COVID Back in the Spotlight

- Macro uncertainty with the fifth wave COVID resurgence in Europe, sentiment deteriorated for risky assets and re-opening themes
- Lagarde emphasized on subdued pricing pressure once supply chain bottlenecks ease; rates retraced from earlier CPI overshoot; long end rates volatility less reactive to inflation print
- Muted investor activities amid looming low liquidity holiday season and many outstanding downside macro risks; appetite for high beta new issue bonds less than usual
- Most 2022 outlook publications calling for cautious positioning in credit, our portfolio waits patiently in the same camp

Michael Lienhard
michael.lienhard@capecapital.com

Sarah Zhu
sarah.zhu@capecapital.com

Table 1: Weekly performance overview

	19-Nov-21	Change 1 Week	2 Weeks	1 Month	YTD
EUR IG Corp spread (bp)	98	7	9	11	6
BBB	111	8	10	12	3
IG-ex BBB	40	1	4	7	10
EUR HY Corp spread (bp)	324	6	4	6	-34
BB	247	6	9	12	-9
Capital Structure spread (bp)					
Bank AT1	332	12	15	25	-70
Bank Tier 2	135	4	13	16	2
Corporate Hybrids	202	5	3	12	-19
Sub Insurance	176	7	13	18	1
ETF Total return					
EUR IG ETF (IEAC LN)		0.1%	-0.2%	0.5%	-0.5%
EUR HY ETF (IHYG LN)		0.0%	-0.3%	0.5%	2.4%
USD IG ETF (IEAC LN)		0.1%	-1.3%	0.2%	-1.8%
USD HY ETF (IHYG LN)		-0.3%	-1.1%	-0.4%	2.6%
***Cape Fixed Income Fund (EUR B Inst.)**		-0.1%	0.1%	0.0%	1.4%
***Cape Fixed Income Fund (USD B Inst.)**		-0.1%	0.1%	0.0%	2.0%

* as of Nov 18th 2021

	19-Nov-21	Change 1 Week	2 Weeks	1 Month	YTD
iTraxx Europe OTR (5 year, bp)*					
Main	50	1	1	0	-6
Xover	252	3	7	-2	-22
Snr Fin	58	1	3	2	-8
Sub Fin	112	3	5	4	-12
CDX OTR (5 year, bp)*					
CDX IG	52	1	2	1	-4
CDX HY	300	5	13	5	7
				*since index roll	
Govt. bond yield (bp)					
10 year US yield	155	-2	9	-11	63
10 year Bund yield	-34	-8	-6	-22	23
10 year Gilt yield	88	-4	3	-27	68
10 year BTP yield	86	-9	-1	-5	32
BTP - Bund spread	121	-1	5	17	9

Source: Bloomberg, Bloomberg Barclays, Markit as of November 19th 2021

News on the fifth COVID wave in Europe grasped the media over the week. Austria imposed a national lockdown and other seriously impacted regions likely to take restrictive measures, leading to social unrest in some cities over the weekend and adding another pocket of vulnerability to the year-end market amid many unresolved questions. Risky assets fell and government bonds gained on deteriorating sentiment. We have observed an immediate market shift from the re-opening cyclical names to the 'lockdown' names which was especially noticeable in equities.

On Friday's European Banking Congress, Lagarde again emphasized that the current inflation spike will turn more subdued once the supply chain pressures normalize and hence tightening financing conditions would be premature. Coupled with the soft macro sentiment, and despite the market's push back on the inflation narrative, rates have eased off from last week's spike following the CPI overshoot. Nevertheless, we generally don't see a material surge in volatility on the longer end of the rates curve reacting to inflation prints.

Investor activities within the credit space seem to have entered the quiet holiday season earlier than usual given the many outstanding risk factors. With the year ending and liquidity draining, investors are increasingly cautious to take on risks especially in high beta cash bonds. We have seen some of the new issues in the past week with relatively smaller order books and higher new issue premium than usual. This is more visible among higher beta names, such as Deutsche Bank's new EUR AT1 bond which was issued at a decent discount to its existing secondary curve due to a disappointing order book. However, on the CDS index front, where both liquidity and interest rate exposure are much less of a concern, DTCC data shows that non-dealer positioning in Investment Grade credit (in both Europe and the US, but especially in Europe) remains close to all-time highs, showing that investors prefer to compensate for beta via less rates-sensitive vehicles and hold relatively more confidence in high quality credit spreads as a standalone asset class (as cash bonds embed rates risk while synthetics don't).

Lastly, we start to see 2022 outlook publications from sell side research teams. The common denominator surrounds taking a cautious positioning in credit due to 1) highly uncertain rates liftoff horizon in the US (with forecasts from different teams ranging from 2Q22 to beginning of 2023); 2) potentially reduced technical support from the ECB with the end of the PEPP in Europe; 3) timeline of supply chain normalization and whether supply-chain related pricing pressure will ease or remain sticky once the bottleneck gets resolved. For our portfolio, we remain in the same camp and stay patient and alerted until clear signs of changes of the current market regime emerge.

DISCLAIMER

This confidential presentation and the information set out herein (the «Presentation») is summary in nature only and is qualified in its entirety by the information set out in the offering document or other formal disclosure document (the "Disclosure Document") relating to the potential opportunity described herein. The prospectus, annual financial statements, KIIDs, and legal documents can be obtained from the representative in Switzerland. FOR INVESTORS IN GERMANY: The information agent in Germany is ACOLIN Europe GmbH, with registered office at Reichenaustraße 11a-c, 78467 Konstanz. The basic documents of the Fund, including the prospectus (in English) and the KIID (in German) may be obtained free of charge at the registered office of the German Information Agent. FOR INVESTORS IN THE UNITED KINGDOM: The Fund and certain of its Sub-Funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000. UK investors should read the Appendix for UK investors in conjunction with the Fund's Prospectus which are available from the Facilities Agent. The Prospectus of the Fund and the KIIDs can be obtained on www.fundinfo.com. FOR INVESTORS IN SPAIN: The Prospectus of the Fund and the KIIDs can be obtained on www.fundinfo.com.

The information provided is not intended to be used by any person or entity in any country or jurisdiction where the provision of information and subsequent potential commercialisation would be illegal. The Presentation does not constitute an offer for sale in the United States of America. The information provided by this Presentation is not intended for U.S. persons. The fund shares described in this Presentation may not be offered or sold in the United States or to U.S. persons or for the account for the benefit of a U.S. person.

This Presentation has been provided to the recipient by Cape Capital AG as portfolio manager (the "Portfolio Manager") of Cape Capital SICAV-UCITS for informational purposes for the personal use and is only intended to assist eligible investors in deciding whether they wish to consider reviewing the Disclosure Document. This Presentation is meant for use in one-on-one presentations with eligible investors. However, the contents of this Presentation are not to be construed as investment, legal or tax advice or recommendation and do not consider the particular circumstances specific to any individual recipient to whom this presentation has been delivered. The recipient should make its own appraisal and should obtain advice from appropriate qualified experts. This Presentation is furnished on a strictly confidential basis to eligible investors. None of the information contained herein may be reproduced or passed to any person or used for any purpose other than the purpose of considering the potential opportunity described in the Presentation.

Any opinions, forecasts, projects or other statements, other than statements of historical facts that are made in this Presentation are forward-looking statements. Although the Portfolio Manager believes that expectations reflected in such forward-looking statements are reasonable, they do involve a number of assumptions, risks and uncertainties. Accordingly, the Portfolio Manager does not make any express or implied representation or warranty, and no responsibility is accepted with respect to the adequacy, accuracy, completeness or reasonableness of the facts, opinions, estimates, forecasts or other information set out in this Presentation or any further information, written or oral notice, or other document at any time supplied in connection with this Presentation, and nothing contained herein or in the Disclosure Document shall be relied upon as a promise or representation regarding any future events or performance. Past returns are no guarantee for future returns.

The recipient's attention is specifically drawn to the risk factors identified by Cape Capital SICAV-UCITS's investment fund manager and Portfolio Manager as set out in the Disclosure Document. The Portfolio Manager also advises that the potential investments described herein are speculative, involve a degree of risk and there is no guarantee of performance or a return of any capital with respect to any investment. By accepting delivery of this Presentation, the recipient accepts the terms of this notice and agrees, upon request, to return all materials received by the recipient from the Portfolio Manager, including this Presentation without retaining any copies thereof. This Presentation, layout, copyright materials and trademarks featured in the Presentation may not be used or copied or otherwise reproduced by any unauthorized third party.