Discretionary Portfolio Service

Quarterly Review Q1 2019

Fundamental

Market Review

After a very weak fourth quarter of 2018, global equities rallied in the first quarter of 2019 with almost all areas of the market bouncing back. Major global equity indices were up between 8% and 10% and portfolios, in the main, performed in line with these levels of return.

Against an increasingly uncertain outlook for the global economy, equities which perceived to offer superior and defensible earnings growth outperformed. This was reflected in the strong relative performance of the UK's (albeit relatively small) technology sector and select consumer goods companies, including the large-cap tobacco and beverage groups. In addition to these trends, a number of lower valued, domestically-focused areas bounced back strongly.

It is difficult to say whether Brexit is having any affect on investor sentiment even at the lower end of the UK market. Although, one would assume the market would not be enthused about a disorderly no deal Brexit, the monumental shambles Parliament is making in trying to secure the UK's exit is surely creating even greater uncertainty, something we all know the market doesn't like.

On a more positive note, UK employment growth remains robust and nominal wages continued to pick up as the UK labour market bucked a wider slowdown in the economy and real wages remained in positive territory as inflation was muted.

However, in line with much of the rest of the world, the UK economy has slowed down during the fourth quarter of 2018. The Office for National Statistics revealed that GDP growth decelerated to 0.2% in Q4 from 0.7% in Q3 2018 and confirmed that the economy grew at 1.4% in 2018, the lowest rate for several years. Looking forwards, the OECD predicted UK economic growth would decelerate to 0.8% in 2019 while the Bank of England cut its 2019 GDP growth projection from 1.7% to 1.2%.

Company news

During the quarter, we sold out of some of the peripheral holdings and undertook some portfolio restructuring.

We have added some new stocks to the portfolio including two US names, Autohome and Intuit Inc.

Autohome (ATHM:US) is listed in the US but is a Chinese provider of new and used car listings through its website. It is similar to Autotrader here in the UK but with a much larger audience!

Intuit (INTU:US) is a Nasdaq listed provider of accounting, financial management and compliance software and includes the Quick Books brand name.

Big winners in the quarter were **British American Tobacco (BATS)** and **Next (NXT)**.

Next is up 40% year to date bucking the trend of high street retailers which are currently enduring a torrid time. Next is fantastically well managed company and has been growing mainly due to its online offering. It currently pays a 3% dividend and the company has been recently buying back shares at an average of £51 per share.

British American Tobacco was up 28% in the quarter after announcing that revenue rose 25%, or 3.5% after adjusting for recent acquisitions. Adjusted operating profit expanded at double that pace, in part because of success in marketing high-margin e-cigarettes.

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