Axis Investment Management

Occasional Commentary from the Chief Investment Officer, Wednesday, January 14, 2015

Interim Update

Further to our 2015 Outlook that we circulated late last year on December 5th 2014, a number of the same positions we initiated then or before are still ongoing at this point half-way through today's trading day:-

1) Long VIX Futures (tactical but frequently used for core hedging as well)
2) Long US 10 Year Bond Futures (tactical)
3) Equity Holdings Hedged via Equity Index Futures (part of core strategy)

From December 5th to date, the VIX Index has risen from 12.03 to a price currently of 22.55.
From December 5th to date, the US 10 Year Bond Yield has fallen from 2.31 to 1.82. This roughly corresponds to a 2.75% appreciation in the cash price of the US 10 Year Bond. Regular readers would know that our long view on the US 10 Year dates back to April 2014 when the Bond Yield was c.2.6%.

As you can appreciate, the tactical positions can change at short notice.

To that we also recently added a short on the Dow Transports for 2 reasons, (1) Oil cannot go to zero, perhaps a floor in the upper 30's for WTI but not zero and (2) with US GDP looking quite insipid, we see a reasonable case for this sector to give back a large part of its recent gains over the next 24 months. The Dow Transports Index has risen from 5000 to 9000 from the beginning of 2013 to date. Any kind of bounce in the Oil Complex will also add to the pressure on the Transports.

We remain either with the stance of avoiding or (where permitted) shorting: Banks, Miners and Resources.

On the Long side, we have been accumulating bombed-out sectors - UK Supermarkets, Select Energy, Energy Services, Telecoms and Industrials. They are out of favour and unloved. Some names are cheap for a reason although we aim to seek out sufficient margins of safety to compensate for the timing risk. We also continue with our ongoing theme of favouring 'Old Tech' and avoiding 'Momentum/Hope/Concept Tech'.

Geographically, we continue to firmly hold our long allocation in both Hong Kong and China although this is not Index specific but very much a stock pickers approach. We also are planning to increase our holdings in Japan with a specific interest in Japanese Property. These regions are in the process of their own QE/Stimulus programmes and hence we consider them to have more of the recovery cycle in front of them rather than behind, which is the case in the US. We find Europe to screen more cheaply than the US but less interesting than China and HK.

We continue to own GBP vs CHF and GBP vs EUR. We have temporarily stepped out of the USD/CHF (previously long) and USD/ZAR (previously long) as we perceive a risk that the Dollar Index could retrace slightly given the recent steep rise. Should this not transpire, we would not be averse to replacing these positions but plan to observe for the time being.

Our largest allocations are equally placed in Unleveraged Large Cap Equities with a value bias and Unleveraged Property. Our Fixed income positions remain a distant third. Positions in US Treasuries are purely tactical and we utilise such instruments as a 'short term car park' to best address the shifts in sentiment and money flows, rather than as long term core investments.

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