ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

MARKET COMMENTARY

March 2017

Conference Pair

February was another strong month for global equities, with many markets hitting new highs. Russia was the only noticeable blackspot as investors realised that the new US administration was not planning to lift sanctions or strive to improve relations anytime soon. Having now seen all of the 'Trump Trade' gains in the Moscow stockmarket evaporate, naysayers are pointing to Russia as a sign of things to come elsewhere in the world. However, for now, the honeymoon phase is lingering on and with most recent economic news fairly positive, it is difficult not to feel upbeat especially as spring is in the air.

It is this time of the year that we attend the CityWire Wealth Manager Conference in London, a busy two days of meeting fund management groups, sandwiched around an awards evening for the great and good of the industry. We find it a useful opportunity to focus purely on investment matters; to reassess our outlook on the financial markets in general and our opinion of fund managers in particular. Two of the Albert E Sharp partners attended (including this commentary's author) and we split the meetings up and headed off into the meetings, taking as many notes as possible.

The event started off with an address from Rachel Lomax, economist, ex-member of the Monetary Policy Committee and at one point hotly tipped as successor to Mervyn King as Governor of the Bank of England. Sadly it gave us little insight into the decision-making process within the central bank let alone any illumination as to how the UK economy might fare unconstrained from the EU or given the new Trump administration. Instead we received a defence of the 'brave' stance taken by Mark Carney in his horrendously inaccurate statements before the vote that Brexit would cause serious immediate harm to the UK economy. Furthermore it was suggested that because of the Bank of England's 'decisive' move to cut interest rates, recession was averted. It is an understatement to suggest that delegates tended to disagree.

After this, it was on to the meetings with the fund managers. Not unlike speed-dating, this consisted of ten sessions, lasting 40 minutes in groups of approximately 10 people. It was enough time to get a good handle on the proposition and between the two of us we saw all of the presentations.

As a general observation it was noticeable that bond fund managers were far more negative on the outlook for the global economy than the equity fund managers. This is frequently the case and the reason for this probably stems from how the two sets of managers go about their tasks. Bond managers tend to be driven by the big, macro-economic themes such as interest rates, inflation, unemployment or GDP growth for example. The Allianz team were promoting their Strategic Bond Fund and much of the discussion was based around a recent paper, written by Mike Riddell the lead manager entitled *Trumponomics: The Greatest Speculative Bubble Ever?* The team highlighted a number of charts that boded negatively for equities, such as the dislocation between high levels of policy uncertainty and low stockmarket volatility and the unusually high speculative positioning of investors across the oil markets. Ultimately the team still saw China as the main source of global risk. The housing bubble appears to be growing and we watched a fascinating excerpt from a documentary on China's 'ghost cities'. One suspects that most people left the meeting feeling rather gloomy.

Although the equity fund managers were far from being blaze, the tone was undeniably upbeat. Andrew Cormie of Eastspring told us of the opportunity in emerging markets and presented a compelling case on why behavioural biases create scope for capital growth when taking a value approach. Carlos Hardenberg from Templeton was also there to discuss emerging markets and he argued that even given the recent rally, there was much further to go. We have been big supporters of Carlos and investors have been rewarded with a 60%+ return over the last 12 months in his TEMIT fund.

Daiwa highlighted the structural inefficiencies in Japanese equities and we latched on their comments regarding analyst coverage of smaller companies. Of the 3,600 listed stocks in Japan over 3,100 were barely covered by the research community. Therefore, investors with the correct approach could find an edge. As they put it, since under-researched companies are cheaper this brings higher upside potential. The locally-based team showed very impressive, constant top quartile performance dating back 15 years and much of this seemed to be down to their informational advantage.

Wells Fargo told a very similar story, with a neat message on why they focus on underfollowed and unloved stocks. Their Stageline US Small Cap Value Fund has beaten the benchmark Russell 2000 Value Index consistently over the last 20 years, suggesting that this is an approach that works.

We saw a few other developed markets funds that didn't necessarily tell us anything new, although it was worth hearing from Blackrock who pointed out the extreme divergence in valuation between US and continental European shares. We have been light in Europe for several years, but could now be the time to revisit the region given the political uncertainty? Maybe this is precisely the attraction.

In all, a very useful few days and we are now in the process of reporting our findings back to the investment committee. Will it change our opinion or approach? Probably not in the short-term as we continue to enjoy the rising tide of optimism from the US. However, we are maybe more circumspect as to the magnitude of the reflationary boom that many think Trump will trigger. Indeed, this issue is fundamental to the direction of the financial markets and has been one that we have dodged of late. Look out for the next commentary in early April, when we will deal with the subject head on.

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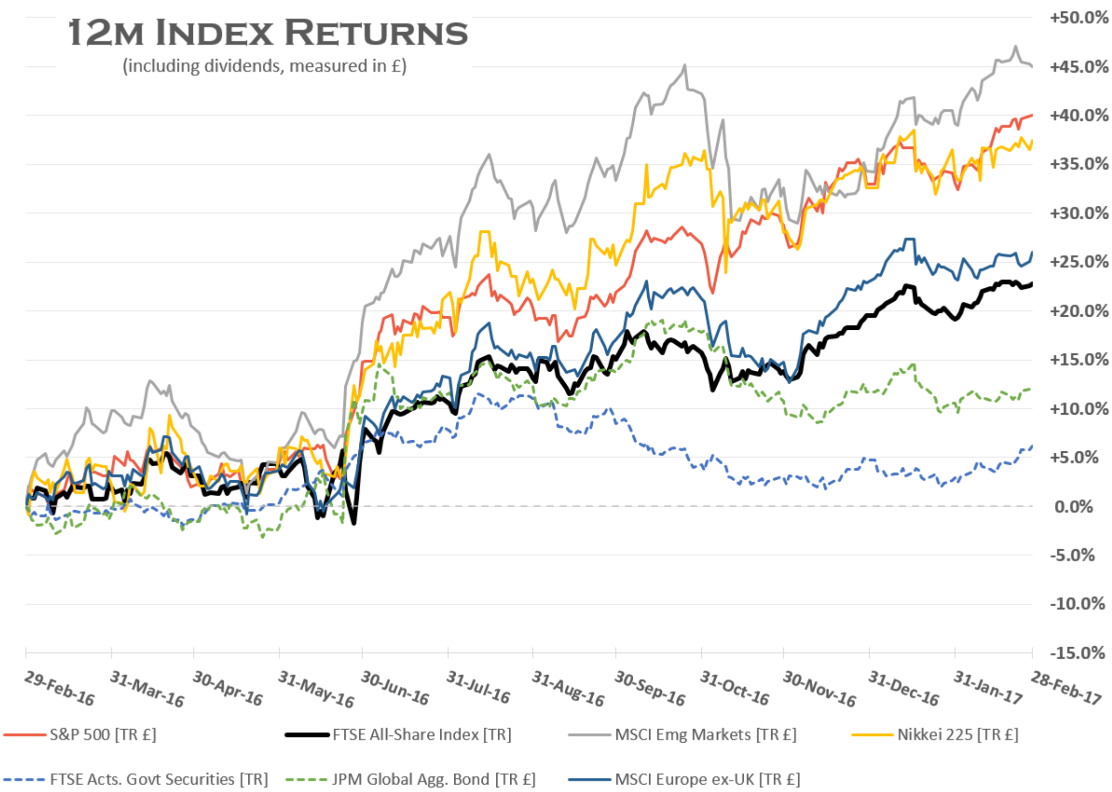
INDEX RETURNS

Index	Region/Asset Class	28-Feb-17	Monthly Change	1 Yr Change	2 Yr Change
UK 100	UK	7,263.44	+2.3%	+19.1%	+4.6%
UK Mid Cap	UK	535.55	+3.3%	+11.1%	+4.7%
UK Small Cap	UK	5,288.34	+1.6%	+20.9%	+16.2%
Dow Jones Ind Avg	USA	20,812.24	+4.8%	+26.0%	+14.8%
S&P 500 Index	USA	2,363.64	+3.7%	+22.3%	+12.3%
NASDAQ Comp.	USA	5,825.44	+3.8%	+27.8%	+17.4%
Nikkei 225	Japan	19,118.99	+0.4%	+19.3%	+1.7%
Euro Stoxx 50	Europe	3,319.61	+2.8%	+12.7%	-7.8%
CAC 40 Index	France	4,858.58	+2.3%	+11.6%	-1.9%
DAX Index	Germany	11,834.41	+2.6%	+24.6%	+3.8%
Milan Index	Italy	18,913.28	+1.7%	+7.3%	-15.3%
MSCI Emg Mkts (£)	Emg Mkts	495.64	+4.2%	+45.0%	+23.1%
IBOVESPA Index	Brazil	66,662.10	+3.1%	+55.8%	+29.2%
MICEX Index	Russia	2,035.77	-8.2%	+10.6%	+15.7%
S&P BSE SENSEX	India	28,743.32	+3.9%	+25.0%	-2.1%
Shanghai SE Comp.	China	3,241.73	+2.6%	+20.6%	-2.1%
Hang Seng	Hong Kong	23,740.73	+1.6%	+24.2%	-4.4%
Conventional Gilts	UK Gilts	3,569.88	+3.1%	+6.1%	+11.9%
JPM Glob Agg. Bond (£)	Global Bonds	817.66	+1.6%	+12.4%	+26.1%
WTI Crude	Oil	54.01	+2.3%	+60.0%	+8.5%
Gold Spot $/Oz	Commodities	1,248.33	+3.1%	+0.8%	+2.9%
£1 = US$	Currencies	1.24	-1.6%	-11.0%	-19.8%
£1 = €	Currencies	1.17	+0.5%	-8.5%	-15.1%
£1 = Yen	Currencies	139.60	-1.6%	-11.0%	-24.4%

12M INDEX RETURNS

(including dividends, measured in £)



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