Discretionary Portfolio Service

Quarterly Review Q4 2018

Fundamental

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Market Review

It was one of the worst quarters for global equities in many years as fears over the outlook for the world economy came to a head against the backdrop of tightening global monetary conditions, US-China trade tensions and UK and European political uncertainty.

The FTSE All-share fell 11% in the quarter and FTSE100 Index was down 10.4%. Markets were even weaker in the US where the S&P500 was down 14%. Small cap indices suffered severely with the AIM All Share index was down 21.84%. On average, the portfolios, excluding those invested solely in AIM for tax efficient reasons, were down 9.6%.

Many UK domestic-focused sectors performed poorly due to worries caused by the uncertainty and division of the UK government over the Brexit deal.

Despite the uncertainty, and the risk of a UK recession in the event of a "no deal", the economy continued to recover from the very poor start to 2018. UK Q3 GDP growth came in at 0.6% quarter-on-quarter as expected, up from 0.4% in Q2 and the fastest pace since Q4 2016.

UK retail sales have not been great though. Although November sales increased by 1.4%, significantly above consensus expectations, October was disappointing and December the worst in a decade.

Although the FTSE100 is somewhat immune to Brexit, being generally made up of international companies, the Brexit saga is clearly weighing on investors both here and overseas. With seemingly no clear understanding of where we will be next week let alone on 29th March, the malaise and volatility in UK stock markets is likely to rumble on.

Brexit thoughts

In our opinion, we are unlikely to see a 'no-deal' Brexit or a second referendum. If Mrs May fails to win the necessary support in parliament for her deal, which is probably a closer run thing than the media portrays, then seemingly the only option would be to delay Article 50 and try to renegotiate, potentially under a new Government and/or Prime Minister. From an investment perspective, Parliamentary support for Mrs May's deal is the only likely scenario to boost investor confidence and Sterling, in the short term at least.

Company news

Although not widely held on the general portfolios, the big news from the quarter was the near failure of **Patisserie Holdings,** whose shares remain suspended. Having previously reported it was sitting on cash of £28.8m, we were subsequently told the Group in fact carried significant debt and needed to raise more money, simply in order to survive. New money was injected at a price of 50p per share, which was an 88% discount to the share price prior to suspension. A large element of the new investment came from the Executive Chairman Luke Johnson. As shares in Patisserie Holdings remain suspended and its financial position remains unclear, we have taken the prudent stance of valuing the position at zero in our portfolios. We are very sorry to have to report this unfortunate situation. Thankfully our policy of diversification helps mitigate the impact of unforeseen problems like this.

Unsurprisingly, there were few success stories in the quarter although **Diageo** was up slightly. **British American Tobacco** was a notable faller on the news that the FDA in the US are severely restricting the sale of e-cigarettes.

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