DART CAPITAL

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Market Commentary - October 2017

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Global equity markets enjoyed another strong month in October, bolstered by strong company profit announcements and positive data releases which reinforced the picture of a reasonably buoyant global economic backdrop.

Market Dynamics

A feature of global markets over recent months has been the persistently low level of volatility. This is best demonstrated by the unusual tranquillity of the S&P 500 index – representing the 500 largest US-listed stocks – which has not closed up or down more than 1% for over 30 trading days. One factor which has become increasingly prominent in this environment has been the strength of momentum across most major markets, with stocks which have been outperforming continuing to do so and out of favour value stocks continuing to underperform. Our analysis indicates that these conditions have been aided by the high amounts of liquidity being pumped into the system, most notably from the European Central Bank and Bank of Japan bond buying programmes (known as Quantitative Easing) and the increasing adoption of passive strategies. Although our suite of risk-rated portfolios have certainly benefitted from these benign market conditions, we continue to ensure that portfolios have sufficient exposure to asset classes and funds which will thrive should markets shift their attention away from momentum and back towards fundamentals and valuation.

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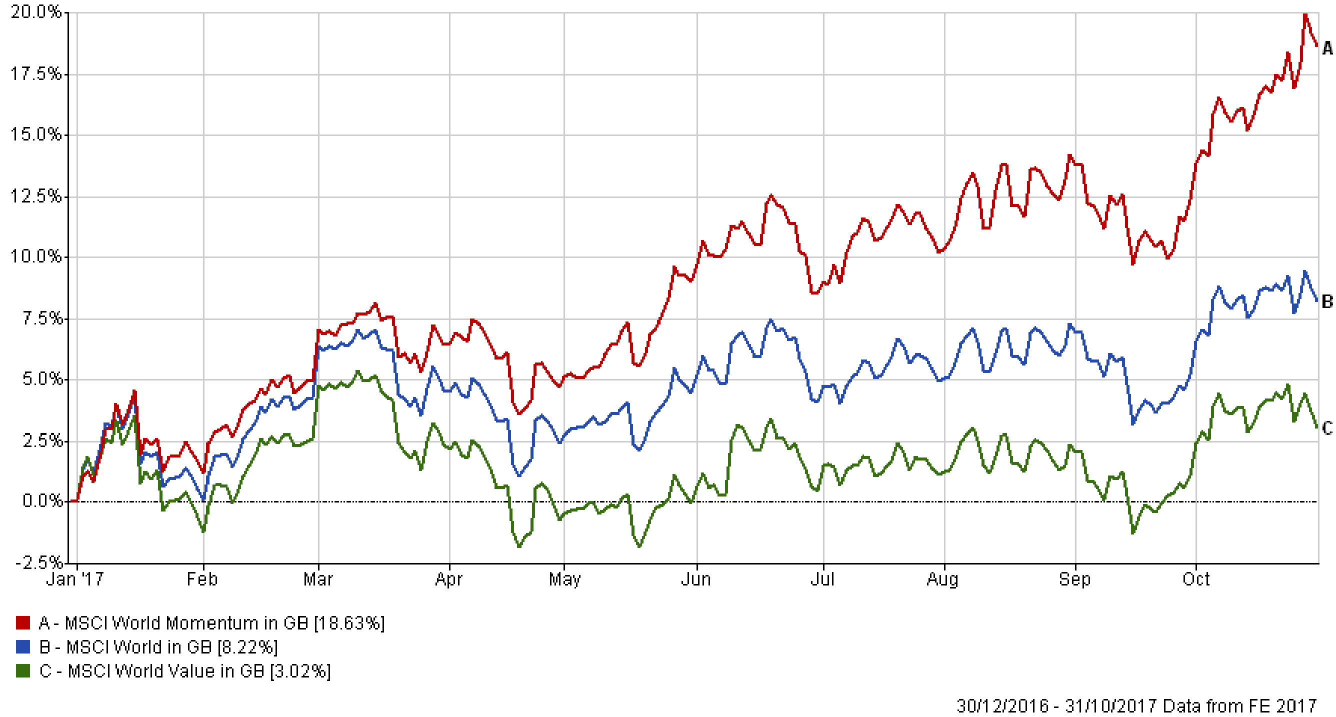
Stocks with high levels of price momentum have outperformed their peers so far this year, whilst value stocks have lagged.



Past performance is not indicative of future returns

UK

The Bank of England's Monetary Policy Committee (MPC) looks set to raise the economy's base rate for the first time since May 2007 in their meeting on the 2nd November. The move is a reaction to inflation, which is sitting well above the Bank's 2% target, and a domestic economy that, albeit certainly not buoyant, is in better shape than the Bank had anticipated when they cut rates in the aftermath of last June's EU Referendum result. Having signposted this move in their September meeting, October's data releases were insufficient to push the Committee off course. In particular, the third quarter GDP figure released by the Office of National Statistics (ONS) indicated the economy grew 0.4% over the period, slightly above the market consensus, whilst inflation, as measured by the Consumer Price Index (CPI), increased to 3% in the twelve months to September. Further to this, ONS data showed that wage growth was stronger than expected, with wages growing at an annualised pace of 3.2% in the six months to September compared to the 1.6% over the prior 6 month period. It should be noted that, whilst the Committee are starting the long process of normalising monetary policy, monetary conditions in the UK remain exceptionally loose with the Bank of England unlikely to start to wind down their £435bn QE programme until base rates are well above their current level. MSCI UK All-Cap gained 1.6% over the month.

US

The US economy grew at an annualised pace of 3% over the third quarter, well ahead of market expectations. Growth was driven largely by buoyant consumer spending and business investment, with the latter growing at an impressive annualised pace of 3.9%, although the figures were somewhat flattered by growing inventories which is unlikely to be sustained. On the back of these figures, as well as CPI which increased to 2.2% in September from its level a year earlier, the Federal Reserve committee responsible for setting monetary policy (known as the FOMC) have indicated that they expect to raise interest rates again in December. Should the FOMC press ahead with their planned rate rise, the Fed Funds rate would finish the year at 1.5%. The appointment of the new Chair of the Federal Reserve was a focus for markets over the month, as President Donald Trump openly considered candidates with divergent views on the future of US monetary policy. However, by the end of the month he appeared to have settled on a current member of the FOMC, Jerome Powell, an individual who is seen by most as a continuation of the status quo and unlikely to deviate significantly from the gradual tightening of policy espoused by current Chair Janet Yellen.

The third quarter earnings season kicked off over the month, with several of the most prominent US companies releasing their results. The results from the technology behemoths Amazon, Alphabet (parent company of Google) and Apple were particularly impressive, and helped drive the sector to a gain of 7.7% in US Dollar terms over October. In contrast, the consumer staples sector, which includes such firms as Johnson & Johnson and Kraft Heinz, came under pressure from rising US Treasury yields, and the S&P 500 Consumer Staples index ended the month down 1.6% on the same basis. The broader US market, as represented by the S&P 500, gained 2.2% in Dollar terms over the period.

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Eurozone

The initial estimate of the EU statistics office, Eurostat, showed that the EU grew 0.6% over the third quarter, bringing the year-on-year growth in the trading bloc to 2.5%, its strongest annual pace since before the financial crisis. The continuation of this currency bloc's positive momentum has been driven by strong consumer sentiment and business investment, the latter of which appears to have been largely unaffected by the Euro's strengthening so far this year. The Markit PMI (Purchasing Manager Indices), which use survey data to capture the output intentions of manufacturing and services firms, point to a continuation of this growth through the fourth quarter. On the back of the positive outlook, the European Central Bank's Governor, Mario Draghi, unveiled the plan to reduce the size of the Bank's QE programme from €60bn to €30bn per month starting in January 2018. Eurozone stocks largely overcame the uncertainty emanating from Catalonia, where the regional government's attempts to declare independence were met with contempt from Madrid and MSCI Europe-ex UK ended the month up 2.2% in local currency terms.

Asia

According to official data, the Chinese economy grew 6.8% in the 12 months to September, in line with market expectations. The 19th Party Congress took place in late October, with President Xi Jinping appointed for his 2nd five year term. Along with the appointment, Xi was seen as consolidating his power base, with his decision not to appoint a future successor a potential indication that he may look to remain leader beyond the standard ten year term. The MSCI China H index, which measures the returns of Chinese stocks listed in Hong Kong, gained 5.5% in local currency terms over October. Japan's General Election saw Shinzo Abe re-elected as Prime Minister, with the result indicating that the Japanese electorate continue to back his market-friendly economic policy agenda, known as "Abenomics", which favours loose monetary policy and better standards of corporate governance. MSCI Japan gained 5.6% in Yen terms.

Commodities

The oil price has trended upwards over recent months and ended the month 6.7% higher in US Dollar terms, aided by indications that OPEC could well agree a 9 month extension to their supply cuts in their meeting next month as well as growing concerns that the lack of investment in new exploration projects could cause a tightening of supply. In contrast, the gold price has fallen back from its highs reached at the peak of the concerns over North Korea in late August, with growing expectations of a December rate rise causing some outflows from the asset class, and the gold price lost 0.6% in US Dollar terms over the month.

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

Asset Class	Dart Position	1 Month	3 Months	12 Months	Index
Cash	↗	+0.02%	+0.06%	+0.25%	Bank Of England Base Rate in GBP
Fixed Interest	↘	+0.33%	-0.98%	-2.10%	iBoxx Sterling Gilts All Maturities in GBP
Equities - UK	→	+1.61%	+1.67%	+9.01%	MSCI UK All Cap in GBP
Equities - International	→	+3.16%	+3.36%	+11.32%	MSCI All Country World Index ex UK in GBP
Property	↘	+1.16%	+2.12%	+8.02%	FE UK Property Proxy in GBP
Alternatives	↗	+0.02%	+0.06%	+0.25%	Bank of England Base Rate

Benchmarks are capital return which excludes income
Month to 31 October 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