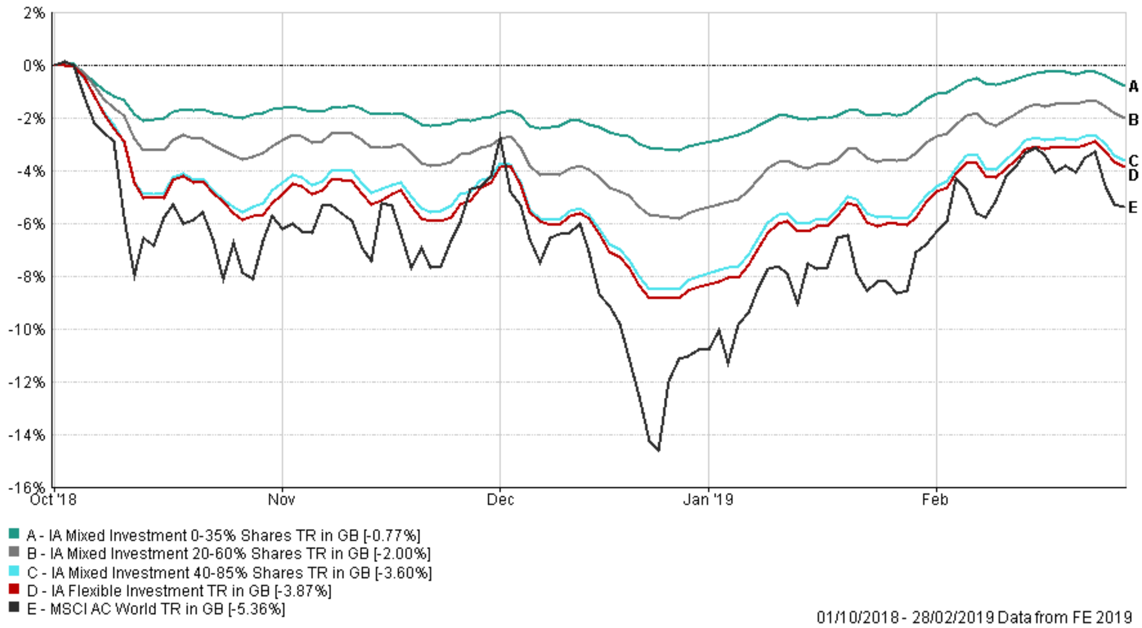
MARKET UPDATE

MARCH 2019 MPU

...and talk is cheap when the story is good

The turnaround in global stocks since 24th December has been nothing short of spectacular. We would argue that 'fear of missing out' (FOMO) has returned and the reasons most often given are a) a more accommodative (dovish) Fed and b) a potential trade deal between the US and China. These two bullish points are wheeled out on an almost hourly basis and whilst both might ultimately be true, they are surely largely priced into the market already.

Multi-Asset Sectors & MSCI World
5 Months



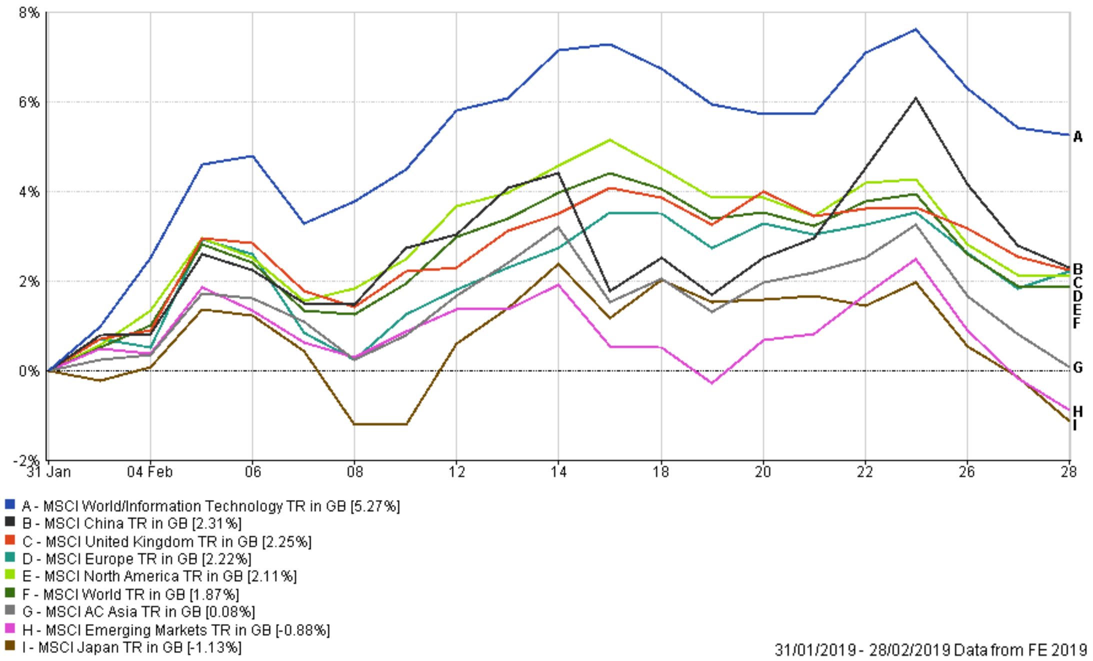
Point Counter Point

So, whilst the grounds for potential optimism are carrying the day, what are the potential counter points? Firstly, the main cause for the slowdown in China is their own attempts to manage the Chinese economy through the removal of some of the excesses, however they seem to have already decided this wasn't such a good idea. They have now started selectively stimulating their economy again and their stock market loves it, proving that the stimulus is perhaps much more prescient than the trade war. However, it is likely that they will have lower growth in 2019 due to the lag in stimulus taking effect, but compared to the time lag it often takes Western economies, it's still extremely fast.

Mind The (data) Gap

Global earnings estimates for the coming year have been reduced and this is a pretty clear bearish signal. General economic growth is slowing and there have been some fairly awful manufacturing PMIs out for February, especially for Europe, and including Germany. Consumption data has been much poorer than forecast in the US, where it makes up a large percentage of their overall economy. To summarise, the data doesn't support the kind of moves we continue to see in equities unless market participants are assuming a rapid turnaround in the economic data. Finally, we have seen global equity flows negatively correlated to the performance of global equity markets, and this doesn't inspire much confidence in the markets which appear expensive. Jawboning, be it from Trump, the Fed or whoever, although undoubtedly powerful, can only go so far.

Global Indices
Year to Date



Citizen of Information, Slave of Technology

As the chart shows (above), it was a return to the (relative) mega returns of the technology sector during February, but we feel that in this sector in particular, there is an advantage for the best active global (and US) managers, hence we have no passive vehicles in this space. As my colleague, Chris Rush, has pointed out in numerous presentations and articles, the underlying moves for many markets are tech event related. The argument that every company is a tech company is undeniable to one degree or the another, but the biggest names are still the drivers whether we are in a risk-on or risk-off environment.

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