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Skagens South Beach, October after sunset, 1905. Detail, by Carl Locher, one of the Skagen painters. This image belongs to the Skagens Museum.

# SKAGEN Tellus

## Status Report March 2016

The art of common sense



# Key numbers as of 31.03.2016

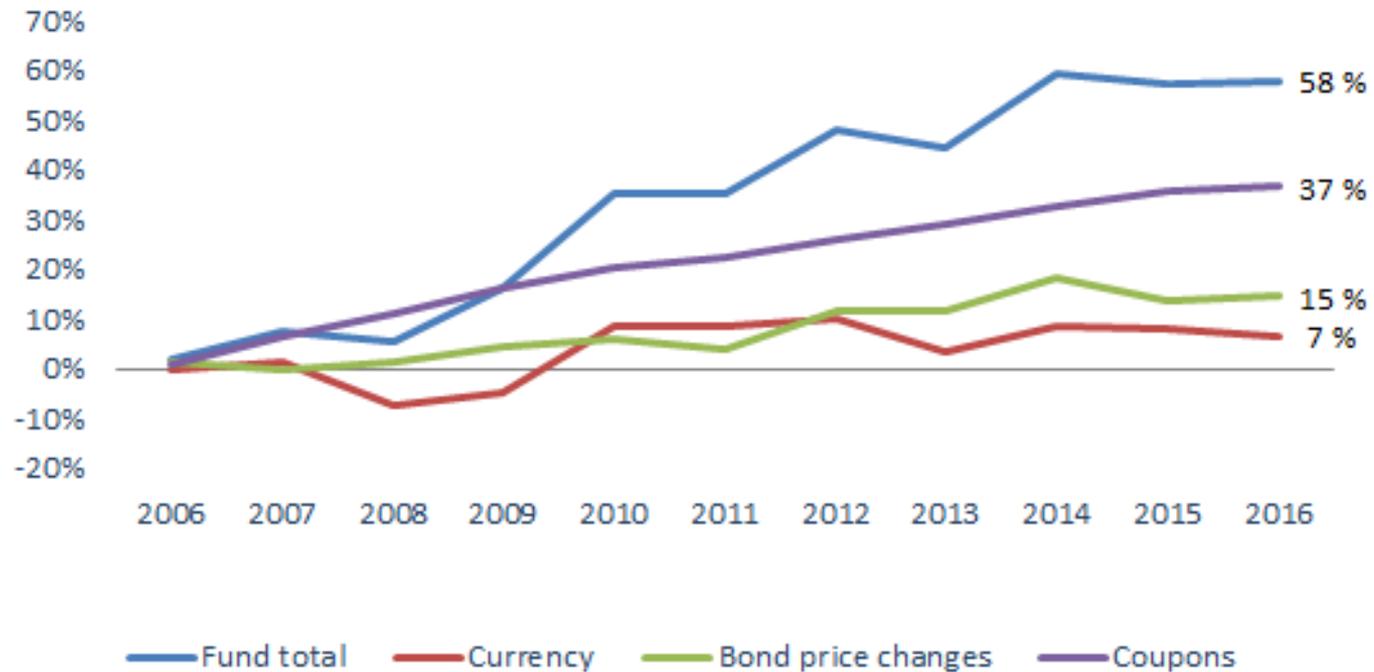
	March	QTD	2015	1 years	3 years	5 years	Since inception*
SKAGEN Tellus A	-0,7%	0,2%	-0,9%	-10,1%	2,1%	4,9%	5,2%
JPM Broad GBI Unhedged	-2,3%	1,7%	8,1%	-0,5%	4,9%	5,3%	5,1%
Excess return	1,6%	-1,5%	-9,0%	-9,6%	-2,8%	-0,4%	0,1%

*\*Inception date: 29/09/2006*

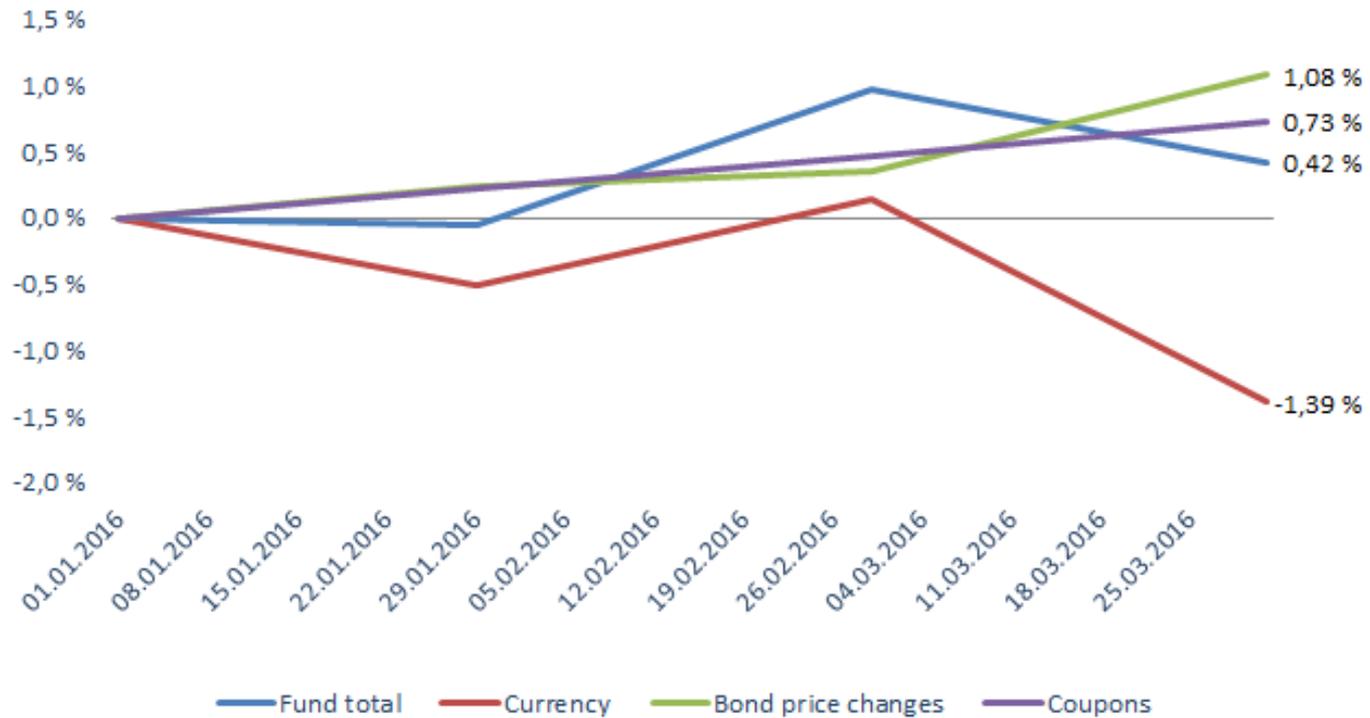
*Benchmark index before 01/01/2013 was Barclay's Capital Global Treasury Index 3-5 years*

*Unless otherwise stated, all performance data in this report relates to class A units, measured in EUR and is net of fees.*

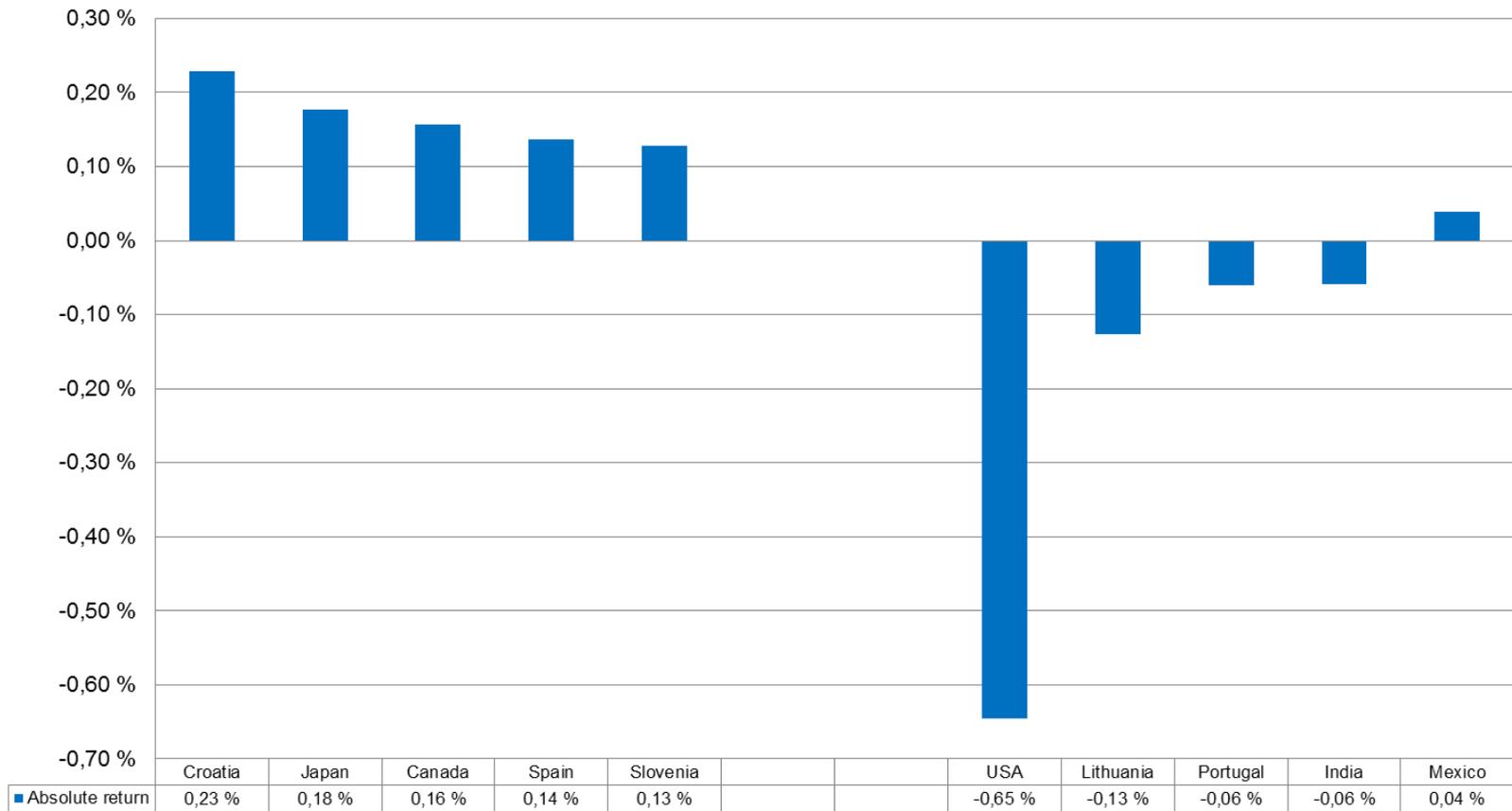
# Accumulated returns since inception in EUR



# Accumulated returns year to date in EUR



# Top 5 best and worst contributors year to date

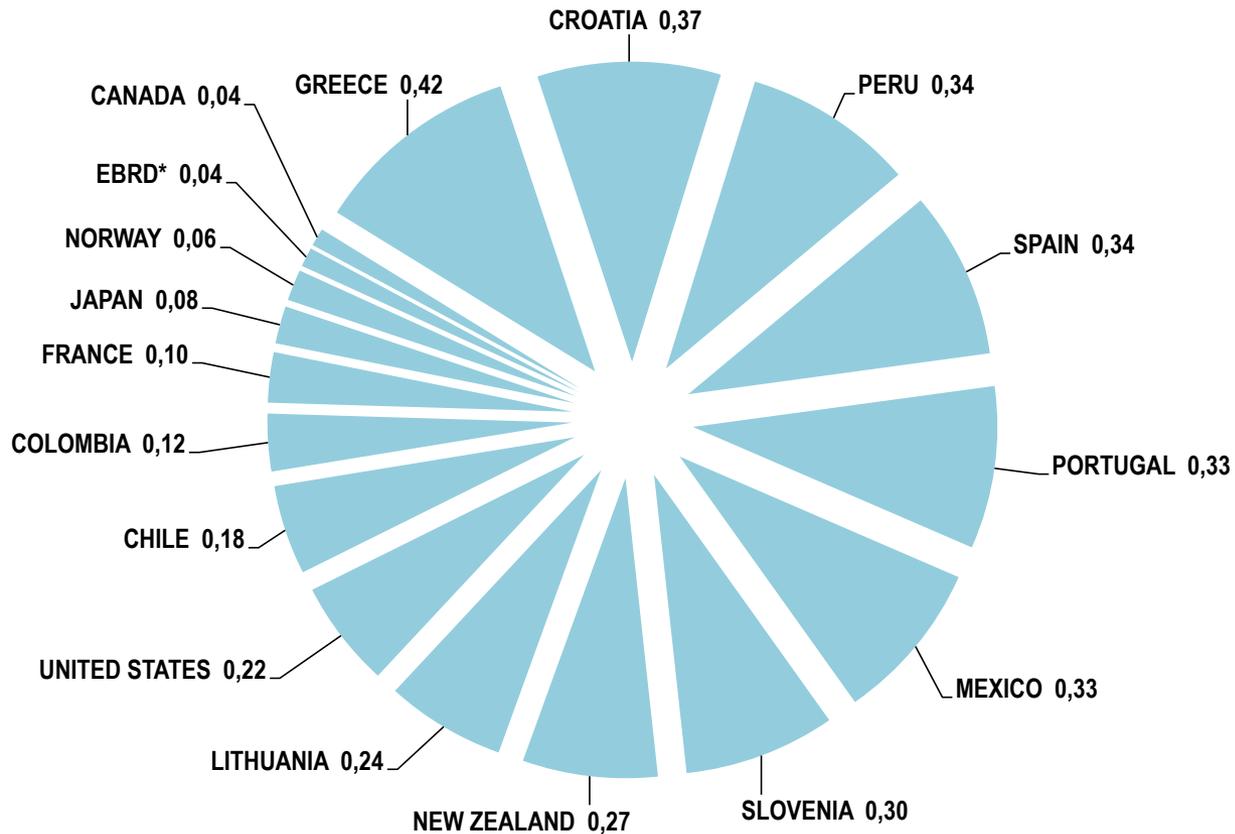


Contributing factors are interest coupons, bond price changes and currency fluctuations

# Portfolio 31.3.2016

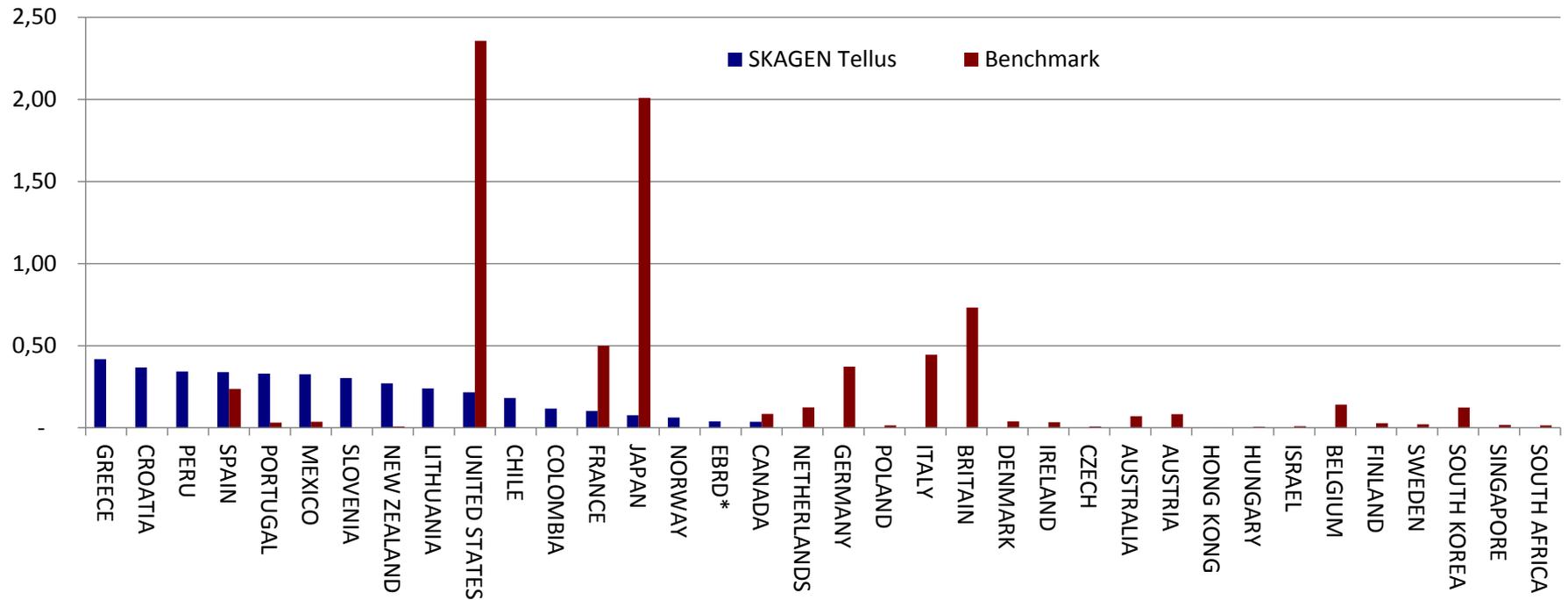
Holding Name	CRNCY	Holding	Percent	Maturity Date	Coupon
US Government	USD	12 800	9,5	31.08.2016	0,5
US Government	USD	10 800	8,0	30.06.2017	0,6
US Government	USD	10 000	7,4	30.11.2016	0,9
Croatia Government International Bond	EUR	8 300	7,4	30.05.2022	3,9
Japan Government	JPY	900 000	6,0	20.06.2016	1,9
Canadian Government	CAD	10 000	5,8	01.11.2016	1,0
Norwegian Government	NOK	60 000	5,8	19.05.2017	4,3
Chilean Government	CLP	4 410 000	5,1	05.08.2020	5,5
New Zealand Government	NZD	8 000	5,0	17.04.2023	5,5
Lithuanian Government	USD	5 500	5,0	01.02.2022	6,6
Hellenic Republic Government	EUR	9 000	4,4	24.02.2035	3,0
Spanish Government	EUR	5 000	4,4	30.04.2025	1,6
Portugese Government	EUR	5 000	4,3	15.10.2025	2,9
Slovenia Government	EUR	3 500	4,0	30.03.2026	5,1
Peruvian Government	PEN	18 000	3,8	12.08.2037	6,9
Mexican Government	MXN	60 000	3,7	20.11.2036	10,0
Japan Government	JPY	550 000	3,6	16.10.2017	0,1
Colombian Government	COP	13 400 000	3,6	14.04.2021	7,8
European Bank Recon & Dev	INR	200 000	2,2	19.03.2018	5,8

# Interest rate risk exposure

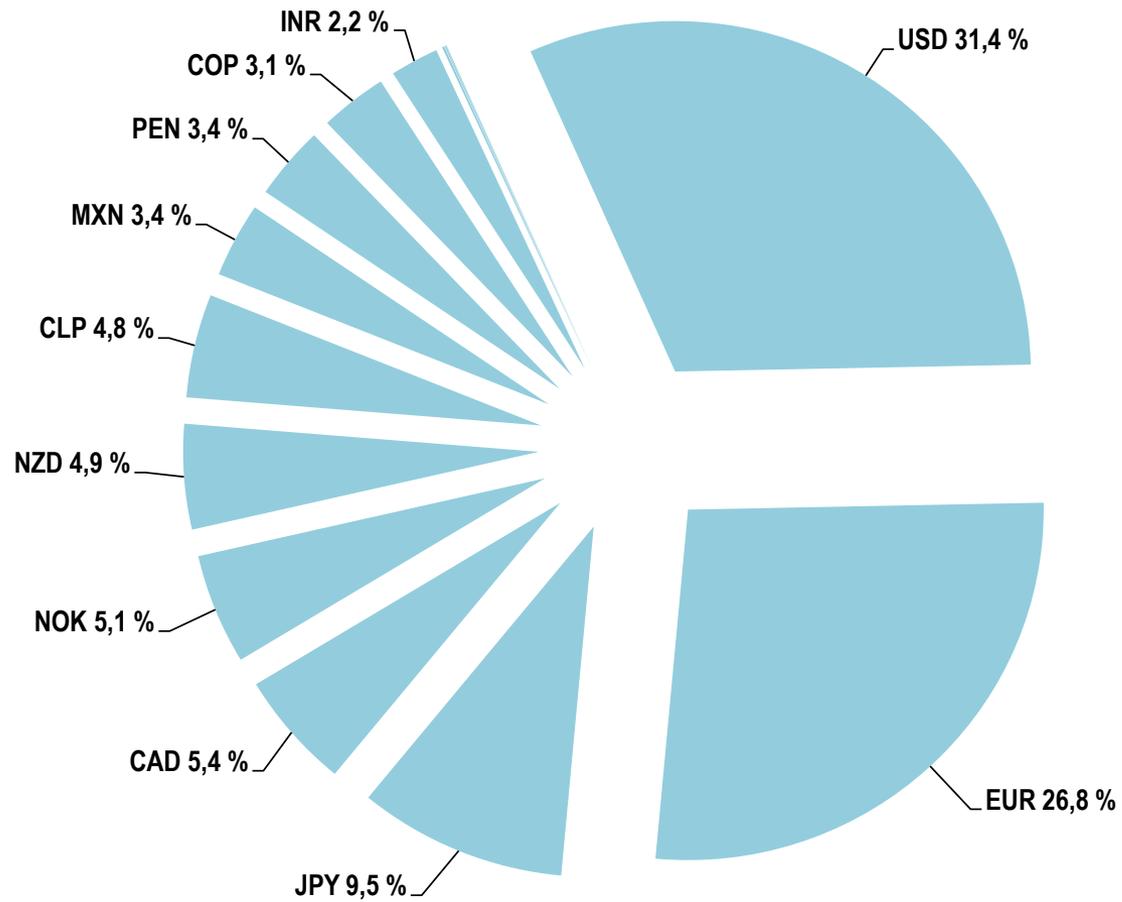


EBRD\* : European Bank of Reconstruction & Development

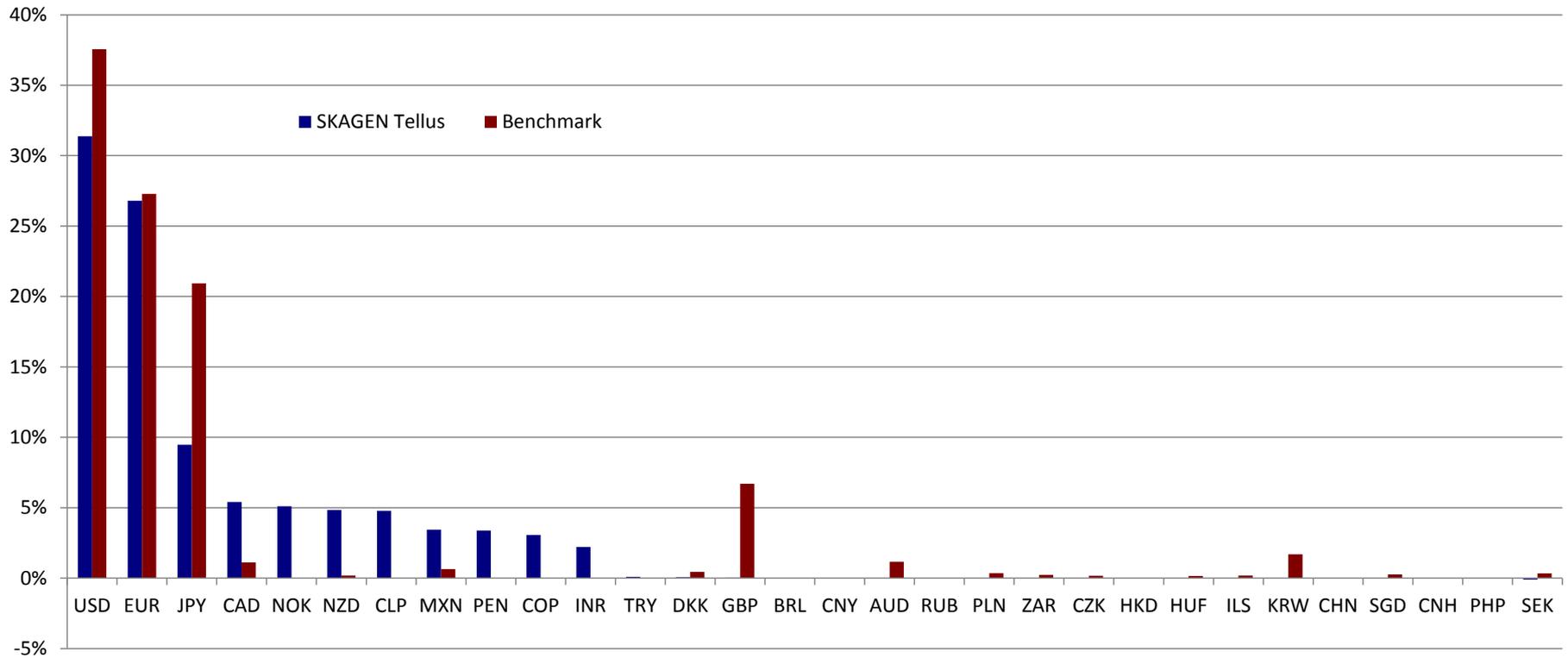
# Interest rate exposure relative to benchmark



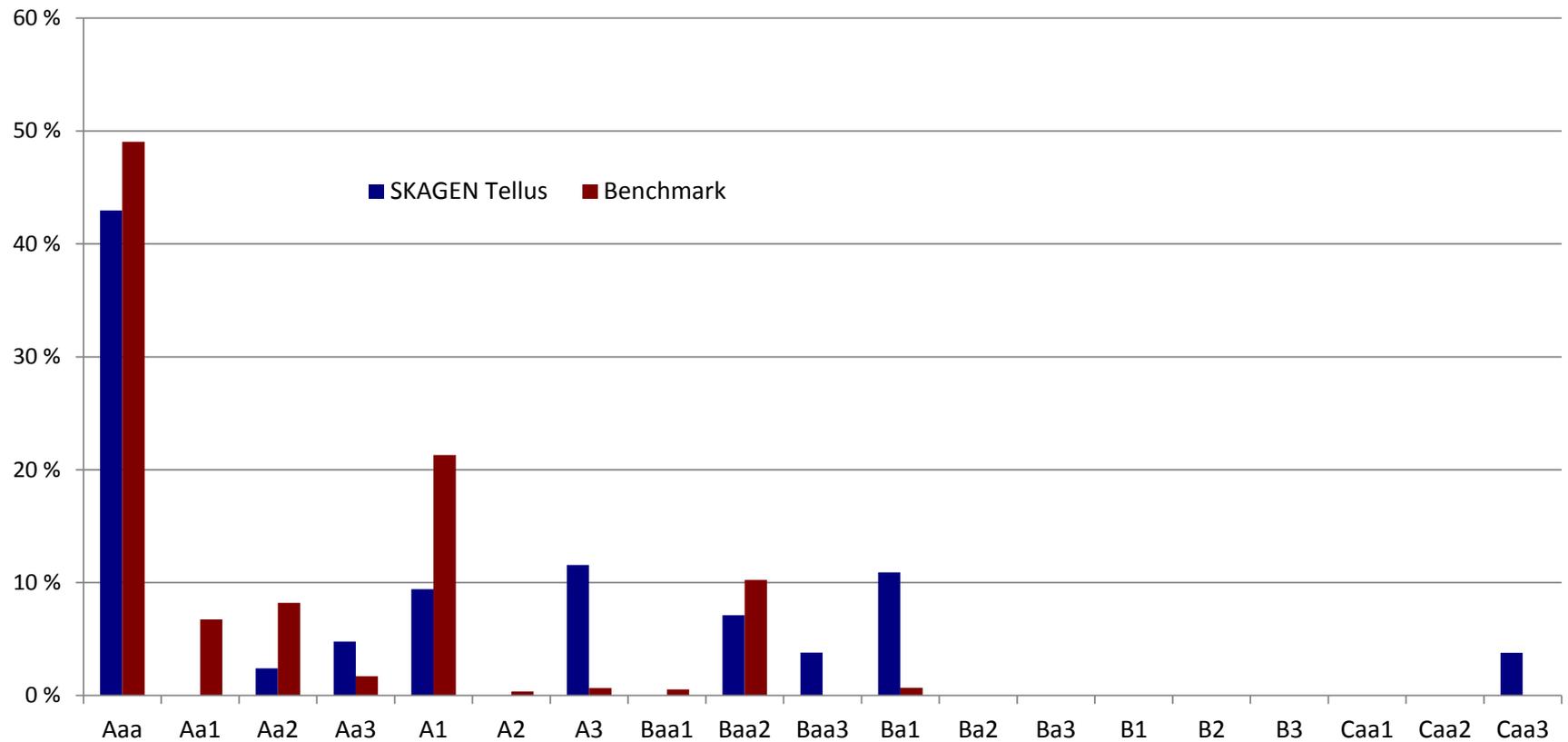
# Currency exposure



# Currency exposure relative to benchmark



# Moody's rating on Tellus' portfolio relative to benchmark

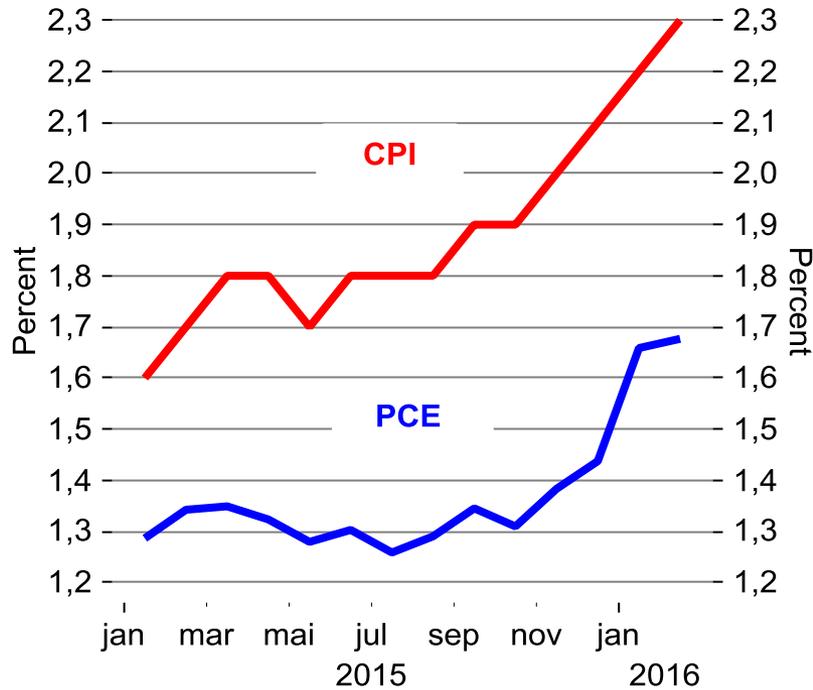


## The Fed's dovish stance is likely to be short-lived

- To our surprise the Fed issued a rather dovish statement when the policy committee met in March. Chairwoman Janet Yellen followed up with dovish comments during the press conference and in a speech she later held in New York.
- In December the Fed issued a forecast that implied four interest rate hikes in 2016, of 25 basis points (bp) each. In March the forecast was reduced to two such hikes. Currently the market expectations do not fully price in one 25 bp rate hike.
- The Fed's stance caused the dollar to depreciate, which hurt our fund since we have about 30% of it invested in US-denominated bonds. We were positioned for a stronger dollar.
- We think it is important to stress that a forecast is just a forecast, even when made by the Fed. It is not a commitment. Regardless, the Fed does depend on incoming data – mainly from the US, but also from abroad.
- As we see it the market underestimates the probability of tighter monetary policy. Labour market data since the Fed's meeting has been good, and both actual and expected inflation have ticked up. Recent activity indicators from abroad, especially China, have also, by and large, surprised on the upside.
- Hence we think that the Fed's dovishness is transitory. We expect the Fed to tighten by at least 75bp this year. This should be supportive of the dollar.

# US inflation and employment gains

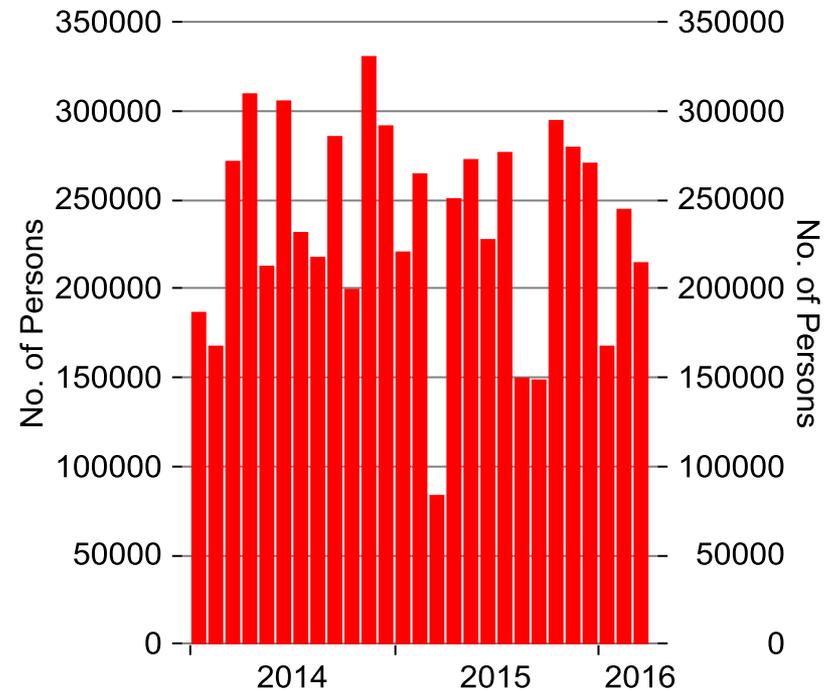
## Core inflation



Source: **Macrobond**

The inflation target is 2%

## Employment change

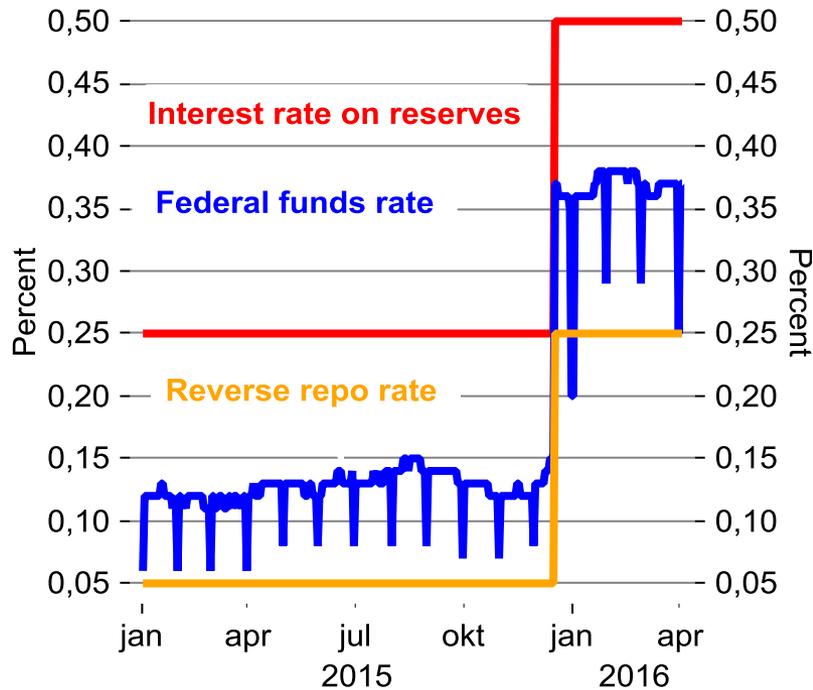


Source: **Macrobond**

The unemployment rate is 5%

# Federal funds rate and market forecast for December 2016

Policy rates and the federal funds rate



Source: **Macrobond**

Expected federal funds rate December 2016

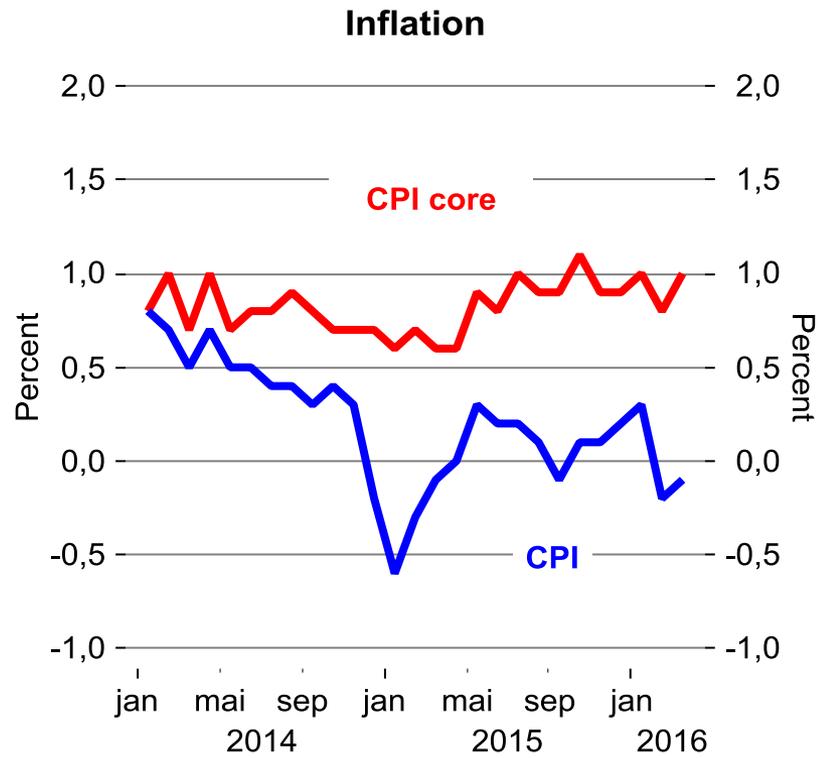


Source: **Macrobond**

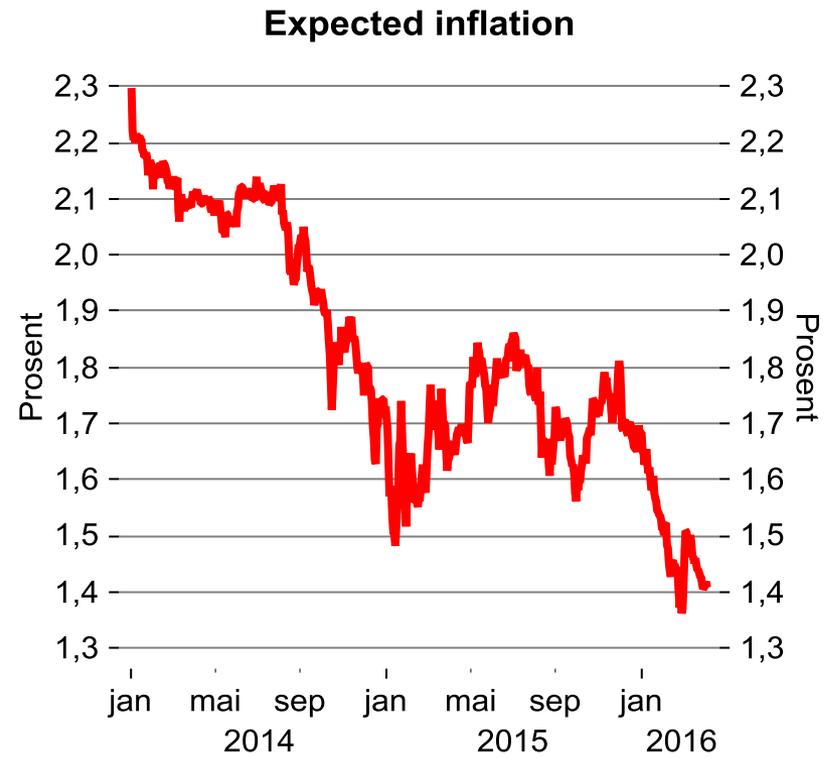
## The ECB is set to do more

- Inflation in the Eurozone does not show any signs of approaching the ECB's target. Headline inflation is slightly below zero, and core inflation, which strips out energy prices, is just 1%. The ECB's target is 2% inflation.
- Expected inflation too is lower than the target, with markets expecting annual inflation to run at 1.4% between 2021 and 2026.
- The ECB cut its policy rates in March, as we expected. Banks can now borrow at 0% from the ECB, and they are charged 0.4% on their central bank deposits. As a result the three month money market interest rate is minus 0.25%.
- At its March meeting the ECB launched other programs to try to stimulate the inflation rate. While we are doubtful that they will have the intended effect, we think that the ECB's bond purchasing program and cheap long-term lending will cut the interest rate spreads within the Eurozone.
- During the press conference the central bank governor said that policy rates had now reached the bottom. He has said that before, and then cut them further.
- While we doubt the wisdom of cutting the policy rate, we don't think that the ECB has hit rock bottom yet. The evidence from other economies suggests otherwise. And we think that the ECB is ready to do more if they think it's necessary to get inflation up to 2%.

# Actual and expected inflation

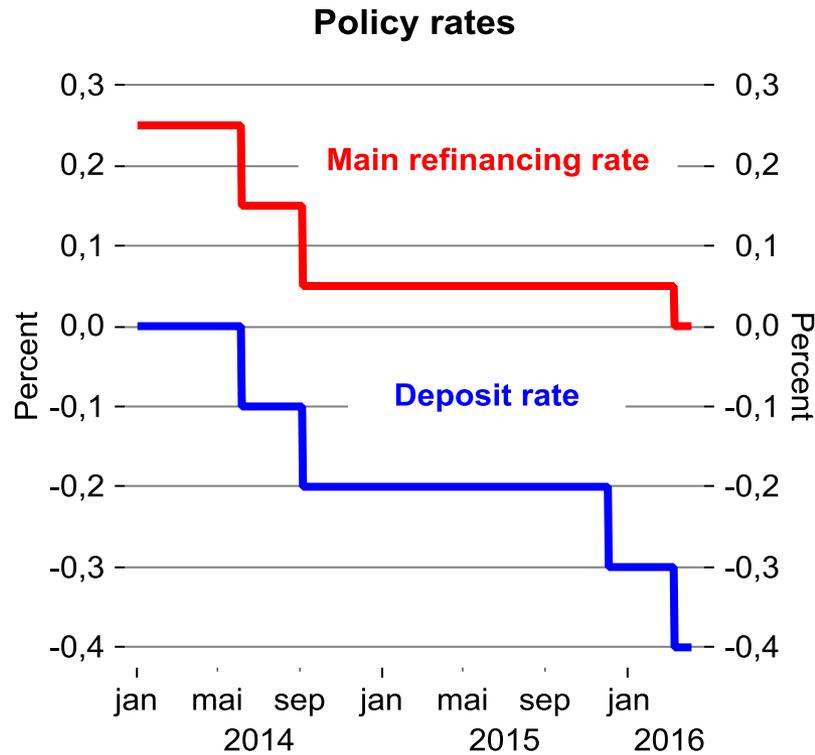


Source: **Macrobond**

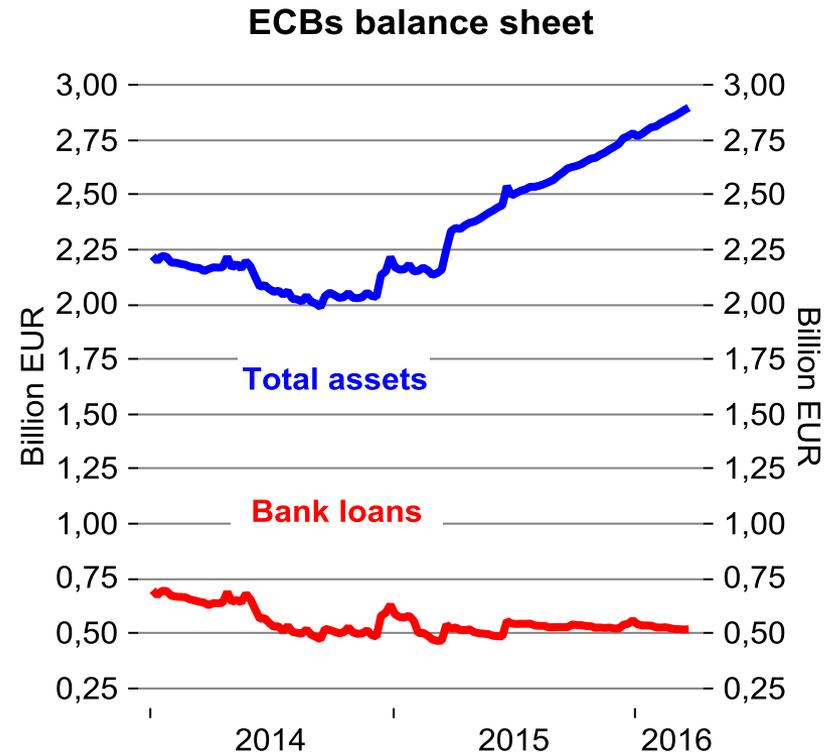


Source: **Macrobond**

# The policy rates and the central bank's balance sheet



Source: **Macrobond**

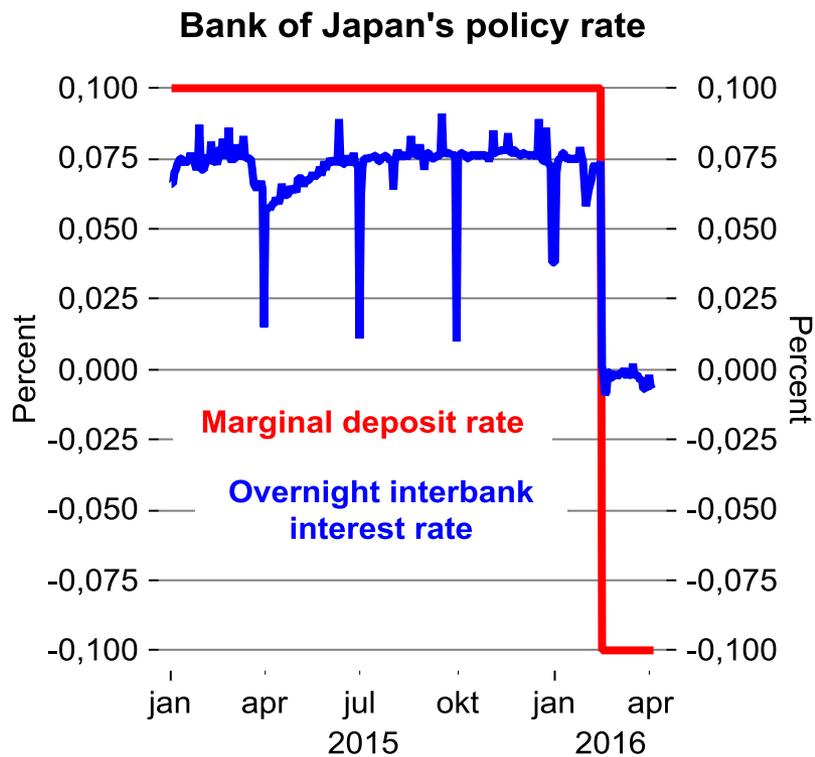


Source: **Macrobond**

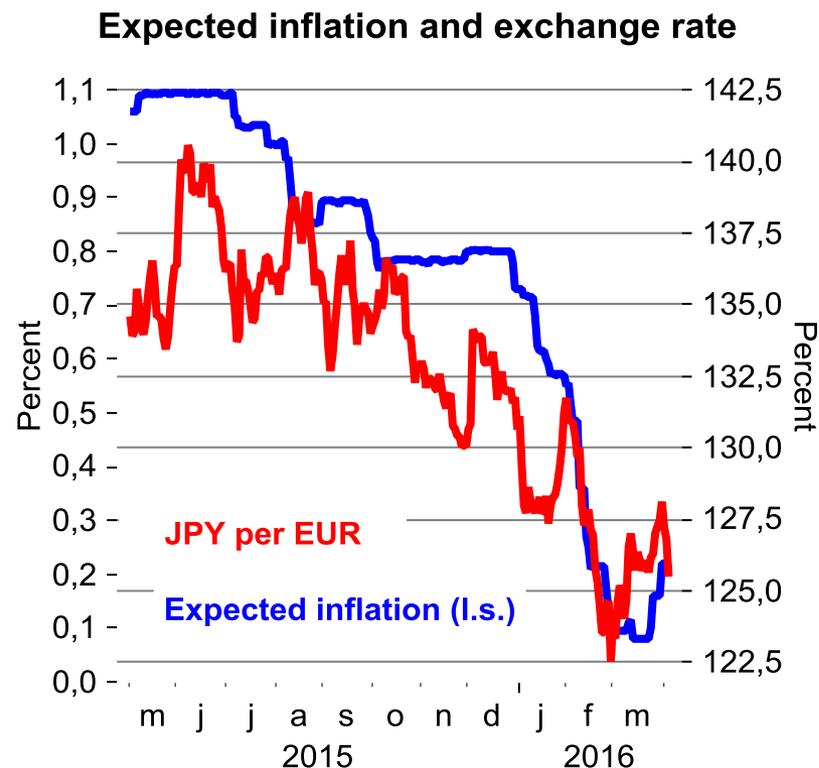
## Japan's futile quest for inflation – an update

- The February cut in the policy rate to negative does not seem to have had a positive effect on inflation and expected inflation.
- While it is too early to say what the effect on inflation will be, the numbers so far signal that inflation is stable and close to zero. Excepted inflation, while it has come up slightly since it began to fall after the policy cut was announced at the end of January, has not yet risen to the level before the announcement.
- Worryingly for the Bank of Japan, the Japanese yen has strengthened.
- It is unclear what the Bank of Japan's next move is. Some economists suggest “helicopter money”. We doubt that this will be attempted, as it's extremely hard to calibrate such a policy. You could, if it works, end up with a lot more inflation than you were hoping for.
- We still think that Japan might end up having a policy rate permanently at zero. The evidence from Japan over the last 20 years indicates that consumer prices might then be very stable over time.

# The policy rate, expected inflation, and the exchange rate

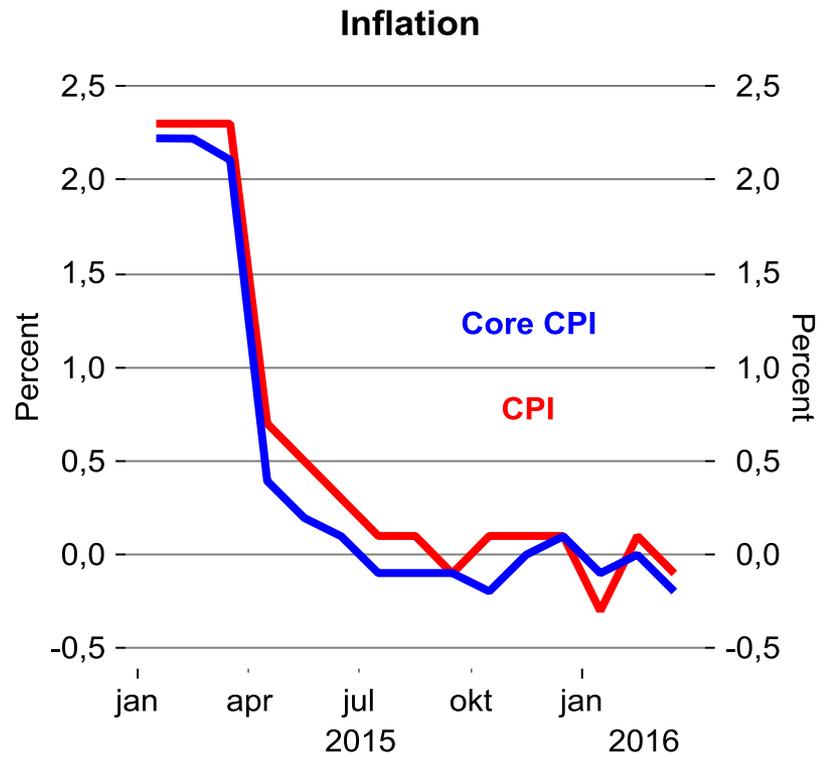


Source: **Macrobond**

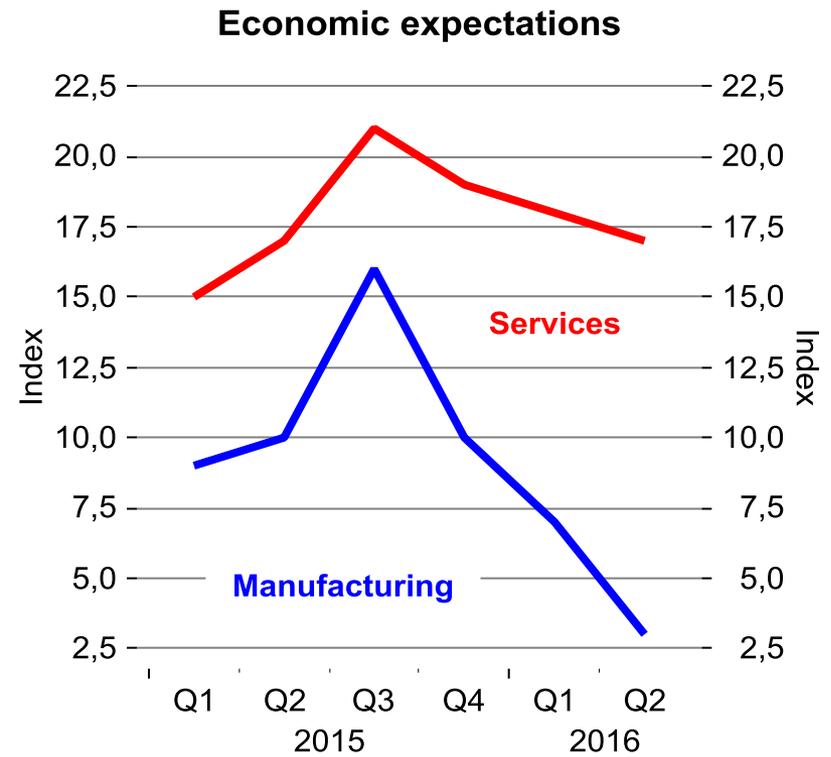


Source: **Macrobond**

# Actual inflation and indices of economic activity



Source: **Macrobond**



Source: **Macrobond**

## Read more in SKAGEN's Market Report

- Please see the upcoming SKAGEN Market Report for further views on the outlook for SKAGEN Tellus.
- You can read more about so-called “helicopter money” in the macro comment in the Market Report.

For more information please see:

[SKAGEN Tellus A on our web pages](#)

[SKAGEN's Market report](#)

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