DART CAPITAL

Market Commentary

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It was a turbulent month for markets, with the escalation of the Coronavirus outbreak and its spread outside of China causing a sharp fall in global equity markets over the last week of the month, as markets started to appreciate the impact the virus will have on the global economy. As we noted in our mass email at the time, although this year's Coronavirus has a lower fatality rate than other well-publicised virus outbreaks, most notably SARS in 2003, it is more contagious with the spread to most major countries already causing global travel to be curtailed and a disruption of industrial supply chains. Since that note, we have already have seen the impact on the Chinese economy where the virus originated and first took hold with the weakest industrial production figures since data was first collected in 2004 released on the last day of the month.

Market dynamics

The decline in equity markets was one of the fastest on record, with the previously ascendant US S&P 500 declining over 10% over the final week of the month amidst very elevated volatility as the spread of the virus became increasingly clear with hotspots in Iran, South Korea and Italy. During these periods of heightened volatility, it's is notable that the vast majority of trading which takes place in the market is from short-term investors with the declines certainly exacerbated by algorithmic trading programmes at high frequency trading firms which (as a broad rule of thumb) reduce risk when markets are declining, thus further fuelling market declines. Whilst this can present attractive entry points for long-term investors such as ourselves, it is certainly painful seeing markets decline in such rapid fashion.

US

Prior to the growing concerns over the coronavirus outbreak, the US economy appeared to be in reasonable shape with new jobless claims falling to close to a 50 year low, whilst the survey data for both the services and manufacturing sectors implied continued modest growth. However, during the market sell-off few sectors were unaffected, with travel and leisure businesses seeing particularly precipitous declines and the technology sector wasn't spared either with industry heavyweights Apple and Microsoft declining 16% and 14% respectively from their peaks earlier in the month after both companies revised down their profit forecasts amidst disruption to their respective supply chains. Government bond yields declined significantly over the month, as the market priced in Central Bank rate cuts in response to slowing global growth. The 10 year US Treasury yield ended the month 34 basis points lower, ending the month at 1.16%. At the very beginning of March, the US Federal Reserve gave into market pressure and lowered interest rates by 50 basis points, to between 1 and 1.25%, in an impromptu inter-meeting move in response to the expected weakening of the US economy.

UK

Although it would be hard to tell from the performance of domestic assets so far this year, the UK economy has shown signs of improvement over the first months of the year with improved data from both the services and manufacturing sectors, with the latter growing at its fastest pace in 10 months according to data released over the month. The inflation rate, as measured by the Consumer Price Index (CPI) also moved upwards, with CPI increasing to 1.8% year-on-year in January. Despite this, UK stocks underperformed most other regions, with cyclical and commodity related stocks performing particularly poorly, with MSCI UK All-Cap declining 9.7% over the month in capital terms. The Pound came under pressure amidst the risk-off market move, in large part because the ongoing negotiations with the EU continue to concern investors, particularly given that both the EU and UK have taken aggressive positions in the negotiations with the UK seeking a Canada-style trade deal with "regulatory freedom" from the EU. The yield on the 10 year Gilt declined 9 basis points to end the month at 0.44%.

Eurozone

Survey data released during the month indicated that Eurozone manufacturing improved through January, notably stronger than the lows reached in September last year. That being said, Eurozone manufacturing still remains in a state of contraction and marks the twelfth consecutive month of contraction although the comparative strength from the services sector continues to paint a brighter picture and has prevented the currency bloc falling into a technical recession.

Notably, the preliminary reading for the Eurozone economy for February showed further improvement and surpassed economists' expectations however this could well be revised as the effects the shutdown in China are more accurately calculated. The Coronavirus could well hit the German car industry, which is a significant portion of the country's economy, particularly hard. The industry may face both a supply shock, with for example, Fiat Chrysler warning it may have to halt production at European car plants as they are unable to get critical parts from their supplier in China, and a reduction in demand, as car sales in China, the world's biggest car market, fell 92% in February. MSCI Europe ex-UK ended the month down 7.7% in local currency terms.

Asia

Having struggled during January, Chinese stocks managed to largely buck the trend over the month in spite of economic data which was largely weak, as indications of the slowing rate of infections in China and some indications of buying by domestic investors helped the market recover. MSCI China H ended the month up 1.8% in local currency terms.

Commodities

Weaker global trade and reduced demand from aviation helped push the oil price down over the month, with the price of Brent Crude benchmark declining from $58 to $51 per barrel by the end of the month. Whilst gold benefitted from safe haven flows over the month and was up over 5% for the month at one point, it sold off markedly on the last trading day of the month as some investors took profit amidst margin calls from their equity exposures and ended the month down 1.3% in US Dollar terms. Whilst this knocked the shine off gold's return for the month, we don't believe it has any impact on the long-term investment case for the precious metal and we believe that it continues to provide attractive diversification, particularly now that the US Federal Reserve are moving even closer to negative interest rates.

Asset Class Performance – End February 2020 (in Sterling terms)

Asset Class	Dart Capital Position	1 Month	3 Months	12 Months	Index
Cash	↘	+0.06%	+0.19%	+0.75%	Bank Of England Base Rate in GBP
Fixed Interest	→	+1.35%	+3.30%	+9.96%	L&G All Stocks Gilt Index Trust I Inc in GBP
Equities – UK	↗	-9.64%	-9.95%	-6.63%	MSCI UK All Cap in GBP
Equities – International	↗	-5.05%	-4.74%	+6.82%	MSCI All Country World Index ex UK in GBP
Property	↘	-0.06%	+0.19%	+1.25%	FE UK Property Proxy in GBP
Alternatives	↘	+0.06%	+0.19%	+0.75%	Bank of England Base Rate in GBP

Benchmarks are capital return which excludes income
Month to 29 February 2020
All performance data supplied by Financial Express Analytics

Dart Capital positions based on Dart Capital mid risk strategy

↗ Overweight
→ Neutral
↘ Underweight