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Global Market Strategy – March 2019

Following January rebound, equities climb further in February

What is your discipline, your strategy for investing? Let your winners win or take profit and move on? Hope your losers recover or stop-loss? Diversification or concentration?

McLaren advocate a 'winners run' and 'stop-loss' approach. Unless there is a fundamental reason for cutting a certain asset exposure, stick with the underlying profitable holding. Don't be over-diversified, which dilutes returns, and cut losers. If a collective falls 20%, you're probably in the wrong sector at the wrong time. If a single stock falls 15%, don't let it fall further because the odds are it will. Sometimes you have to admit you got it wrong and change is needed, despite human instinct persuading you not to crystallise a loss. And when the market plummets in a sinkhole, don't panic.

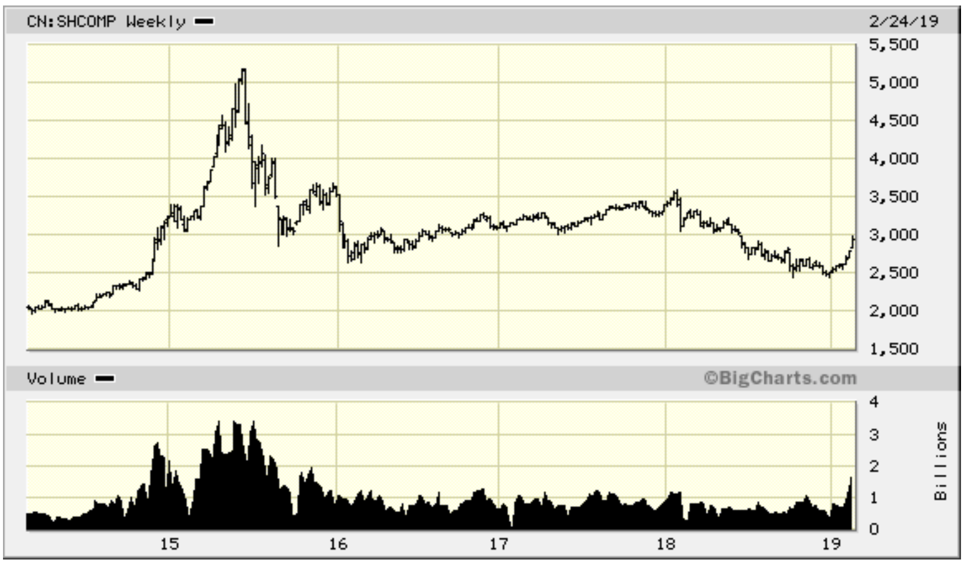
Investors experienced an unnecessary and swift bear market during the fourth quarter as a result of Jerome Powell's trigger-happy interest rate rises and hawkish outlook for further rises in 2019, but in light of his sentiment reversal, January and February Stockmarket performances have come as a great relief.

Most portfolios are not yet where they were in early October, unless they were heavily overweight China during the first two months of the year. The broad Shanghai Composite index was up 17.86% for the month of February, and the tech-heavy index, the Shenzhen Composite, was up over 21%, far and away the best monthly performance for Chinese stocks for four years, but it's not over.

Both the charts and the fundamentals point to a sustained upswing. 'Three White Soldiers' chart pattern of three consecutive weekly rallies during February has retraced half of 2018's losses, according to technical analyst Nicole Elliott in her weekly FT article, and is a bullish sign for further albeit slower momentum in Chinese stocks.

From a fundamentals standpoint, China's weighting in the Morgan Stanley Capital Index (MSCI) of emerging markets is set to triple by the end of August, resulting in an inflow into Chinese stocks of some £100bn from foreign sources.

It is important to recognise that although China is the world's second largest economy, it is still an emerging market and therefore returns from investment will be volatile. Large gains can be made but so can large losses so it is not for everyone but it is a lot more exciting than the dodo world of the FTSE100 and European markets, if excitement is what you're looking for, and if the US-China trade spat gets resolved - and much of February's gain was in expectation it would - it will be a good underpin for this year's rally.



Shanghai Composite, 5 years (Source BigCharts.MarketWatch.com)

March 1st 2019

US Markets too have done well during January and February, rising a measured 7% following their 20% fall in the final quarter last year. Earnings announcements have been good but guidance has been cautious as companies are concerned about the prospect of a China slowdown causing a ripple effect across Asia, into Europe and then to the US. China is slowing but it is a measured slowdown in order to avoid the likes of the property spike in 2015. Yet the fear of a slowdown helps create enough worry for complacency to be avoided, for the Fed to remain quiet and for companies to do slightly better than suppressed expectations - the old UPOD strategy: Underpromise and Overdeliver.

In this environment, the dollar should continue to weaken (the pound is now at £1.33), emerging markets should continue to edge higher, US companies exposed overseas should do better and cautions optimism should bear fruit for equity investors this year. Precious metals should also lift, however if bullish sentiment for traditional equities rises, money will leave gold and silver and move elsewhere. Every cloud has a silver lining and if gold and silver fall by 15-20%, which they could well do, China and Asia would be favoured beneficiaries of rerouted money.

US dollar index futures, 1 year (Source: BigChartsMarketWatch.com)

Silver futures, 1 year (Source BigCharts.MarketWatch.com)

Left-field geopolitical factors could contribute to a further rally in precious metals. India and Pakistan's reopening of past wounds actually had little effect on either gold or silver because of happy Chinese distractions but if matters escalate in the nuclear-equipped states, both the dollar and precious metals can be expected to rise at the expense of the equity markets.

Favoured investment plays:

Nil risk: **Cash**
Cautious risk: AAA Corporate bonds
Balanced risk: Managed / Multi-asset funds
Market risk: UK equity
Adventurous risk: **Asia, US equity**
Speculative risk: **Technology, China, India, Other EM, Precious metals**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (including new energy, all US) 32%, US smaller cos 3%, (Other) US equity 5%, India 4%, China 4%, (Other) Emerging Markets 7%, (Other) Asia 15%, Pharmaceuticals 12%; Global Equity 17%, Precious metals 1%

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