JK Global Opportunities Fund February 2020

USD Class -1.87%, GBP Class -2.00%, YEN Class -1.91%, EUR Class -1.95% in February.

The Fund fell -1.87% (USD Class, net of fees) in February after a sharp sell-off in markets towards the end of the month wiped out earlier gains from our Chinese equity holdings.

Markets and fund performance were strong for the majority of February, as it became increasingly clear that China's draconian quarantine measures were starting to slow the spread of the Coronavirus (new cases peaked on Feb 5th). Whilst there were clearly going to be some economic costs from these measures, investors would perceive these as a one-off with any downside limited by significant policy easing. Hence, markets seemed prepared to look through any short-term economic weakness and hold their nerve.

The caveat for markets, however, was that Coronavirus would no longer be an issue by Q2/Q3 in our view, which required it being contained within China. By February 19th, new cases of Coronavirus outside of China started to overtake those reported in China, which marked the peak in equity markets. After shrugging off an accumulation of bad news from China, Japan and South Korea, a spike in the number of new cases reported in Italy finally provided the catalyst for a sudden shift in perceived market risk. A perception that Europe was behind the curve in preventing an outbreak sparked concerns that shutdowns were inevitable in economies with less flexibility and policy ammunition than China, meaning investors were suddenly forced to reassess the longevity of the Coronavirus and its implications for global growth. Shortly after, the 2016 OPEC deal between Saudi Arabia and Russia to limit oil production broke down, leading to an all-out price war that compounded existing fears surrounding the credit cycle (particularly high-yield) and global growth. The moves in markets since then have been unprecedented, with equities entering a bear market in the shortest time ever, bond yields collapsing, volatility spiking above 70, credit spreads blowing out and oil plunging, as previous complacency gave way to pure panic.

The spread of Coronavirus to other countries means the economic impact has morphed from what looked like a temporary supply shock in China to a major deterioration in global demand, as a wave of cancellations and closures are likely to dent spending significantly in countries where consumption is a high share of GDP. Whilst this makes a short-term hit to economic activity unavoidable, the duration of any downturn will depend on the second-order effects in credit and labour markets, and how successful policymakers are in stemming these. Shifts in public opinion about the deadliness of the virus or any signs of a potential cure will be just as important, as the need for containment measures is ultimately a function of how fearful people are.

Whilst it is hard to gauge the latter, there are obvious vulnerabilities in the global financial system which we have expressed concerns about many times before, including historically high corporate debt levels and a dangerous international reliance on dollar funding. An obvious pressure point is in supply chains, as their global, integrated nature makes them very finance-intensive. Severe supply/demand disruptions have the potential to reverberate through the whole chain and cause liquidity issues, as companies struggle to collect cash flows from their different customers. Hotel and airline companies have been drawing down loans and credit lines to plug funding gaps recently precisely because of this. The ability of banks and money markets to extend working capital to these companies depends on how easy they can access dollar liquidity. A dash for dollar funding recently reflects worries about a potential liquidity crunch which has created a shortage of dollars in the global financial system. Spreads reflecting the cost of dollar borrowing have widened meaningfully as a result which has increased interest costs for many businesses. The crash in the oil price has only added to these credit risks, as a high percentage of high-yield debt is concentrated in the oil and gas sectors. The fear in markets is that the longer these risks persist, the more likely we are to reach a 'tipping point' that triggers a wave of defaults and redundancies, potentially bringing an end to the cycle. The mitigation of these risks will ultimately depend on how well central banks can provide liquidity to the financial system and governments can replace lost income through fiscal stimulus until things return to normal.

On this front, governments and central banks have been relatively proactive recently, albeit with differing degrees of urgency and competency (having missed the opportunity to prevent the virus in the first place). On the fiscal side, governments have been offering tax relief to businesses, paid sick-leave to workers and cheap loans to the corporate sector. Monetary policy has involved interest rate cuts and measures to improve liquidity in the financial system. The FED's announcement yesterday to shift its $60bn/month of T-bill purchases across the entire curve and immediately expand its repo offering by $1.5tn, has provided much needed relief in money markets, as this 'bazooka' shows the FED is determined to get ahead of the curve in preventing credit events.

However, risks still abound. The news flow on Coronavirus across Europe and the US is likely to get worse before it gets better. The oil price shock is a big blow for oil-producing EM's such as Russia, Mexico and Brazil which is hurting their exchange rates. Currency mismatches could lead to contagion in EM and cause a negative feedback loop to the European banking system, which has a high exposure to EM debt. The extraordinary collapse in bond yields (and oil price) also reignites deflation fears and the 'Japanification' of the global economy. As yields plunge towards the zero-lower bound everywhere, it is unclear to us how a country like the US continues to compete for foreign savings and fund its increasing twin deficits, apart from the fact it enjoys an exorbitant privilege of having the world's reserve currency (for now) and is considered the global low risk asset, (although is it still low risk when it hits 0%?). Household savings are already elevated in the US and the corporate sector is running a financial surplus, so an increase in domestic private savings looks unlikely. This puts increasing pressure on the FED to plug the gap, however this is what eventually leads to hyperinflation. Gold still seems like a good long-term bet to us.

Given dramatic falls in equity markets and bond yields, equity risk premiums based on earnings and free cash-flow yields are starting to look very attractive. Measures of fear and panic are at extreme levels (VIX above 70), technical indicators are incredibly oversold and credit/money market spreads have blown out, all pointing towards a degree of capitulation. Whilst we will be monitoring the aforementioned risks closely, we believe markets have already priced them in to a large degree, so view these as low-risk levels to be dipping our toes back in. Earlier selling meant the Fund avoided the brunt of the collapse and has left it with cash levels of around 45% to take advantage of opportunities. China and Korea have proven that the virus can be contained with sensible measures which gives us comfort that the virus will eventually pass. In the meantime, we think measures taken so far by policymakers are putting them ahead of the curve to deal with any economic fallout. Combined with the longer-term positive wealth effect from the oil price fall, we are still upbeat on the outlook for the second half of the year.

***JK Global Opportunities Fund** is a weekly dealing UCITS fund. It can be held by ISA's, SIPP's, Pensions, Charities, Family Offices, Endowments, as a direct holding or through a Private Wealth Manager. All classes have UK Reporting Status.*

USD Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2020	-0.27	-1.87											**-2.13**
2019	+3.17	+2.05	+1.37	+2.21	-6.21	+2.59	-0.08	-1.19	-1.06	+2.89	+1.52	+4.79	**+12.22**
2018	+6.49	-1.25	-1.89	-0.89	+3.75	-3.06	+0.12	+1.25	-2.14	-6.91	+0.28	-4.47	**-9.02**
2017	+3.07	-1.06	+2.06	+3.56	+2.15	-0.31	+2.96	+2.35	+0.63	+5.47	+2.60	+1.71	**+28.09**
2016	-5.53	+0.16	+6.52	-0.81	+0.93	-1.32	+3.74	-0.81	+1.53	+1.86	+0.22	-1.82	**+4.26**
2015	+1.95	+3.92	+0.28	+2.17	+3.81	-4.75	-0.15	-8.28	-6.48	+6.34	+1.36	-0.74	**-1.65**
2014	-4.07	-1.88	-0.95	-4.73	+0.85	+1.92	+0.05	-1.59	+1.97	+0.18	+7.70	-2.84	**-3.91**
2013	+6.06	-1.22	+3.54	+8.83	-2.63	-3.09	+3.02	-0.86	+6.57	+1.00	+4.52	+3.38	**+32.33**
2012	+2.43	+4.80	-0.65	-2.03	-1.50	-0.87	+0.72	+1.52	-0.56	-1.22	+1.23	+4.79	**+8.72**
2011	-0.95	-0.20	-1.13	+0.82	-2.88	-1.55	-1.50	-1.17	-3.51	+0.94	-2.63	+0.34	**-12.73**
2010	+0.81	+0.84	+3.74	+1.92	-3.95	+1.76	+0.74	+0.87	+0.01	+1.39	-0.88	+1.72	**+9.13**
2009	-2.51	+0.03	+3.13	+2.13	+13.8	+3.42	+6.08	+1.06	+0.99	+1.58	-1.10	+3.14	**+35.61**
2008	-1.76	-0.01	-0.50	+1.22	-1.15	-4.74	-1.58	-1.00	-1.93	-0.05	-0.44	+2.83	**-8.92**
2007	+2.01	-1.34	-2.35	-0.81	+1.63	+4.04	+0.41	-6.10	+0.14	-1.38	-3.97	-3.74	**-11.27**
2006	+0.13	-3.78	+3.72	-2.27	-3.75	+1.57	-4.58	+3.13	-0.84	+2.73	-1.03	+1.61	**-3.75**
2005	-0.75	+1.04	+0.36	-0.65	-1.05	+0.90	+2.01	+1.99	+9.65	+4.55	+7.71	+9.41	**+40.31**
2004	+0.82	+2.03	+6.57	+0.16	-2.15	+1.61	-1.66	-0.96	-0.48	-0.78	-0.27	+2.18	**+6.98**
2003											+0.01	+0.39	**+0.40**

GBP Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2020	-0.32	-2.00											**-2.31**
2019	+2.98	+1.93	+1.23	+2.13	-6.37	+2.45	-0.32	-1.37	-1.19	+2.72	+1.43	+4.62	**+10.20**
2018	+6.32	-1.45	-2.01	-1.05	+3.67	-3.30	-0.01	+1.14	-2.35	-7.11	+0.08	-4.64	**-10.85**
2017	+2.97	-1.11	+1.97	+3.52	+2.16	-0.43	+2.84	+2.19	+0.46	+5.38	+2.54	+1.55	**+26.66**
2016	-5.68	+0.15	+6.37	-0.85	+0.92	-1.35	+3.67	-0.87	+1.49	+1.80	+0.20	-1.92	**+3.50**
2015	+1.87	+3.87	+0.24	+2.11	+3.89	-4.65	-0.16	-8.20	-6.51	+6.29	+1.40	-0.77	**-1.69**
2014	-4.02	-1.96	-0.93	-4.69	+0.89	+1.90	+0.06	-1.61	+2.02	+0.09	+7.77	-2.86	**-3.86**
2013	+6.18	-1.23	+3.52	+8.65	-2.79	-2.93	+3.05	-0.77	+6.43	+0.96	+4.15	+3.23	**+31.51**
2012	+2.43	+4.74	-0.62	-1.98	-1.54	-0.84	+0.73	+1.49	-0.54	-1.21	+1.25	+4.75	**+8.68**
2011	-0.92	-0.19	-1.13	+0.80	-2.89	-1.55	-1.43	-1.14	-3.60	+0.94	-2.67	+0.37	**-12.71**
2010	+0.83	+0.90	+3.77	+1.93	-4.44	+1.69	+0.70	+0.87	+0.02	+1.38	-0.88	+1.74	**+8.62**
2009				+1.73	+10.1	+2.66	+5.01	+1.23	+1.25	+1.57	-1.14	+3.32	**+28.40**

YEN Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2020	-0.46	-1.91											**-2.35**
2019	+2.95	+1.87	+1.16	+1.97	-6.37	+2.35	-0.27	-1.42	-1.29	+2.63	+1.38	+4.47	**+9.36**
2018	+6.38	-1.42	-2.06	-1.14	+3.59	-3.26	-0.11	+1.15	-2.45	-7.06	+0.07	-4.74	**-11.15**
2017	+2.87	-1.14	+1.88	+3.57	+2.21	-0.63	+2.83	+2.20	+0.54	+5.33	+2.42	+1.49	**+26.07**
2016	-5.47	+0.00	+6.50	-0.83	+0.89	-1.40	+3.87	-0.93	+1.38	+1.74	+0.07	-2.01	**+3.36**
2015	+1.96	+3.85	+0.29	+2.08	+3.93	-4.77	-0.19	-8.07	-6.54	+6.33	+1.42	-0.85	**-1.63**
2014	-4.10	-1.86	-0.96	-4.74	+0.82	+1.90	+0.03	-1.61	+2.03	+0.51	+7.92	-2.93	**-3.53**
2013	+6.31	-1.17	+3.49	+9.16	-2.78	-3.02	+2.98	-0.88	+6.62	+0.99	+4.61	+3.52	**+33.21**
2012	+2.35	+5.36	-0.68	-2.00	-1.50	-0.92	+0.66	+1.49	-0.58	-1.26	+1.24	+4.98	**+9.18**
2011	-0.99	-0.21	-1.17	+0.78	-2.91	-1.54	-1.47	-1.21	-3.52	+0.90	-2.67	+0.25	**-13.02**
2010	+0.76	+0.82	+3.93	+1.90	-3.62	+1.67	+0.68	+0.83	-0.02	+1.32	-0.92	+1.62	**+9.17**
2009	-0.44	+2.14	+2.41	+3.29	+17.6	+5.35	+2.75	+1.22	+1.17	+1.98	-1.32	+3.85	**+46.57**
2008	-1.92	-0.22	-0.69	+1.09	-1.31	-4.88	-1.77	-1.32	-1.87	-1.00	-0.86	+2.31	**-11.89**
2007	+1.64	-1.67	-2.71	-1.19	+1.26	+3.72	-0.03	-6.09	-0.28	-1.75	-4.16	-4.10	**-14.68**
2006	-0.31	-4.10	+3.40	-2.55	-4.13	+1.21	-5.00	+2.76	-1.23	+2.29	-1.43	+1.25	**-7.99**
2005	-0.94	+0.93	+0.20	-0.96	-1.36	+0.67	+2.08	+1.71	+9.66	+4.45	+7.66	+8.98	**+37.47**
2004	+0.74	+2.04	+6.20	+0.45	-2.20	+1.52	-1.82	-1.04	-0.61	-0.88	-0.40	+2.01	**+5.88**
2003											-0.06	+0.31	**+0.25**

EURO Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2020	-0.44	-1.95											**-2.39**
2019	+2.90	+1.82	+1.11	+1.96	-6.46	+2.34	-0.22	-1.44	-1.31	+2.63	+1.38	+4.49	**+9.07**
2018	+6.36	-1.44	-2.09	-1.16	+3.59	-3.39	-0.10	+1.12	-2.53	-7.19	+0.03	-4.75	**-11.61**
2017										+3.69*	+2.47	+1.43	**+7.77***

*Euro Class started on 04-Oct-17

NAV as at 29-Feb-20	
GBP class	**206.90**
USD class	**274.66**
Yen class	**23,971.25**
Euro Class	**101.42**

Source: Apex Fund Services (Ireland) Ltd.

Asset Type as at above date (market exposure % of Total NAV)		
	Long	Short
Level 1	**80**	**0**
Level 2	**18**	**0**
Level 3	**0**	**0**
Total	**98**	**0**

Source: JK Investment Management LLP

For more information on the Fund, please see www.jkim.co.uk

Administrator for JK Global Opportunities Fund (Orders by 3pm on a Tuesday)

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All data is Net of management and performance fees. Fund was launched on November 3rd 2003. GBP Class launched 1st April 2009. Mandate broadened to Asia Inc Japan and Name of Fund changed April 1st 2009. Please note that performance from 1st April 2009 to 30th August 2013 is for the JK Absolute Return Fund. This Fund re-domiciled from Cayman to Ireland becoming an Irish UCITS on 30th August 2013 and changed its name to The JK Global Opportunities Fund. Management and performance fees have also been reduced from this date (see Prospectus in for details). Historic performance is not a guide to future returns.
Source: JKIM LLP, Apex Fund Services (Ireland) Ltd.

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