

KLP Alfa Global Rente Shorts Euro

Stockholm (HedgeNordic) – KLP Alfa Global Rente, the fixed income fund managed by KLP Kapitalforvaltning, a subsidiary of Norway's biggest life insurer Kommunal Landspensjonskasse (KLP), is shorting the euro as it bets on a wave of political risk in Europe to spell more losses for the currency in the short- to mid-term future and through 2017.

The fund's strategy is to generate returns from mispricing, for instance in interest rate curves, relative differences between interest rate curves, and currencies. The portfolio's management mostly uses quantitative tools to identify the mispricing, which makes the fund less exposed to limitations in the managers' own calculations and makes it easier to track a larger part of global fixed income and foreign exchange markets, hence achieving a greater breadth in its positioning.

Lars Mouland, the fund's Portfolio Manager, has decided to short the euro against the pound, as he also bets the single currency will fall against the Norwegian krone and Swedish krona.

"The euro looks vulnerable," he told Bloomberg in an interview. "There are many risk events in Europe. There is a lot of political risk," Mr Mouland said. "The EU can easily end up with more countries leaving — especially the Netherlands — that could have a referendum after the election," Mouland said. "Then it begins to unravel a bit. There's a risk for that. If that happens, I think the euro can weaken quite a lot more."

Following a year in which, broadly speaking, the transatlantic political establishment has suffered critical wounds from populist insurgents – first in the form of the shock Brexit upset and second, in the form of the even more devastating election of a reality star and political novice, Donald J. Trump, to the presidency of the United States – there is reason to think the trend will continue throughout the next year. Crucial elections in Italy, the Netherlands, France and Germany will provide targets aplenty in what's left of the political establishment for Europe's insurgent far right populist movements, providing several additional existential threats to the European Union itself. This means political risk will be one of the crucial indicators to watch for in 2017.

Though the euro has already lost ground against the pound this month, "the reversal can go a bit more," Mouland told Bloomberg. "The pound had taken too much of a beating. It's not a one-way street for the pound." Together with partner Arne Loftingsmo, Mr Mouland has also placed bets on rising long rates in the U.S., on the assumption that Mr Trump's fiscal policies will need to be financed by debt. "We think the rate bottom is behind us," Mouland said. "If he does what he said he's going to do, there will be more government spending and tax cuts. We see a higher supply of treasuries. That's why there will be a steeper yield curve."

Mr Trump's victory is proving something of a blessing for hedge fund managers, says Mr Mouland, following years of central bank stimuli anchoring bond yields. "It's easier for us when there's a lot of volatility," he said. "At least for us it's good. There will be more opportunities. Higher interest rates and more volatility. That's fine for us."

KLP Alfa Global Rente has never had a negative return in a calendar year since its inception in 2007. Its average annual return is 6.9 percent, with a 5.5 percent volatility.

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