

VAR CAPITAL

CIO Rajat Sharma's market predictions for 2020 published on Hedge Magazine

What surprised you most about the market in 2019?

After the US 10 year yields dropped from c.3.2% in the beginning of 2019, we expected it to stay in the region of 2.3.-2.6%. The severity of the subsequent decline across the entire yield curve took us by surprise.

Which market sectors are likely to offer the best investment opportunities over the coming 12 months?

In the face of slowing global growth, companies capable of generating high revenue and earnings growth irrespective of the general macroeconomic environment will in our view continue to attract the attention of investors. As a result, we are selectively overweight few high growth companies in the tech space and we maintain overweight exposure to high quality stocks, which tend to perform better in periods of heightened volatility.

Are you particularly bearish about any specific areas?

High Yield bonds as an asset class, both in developed and emerging markets. We think credit spreads are not attractive enough to sufficiently compensate for the risks investors are taking by holding these positions.

What is the biggest risk to hedge fund performance in 2020?

The major risks relate to political/geopolitical events. We are concerned about the potential binary outcomes of a few specific issues; on a global scale particularly trade wars and the relationship between the US and China and in the European context the seemingly never-ending Brexit negotiations. The Fed is also walking a tight ropewalk in the face of presidential threats and growing market turmoil and could impact performance.

How do you expect the realisation of Brexit to impact the market going forward?

With the outcome highly uncertain, we expect the UK market as well as sterling to stay volatile and returns to stay under pressure compared to other developed market peers. It's a market we are underweight for the time being.

What should investors expect from a performance perspective in 2020?

We expect a continuation of the most recent trends from the second half of 2019, with both equity and bond markets generating considerably lower return alongside higher volatility further amplifying overall market uncertainty.

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