JK Global Opportunities Fund October 2019

USD Class +2.89%, GBP Class +2.72%, YEN Class +2.63%, EUR Class +2.63% in October.

The Fund rose +2.89% (USD Class, net of fees) in October, which was primarily driven by our Japan value basket as both the region and style have come back into favour recently. Another notable contributor was Spotify after a large rise in monthly active users led to some strong Q3 results.

Risk sentiment improved further in October as some of the recession fears that built up over the summer diminished. Global equities have risen back towards their 2018 highs, led by the US market, and sovereign bond yields have climbed from their August lows. In last month's report we mentioned how things were starting to look more promising, as many of the geopolitical tail risks that had been holding markets back all year seemed to be receding, whilst evidence of 'green shoots' were starting to appear in the economic data. This view has been validated since then as the news flow from US-China trade negotiations continues to improve, with the latest headlines suggesting that any 'phase one' deal will include the removal of some existing tariffs on both sides – an outcome at the higher end of most investors' expectations were it to happen. The macro data also continued to stabilise in October (more on this below) as the easing in financial conditions this year finally looks as if it's starting to feed through into better growth. As a result of these positive developments, we have become more bullish on risk assets and started to increase our equity exposures.

Leading indicators remain lacklustre overall but are starting to show signs of exhaustion, implying a bottoming-out process that should sooner or later start to manifest itself in 'less bad' hard data. Fading base effects are part of the story, but there is also evidence of improving momentum. The global manufacturing PMI (49.8) remains in contraction territory but appears to have found a firmer footing after a long period of deterioration. It edged higher in October for the third consecutive month, with the EM component (51.0) being a particular bright spot recently. The breadth of the malaise in global industrial activity also appears to be diminishing, with the share of total PMIs under 50 starting to shrink.

Importantly, China's PMIs have improved. The Caixin index has risen in each of the last four months to reach 51.7 in October, the best reading since December 2016. The new orders subcomponent – a leading indicator for the broader index – reached the highest level since September 2013 and export orders rose back above 50, registering the largest month-on-month increase of any of the subcomponents. The new orders component was also strong in the US ISM manufacturing PMI last month and the blowout jobs report this month indicates that the US consumer will remain healthy. Taiwan's manufacturing PMI (51.1), a barometer of the Asian tech cycle, has also bounced off its summer lows. On a micro level, we are starting to see real impetus in the Asian tech cycle, driven primarily by strong smartphone replacement demand and a bottoming in datacentre demand due to the 5G upgrade cycle. We have been selectively increasing our exposures to beneficiaries of this theme.

Market-based indicators are sending a similar message to the macro data. Within equities, there is evidence of a rotation away from growth/defensive towards value/cyclical stocks – consistent with a pick-up in macro momentum. This is starting to bode well for our Japan value basket, which constitutes 30% of the Fund.

We expect the policy landscape to remain market friendly for the foreseeable future which should continue to support growth and earnings into next year. The FED cut rates again in October, and although they signalled that the mid-cycle policy adjustment is probably over, we think that the 75bps of rate cuts and the recent restarting of balance sheet expansion has done enough to relieve pressures on the dollarized global economy by allowing enough room for other central banks to ease. Brazil has cut interest rates three times in the last three months for example. We also anticipate more measured easing from China in the months ahead with fiscal initiatives to the fore. What is perhaps underappreciated is the extent to which China has already loosened fiscal policy. According to the IMF, the augmented budget deficit is on track to reach nearly 13% of GDP in 2019 – a bigger deficit than during the depths of the financial crisis. We expect infrastructure investment to increase going into 2020, which should coincide with the end of the manufacturing downturn and an easing in trade tensions, all helping to boost growth in China next year. Monetary policy has been cautious in China so far and is likely to remain so. Having said that, the authorities have been introducing new tools to improve the transmission of monetary policy recently which should increase its potency on the real economy. The PBOC cut the rate on one-year MLF loans yesterday for the first time since 2016, which many say paves the way for a cut in China's new benchmark loan prime rate (LPR) in a few weeks' time. This will lower borrowing costs for smaller businesses.

Despite the improved outlook and markets breaking out to new highs, we feel that sentiment and positioning are still cautious. The one-month beta of daily returns of equity hedge funds tracked by Hedge Fund Research to the S&P 500 was stuck at 0.16 at the end of October. This is about half of its average level since 2002, suggesting that hedge fund exposure to the broad market is low.

Many investors still seem to be trying to find reasons not to embrace this rally, whether it's due to valuations, geopolitics, macro data, insufficient policy support, or simply because we're 'due' a recession. We feel these concerns are well known and discounted, so don't feel compelled to 'fight the tape' because of them. In our view, the contrarian trade is to be overweight risk at this moment in time. As the consensus shifts to our more upbeat assessment of the world, we anticipate a broad rally in risk assets to be driven by underweight investors chasing returns.

In the Fund, we continue to like Japan value stocks as they are key beneficiaries of an improving business cycle. We also like UK domestics, China A-shares and select names in the smartphone supply chain. Last month we took profits on our long Sterling position as we assess what the implications of the upcoming election are.

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
2019	+3.17	+2.05	+1.37	+2.21	-6.21	+2.59	-0.08	-1.19	-1.06	+2.89			**+5.49**
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
2019	+2.98	+1.93	+1.23	+2.13	-6.37	+2.45	-0.32	-1.37	-1.19	+2.72			**+3.85**
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
2019	+2.95	+1.87	+1.16	+1.97	-6.37	+2.35	-0.27	-1.42	-1.29	+2.63			**+3.25**
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
2019	+2.90	+1.82	+1.11	+1.96	-6.46	+2.34	-0.22	-1.44	-1.31	+2.63			**+2.97**
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 31-Oct-19	
GBP class	199.59
USD class	263.83
Yen class	23,177.52
Euro Class	98.09

Source: Apex Fund Services (Ireland) Ltd.

Asset Type as at above date (market exposure % of Total NAV)		
	Long	Short
Level 1	85	-10
Level 2	45	0
Level 3	0	0
Total	130	-10

Source: JK Investment Management LLP

JK Investment Management is authorised and regulated by the Financial Conduct Authority

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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