DART CAPITAL

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Market Commentary - July 2017

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July was a reasonable month for equities, although several UK "blue chips" suffered large falls on the back of disappointing news. Much like the British summer, the outlook for global stock markets is mixed. Whilst the cyclical indicators for the global economy appear reasonable, the expectations priced into markets are high and very low levels of market volatility imply a discouraging degree of investor complacency which could easily be rocked by geopolitical or economic factors.

To the surprise of many forecasters, UK inflation fell in June according to data released over the month, with the year-on-year change in the Consumer Price Index (CPI) falling to 2.6% from its May level of 2.9%. In spite of this, it is expected that the CPI gauge will push towards, and possibly beyond, 3% over the coming months as the delayed impact of weak sterling continues to feed through to consumer prices. The lower than expected inflation reading, along with domestic growth which has slowed from its more buoyant pace set over recent years –the first estimate for second quarter GDP showed that the economy grew by only 0.3% over the period - is set to perturb the Bank of England's Monetary Policy Committee (MPC) from raising base rates in their August meeting. In the face of the slowdown in consumer spending which has taken hold over recent months, the manufacturing sector has been seen by many as the one remaining bright spot for the domestic economy. However, this narrative was upset somewhat by survey data that showed factory output likely slowed in June with new orders at their lowest levels for 11 months. The last week of the month saw significant stock specific news in the UK market, with pharmaceutical heavyweight AstraZeneca seeing its share price fall 15% on the failure of one of its pipeline cancer drugs. This news was followed only days later by British American Tobacco and Imperial Brands seeing one-day falls of 12% and 8% respectively as the US Food and Drugs Agency announced cuts in the amount of nicotine allowed in US cigarettes to below addictive levels. Despite these stock specific events, the MSCI United Kingdom All-Cap index gained 1.3% over the month.

Counter to expectations going into the year, global investors have moved capital away from the US Dollar over recent months as President Trump's failure to enact the cornerstones of his policy regime, particularly healthcare and tax reform, along with weaker than expected growth, has helped drive investor flows elsewhere; most notably into the Euro. In spite of the uncertainties emanating from Washington DC,

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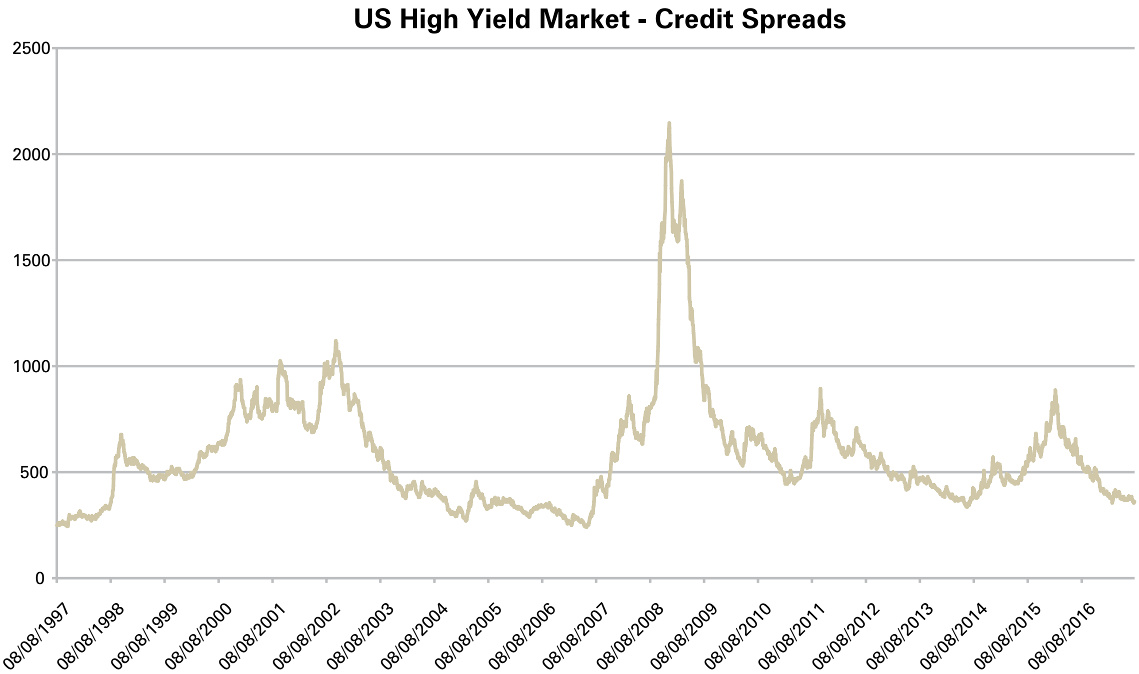
the US economy did pick up speed in the second quarter, growing at an annualised pace of 2.6% according to initial estimates. Household spending and business investment remained the primary drivers of growth, growing at annualised rates of 2.8% and 5.2% respectively. In spite of inflation, which has fallen back below their target of 2%, the US Federal Reserve appear intent on moderately tightening US monetary policy through the remainder of the year. Most notably, having purchased over $4 trillion worth of US Treasuries and mortgage backed securities since starting their Quantitative Easing programme in March 2009, the US Federal Reserve are now planning on reducing the size of their balance in a process known as Quantitative Tightening (QT). In spite of this monetary tightening, credit investors have remained hungry for risk with high yield spreads (defined as the additional yield investors require on high yield bonds over that available on US Treasuries) falling close to their lowest levels since the onset of the financial crisis. The S&P 500 gained 1.9% over the month in US Dollar terms.



Source: Thomson Reuters Eikon, Bank of America Merrill Lynch Index: The BofA Merrill Lynch US High Yield Index

The IMF has revised upwards its forecast for Eurozone growth this year to 1.9% on the back of stronger than expected domestic demand, whilst the unemployment rate fell to its lowest level for 8 years in June. Such positive momentum has led many to expect the European Central Bank (ECB) to soon end its Quantitative Easing (QE) policy and start to look at raising interest rates next year. This improving outlook has driven significant capital flows into the Euro and the single currency has appreciated 10% against the US Dollar so far this year. Notably, this currency strength has started to impact on exporting Eurozone stocks which generate the majority of their revenue from outside the currency bloc. This contrasts with more domestically exposed companies which benefit from the improving domestic economic backdrop and have therefore fared better. MSCI Europe ex-UK gained only 0.4% in local currency terms over the period.

Emerging Market assets have performed strongly so far this year, with the weaker US Dollar reducing pressure across several key economies, particularly China where the currency is pegged to the Dollar. Official figures showed that the Chinese economy grew 6.9% over the year to the end of June, bolstered by strong consumer spending and fixed asset investment. Further to this, the economy saw stronger than expected export and import growth in June - up 11% and 17% year-on-year respectively - which provided a fillip for industrial metals, such as iron ore, which are so reliant on Chinese demand. MSCI China A gained 2.2% over the month in local currency terms. Despite an unemployment rate which - at 2.8% - is lower than the vast majority of developed economies, Japanese inflation remains sluggish with the CPI index only 0.4% higher than its level a year earlier. However, on a more upbeat note, export growth has started to pick-up, particularly to its largest trade partner China to which exports increased 19.5% year-on-year in June, aided by renewed demand for car parts and semiconductor equipment. MSCI Japan gained 0.3% in Yen terms over the period.

Concerns regarding over-supply within the oil market were somewhat abated by a reported fall in the US oil inventories, encouraging the oil price to gain momentum over the month and eventually ending the month up 9.9% in US dollar terms. The outlook for the gold price remains largely driven by the expectations for US interest rate rises, although safe-haven demand following North Korea's missile test did provide some support for the precious metal late in the month. The gold price ended the period up 2.2% in US Dollar terms.

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

Asset Class	Dart Position	1 Month	3 Months	12 Months	Index
Fixed Interest	↘	+0.02%	-2.06%	-5.48%	iBoxx Sterling Gilts All Maturities in GBP
Equities - UK	→	+1.27%	+2.16%	+10.55%	MSCI UK All Cap in GBP
Equities - International	→	+1.19%	+3.01%	+15.99%	MSCI All Country World Index ex UK in GBP
Property	↘	+0.74%	+1.69%	+8.67%	FE UK Property Proxy in GBP
Alternatives	↗	+0.02%	+0.06%	+0.26%	Bank of England Base Rate

Benchmarks are capital return which excludes income

Month to 31 July 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