DART CAPITAL

Market Commentary

February 2019

It was a less eventful month for stocks, with most regional markets making moderate gains amidst mixed economic data and continued calming words from the major Central Banks. Closer to home, market sentiment towards UK assets improved as the threat of a market unfriendly "no-deal Brexit" retreated, although the coming month will likely see continued upheaval as the original 29th March deadline for the UK's exit from the trading bloc approaches. Whilst we have recently taken advantage of sterling's weakness to slightly reduce Dollar exposure across our managed portfolios, our portfolios remain regionally diversified with exposure to overseas assets and currencies which would protect portfolios in the event that the Brexit uncertainty intensifies further.

UK

Perhaps unsurprisingly given the high degree of Brexit related uncertainty, survey data emanating from the UK economy continues to paint a challenging picture, with the index for the manufacturing sector falling to its second weakest level in over two years whilst activity within the services sector also remains subdued. One of the bright spots amidst the domestic uncertainty has been that inflation has declined over recent months, largely as a result of lower petrol and gas prices, and data released by the Office of National Statistics (ONS) over the month showed that the Consumer Price Index fell to 1.8% in January from its 2.1% reading in December.

The Pound rallied late in the month on the back of the news that Prime Minister Theresa May has offered MPs a vote on delaying the UK's departure from the EU or ruling out a no-deal Brexit, if they reject her deal. The gains helped drive sterling to a 7-month high against the US Dollar, with the Pound ending the month at $1.326. Within the equity market, as fears over a Hard Brexit have receded, stocks which are most exposed to the fate of the domestic economy have outperformed with particularly strong performance from stocks in cyclical industries, such as construction and banks, where UK exposed companies are trading at well below the valuation of their US and European peers. MSCI UK All-Cap gained 1.6% in capital return terms.

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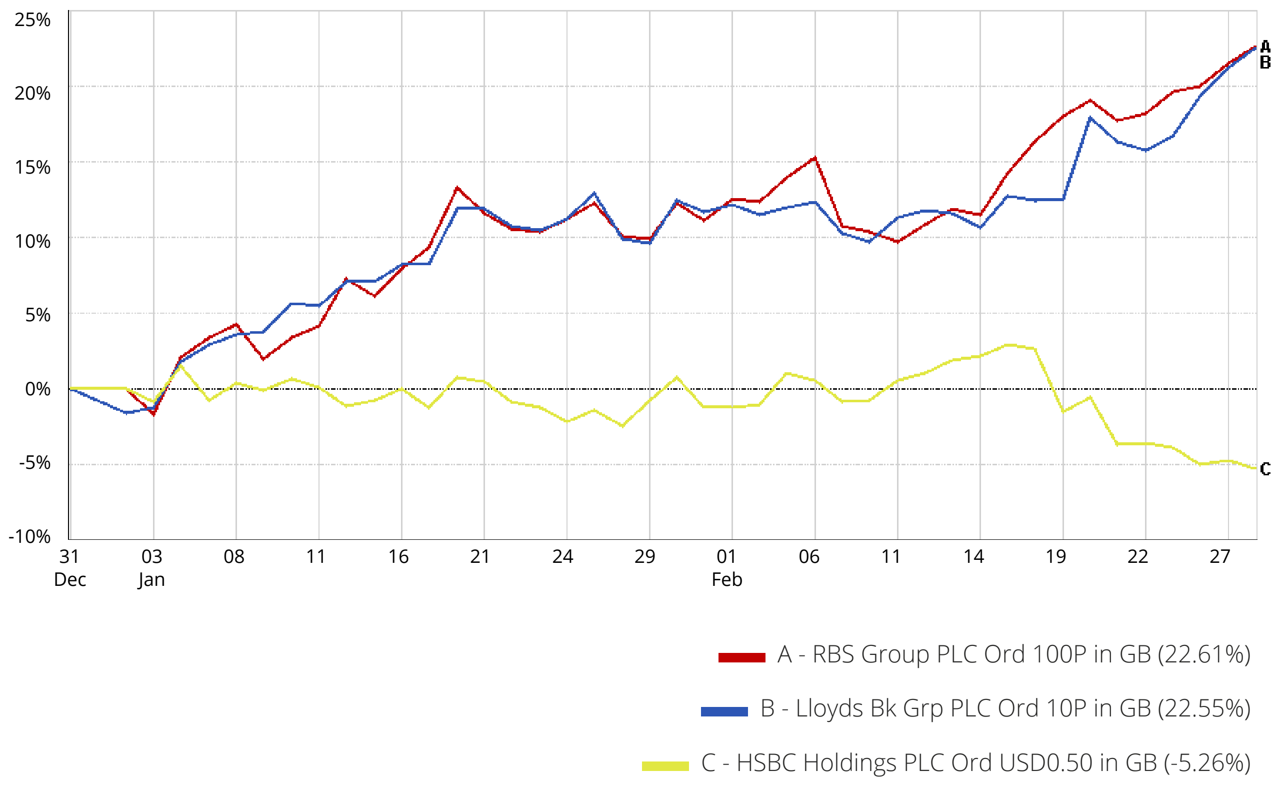
Gilt yields moved up slightly on the back of the more positive political news, with the yield on the 10 year Gilt moving up 8 bps to end the period at 1.3%. Over the month we took steps to reduce exposure to longer-dated UK bonds across our managed portfolios, as we believe that – in addition to yields being very low - this area of the market is particularly vulnerable to a more market friendly outcome in the Brexit process, as well as the long-term structural shift towards higher budget deficits that we believe could eventually put upward pressure on long-dated bond yields.

Domestically focused UK banks have outperformed their more internationally-exposed peers so far this year



30/12/2018 - 28/02/2019 Data from FE 2019

US

The initial estimate for US GDP indicated that the US economy grew at an annualised pace of 2.6% over the final quarter of 2018, with the growth figure bolstered by strong business investment, particularly in equipment and software. Despite the unemployment rate remaining low compared to historical averages, inflationary pressures remain benign with the inflation rate falling to a 19 month low of 1.6% in the 12 months to January as the aforementioned recent weakness in energy prices fed through to consumer prices.

The US stock market continued to make gains, with the market regaining its taste for highly indebted companies with negative or minimal profitability having punished these companies heavily in the fourth quarter sell-off. The S&P 500 gained 3% in US Dollar terms. Having put further rate hikes on hold until there is a tangible improvement in US growth, there was no major change in stance by the US Federal Reserve over the month. In addition to helping suppress US Treasury yields, with the 10 year Treasury ending the month yielding 2.72%, the newly patient Federal Reserve stance has acted as a boon for High Yield bonds which have enjoyed a strong start to the year, having struggled amidst the risk-off environment of the fourth quarter.

Eurozone

Survey data indicated that the Eurozone's manufacturing sector entered its first downturn since mid-2013 late in 2018, led by Germany's industrial powerhouse, as Brexit related uncertainty and trade wars continue to impact the currency bloc's economy. Notably, Germany's economy as a whole just about avoided falling into recession, which is defined as negative economic growth for two consecutive quarters, as zero growth was recorded in the final quarter of 2018 following a 0.2% contraction in Q3 2018. Whilst growth in consumer spending was less than impressive, net exports provided the largest drag on headline growth as weak end-markets, particularly China, took its toll.

In response to the economic slowdown, economists are expecting the European Central Bank's (ECB) to push back their first interest rate rise into next year. Furthermore, in mid-February the ECB board member said the bloc's economic slowdown would be "stronger and broader" than expected and that the possibility of more multi-year loans to the banking sector – known as LTRO - were being discussed, with this news hitting the Euro which ended the month down against both the US Dollar and Sterling. MSCI Europe ex-UK gained 4.1%

Asia

Indicators imply that the Chinese authorities are pushing ahead with fiscal and monetary stimulus in an attempt to temper the moderate weakening of the domestic economy. Onshore Chinese stocks - known as A-shares - enjoyed a spectacular month, bolstered by MSCI's decision to increase the weight given to A-share stocks in their respective Emerging Market indices. MSCI China A, which represents the performance of onshore Chinese stocks, gained 15% in local currency terms, whilst Hong Kong-listed stocks only gained 4.2% in local currency terms. Indian stocks have endured a poor start to the year having ended 2018 on a strong note, with investors particularly concerned over the upcoming election. MSCI India ended the month down 0.1% in local currency terms.

Commodities

The oil price increased from $62 to $66 per barrel over the month, as supply cuts by OPEC as well as increased US sanctions on major oil exporters Venezuela and Iran boosted the price. Having started the year strongly, the gold price came under pressure late in the month, as the generally positive risk sentiment led to selling of the precious metal, which is used by many investors as a safe haven. The gold price declined 0.6% in US Dollar terms.

Asset Class Performance – End February 2019 (in Sterling terms)

Asset Class	Dart Capital Position	1 Month	3 Months	12 Months	Index
Cash	↘	+0.06%	+0.18%	+0.64%	Bank Of England Base Rate in GBP
Fixed Interest	↘	-0.65%	+2.25%	+1.41%	L&G All Stocks Gilt Index Trust I Inc in GBP
Equities – UK	↗	+1.63%	+1.57%	-2.80%	MSCI UK All Cap in GBP
Equities – International	↗	+1.37%	-1.76%	+0.85%	MSCI All Country World Index ex UK in GBP
Property	↘	-0.11%	-0.01%	+3.05%	FE UK Property Proxy in GBP
Alternatives	↗	+0.06%	+0.18%	+0.64%	Bank of England Base Rate in GBP

Benchmarks are capital return which excludes income

Month to 28 February 2019

All performance data supplied by Financial Express Analytics

Dart Capital positions based on Dart Capital mid risk strategy

↗ Overweight

→ Neutral

↘ Underweight