This newsletter is a quarterly email for OPC clients from our Head, Investment Advisor, Alexandros Clappas CFA. Views expressed are his own and do not constitute official OPC views unless explicitly stated. This newsletter is market commentary and does not constitute investment advice.

March 2019,

"Calm Before...Recovery!"

Dear Investors,

The start of 2019 has surprised many and confirmed the views of a few. A synchronised rally in Equity and Bond Markets has fuelled the risk meter to point lower but will it be only for a short while?

Cyprus Market

Good news for the Republic of Cyprus as the yield curve pushes lower. Expectation have risen for a medium term local bond, we will be on alert in order to inform potential interested parties once we have further information.

Issuer	Cpn	Moody's	S&P	Fitch	Maturity	Bid	Offer	YTM
Cyprus	4.750%	Ba2	BBB-	BBB-	25 Jun 2019	101.100	101.200	-0.50%
Cyprus	4.625%	Ba2	BBB-	BBB-	03 Feb 2020	103.750	104.000	-0.15%
Cyprus	3.875%	Ba2	BBB-	BBB-	06 May 2022	111.200	111.450	0.16%
Cyprus	3.750%	Ba2	BBB-	BBB-	26 Jul 2023	113.600	113.900	0.48%
Cyprus	2.750%	Ba2	BBB-	BBB-	27 Jun 2024	110.100	110.400	0.72%
Cyprus	4.250%	Ba2	BBB-	BBB-	04 Nov 2025	120.100	120.450	1.05%
Cyprus	2.375%	Ba2	BBB-	BBB-	25 Sep 2028	106.950	107.250	1.55%
Cyprus	2.750%	Ba2	BBB-	BBB-	26 Feb 2034	105.900	106.200	2.26%

Since the merger of HB and CCB the liquidity offered on TBILLS of the ROC has steeply withdrawn due to lack of demand emerging from the CCB. This can be seen in CHART 1 where the amounts auctioned have been under bid/covered for the 13 week notes, a market dominated by the local banks. Given that HB is effectively full on local ROC exposure, the liquidity provided at current levels is attracting more attention (-0.09% vs -0.40%). This increases the chances of a local bond KOHA type for medium term financing needs.

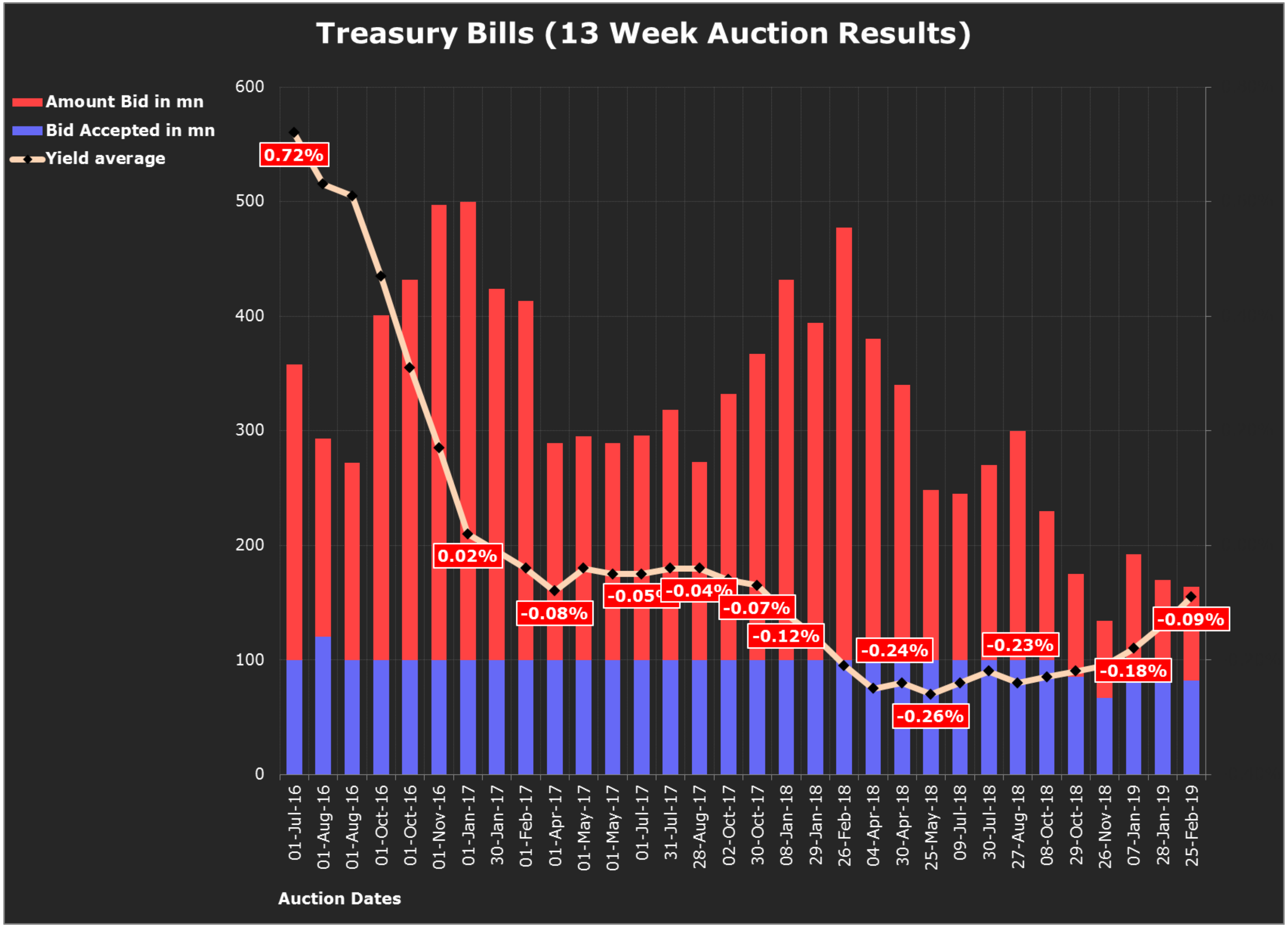
Unemployment rate:	7.5%
Budget Surplus Expected 2019:	3%
Debt/GDP:	104%

The continued expected growth of the Cypriot economy at almost 4% is driven mainly by financial stability, increasing Tourism related services, private consumption growth, construction and banking reform.

Bank of Cyprus announced on the 19/03/2019 ECB provided regulatory approval for the sale of a portfolio of loans known as project Helix. The transaction is expected to take place in early Q2-2019 and will reduce the bank's NPE portfolio by €2,7 bn. The Bank's CET1 is 15,4% as at 31st December 2018.

Hellenic Bank announced in December 2018 its financial results for the first nine months of 2018. The bank posted a profit after tax of €296 mn for the period. Hellenic Bank proceeded with a successful capital issue of €150 mn with Common Equity Tier 1 reaching 18,2%.

CHART 1



Treasury Bills (13 Week Auction Results)
Amount Bid in mn
Bid Accepted in mn
Yield average
600
500
400
300
200
100
0
0.72%
0.02%
-0.08%
-0.05%
-0.04%
-0.07%
-0.12%
-0.24%
-0.26%
-0.23%
-0.18%
-0.09%
01-Jul-16
01-Aug-16
01-Aug-16
01-Oct-16
01-Oct-16
01-Nov-16
01-Jan-17
30-Jan-17
01-Feb-17
01-Apr-17
01-May-17
01-May-17
01-Jul-17
31-Jul-17
28-Aug-17
02-Oct-17
30-Oct-17
08-Jan-18
29-Jan-18
26-Feb-18
04-Apr-18
30-Apr-18
25-May-18
09-Jul-18
30-Jul-18
27-Aug-18
08-Oct-18
29-Oct-18
26-Nov-18
07-Jan-19
28-Jan-19
25-Feb-19
Auction Dates

Central Banks

US FED	ECB	BOE	BOJ
2 ¼ - 2 ½	- 0.40%	0.75%	-0.10%

January 2019 the Federal Reserve Board (FED) decided to put on hold any further monetary tightening either in the form of interest rate increases or balance sheet reductions. The reversal of FED policy came in conjunction with the European Central Bank (ECB) announcement to extend bank liquidity operations until 2021 and maintain the Deposit Facility at -0.40% until the end of 2019 at least, while the Bank of England (BOE) and Bank of Japan (BOJ) remained unchanged.

What is next for the Developed Economies?
US Market indicators forecast GDP growth at 2.4% for 2019 and a strong labour market with full employment at 3.8% jobless claims. News of a US-CHINA trade deal continuously flows across the media, without placing an end to market uncertainty due to the lack of concrete progress. Inflation remains subdued at 2%, even after the historical fiscal tax cut in 2018. Wage growth remains mild.

In the EU weaker global demand has presented exporting economies with greater than expected risk exposures. GDP Growth projections for 2019 have been revised down to 1.5% from 1.8% with numerous reasons to support this such as Brexit turmoil, Yellow Vests riots in France, Automotive industry headwinds and the Italian EU budget conflict.

The recently announced accommodative package by the ECB, namely effecting banking liquidity measures and prolonging of the Deposit Facility at -0.40% until the end of 2019 are a result of the weaker than expected economic growth.

If we are to assume that we are entering a pre-recession period and the period to follow will be of negative economic growth, the Developed world may not have the monetary stimulus tools that central bank have used in the past. Historically during periods of recession the FED has dropped the Federal Funds Rate about 5% in order to stimulate the economy. As its stands at 2.5% and the ECB at -0.40% one can argue it is not sufficient fire power to stage a recovery. The effectiveness of a policy program lies in the ability to affect consumer sentiment.

And even if central banks created new tools, the political support needed to stage bailout programs, rescue failing systemic institutions, expand balance sheets etc. will be extremely hard to persuade voters to back this. Challenging central bank independence is already a much discussed topic.

A lot of this can be attributed to the preceding decade. The unparalleled financial asset growth has spouted an equally unprecedented growth in the rise of populist anti-establishment movements. The phenomenon is witnessed in advanced economies such as the US and EU. While taking many forms and shapes there is a single common voter base, one of growing apathy to the establishments, the very ones that have endorsed the widest income and wealth divergence in recent decades.

Promises of wealth redistribution have allowed “outsiders” to enter governments and form political coalitions that could not be imagined 10 years ago.

During the past decade financial assets have provided triple digit returns, corporations have leveraged up massively and corporate profits have been impressive. The lagging figure in the grand scheme has been of wage growth. Technological advancements, employment competition, weakening trade unions and gaining populations have left the wage growth unequal to the financial wealth witnessed in financial assets. This is a severe risk, as governments and parliaments are growingly at odds visible in how disputes are resolved.

Note, *I have left this newsletter less graphic and mildly shorter than I would have preferred in order to focus attention on the points raised above.*

I hope this newsletter has prompted considerable thought.

If this feels like you, I strongly encourage you speak to your professional investor advisor. A professional advisor is your doctor in times of stress, your lawyer in times of divergence and your coach in times of venturing.

Alexandros Clappas, CFA

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