GLOBAL EQUITY PERSPECTIVES 11 NOVEMBER 2019

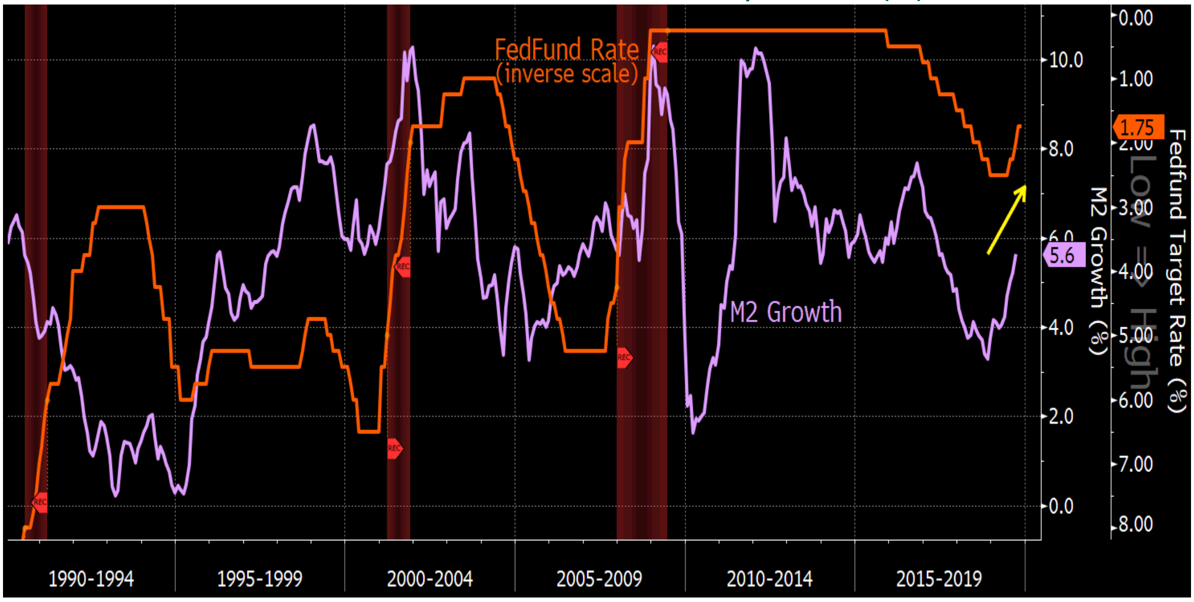
"A ship is always safe at shore, but that is not what it's built for."

Albert Einstein

1. ECONOMIC LIQUIDITY

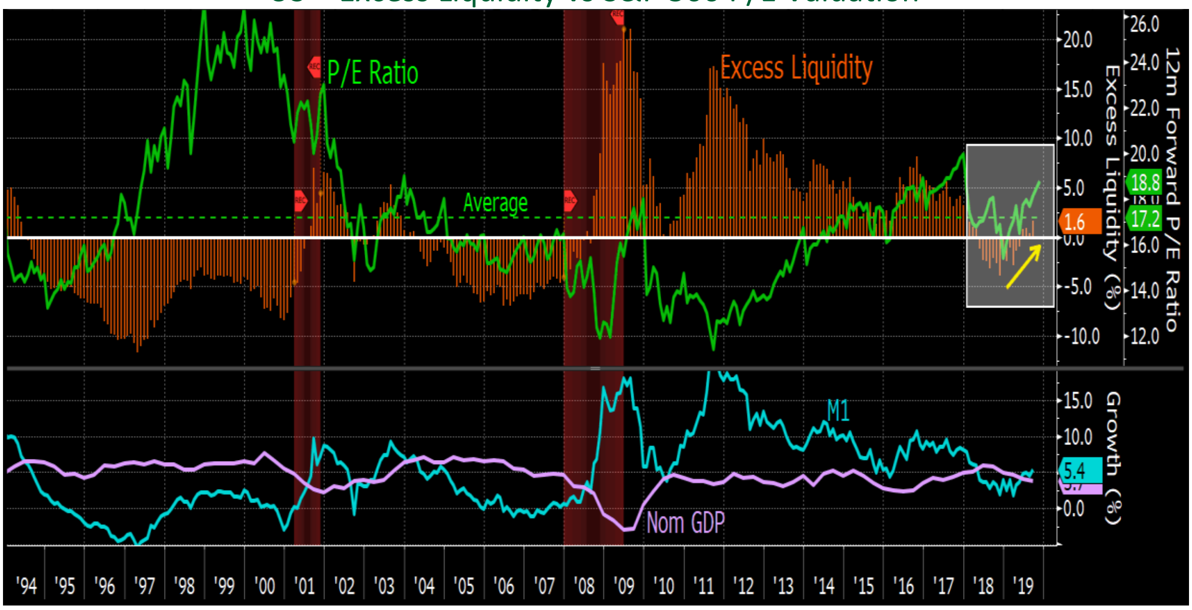
Liquidity in the US economy is in process of improving:

US – FedFund Rate and M2 Money Growth (%)



The lowering of the FedFund rate (on an inverse scale in the above chart) improves liquidity in the US economy. Along with this M2 money growth is accelerating, currently at +5.6%. This should be supportive of the US economy.

US – Excess Liquidity vs S&P 500 P/E Valuation



M1 money growth is also accelerating, and is currently growing at a higher rate than the economy. The liquidity shortfall since the beginning of last year has now changed to positive excess liquidity (see the top section of the above chart). This may support the economy and equity valuations.

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

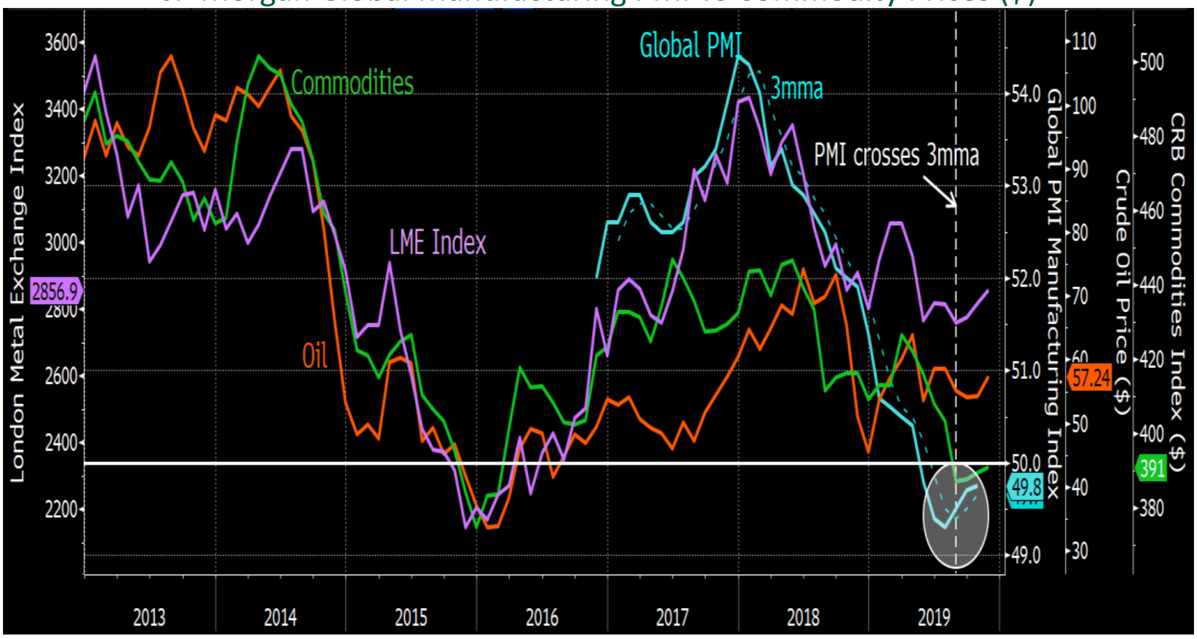
2. GLOBAL MANUFACTURING

World trade and manufacturing have been weak this year, suffering predominantly from trade tariff uncertainties and the strong Dollar currency. Whilst the Dollar has weakened from its recent strongest levels, hope is growing for some form of trade agreement between the US and China. In the US most of the Manufacturing PMI data are still below the neutral 50 index levels, but the New Order levels remain higher than the Inventory levels, with the latter starting to rise. These may be early indications of some green shoots on the manufacturing front.

JP Morgan Global Manufacturing PMI vs Copper Futures Price ($)

The Global PMI index in the above chart followed copper closely until the beginning of this year. It then dropped further below the 50 index level, whilst copper held up better. The latter seems to be picking up somewhat currently, with the PMI index following suit. The PMI index is currently just marginally below the neutral 50, with still a large gap with copper.

JP Morgan Global Manufacturing PMI vs Commodity Prices ($)



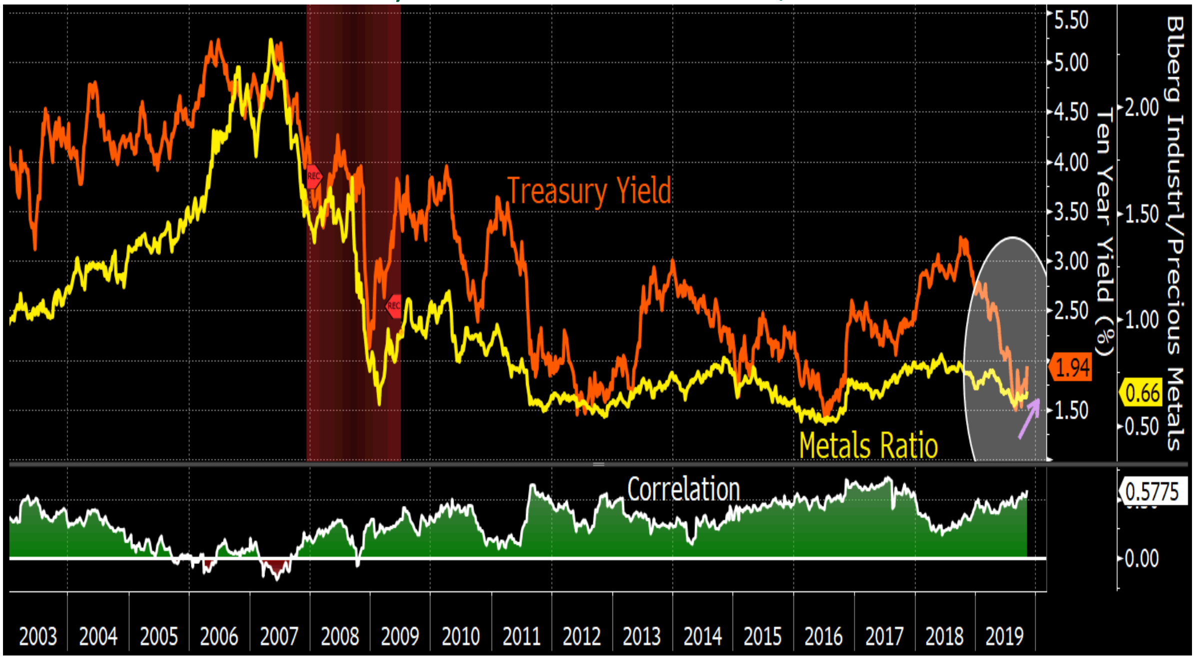
The PMI has recently crossed its three-month moving average upwards. This has historically been a positive signal for commodity prices. It seems to be turning out this way again considering the most recent movements in oil, the London Metal Exchange and the CRB Commodity index prices. Separate to this, China's Markit Manufacturing PMI has bounced back to constructive levels. We perceive these developments as positive indications of global manufacturing having potentially bottomed out.

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

3. BOND MARKET INDICATIONS

We value the economic indications that the bond market provides.

US – Ten Year Treasury Yield vs Ratio of Industrial/Precious Metals Prices



As reflected in the above chart, there is a positive correlation between the US Treasury Yield and the ratio of industrial to precious metal prices. The latter seems to have bottomed out recently, while the Treasury yield is rising. The correlation between the two series is also rising. The combination of these is an indication of the outlook for the US economy bottoming out.

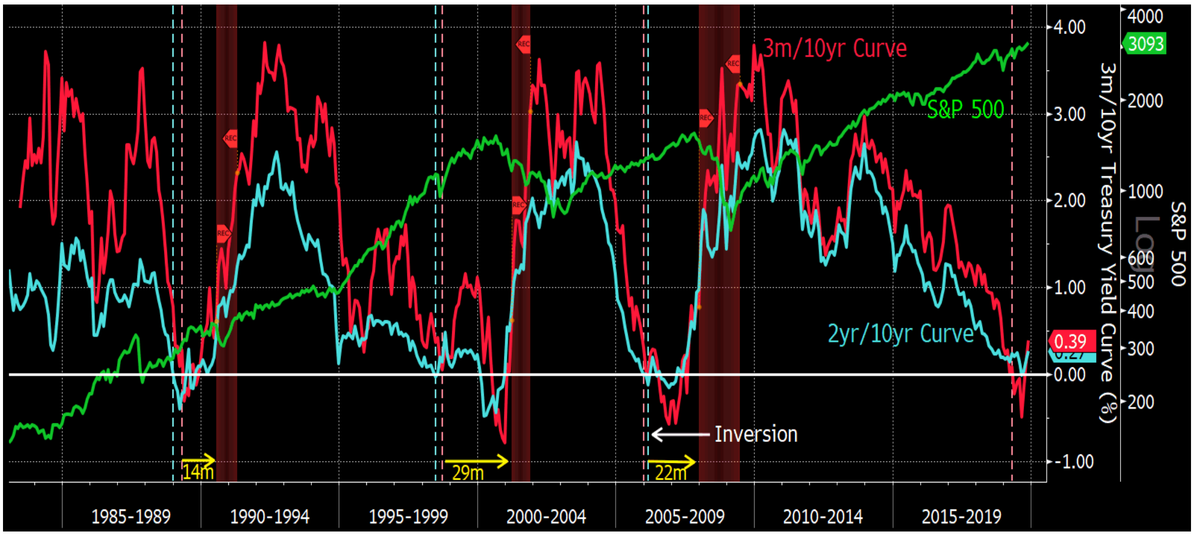
US – Treasury Yield vs Term Premia (%)

The Term Premia is currently bouncing back off from its recent very low levels. Along with this the Treasury Yield has followed suit after bottoming at the historic low levels (see the dotted line) in 2016, with a relatively high correlation between the two series. The combination of these two series in tandem leave us with an impression of an improving economic outlook.

The following chart shows both the 3-month/10-year and 2-year/10-year yield curves. Both curves are currently steepening, with the former doing so even more rapidly than the latter after it enjoyed major press headlines when it inverted earlier this year. This leaves us with the impression that the bond market is in the process of normalising after excessive recent bearishness, and also that it reflects a potentially more stable US economy.

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

US – 3m/10y and 2y/10/year Yield Curves (%)



We conclude that the US bond market's message is one of economic stability rather than one of further deterioration.

It is also relevant to consider the market's expectations for further Federal Reserve cuts of their target rate:

US – Expected FedFund Cuts Over the Next 6 Months

It is striking how quickly the expectations for further cuts have receded, to the extent that another cut may become questionable. We also note that at the recent worst level (~50 points) was only half the level of the expectations in the preceding the previous three recessions. This also provides some comfort to equity investors.

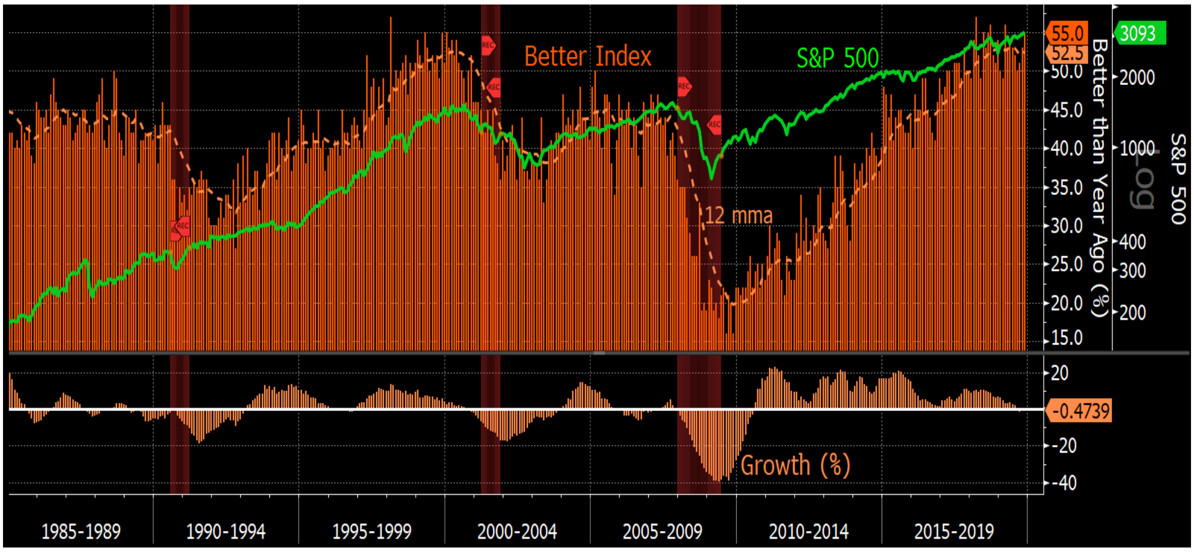
4. ALL IMPORTANT CONSUMER

US – Consumer Buying Comfort Index

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

The preceding chart reflects the index of US consumers' buying comfort. It is currently at elevated levels, exceeding those levels preceding all of the last three recessions. On the basis of those lead times towards the respective recessions, we do not believe we are facing an imminent US recession.

US – Respondents Seeing Their Current Financial Position Better Than a Year Ago (%)



Fifty-Five percent of Americans see their current financial position improving from a year ago. This level compares with the highest historically (following the turn of the century). The growth in this level (the bottom section of the above chart) has bottomed out, while this occurred long before the earlier recessions (more than three years in two of the three cases). We can therefore take comfort from the current high readings.

US & China – Growth in Retail Sales (%)

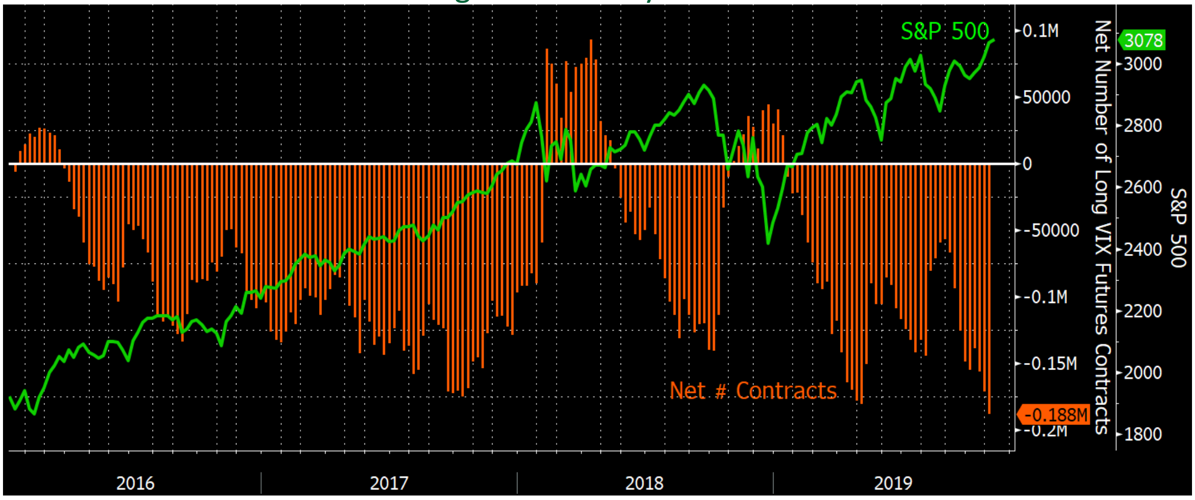
The growth in US retail sales at +4.1% is currently picking up with China's stable at +7.8%. We are comfortable with these two pillars of the global financial markets.

5. VOLATILITY FUTURES

Analysis of asset class volatilities shows the current equity and currency volatilities well below their respective long-term averages, with bond volatility being on average. With the low current equity volatility, many may fear that to change for the worse. We show on the next page our chart of net number of long volatility futures contracts (the number of long less the number of short contracts).

The net number is currently at a four-year low. This implies optimism on continuing low volatility and support to share prices in this context.

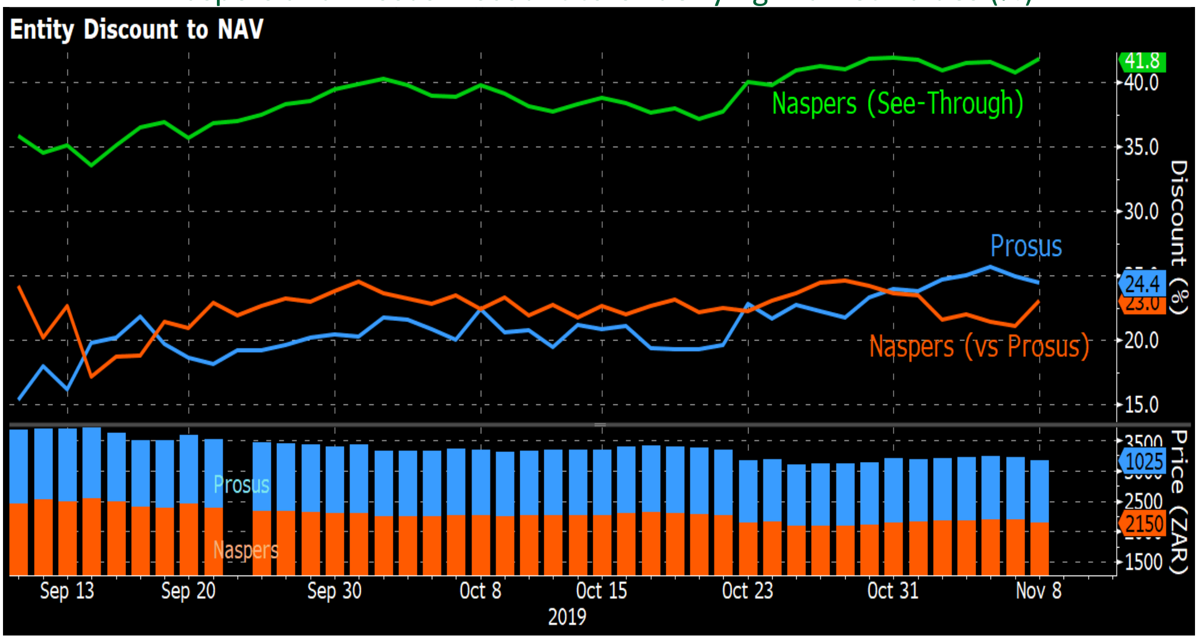
US – Net Number of Long VIX Volatility Futures Contracts vs S&P 500



6. PROSUS LISTING

We can assess the respective discounts to the underlying values of both the Naspers and Prosus shares after the latter's listing on the Amsterdam stock exchange in September:

Naspers and Prosus Discount to Underlying Market Values (%)



Prosus's discount has widened from 15% at the time of its listing to the current 24%. Naspers' discount to its direct holdings (Prosus and its South African assets) has been relatively stable at the current 23%. On an overall see-through basis, Naspers's discount has, though, widened from 35% to the current 42%.

Naspers held an investor day in New York on 12 December 2018. It was effective at the time in lowering its large discount. Prosus has its first investor day in Amsterdam on 3 December 2019. Both Naspers and Prosus shareholders hope for good information on the unlisted e-commerce assets and the new food delivery business strategy to address the wide discount again.

Gerrit Smit
Partner - Head of Equity Management
Stonehage Fleming Investment Management Limited
15 Suffolk Street
London
SW1Y 4HG
T +44 20 7087 0000
Email gerrit.smit@stonehagefleming.com
www.stonehageflemininvestments.com/gbi

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

RISK DISCLOSURE

This communication has been prepared for information only and is not intended for onward distribution. It is neither an offer to sell, nor a solicitation to buy, any investments or services. This communication does not constitute a personal recommendation and does not take into account the individual financial circumstances, needs or objectives of the recipients.

Any information which could be construed as investment research has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Further it is not subject to any prohibition on dealing ahead of the dissemination of investment research

All investments risk the loss of capital.

The value of investments may go down as well as up and, you may not receive back the full value of your initial investment.

Past performance should not be used as a guide to future performance.

Changes in the rates of exchange between currencies may cause the value of investments to go up or down in the reporting currency.

In general, underlying investments denominated in foreign currency are not hedged back into the reporting currency. Among the factors that may influence currency values are trade balances, the levels of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Returns may increase or decrease as a result of currency fluctuations. Values may also be affected by developments relating to controls and restrictions on foreign currency remittance of proceeds of investments in a non-sterling jurisdiction.

Whilst every effort is made to ensure that the information provided to clients is accurate and up to date, some of the information may be rendered inaccurate by changes in applicable laws and regulations. For example, the levels and bases of taxation may change. Any reference to taxation relies upon information currently in force. You should note that the bases and rates of taxation may change at any time. Tax treatment depends upon the individual circumstances of each client and may be subject to change in the future.

In addition to the information provided by Stonehage Fleming Investment Management Limited you may wish to consult an independent professional.

It has been approved for distribution in South Africa and those countries of the EEA where distribution is permitted by:

Stonehage Fleming Investment Management Limited
15 Suffolk Street
London
SW1Y 4HG

Stonehage Fleming Investment Management Limited is authorised and regulated by the Financial Conduct Authority and registered with the Financial Sector Conduct Authority (South Africa) as a Financial Services Provider ("FSP") under the Financial Advisory and Intermediary Services Act, No 37 of 2002 (FSP No: 46194).