

## Macro-look on the Market

The month of April was a good one for equity markets. U.S. stocks saw big advances, and both the Nasdaq Composite and S&P 500 benchmarks briefly hit new all-time highs, exceeding the previous record peaks from August-September of last year.

In other key markets, government bond yields generally rose off their late March lows as strongly positive U.S. economic data boosted the case for more hawkishness from the Federal Reserve than we've been seeing lately.

The same dynamics pointing to a stronger economy than previously expected helped continue the push to the upside for the U.S. dollar. In April, the U.S. dollar index hit nearly a two-year high.

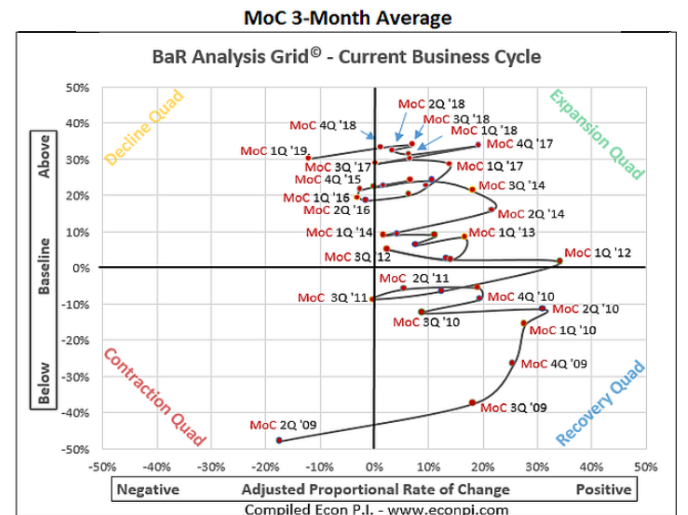
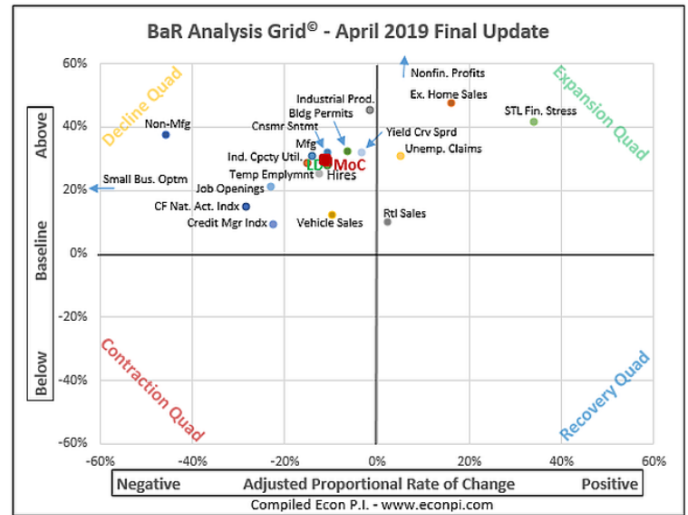
At the same time, that dollar strength in conjunction with surging equity markets helped to extend the down-move for gold prices. Since its February peak, gold was down nearly 5% as of the end of April.

Housing – a key leading sector for the economy – remains weak. Housing Starts and Building Permits are trending downwards while New Home Sales is trending sideways. In the past, these 3 indicators trended downwards before recessions and bear markets began.

Finally, China markets continue to be in focus as the U.S.-China trade deal appears very close to a resolution. The benchmark Shanghai Composite began April with a bang, but fell back sharply towards the end of the month.

Going forward into the month of May and beyond, the key macro themes will continue to be U.S. and global economic growth, the Fed's monetary policy trajectory (though there won't be another FOMC meeting until mid-June), U.S. dollar strength and a potential U.S.-China trade deal.

Looking at the BaR Grid Analysis, 12 out of 19 economic indicators are in the Decline Quad (up from 10 last month), the most important being total nonfarm hires per 100 workers, industrial capacity utilization and small business optimism. The most important indicators in expansion quadrant are consumer sentiment and unemployment claims. MoC 3-Month Average shows average of all these indicators and it signals the general health of the economy. As can be seen on the second picture, the general economy passed from expansion to decline in the first quarter of the year. C-score from the table shows that possibility of a recession in the next 9 months is 34 basis points, up 7 basis points from last month, while the Leading Superindex shows that possibility of recession in the next 3-4 months is 4.24 basis points, down from 5.91 basis points last month. Aggregate dividend yield for S&P 500 index is 1.91 basis points, up from 1.90 last month and well below the 4.28 history average. That, along with Shiller PE ratio of 30.38 (30.49 last month) compared to history average of 15.70, point to a high market valuation.



BaR: Baseline and Rates of Change

Revised May 2019

Risk Indicator	This Week	Last Week	Last Month	Last Quarter	Interpretation
<b>Valuation</b>					
Ten-year note yield	2.53%	2.50%	2.50%	2.68%	
S&P 500	2,947	2,940	2,893	2,707	
S&P Forward Earnings	172	172	167	170	
S&P Earnings yield	5.84%	5.85%	5.78%	6.28%	
Equity Risk Premium	3.31%	3.35%	3.28%	3.60%	Very High
<b>Economy</b>					
C-Score	317	317	316	403	9 MoRecession Prob about 34%
Leading SuperIndex*	4.24%	4.59%	5.68%	7.27%	3-4 MoRecession Prob
BCIp	100.0	100.0	100.0	57.0	No recession indicated
SLFSI	-1.336	-1.336	-1.226	-0.917	Extremely Low Risk
<b>Anticipated Inflation</b>					
	1.89%	1.98%	1.90%	1.85%	

Source: Jeff Miller

## Commentary of our holdings

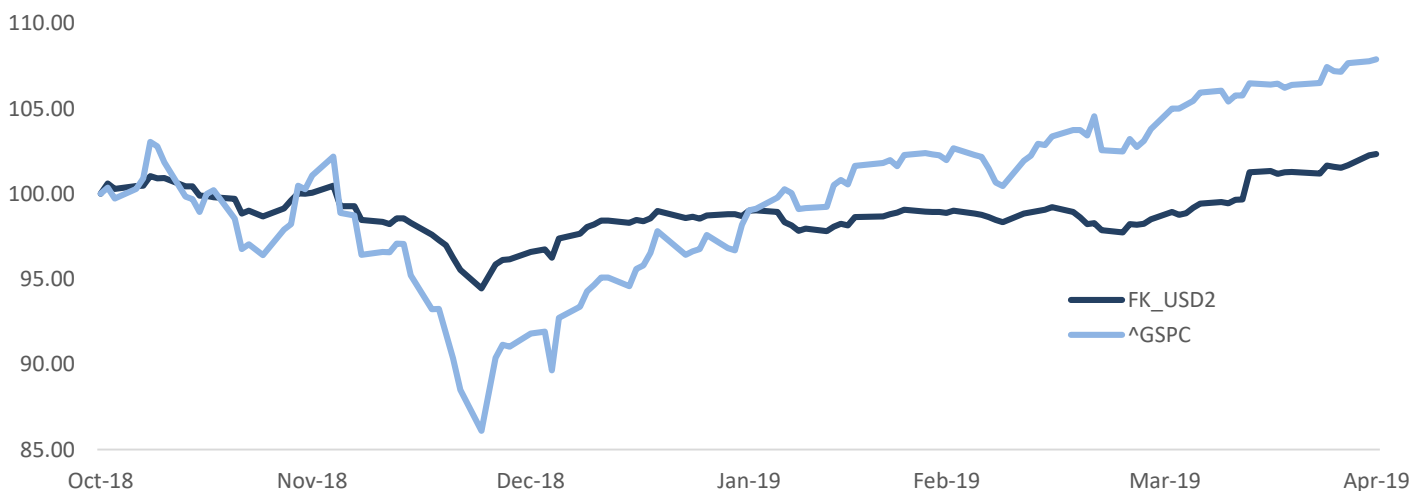
In April, Verizon Communications Inc. (VZ) stock fell from 59.09\$ to 57.19\$. On April 3rd, Verizon officially turned on its 5G Ultra Wideband Network in select areas of Minneapolis and Chicago a week ahead of schedule. For the first time ever, customers could access a commercial 5G network with the world's first commercially available 5G-enabled smartphone. Stock was slightly up. On April 4th, Verizon said it will redeem \$1.57B in near-term notes. On April 23rd, Verizon announced its Q1 earnings. The company reported an adjusted EPS of \$1.20, which was 2.6% higher than the adjusted EPS of \$1.17 in the first quarter of 2018. Verizon's adjusted EPS beat analysts' consensus estimate of \$1.17 for the first quarter. However, investors were dissatisfied and stock fell 2%. The company missed the consensus revenue estimate by \$28 million. In the first quarter, Verizon reported net revenues of \$32.1 billion—a rise of 1.1% YoY. Verizon reported a loss of 44,000 postpaid phone net customers, which was more than its expectation of 10,000 net losses in the first quarter.

The price of McDonald's Corporation share increased by 4.87% in April, from \$188.39 to \$197.57. The company published results for the first quarter of 2019, ending on March 31<sup>st</sup>. They reported an increase of global comparable sales of 5.4%, a decrease of consolidated revenues of 4% (2% increase in constant currencies), systemwide sales increase of 6% in constant currencies and diluted earnings per share of \$1.72. The company also returned \$1.4 billion to shareholders through share repurchases and dividends. Increase in comparable sales reflects strong comparable sales across all segments and successful promotions (including the Bacon Event, the 2 for \$5 Mix and Match deal, and Donut Sticks). Decrease in operating income of 5% reflects lower gains on sales of restaurant businesses and lower Company-operated margin dollars, partly offset by higher franchised margin dollars and lower general and administrative costs. Positive results across all markets are reflected in comparable sales increase, and are primarily driven by UK and France. According to newly released store count by country, McDonald's has a total of 37,855 restaurants, with 13,914 of them located in the US.

Shares of the Alibaba Group Holding Limited had gained 2,59% over the past month. BABA started April at \$180,89 with the announcement of the joint business plan with Shiseido China Co. Ltd for product development. Through this partnership, both companies will work together in product development, marketing, e-commerce and customer relationship management with a focus on the Chinese market. However, on April 3<sup>rd</sup> shares were trading at \$178,32 which is the lowest point of the month and also when Donald Trump signed a memorandum setting in motion a way to address the trafficking of counterfeit goods through third-party online market places. Prices reached a peak on April 12<sup>th</sup> at \$188,91 per share. On April 18<sup>th</sup>, Amazon announced that it is shutting down its domestic e-commerce marketplace business in China, which will undeniably cause a positive effect on the future movement of Alibaba's shares. Alibaba has demonstrated a deeper understanding of Chinese consumers, by tailoring its online offerings and shopping experience to their preferences, why Amazon was only able to capture 0.6% of Chinese business-to-consumer online retail, whereas Alibaba commands the largest share at 61.5%. Until the end of the month stock price varied between \$188 and \$185, and BABA finished April with the price of \$185,57.

Vertex started April at the price of \$186,05 and ended the month at \$168,98. Price dropped 9,17%. On April 16th CRISPR Therapeutics (Nasdaq: CRSP) and Vertex Pharmaceuticals Incorporated (Nasdaq: VRTX) announced that the U.S. Food and Drug Administration (FDA) has granted Fast Track Designation for CTX001. CRISPR Therapeutics and Vertex entered into a strategic research collaboration in 2015. CTX001 represents the first treatment to emerge from the joint research program. CRISPR Therapeutics and Vertex will jointly develop and commercialize CTX001 and equally share all research and development costs and profits worldwide. On April 17th stock price dropped 7,1%. On April 30th first-quarter results were published. First-quarter 2019 product revenues are \$857 million, a 34% increase compared to \$638 million in 2018. First-quarter 2019 GAAP operating income increased 115% to \$277 million; non-GAAP operating income increased 81% to \$377 million.

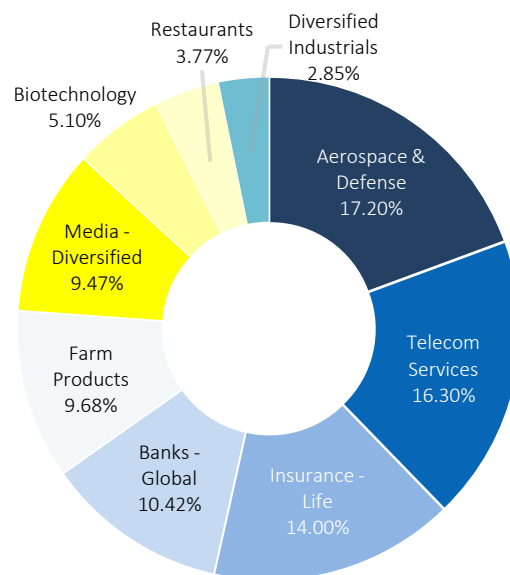
## Portfolio performance vs benchmark (indexed, since inception)



## Investment Approach

The Fund seeks to achieve positive long-term returns by managing a portfolio of diversified investments that are believed to be undervalued at the time of purchase, are expected to hold significant growth potential in the future or have a negative or small correlation with the stock market, making them a mean of diversification.

## Sector Allocation



## Fund Characteristics

Fund name	FK_USD2 UCITS fund
Fund Company	Financijski Klub
Fund type	Mixed
Currency	USD
Starting Share Price	100
Share Price	102.33
Inception Date	November 1, 2018
Fund Domicile	Zagreb, Croatia
Reference Benchmark	^GSPC

## Return since Inception

Price return (net of dividends)	2.33%
Total return (with dividends)	26.14%

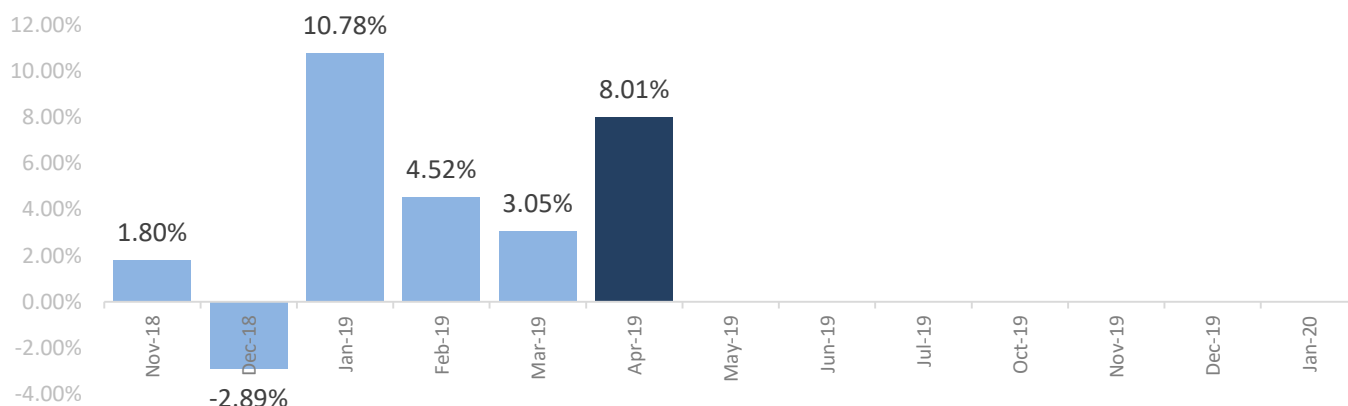
## Geographic Allocation



## Top 10 Holdings

Ticker	Company Name	%	Country
LQD	iShares Invmt Grade Corp Bd ETF	17.20%	USA
VB	Vanguard Small-Cap ETF	14.00%	USA
DIS	The Walt Disney Company	12.79%	USA
BABA	Alibaba Group Holding Limited	10.42%	CN
ADM	The Archer Daniels Midland Company	9.68%	USA
GLD	SDPR Gold Shares	9.47%	USA
JPM	JPMorgan Chase & Co.	5.10%	USA
MCD	McDonald's Corporation	3.77%	USA
T	AT&T Inc.	3.51%	USA
PRU	Prudential Financial Inc.	2.85%	USA

## Monthly Performance (MoM)



## About Financijski klub

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Financijski klub (the Financial club) is a specialized student association which aims to provide its members with additional financial education. That being our core business, we organize different projects, lectures, workshops and numerous other social events. The Club has been active since 2005, and is situated at the Faculty of Economics and Business of the University of Zagreb.

With our ongoing activities we have established a significant role within the finance oriented academic population. Through the years, our work has been recognized with numerous Dean's and Rector's Awards, and our members with internships and jobs at leading companies. Our most recent highlight has been the award for outstanding contribution to financial markets education, awarded by the Zagreb Stock Exchange in 2013.

### FK Portfolio Management

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DOMINIK VUGIĆ SAKAL  
Head of Portfolio Management  
*dominik.vugic-sakal@finance.hr*

KARLO JURIĆ  
Senior Analyst  
*karlo.juric@finance.hr*

JURE BOROVEC  
Senior Analyst  
*jure.borovec@finance.hr*

BRUNO ŠEGOVIĆ  
Analyst  
*bruno.segovic@finance.hr*

SARA LONČAREVIĆ  
Analyst  
*sara.loncarevic@finance.hr*

ANTONIO GRACIN  
Analyst  
*antonio.gracin@finance.hr*

BORNA ČUJIĆ  
Analyst  
*borna.cujic@finance.hr*

PAVE REBIĆ  
Analyst  
*pave.rebic@finance.hr*

ROBERT ZUBANOVIĆ  
Analyst  
*robert.zubanovic@finance.hr*

TIN VRANJEŠ  
Analyst  
*tin.vranjes@finance.hr*

DIJANA IVANKIĆ  
Analyst  
*dijana.ivankic@finance.hr*

TIN BARIŠIN  
Junior Analyst  
*tin.barisin@finance.hr*

DARIO BUDEN  
Junior Analyst  
*dario.buden@finance.hr*

FRAN KARAŽIJA  
Junior Analyst  
*fran.karazija@finance.hr*

VIKTOR NOVAK  
Junior Analyst  
*viktor.novak@finance.hr*

DARIA BUBALO  
Junior Analyst  
*daria.bubalo@finance.hr*

JOSIP HALUŽAN  
Junior Analyst  
*josip.haluzan@finance.hr*

HANA BERAKOVIĆ  
Junior Analyst  
*hana.berakovic@finance.hr*

[www.finance.hr](http://www.finance.hr)

Financijski klub ▪ [info@finance.hr](mailto:info@finance.hr)

Trg J.F. Kennedyja 6 ▪ 10000 Zagreb ▪ Croatia



#### All performance and holdings data as of 30 April 2019.

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