

# Discretionary Portfolio Service

Quarterly Review Q3 2018



## PORTFOLIO MANAGERS

Christopher Boxall  
Direct: 01923 713893  
cboxall@fundamentalasset.com

Stephen Drabwell  
Direct: 01923 713892  
sdrabwell@fundamentalasset.com

## FUNDAMENTAL ASSET MANAGEMENT LIMITED

Cardinal Point  
Park Road  
Rickmansworth  
Hertfordshire  
WD3 1RE

+44 (0)1923 713890

enquiries@fundamentalasset.com  
www.fundamentalasset.com

### Market Review

Although US equities advanced in the third quarter to significantly outperform other major regions, registering the longest US equity bull market in history, global equities have come under pressure in recent weeks. Rising bond yields and political and trade concerns, as the tariffs imposed by the Trump administration on Chinese exports, have started to have an impact.

As we write, we are seemingly in the midst of a 'market correction' with substantial sell offs in global equities. The popular technology stocks have been falling sharply in the US. Asia and European markets are also experiencing sharp declines and volatility is on the rise.

With fears of a "no deal" Brexit the share prices of many UK domestic corporates, especially smaller and mid size companies, have also been hit quite hard.

Sterling's continual decline which, up until recently was underpinning the FTSE-100 as overseas investors picked up 'cheaper' assets, has been offset by a slow-down in global growth affecting emerging market exposed areas, such as financials and miners, which performed poorly as a consequence.

As a result, the main market struggled, with the FTSE All-share falling 1.77% in the quarter and FTSE100 Index down 1.66%.

In the face of these mounting pressures the Bank of England has increased interest rates by 25 basis points to 0.75%, due to inflation fears and having some fire power if and when Brexit hits. The Federal Reserve also increased the federal funds rate by 25 basis points and reaffirmed its outlook for further gradual hikes into 2019.

### Portfolio Review

Performance from the portfolios was mixed as those with a greater US equity exposure unsurprisingly outperformed.

Some of the underperforming domestic stocks which dragged on performance are detailed below.

Despite confirming at the end of the quarter that profits for 2018 would now be at the top end of guidance (pre-tax £570m - £580m), **Easyjet** was one of the biggest fallers in the period. A strong fourth quarter thankfully helped offset the disruption across Europe caused by strikes and unusual weather. This is a well-run business with a dividend yield now approaching 5% to reward the patient.

The share price of **Vodafone** fell to 5 year lows, seemingly on fears that the generous dividend may be cut as it spends €18bn on Liberty Global's German cable assets. The incoming Chief Exec certainly has his hands full in re-energising this once admired business, but we will be surprised if the dividend is sacrificed. We look forward to enjoying the 8.5% yield which should be well supported by free cash.

Among the mid cap stocks, shares in **IG Group**, the operator of Europe's largest online trading platform, were particularly weak as it grapples with new rules restricting the marketing of derivatives such as CFDs and Spreadbets to retail traders. The unanticipated departure of the highly-regarded Chief Executive at the end of the quarter sent the shares down further. We consider IG to be the best operator in its sector and recent market volatility will be a huge boon to its business, which has suffered from several years of relative market calm. The shares now yield approximately 7%.

Good companies like these being oversold and market corrections bring about some excellent buying opportunities and as portfolios have been sitting on substantial cash piles in recent months, we are well positioned to take advantage of these opportunities as markets stabilise.

Issued by Fundamental Asset Management Limited. Fundamental Asset Management Ltd is Authorised and Regulated by the Financial Conduct Authority. This is not an offer to sell or a solicitation of an offer to purchase shares. You should not invest in our portfolio service unless you have read our Terms and Conditions, are aware of the risks involved, are prepared to hold for the long term and can risk making a loss. Smaller quoted companies can be subject to certain specific risks not associated with larger, more mature companies. The information and opinions contained in this document are for background purposes only and do not purport to be full or complete. Past performance is not necessarily a guide to future performance as the price of shares can fall as well as rise and you may not get back all the money you invested. No reliance may be placed for any purpose on the information or opinions contained in this document of their accuracy or completeness. If you have any doubt whether this product is suitable for you and you wish to obtain personal advice, please contact an Independent Financial Adviser.