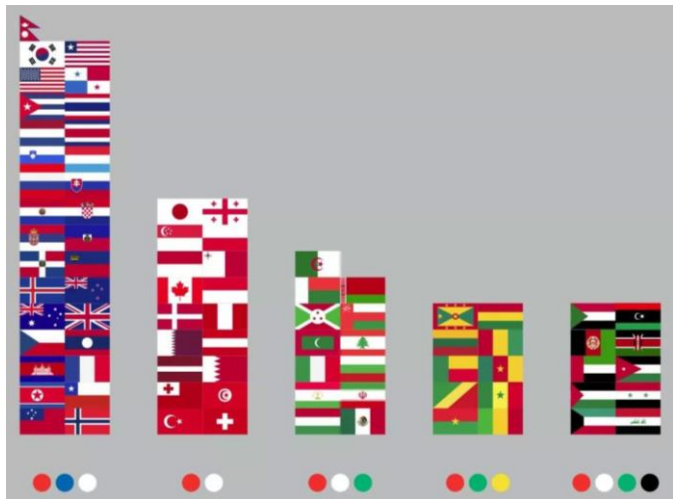
Perspective – Global Asset Class Sizes, 2017



[Park Madison Partners](#) (via [WSJ's Daily Shot](#))

TIME OUT

Most used color combinations

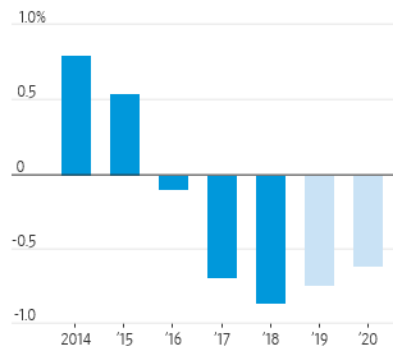


[Flag Stories](#)

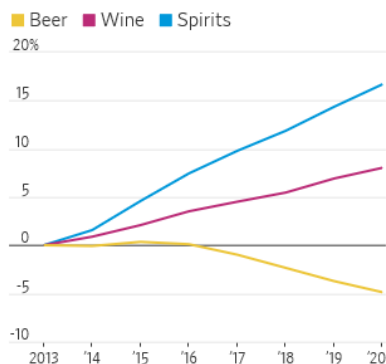
Americans drink less alcohol

U.S. alcohol volumes have been declining.

Change from a year earlier



Change in U.S. alcohol consumption, by type

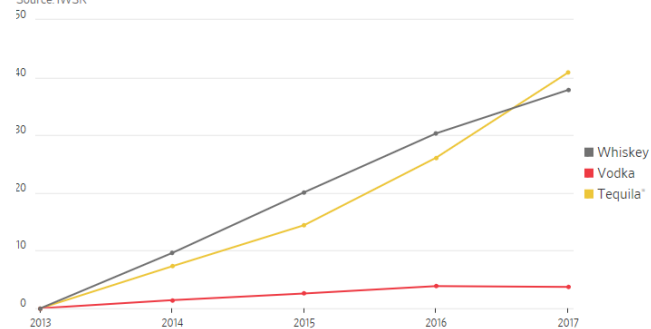


[The Wall Street Journal](#)

Vodka makers have struggled to grow as consumers increasingly opt for tequila and whiskey

Change in sales by value since 2013

* Also includes Mezcal
Source: IWSR



[The Wall Street Journal](#)

Bruno Schneller, CAIA



Bruno Schneller is the co-founder and CIO of Skänderbeg Investment Management AG. Prior to establishing the company, Bruno worked at investment boutique and fund of hedge funds pioneer BrunnerInvest AG.

Prior to BrunnerInvest AG, Bruno worked at AXA Private Equity in 2007 and at Zurich-based hedge fund Naissance Capital Ltd. in 2006.

 [LinkedIn profile](#)

Miranda Ademaj



Miranda Ademaj is the co-founder and CEO of Skänderbeg Investment Management AG.

Prior to establishing the company, Miranda worked at BrunnerInvest AG and Sallfort Privatbank AG. Before that, she worked at Credit Suisse for several years.

 [LinkedIn profile](#)

About us

Liechtenstein-based **Skänderbeg Investment Management AG**, wholly-owned subsidiary of Swiss-based Skänderbeg Alternative Investments AG, is an asset manager authorized and regulated by the Financial Market Authority Liechtenstein (FMA). The company is incorporated in Vaduz under number FL-0002.579.371-8. To subscribe to our monthly "Put into Perspective" newsletter, please visit www.skenderbeg.li.

Contact us

Skänderbeg Investment Management AG

Aeulestrasse 20
9490 Vaduz
Liechtenstein
info@skenderbeg.li
T: +423 373 11 30



Disclaimers

Put in perspective is published by Skänderbeg Investment Management AG. Information contained in this publication is obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. The information contained in this publication is not intended to constitute individual investment advice and is not designed to meet your personal financial situation. The opinions expressed in this publication are those of the publisher and are subject to change without notice. The information in this publication may become outdated and there is no obligation to update any such information.

Bruno Schneller and Miranda Ademaj, the editors of this publication, are the founders of Skänderbeg Investment Management AG. Skänderbeg Investment Management AG, subsidiaries, employees, officers, family, and associates may from time to time have positions in the securities or commodities covered in these publications. Corporate policies are in effect that attempt to avoid potential conflicts of interest and resolve conflicts of interest that do arise in a timely fashion.

Skänderbeg Investment Management AG reserves the right to cancel any subscription at any time. Cancellation of a subscription may result from any unauthorized use or reproduction or rebroadcast of any Skänderbeg Investment Management AG publication or website, any infringement or misappropriation of Skänderbeg Investment Management AG's proprietary rights, or any other reason determined in the sole discretion of Skänderbeg Investment Management AG.