MARKET UPDATE

APRIL 2019 MPU

Everything is Awesome

There is a whole plethora of record-breaking statistics to sum up Q1 of 2019. A couple of highlights being the S&P posted its best quarter in almost ten years and the MSCI World Index hit an all-time high in Euro terms. The background to these stellar returns was slightly more sobering. Earnings have slowed, future earnings forecasts are reducing, sales are slowing, margins are contracting, and European Manufacturing PMI data is frankly terrible. In addition, Trump's trade with China remains elusive, however positivity surrounding the ever impending "deal" is not quite as elusive, though even he seems to have got fed up tweeting about it for now.

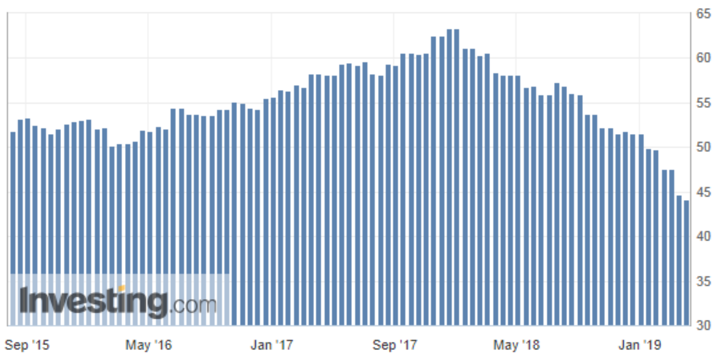
Can't you see...this is a Land of Confusion

The nation voted to leave the EU in June 2016, but it won't have escaped anybody's attention that we are still within it. Goodness knows there has been enough said about this, but it would be remiss of us not to mention it at all. Sterling over Q1 has moved up from 1.27 to 1.32 against the Dollar, and up from 1.11 to 1.17 against the Euro. As a side issue, the Euro against the Dollar peaked at 1.24 in January 2018 when optimism for the Euro area was at its highest. It has since fallen to 1.12 against the greenback and economic confidence for the Euro area sank for a ninth straight month in March. At the same time inflation in the Euro area is also falling and remains a long way from the Central Bank forecast. The UK Manufacturing PMI, which came out this morning, was strong and in stark contrast to Germany's (and the wider Eurozone). These figures will always be open to interpretation, but many commentators were still making the excuses of the weather and seasonality to explain the poor German data, whereas our good data was apparently due to stockpiling for a hard Brexit. Whatever, I would rather be starting from our position of debatable strength than the German one of less debatable weakness. One final point is that, anecdotally, we are hearing nearly as much weak performance being blamed on Brexit by German companies as we are UK ones, one thing for sure is the current confusion is helping nobody.

Manufacturing Purchasing Managers Index (PMI)

September 2015 – April 2019

Germany



UK

I'm Livin' on a Chinese Rock

After all the disappointing global economic data during Q1, on the last day of March there was some good news. After nine poor months the Chinese Manufacturing PMI came in above consensus estimates and back into expansionary (+50) mode. This single data point was enough to power almost the whole of Asia into a bullish start to Q2 and taking the rest of the world with it. Unfortunately, the most likely reason for the expansion is the massive stimulus package effects which were enacted several months ago. So, basically, it's the same narrative as the US; stimulate or contract.

I Wanna be a Climber in Liquidity

Q4 of 2018 seems a long time ago. We can now see that it was very reminiscent of the 2013 'taper tantrum' when the then Fed Chair, Ben Bernanke, outlined the Fed's intentions to taper bond purchases during an appearance before Congress. What Bernanke was effectively suggesting was the same as what current Chair Powell said in Q4 i.e. the markets will have to make do with a less accommodative policy. The results were the same for equities in 2013 as 2018; they fell hard and fast and then, as now, the rhetoric was changed and became very accommodative again. As we know, markets then rallied substantially. The undeniable takeaway is that markets cannot be sustained at their current levels without a backdrop of super easy monetary policy. Bond yields have been collapsing with now £11 trillion of global bonds having negative yields. The ECB has taken the Eurozone down the path to Japanification and there is no guarantee that the US will start heading down that road too.

Right Here, Right Now

What it means in the current environment is we have two risks running concurrently, namely there are risks to being in the markets based on economic fundamentals but also risks not being in the markets. This is, in a nutshell, because almost every significant (independent) central bank and most governments want markets to stay elevated. Elections are difficult things to win if your stock market is tanking, which is why Trump is so obsessed by it. Very little attention is given to the mounting debt and now we have the ludicrous notion that debt doesn't even matter. We say ludicrous but the idea is gaining traction in some quarters and the pseudo-science and mystifying jargon are becoming part of the financial world's lexicon, MMT anybody? The next generations will judge the current beggar thy future generations approach harshly, but they are the votes of the future, not today's, and therefore don't count.

Stop Me If You Think You've Heard This One Before

Of the many manager meetings we have had recently, we often find the same look of resignation on the faces of managers as they battle with economic fundamentals versus the liquidity drenched world of suppressed volatility and search for yield. There is the obvious career risk for them if they underperform the benchmark for too long but, as many US managers can testify, sticking to your principles on things such as a valuation discipline can end up in them having to search for new employment. One of the new funds we have just (re)introduced is the JOHCM UK Opportunities fund. Apart from the appealing looking investment credentials, an important factor for us was that senior management are backing the team even as they had to leave the IA UK All Companies sector which led to fund outflows. A final point on the US equity market, the CAPE-Shiller PE is back to 31.77. The last time it was at this level the S&P returned -16.92% over the next five years.

IMPORTANT INFORMATION

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