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Management company comment about ABLV open-end mutual funds in January, 2018

The comment of ABLV Asset Management, IPAS

The beginning of the year has obviously been pleasant for investors on the global stock market. Growth of stock indexes was observed almost everywhere. Once again, US stock market was setting the pace, where the events by now could be described as euphoria. By the end of the month, US Broad Market Index S&P 500 soared by 5.62%, whereas during the month it was reaching up by almost 7.5%. Its only competitor was the emerging markets index MSCI EM, which demonstrated an even more impressive performance – 8.3%, yet here a major role was played by the growth of local currencies against US dollar that added a few percent to the performance of this index denominated in USD. It wasn't that the growth of US stock indexes was absolutely groundless. The macroeconomic picture of the country remains solid. The numbers released in January show growth in manufacturing, consumer confidence and business activity. Additionally, the analysts are continuing to improve forecasts on profits of US corporations due to implementation of the tax reform, which is going to decrease the tax burden of American companies already this year. Weakening USD (drop of USD index reflecting USD against the basket of major international currencies constituted 3.5% by the end of the month) also gives additional support to growth in certain export-oriented US economy sectors.

Yet what is good for USA is bad for Europe and Japan. In our opinion, the continuous growth of EUR and JPY is the exact reason that is currently impeding a relatively stable growth on the stock markets of these regions. During the previous month, both of these regions demonstrated much more modest results. European Broad Market Index Euro Stoxx 600 and the key index of Japanese market Nikkei 225 demonstrated growth by only 1.5–1.6%. USD weakening is decreasing competitive advantage of exporters of both regions, which influences the listed stock.

No wonder that such sharp EUR increase is making even ECB scratch their heads. At January meeting, the head of European Central Bank Mario Draghi pointed out that events on the currency market is a source of uncertainty and expressed concerns regarding the possible currency manipulation. Despite his traditional promises to implement any tightening of monetary policy very gradually and continue economy stimulation if necessary, the market reacted to ECB head's speech with another wave of euro growth. Obviously, currency market players simply do not believe in ECB's ability to control the situation on the currency markets.

At their January meeting, FRS retained the key interest rate at the same level, yet highlighting the strengthening of economy growth factors, making the investors more confident about increase of the rate on the very next meeting in March. This enabled US Treasuries' yield to continue growing, which in turn had positive impact on the financial sector that has become one of the favourites on US market in January. Meanwhile, technology sector was an absolute leader of the market especially internet industry companies and software producers – their indexes demonstrated growth beyond 10% in January. Such increase is based on the high profits' expectations , therefore the financial reports of the sector's largest companies, which will start being released in early February, will determine further direction of stocks' prices. Once again, companies of defensive sectors such as utility and telecommunication companies were underperforming – being the traditional alternative to bonds they were falling along with the prices of the latter. Also among underperformers were consumer staples and retail, which recently is under a noticeable pressure of strong competition from online stores.

Although the outlook for the key interest rate increase in eurozone is not as clear as in US, yields of European government bonds also experienced growth, which is mainly related to gradual increase of inflation expectations and the general situation on bond markets of developed countries. Therefore, the performance of separate sectors was similar to US market as well. The only surprise for the European stock market was the automobiles sector, which usually is not reacting very well on the growth of EUR due to its great dependence on export, yet in January, car manufacturers demonstrated slight increase in stock prices. The key role here was played by the increased forecasts of the sector's stocks target prices by the list of analysts and that outweighed the negative impact of the currency.

During the month, stock funds' manager made tactical purchaseand sale transactions, retaining a relatively low share of cash in the funds given the general situation on the global stock market. It helped equity funds managed by ABLV Asset Management, IPAS demonstrate the return similar to the overall market performance.

On the market of corporate and emerging markets bonds, the picture was not so rosy. During the first week of the year positive moods also prevailed on these markets and inflow of funds of investors was observed, which was mainly the result of overall euphoria on the stock and commodities markets, as well as relative stability on the bond markets of developed countries. Later, however, the situation changed. The mood of investors changed with the start of the new wave of growth of US Treasuries yields due to increased inflation expectations and confirmation by US FRS representatives of strong intentions to stick to the set schedule of increasing the interest rate in USA. This resulted in falling prices on the market of corporate and emerging markets bonds, whereas it affected almost all securities regardless of their rating and term to maturity. Currently the correction is going on rather calmly, there is no panic, since positive moods on the stock and commodities markets are slightly smoothing the effect of growth of interest rates proven by the continuing narrowing of spreads (risk premiums). However, it is not fully covering the negative impact of drop of prices on US Treasuries market.

As a result, by the end of the month, bond funds managed by ABLV Asset Management, IPAS demonstrated slight decrease, except for only ABLV Emerging Markets EUR Bond Fund, which demonstrated growth by 0.4% that is mainly related to more stable situation on the German Bunds' market. At the ECB meeting, the regulator retained the interest rate and QE programme parameters at current levels emphasizing that they are not going to rush with increasing the rates, which was well-received by the investors investing in bonds denominated in EUR.

In the medium term, we are still taking moderately conservative position. In bond funds, a significant part of assets is invested in medium term securities enabling to decrease volatility in case of negative developments on interest rates' market. Additionally, in the anticipation of negative development of the events on US Treasuries market, in emerging markets government bond funds still a rather high share of cash is being retained in order to invest it at more favourable levels.

Jevgenijs Gžibovskis
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Deputy Chairman of the Board

ABLV mutual funds' return as at 31.01.2018

	Since the beginning of 2018 (YTD)	2017	2016	2015[1]	2014	Annualised return since the inception moment
Government Bond Funds						
ABLV Emerging Markets USD Bond Fund	-0.23%	8.92%	6.99%	2.05%	2.75%	5.17%
ABLV Emerging Markets EUR Bond Fund	0.40%	9.28%	8.96%	2.31%	1.83%	4.79%
Corporate Bond Funds						
ABLV High Yield CIS USD Bond Fund	-0.09%	5.53%	10.36%	25.30%	-16.58%	5.45%
ABLV Global Corporate USD Bond Fund	-0.31%	3.29%	9.32%	-1.58%	0.34%	2.73%
ABLV European Corporate EUR Bond Fund	-0.06%	2.92%	9.14%	1.47%	3.30%	4.36%
ABLV Emerging Markets Corporate USD Bond Fund	-0.01%	7.51%	10.23%	0.09%	-	7.47%
Total Return Funds						
ABLV Multi-Asset Total Return USD Fund	1.51%	8.03%	3.80%	-7.07%	-	1.92%
Stock Funds						
ABLV Global USD Stock Index Fund	5.20%	15.38%	-5.24%	-6.78%	-0.26%	2.04%
ABLV Global EUR Stock Index Fund	2.54%	10.22%	-4.40%	0.86%	3.84%	0.37%
ABLV US Industry USD Equity Fund	5.77%	14.01%	-0.27%	-1.03%	6.95%	6.69%
ABLV European Industry EUR Equity Fund	1.82%	6.96%	-2.78%	5.21%	2.09%	3.24%

[1] Except ABLV Multi-Asset Total Return USD Fund and ABLV Emerging Markets Corporate USD Bond Fund, for which return is calculated on funds' period of operations.

Additional information

General information on ABLV mutual funds and management company ABLV Asset Management, IPAS, as well as all additional information can be found on ABLV Bank home page in the section "ABLV Mutual Funds".

Public information about the Funds is available on the Exchange Nasdaq Riga: **http://www.nasdaqomxbaltic.com**.

This comment is intended exclusively for informative purposes and cannot be considered as an investment recommendation or advice.