DART CAPITAL

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Market Commentary - November 2017

INVESTMENT TEAM

Richard Whitehead
CEO
richard.whitehead@dartcapital.com

Alexander George
ASSOCIATE DIRECTOR OF RESEARCH
alexander.george@dartcapital.com

Chris Bellchambers
DIRECTOR
chris.bellchambers@dartcapital.com

Andrew Savage
INVESTMENT MANAGER
andrew.savage@dartcapital.com

Patrick Kearney
INVESTMENT ANALYST
patrick.kearney@dartcapital.com

Dart Capital
4 Eastcheap London EC3M 1AE

Tel: 020 7283 1117
Fax: 020 7283 0891

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UK

As widely anticipated, the Bank of England's Monetary Policy Committee (MPC) proceeded in raising interest rates for the first time since May 2007 in their meeting early in the month, increasing the base rate from 0.25% to 0.5% in a reversal of the Bank's decision to cut interest rates in the aftermath of last year's EU Referendum. The interest rate decision had been well sign-posted in the minutes from the Committee's September meeting and the move, along with the accompanying minutes and press conference which followed the meeting, actually caused a modest weakening of the Pound on the day of the announcement. Most notably, markets took to heart Mark Carney's comments that he expected two further interest increases over the next two years to be sufficient, a slower pace of monetary tightening than many traders had expected.

Whilst the unemployment rate remained at a 40-year low of 4.3% in September, wage growth in the economy has failed to accelerate markedly with wages rising only 2.2% on an annualised basis over the three month period to September. Markets remain glued to the ongoing exit negotiations between the UK government and the EU, with the movements of the Pound heavily influenced by any perceived progress or setbacks. Such was the case late in the month, when reports that the UK government had agreed to pay a Brexit "divorce bill" of around £45bn which helped drive sterling to a recent high against the US Dollar of c.$1.35 by the close of the month. A recent well renowned investor survey found that the UK equity market is the least favoured market for global investors, and this would appear to be reinforced by recent performance, with the UK market close to the bottom of the pack so far this year. However, whilst Brexit related uncertainties are certainly present for many UK stocks, there are a number of globally diversified companies in defensive sectors, such as healthcare, which we believe have been unduly shunned as asset allocators favour stocks in the technology and industrial sectors. MSCI UK All-Cap fell 2.1% over the month in capital return terms.

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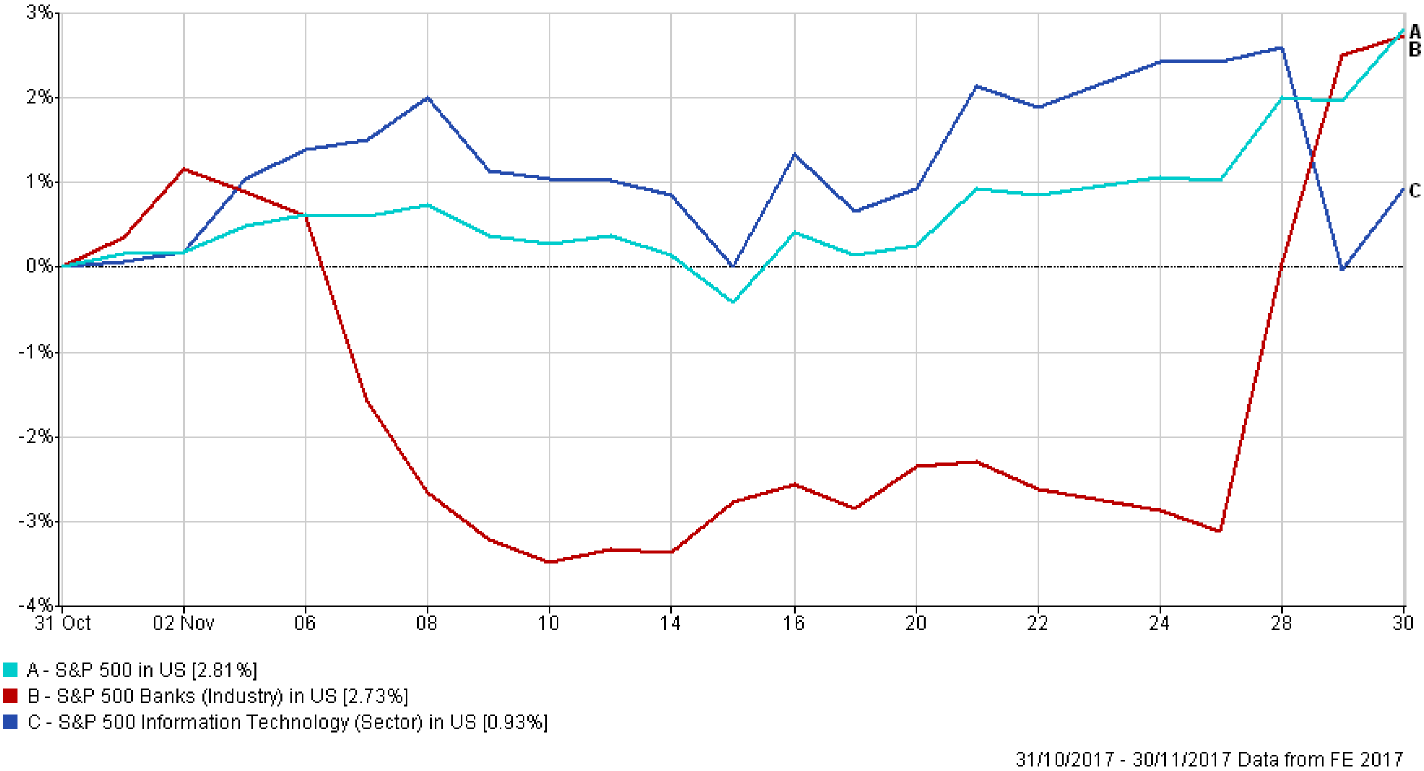
US

The second estimate of third quarter US GDP showed that the world's largest economy grew at an annualised pace of 3.3% over the period, its strongest level since the third quarter of 2014, and an upwards revision from the initial estimate of 3% growth. Strong growth in non-residential investment proved to be the main driver of the upward revision, whilst consumer spending was actually weaker than in the previous quarter, growing at an annualised pace of only 2.3%. The steady pace of economic expansion has encouraged the US Federal Reserve (the "Fed") to continue to normalise monetary policy, and the market is pricing in a further increase in the US base rate – known as the Fed Funds rate – in December. The month also saw President Trump appoint Jerome Powell as Chairman of the Fed. With Trump having publically considered a number of possible candidates, several of which had radical views on the future role of the Fed, the news was a relief to many as it is seen as a continuation of the status quo and unlikely to lead to any significant change in the direction of monetary policy by the world's most powerful Central Bank.

The end of the month saw President Trump and the Republican party make progress in their attempts to pass tax reform, with the Senate looking set to pass a bill overhauling the federal tax code over coming weeks. The bill would permanently lower the top corporate tax rate from 35% to 20% as well as dropping significantly the tax rate on corporate profits repatriated from abroad. This prospect helped trigger a pause in the outperformance of the technology sector as many companies within the sector already have effective tax rates which are well below 20% and will thus benefit less from any potential tax reform, leading to some profit taking within the sector. Conversely, banking stocks, which are seen as a key beneficiary of the reform as well the rollback in regulation more broadly, moved back into favour with investors. The S&P 500 gained 2.8% in US Dollar terms over the month.

The prospect of tax reform helped cause a mini-rotation in the US equity market



Past performance is not indicative of future performance

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Eurozone

IHS Markit's composite flash Purchasing Manager Index (PMI), which uses survey data to monitor the output intentions of businesses in the services and manufacturing industries, jumped to its highest level for the Eurozone in six and a half years in November, bolstered by strong export demand and rising business investment. As the Eurozone economic outlook continues to improve, the European Central Bank (ECB's) monetary policy looks increasingly out of place, with negative interest rates and the central bank's ongoing Quantitative Easing (QE) policy adding further fuel to the recovery. Whilst the unemployment rate for the currency bloc fell to 8.8% in October – its lowest level since early 2009 – inflation remains elusive with the Consumer Price Index (CPI) standing at only 1.4% in October. MSCI Europe ex-UK lost 1.8% in local currency terms.

China

Having experienced dramatic gains so far this year, the Chinese stock market paused for breath towards the end of the month, as concerns over the Chinese authorities' plans to slow credit growth helped take some heat out of the domestic market. It is rumoured that President Xi Jinping will attempt to stay on for a third 5-year term in 2022, a move which would imply that he will attempt to curb many of the excesses in the Chinese financial system over 2018 and 2019, before attempting to boost the economy later in his term. MSCI China H lost 0.6% over the month in local currency terms.

Japan

The Japanese economy has enjoyed a very strong year by its own standards, with the manufacturing sector in particular benefitting from strong overseas demand aided by the moderate weakening of the Yen which has taken place so far this year. In spite of the tight domestic labour market – the unemployment rate stands at only 2.8% - domestic price pressures remain limited and the Bank of Japan are set to continue their QE programme through next year. MSCI Japan gained 1.4% in Yen terms.

Asset Class Performance – End November 2017 (in Sterling terms)

Asset Class	Dart Position	1 Month	3 Months	12 Months	Index
Cash	Neutral	+0.04%	+0.08%	+0.27%	Bank Of England Base Rate in GBP
Fixed Interest	Underweight	+0.28%	-2.69%	-0.47%	iBoxx Sterling Gilts All Maturities in GBP
Equities - UK	Neutral	-2.11%	-1.17%	+8.96%	MSCI UK All Cap in GBP
Equities - International	Neutral	-0.03%	+0.71%	+13.17%	MSCI All Country World Index ex UK in GBP
Property	Underweight	+0.07%	+1.85%	+7.54%	FE UK Property Proxy in GBP
Alternatives	Overweight	+0.04%	+0.08%	+0.27%	Bank of England Base Rate

Benchmarks are capital return which excludes income

Month to 30 November 2017

Treasury yields data supplied by Thomson Reuters

All other performance data supplied by Financial Express Analytics

Dart positions based on Dart mid risk strategy

Overweight

Neutral

Underweight