GLOBAL EQUITY PERSPECTIVES 15 APRIL 2019

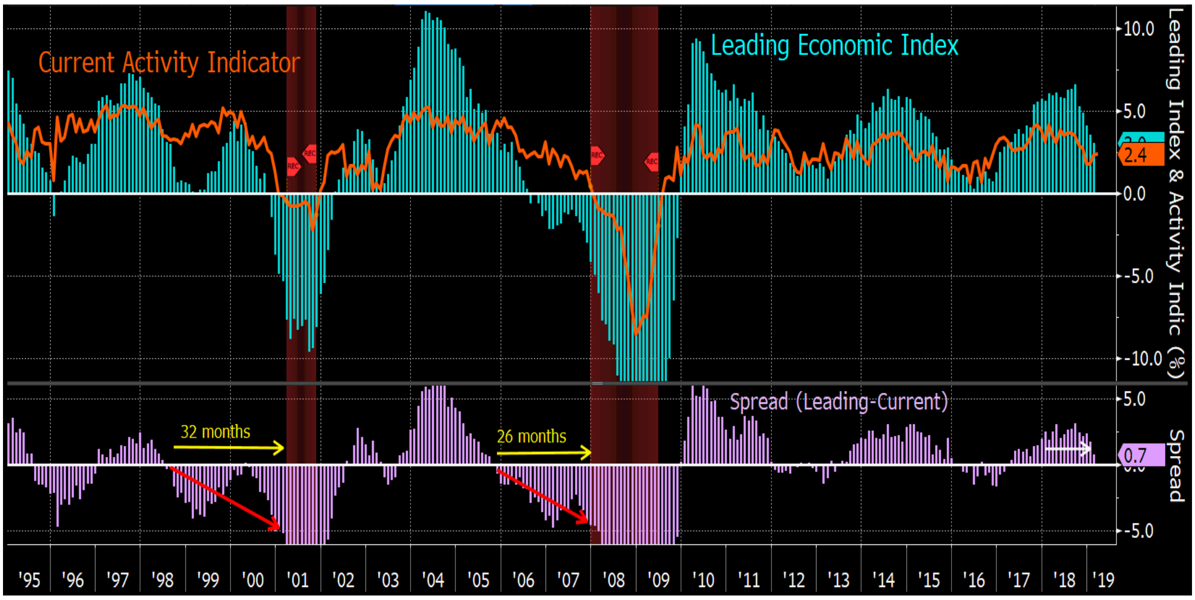
"The essence of portfolio management is the management of risks, not the management of returns."

Benjamin Graham

1. US ACTIVITY

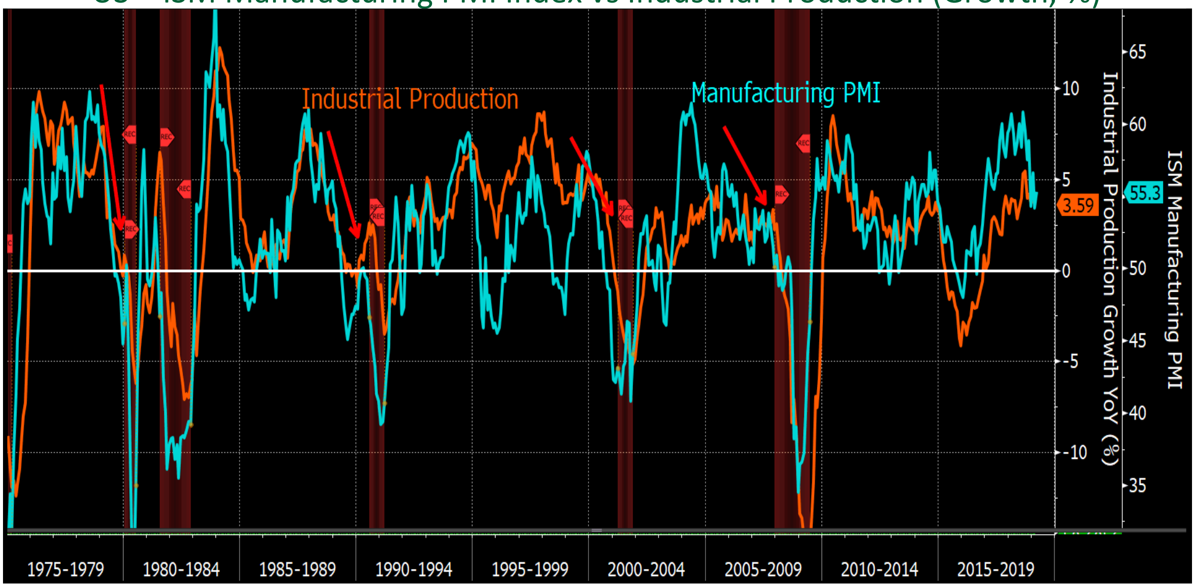
We follow several different data series to understand the risks of staying invested. The two indices in the top section of the following chart are of good value in this context:

US – Conference Board Leading Economic Index vs Goldman Sachs Current Economic Activity Index (Growth, %)



Whilst the growth in the leading economic index has moderated to +3.0%, it is still indicating a constructive environment. Along with this, the current economic activity index's most recent reading picked up to +2.4%. Further, the spread between the two series (the bottom section in the chart) remains in positive territory and therefore provides comfort to equity investors.

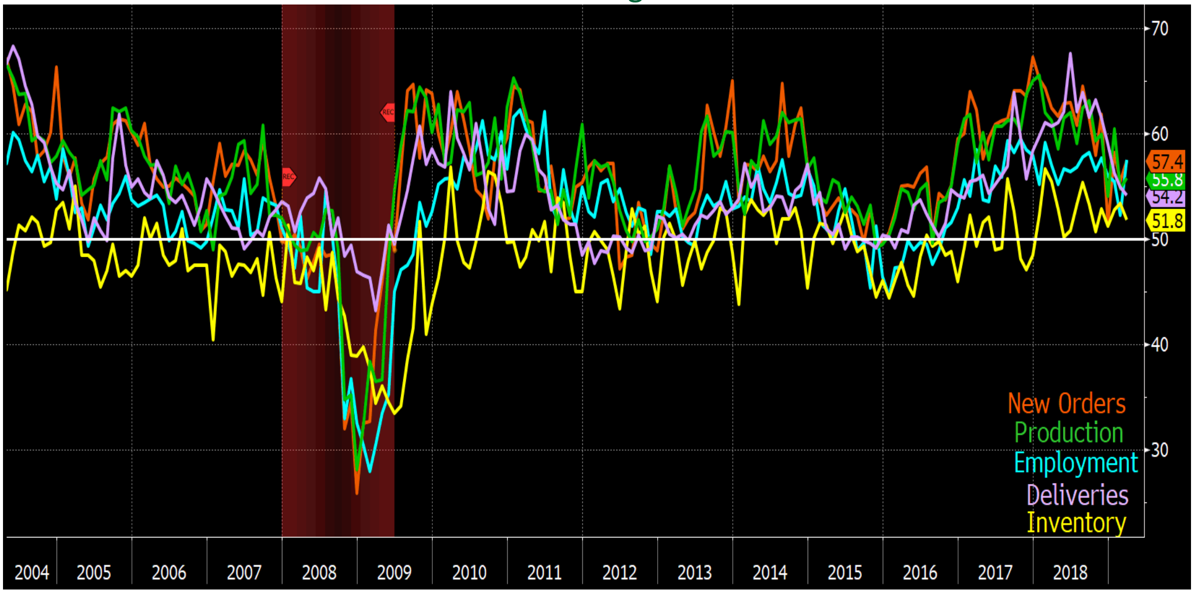
US – ISM Manufacturing PMI Index vs Industrial Production (Growth, %)



Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2019. Past performance should not be used as a guide to future performance.

Both series in the preceding chart historically started dropping years (rather than months) before the approaching recessions. Only the PMI series has done so recently and at a 55.3 reading is still distant to the neutral 50 reading.

US – ISM Manufacturing PMI Constituents



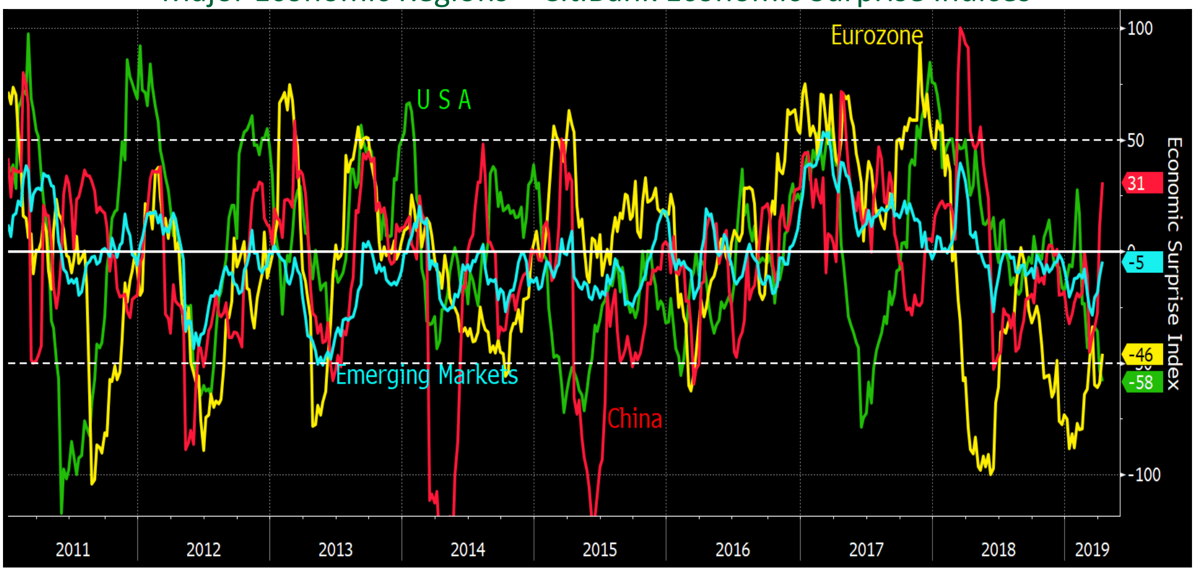
All the PMI constituents have been in the expansionary territory (>50 readings) for over a year). Further to this, the reading for New Orders is the highest (and recently increased), and along with this the reading for Inventory the lowest. These are all rather promising readings.

It seems the US economy is still structurally well on course despite a generally weak expected result for the first quarter.

2. GLOBAL PICTURE

World trade has been weak for a while, held back by, amongst others, the strong Dollar and trade tariff uncertainties. South Korean exports (a proxy for expected world trade) dropped recently, whilst China's most recent reading made a strong recovery. Whilst it seems that world trade has stagnated, the following chart serves as a warning against too much pessimism:

Major Economic Regions – CitiBank Economic Surprise Indices

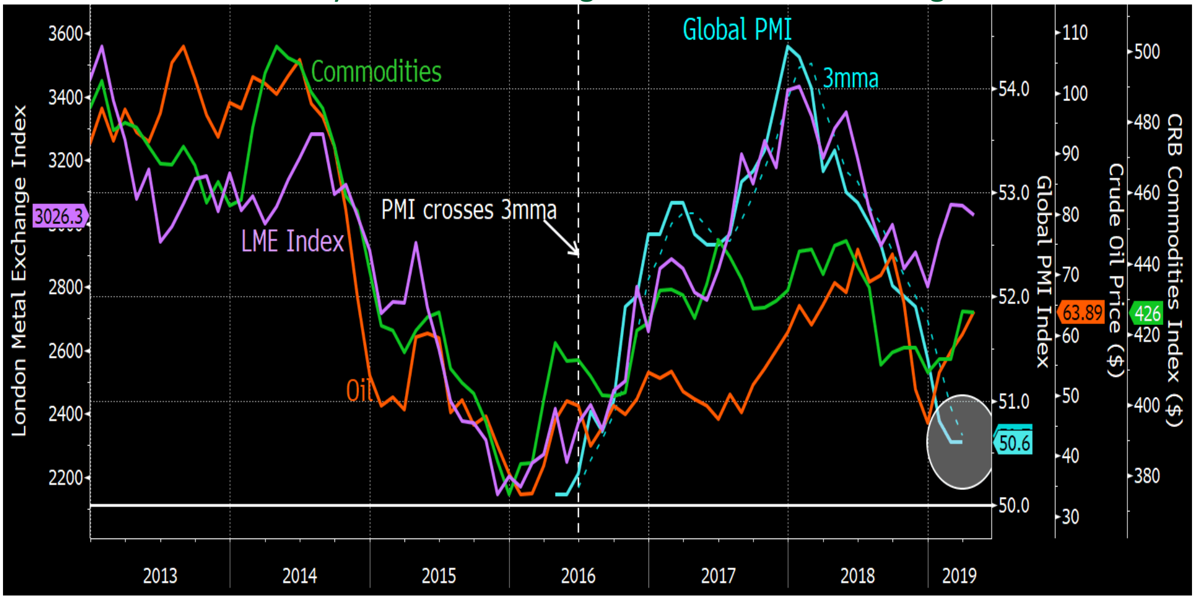


Most of the economic surprise indices deteriorated from the second half of last year. Apart from the US, all have started recovering recently with China's reading spiking the most. As touched on earlier in this note, we remain constructive on the US.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2019. Past performance should not be used as a guide to future performance.

We find further good reason to remain constructive about the global economic picture. The following charts is part of our consideration:

Commodity Prices vs JP Morgan Global Manufacturing PMI

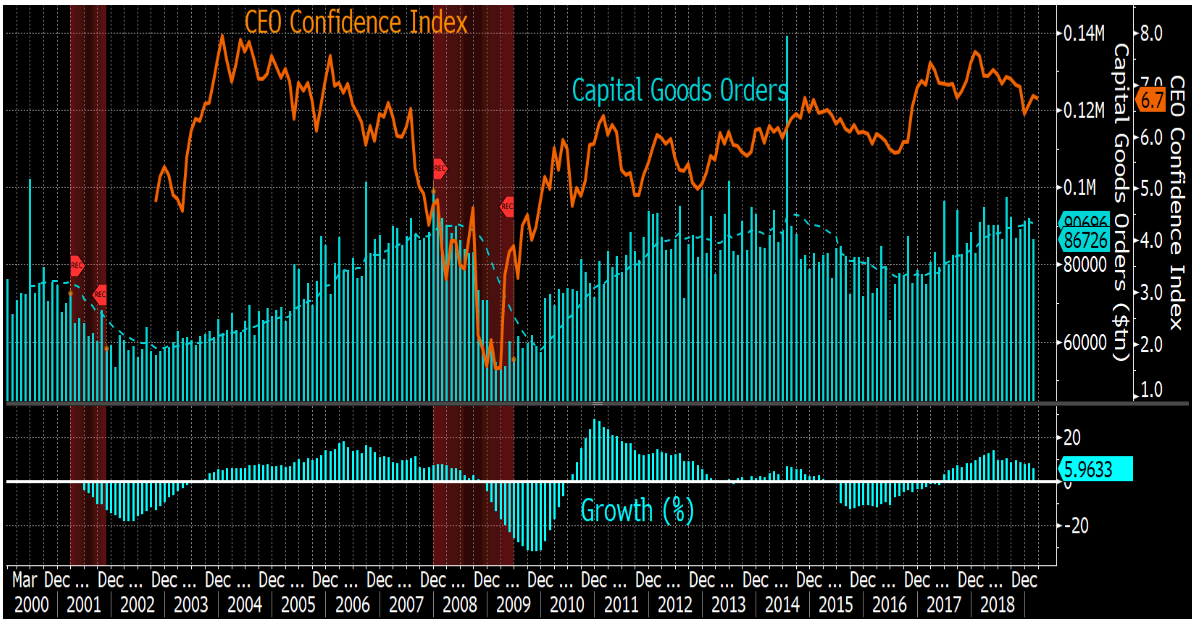


The global PMI index historically followed commodity prices well. Most industrial commodity prices dropped last year and started picking up this year. It seems as if the PMI index has stabilised above the neutral 50 reading. Technically it is close to crossing its moving average which may be a positive signal.

3. US DRIVE

We continue to believe the US economy is sound. This paragraph touches on the main issues we rely on to continue supporting their economy for some time:

US – CEO Confidence Index vs Capital Goods Orders (Growth, %)



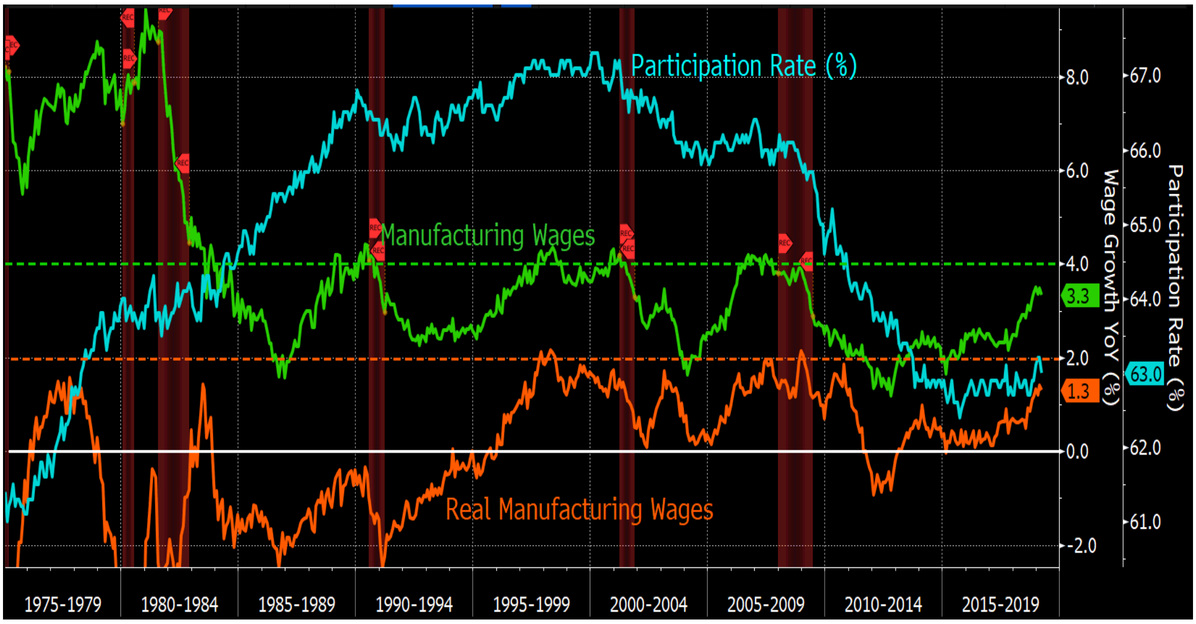
Capital goods orders reflect to quite some extent the investment businesses make to create further production and future earnings capacity. This is clearly based on their confidence (or otherwise the lack of confidence) in the US economic future.

These orders are currently growing at +6.0%. Along with this, durable goods orders are growing at +7.1% and capital expenditure at +12.3%. These are attractive growth numbers. They are, though, also subject to continuing business confidence.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2019. Past performance should not be used as a guide to future performance.

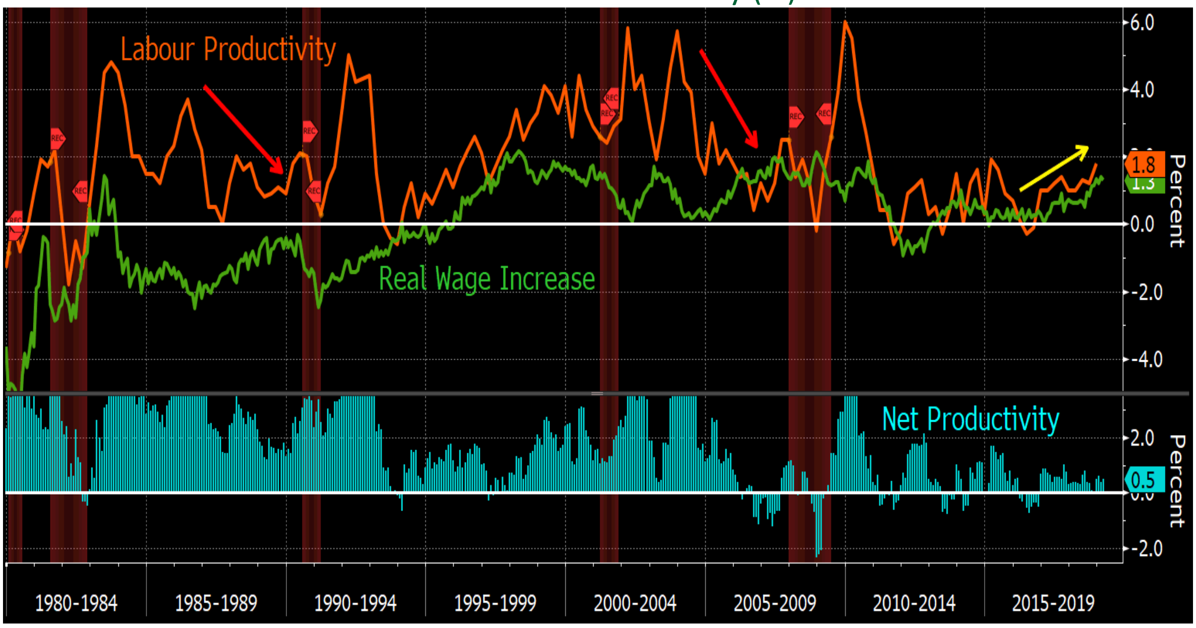
These activities support employment and wages well (and are critical for continuing support in this context). The following chart reflects the wage growth situation:

US – Nominal and Real Wages (Growth, %)



Wages are currently growing well and should continue to support consumption (69.3% of GDP). We are currently in a relatively 'sweet' spot in this context – it historically took more than 18 months from current levels for wages to have detrimental effects on inflation affecting the economy. Wage growth is therefore currently beneficial to the economy.

US – Labour Productivity (%)



Labour productivity has been slowly growing off a low base for over a year, currently at +1.8%. This is well in excess of the growing real wage increase of +1.3%. This extra level of labour productivity is an important stabilising factor to the economy.

The US economy currently benefits from an attractive combination of strong business investment, high employment, high wages and high labour productivity. This is clearly supportive of equity investment.

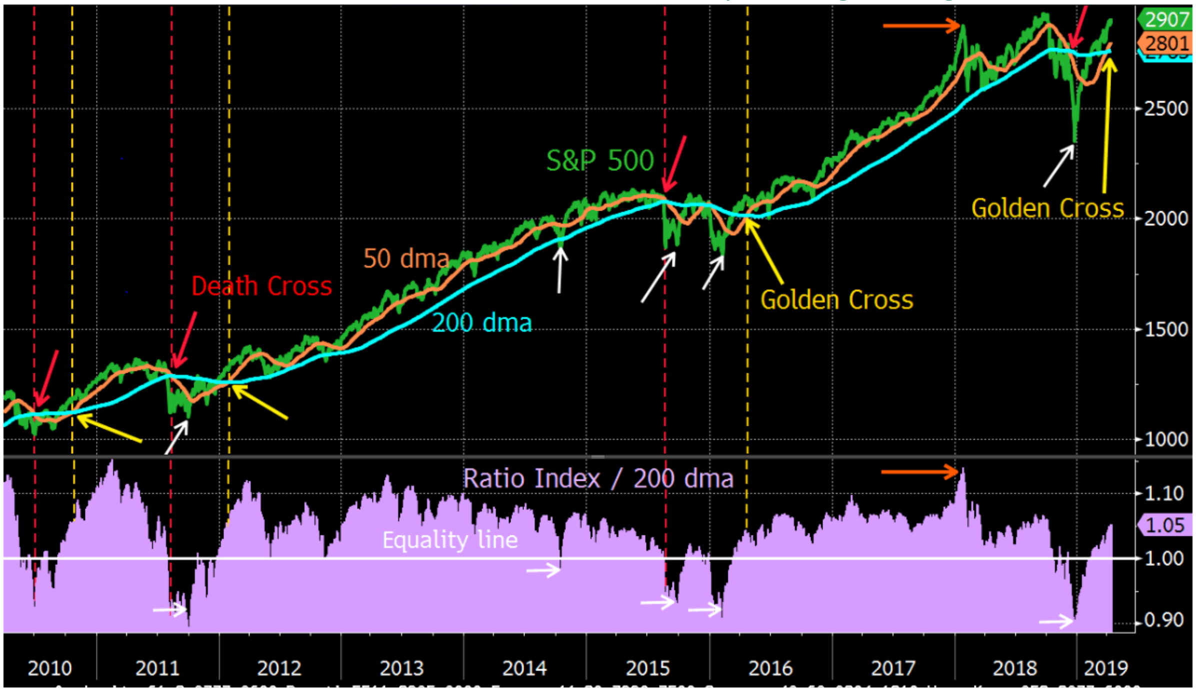
Low inflation and interest rates make a further strong contribution to this (almost) ideal situation. The main challenging factor to all of this is keeping consumer and business confidence at constructive levels. A positive outcome to the Sino-US trade negotiations can play a critical role in achieving this.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2019. Past performance should not be used as a guide to future performance.

4. GOLDEN CROSS

We are of the purest forms of fundamental equity investors. We are, though, also conscious of important technical indicators, and are very conscious that one of the most widely used has just provided a strong signal:

S&P 500 Index with 500 and 200-day Moving Average



The S&P 500 index's 50-day moving average crossed above the 200-day moving average, creating the tactical 'golden cross'. This occurance has a good record of continuing positive perfromance afterwards.

Interestingly, this has also just happened with the Dow, the Nasdaq, the Bloomberg Europe 500, the FTSE 100, The Hang Seng and the Shanghai indices.

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