DART CAPITAL

# Market Commentary

April 2019

## Investment Managers


**Richard Whitehead**
richard.whitehead@dartcapital.com

**Chris Bellchambers**
chris.bellchambers@dartcapital.com

**Andrew Savage**
andrew.savage@dartcapital.com

**Kirsty Stone**
kirsty.stone@dartcapital.com


## Research Team


**Alexander George**
alexander.george@dartcapital.com

**Michael High**
michael.high@dartcapital.com

**Dart Capital**
4 Eastcheap London EC3M 1AE
Tel: 020 7283 1117
Fax: 020 7283 0891



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For anyone willing to question the ability of Central Banks to impact global markets, the market movements of the last six months would provide a powerful riposte. In particular, the US Federal Reserve's pivot to a more cautious approach to raising interest rates has been enough to drive a recovery in the US stock market to back above its September high, following an almost 20% peak-to-trough fall during the fourth quarter. Such a turnaround has been remarkable not only for its speed but also the marked rotation within the equity market with the winning stocks from the fourth quarter becoming the laggards so far this year, as traders have largely sought riskier stocks which will benefit most from a more benign interest rate environment. This dynamic has also been reflected in the bond market, with the so-called "reach for yield" – whereby investors sacrifice credit quality in pursuit of higher yields – back in full force having experienced a temporary hiatus over the fourth quarter.

## UK

Sentiment towards UK assets has improved somewhat over recent months as the perceived risk of a no-deal Brexit has receded, with the extension until the 31st October providing some breathing room. However, sentiment remains fragile, and one would not want to bet the bank on the Labour Party coming to the aid of Theresa May and agreeing a cross-party deal. Pleasingly the UK economy hasn't rolled over amidst the Brexit uncertainty, with data released over the month indicating that UK GDP grew 0.3% in the three months to February, although the figures were bolstered somewhat by stockpiling in advance of the previously expected exit date of 29th March. On a more negative note, the services sector did show signs of slowing in March, with survey data indicating that output for the sector contracted slightly. Inflation, as measured by the Consumer Price Index (CPI), held steady at 1.9% in March, as rising fuel prices were offset by a small decline in food prices. Gilt yields rose moderately over the month, with the 10 year Gilt yield rising from 1% to 1.19%, and yields now sit only slightly below the level at which they started the year.

Within the UK market, the small and mid-cap indices outperformed over April, aided by the fact that these indices are less heavily exposed to commodity producing companies which largely lagged over the month. The MSCI UK Large-Cap index gained 1.3%, whilst the Numis Smaller Companies + AIM index gained 3.7%.

## US

US GDP growth for the first quarter came in at an annualised rate of 3.2% according to the preliminary reading, a stronger reading than most economists expected, although the data is likely subject to a significant revision given the challenges in collecting data during the government shutdown which took place over the period. The market remains particularly sensitive to any signs that US inflation is creeping upwards, as it could force the Fed to reverse course and raise the base rate latter in the year. There were few such signs of inflationary pressures over the month, although the CPI index did inch up to 1.9% in the March on the back of higher oil prices.

The US equity market enjoyed another strong month, as better than expected corporate earnings and the continued caution from the Federal Reserve served to push markets higher. The S&P 500 gained 3.9% in US Dollar terms. Treasury yields were largely stable over the month, with the 10 year Treasury ending the month with a yield of 2.51% having traded as high as 3.1% in mid-September.

## Eurozone

Factory output in the Eurozone grew at its weakest rate for almost six years in March, a survey released in April indicated, with the ongoing trade war taking its toll on the Eurozone's manufacturing sector and perhaps most notably, the German auto (car) sector. Having previously driven growth in Europe, Chinese car demand has now declined for nine straight months with car sales falling over 5% from their level a year ago. In spite of this, the Eurozone economy expanded by 0.4%, better than most economists had forecasted, over the first quarter of 2019, official recent data showed. The good news was dominated by Italy, where the economy broke free of a technical recession having seen its economy contract through the second half of 2018. The currency bloc's inflation has dropped to its lowest level in two years encouraging the President of the European Central Bank (ECB), Mario Draghi, to say "substantial monetary policy stimulus remains essential to ensure the continued build-up of domestic price pressures over the medium term," further reducing the likelihood of an ECB rate rise later this year. MSCI Europe ex-UK gained 4.2% over the month in local currency terms.

## Asia

There were some positive signs from the Chinese economy over the month, with the largest pick-up in industrial output in almost five years aided by an acceleration in demand from the construction sector. Having delivered spectacular gains over the first quarter, Chinese stocks took a breather over the month, with some market participants concerned that the strength of the Chinese market over recent months makes further fiscal easing by the Chinese government less likely. MSCI China H, which measures the performance of Chinese stocks listed in Hong Kong, gained 1.7% over the month in local currency terms.

## Commodities

The oil price continued its upward trend over the month increasing from $68 per barrel (based on Brent Crude) to $72, as sanctions on major oil producers helped squeeze prices higher. The gold price has fallen back over recent months, with the safe haven qualities of the precious metal less in demand amidst the risk-on market sentiment. The gold price ended the month 0.7% lower at $1283 per oz.

### Asset Class Performance – End April 2019 (in Sterling terms)

| Asset Class | Dart Capital Position | 1 Month | 3 Months | 12 Months | Index |
|---|---|---|---|---|---|
| **Cash** | Underweight | +0.07% | +0.18% | +0.69% | Bank Of England Base Rate in GBP |
| **Fixed Interest** | Underweight | -1.51% | +0.57% | +1.72% | L&G All Stocks Gilt Index Trust I Inc in GBP |
| **Equities – UK** | Neutral | +2.19% | +6.28% | -1.97% | MSCI UK All Cap in GBP |
| **Equities – International** | Overweight | +3.23% | +7.92% | +9.43% | MSCI All Country World Index ex UK in GBP |
| **Property** | Underweight | +0.25% | +0.22% | +2.09% | FE UK Property Proxy in GBP |
| **Alternatives** | Overweight | +0.07% | +0.18% | +0.69% | Bank of England Base Rate in GBP |

Benchmarks are capital return which excludes income

Month to 30 April 2019

All performance data supplied by Financial Express Analytics

Dart Capital positions based on Dart Capital mid risk strategy

Overweight

Neutral

Underweight