GLOBAL EQUITY PERSPECTIVES 13 JANUARY 2020

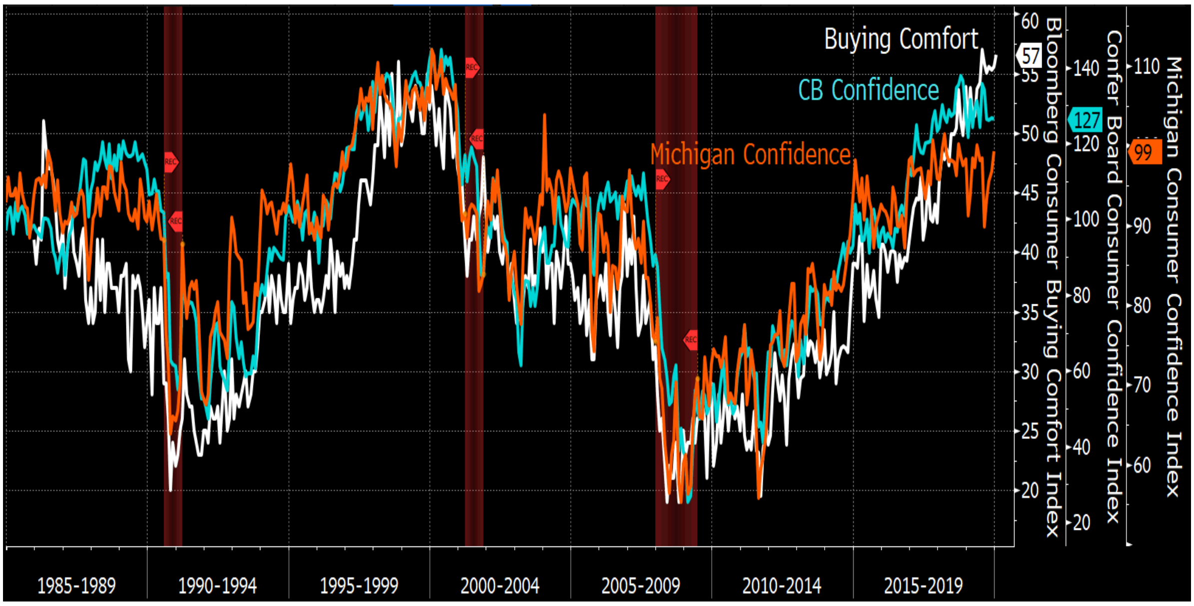
"To a mind that is still the whole universe surrenders."

Lao Tzu

1. ECONOMIC PILLAR

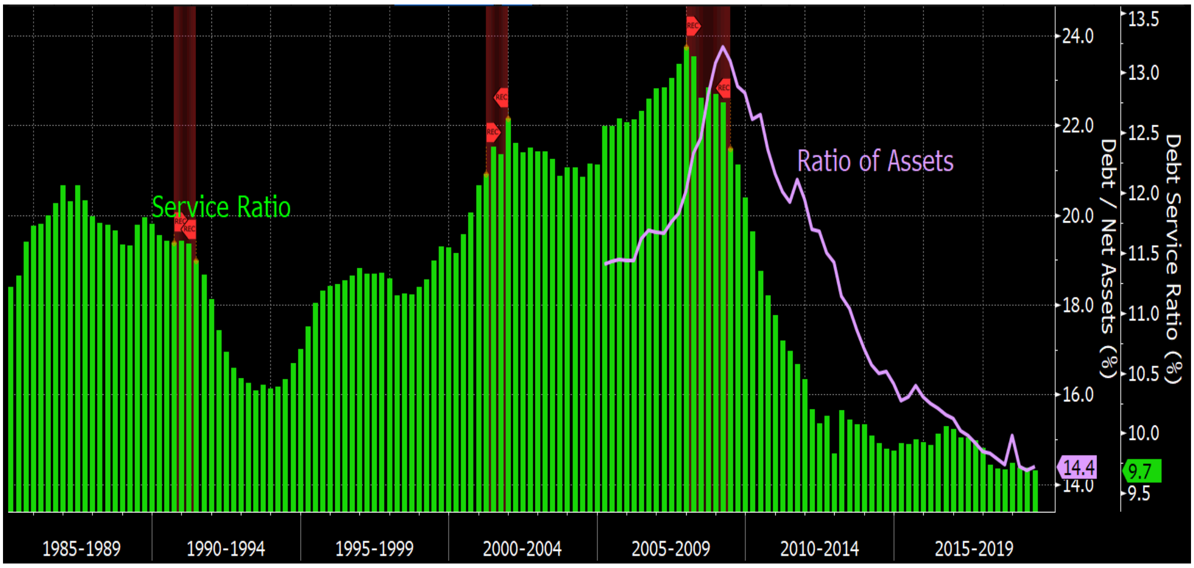
It is appropriate to start our first note of the new decade with reference to the US consumer that made such an important contribution through the previous decade and kept the economy on course:

US – Consumer Confidence and Buying Comfort Indices



Both the Conference Board and Michigan indices of consumer confidence ended 2019 on elevated levels. Bloomberg's index of consumer buying comfort ended the year close to its recent record level.

US Households – Debt Service Ratio and Ratio of Debt / Net Assets



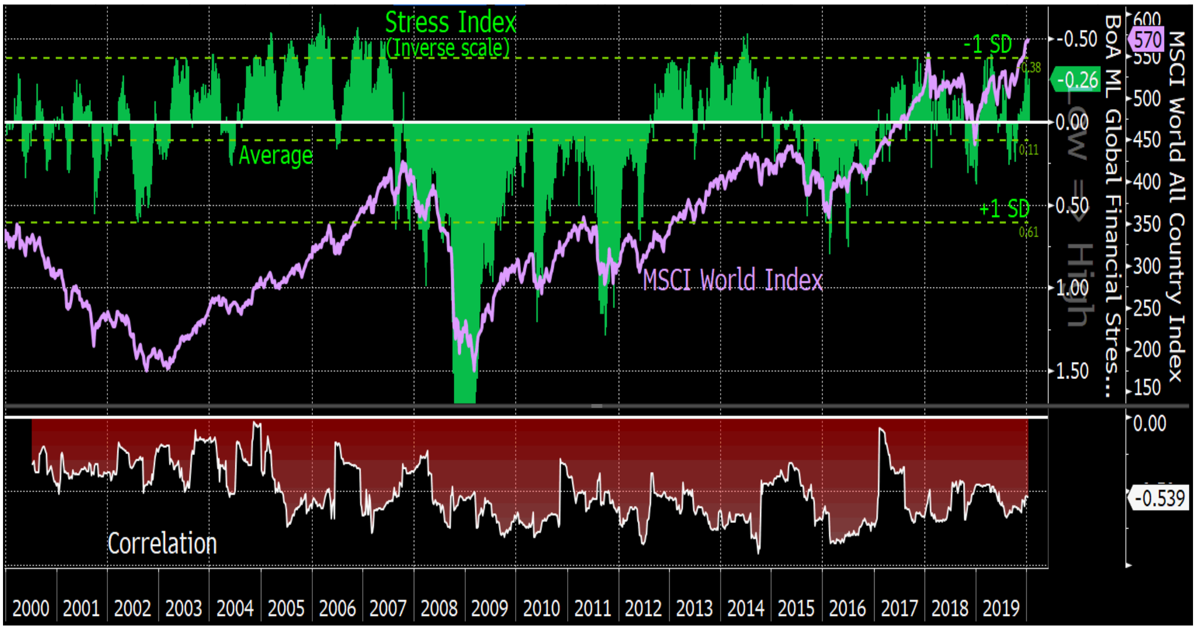
Households' savings rate increased from 3.6% before the Credit Crisis to 8.1% currently. Along with this, their debt service ratio has dropped to record low levels (the green bars in the chart) while their debt levels as a ratio of net assets has also dropped to a record low level of 14.4%. It is clear that consumers have good reason for their confidence and have ample reserves for future rainy days.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. January 2020. ***Past performance should not be used as a guide to future performance.***

2. GLOBAL PICTURE

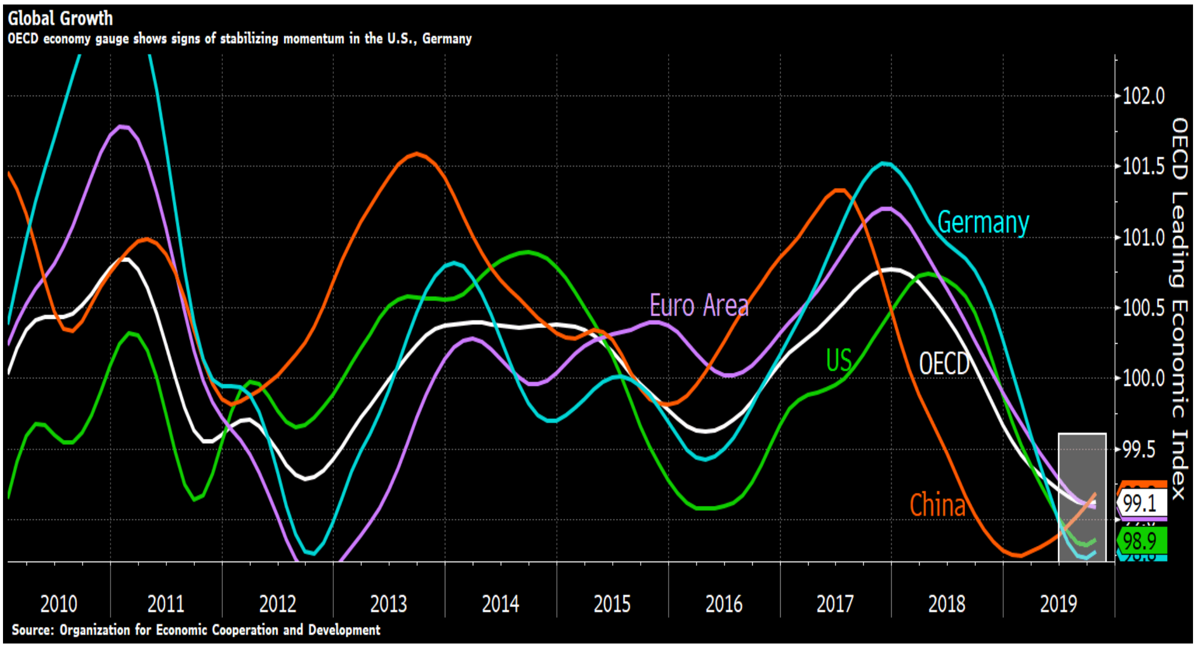
World capital markets currently experience low financial stress levels as reflected in the following chart (the green bars, presented on an inverse scale):

MSCI World Equity Index vs BoA Merrill Lynch Global Financial Stress Index



Above average financial stress levels were experienced around the middle of last year and dropped sharply towards the end of the year. As reflected in the chart, share prices correlate well with the stress levels and the investment landscape therefore seems constructive in this context currently.

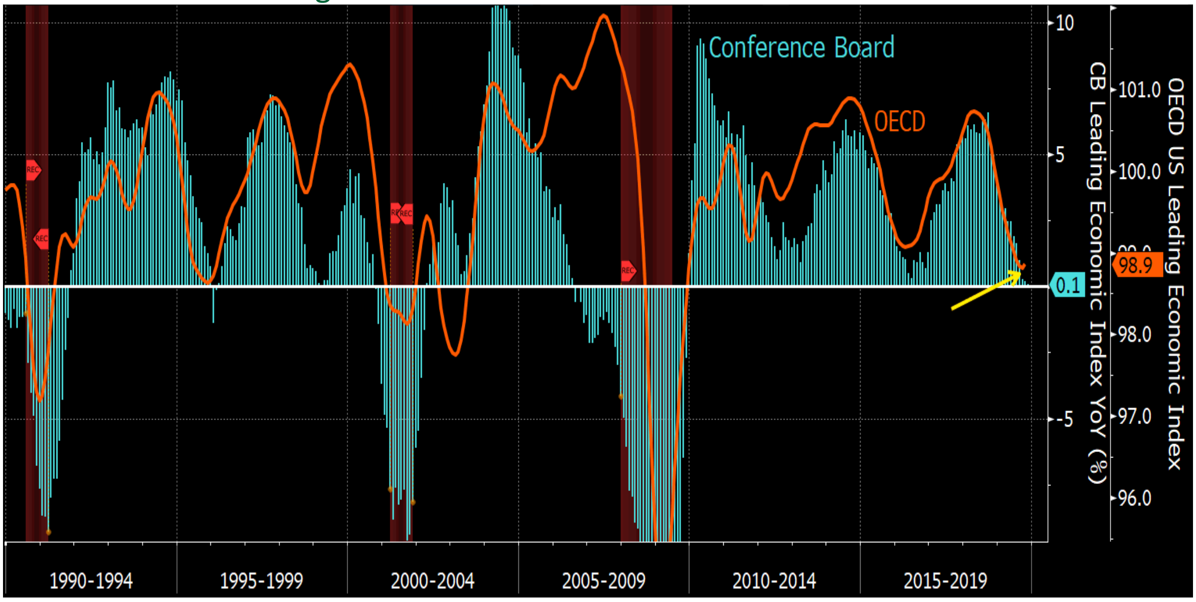
Regional OECD Leading Economic Indices



The respective regional OECD leading economic indices in the above chart hold some promise. The chart for China has turned positive from a low base, whilst the German and US charts seem to be bottoming out. Charts for Europe and the overall OECD are still receding, but at a slower pace than before.

The chart on the following page reflects the above OECD chart for the US, along with the growth in the Conference Board's leading economic index. They correlate well, with the former usually leading the latter. Should the OECD data improve further (as it seems to be in process of doing), we can expect the Conference Board data to stay in positive territory and further follow the OECD data. Should all this materialise we expect a further cushion under capital markets.

Leading Economic Index – OECD vs Conference Board

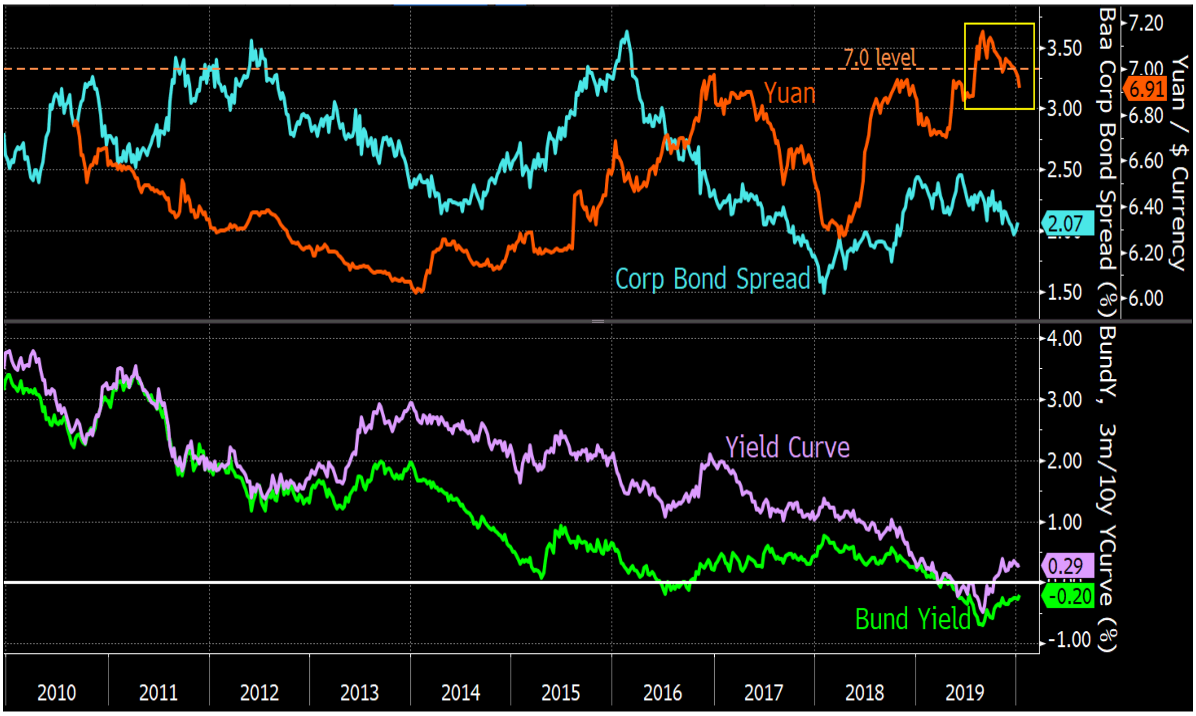


These charts justify the current positive stock markets.

3. FOUR THAT MATTER

We monitor many economic data series to keep our fingers on the capital markets pulse. The following chart reflects a good summary of important matters in this context:

US Corporate Yield Spread & Yield Curve, Yuan Currency and German Bund Yield (%)



The US corporate bond yield spread is currently in a downward trend. This reflects continuing investor confidence in US corporates. The offshore Chinese currency has dropped below the strategic level of seven against the Dollar after crossing this level upwards in August last year in the depths of trade negotiations. This new trend reflects improving sentiment on the Chinese economy. The US yield curve stays in constructive territory after starting to steepen in August last year. The German bund yield has increased 50 basis points off its August lows.

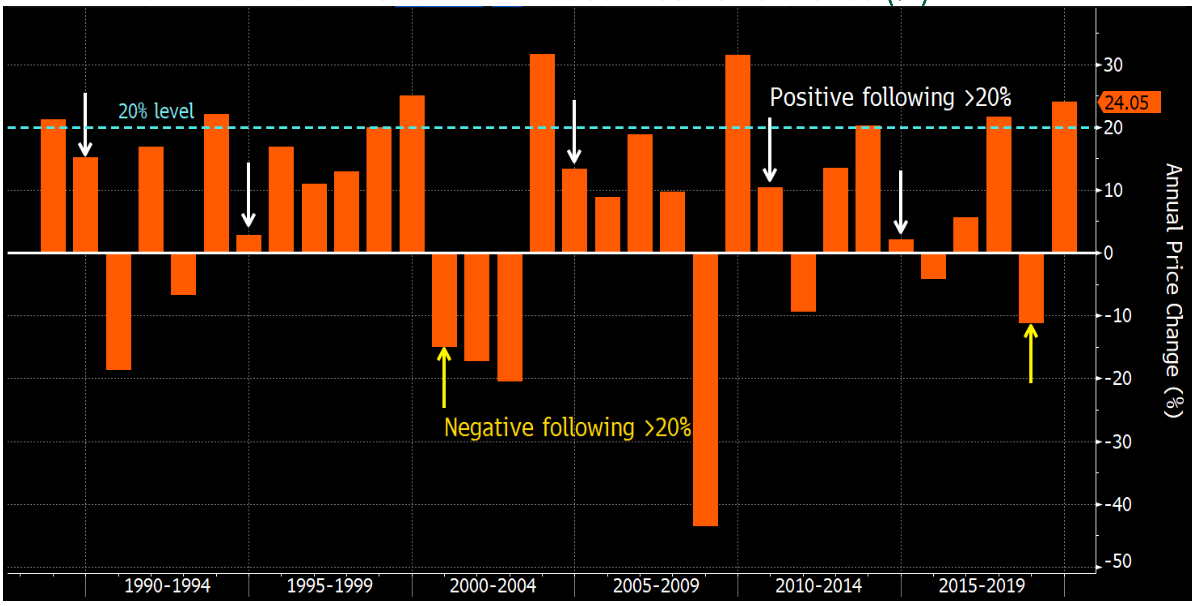
All of these four series tell a positive tale at the moment after weak sentiment in the third quarter of last year. Markets have reason for their current positive behavior.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. January 2020. ***Past performance should not be used as a guide to future performance.***

4. FOLLOWING AN OUTSTANDING YEAR

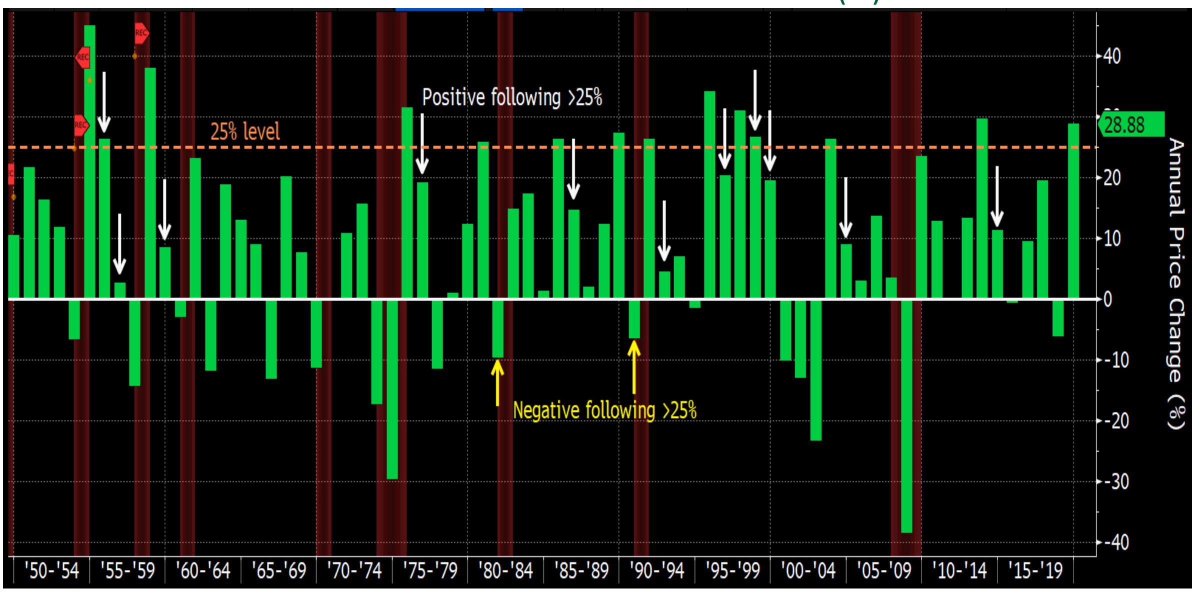
Investors may wonder whether a year as strong as 2019 can be followed by reasonable results in the following year.

MSCI World AC – Annual Price Performance (%)



The MSCI World AC index appreciated by +24.1% last year while there have been only seven other occasions of more than +20% gains since the index's inception in 1988. Five (71%) of the ensuing years delivered positive results, with two (29%) negative years.

S&P 500 – Annual Price Performance (%)



The S&P 500 index has a longer history. Considering its data over the past 50 years, there have been 13 occasions of +25% or higher results. Eleven (85%) of the following years delivered positive results. The average year two result was +11.2% (with the median result of +11.4%). This compares well with the 50-year average of +10.6%. Notably, both the negative occasions (1981 and 1990) led into the respective US recessions.

While 2019 may be perceived as an exceptionally high base to improve upon, it obviously succeeded a low 2018 base. The year ended only +10.2% above the peak level in 2018. The compounded growth rate over the two years is +11.9% p.a., close to the 50-year average mentioned above. In this context, the overall performance over the past two years has been 'very normal'.

On the above basis it does not seem that 2020 has particular risk for bad performance simply because of the strong 2019 performance. History is rather on its side for positive performance.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. January 2020. ***Past performance should not be used as a guide to future performance.***

5. POLITICS AND INVESTING

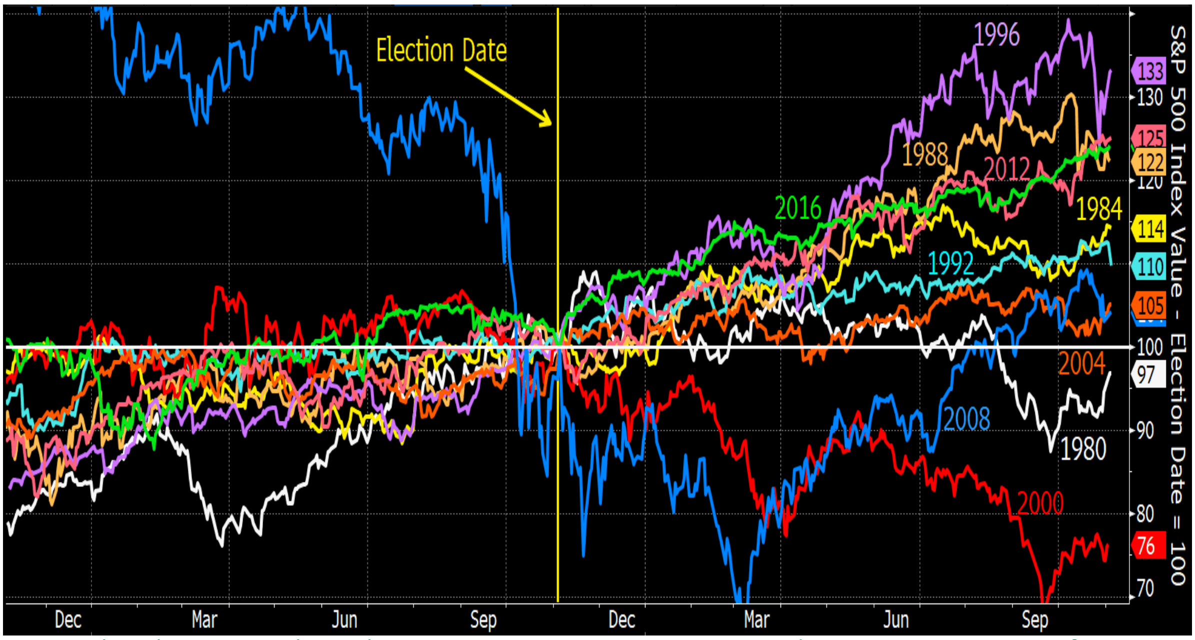
This year may be interesting in terms of the US and the global political landscape. We cannot budget for the latter; suffice to say we have learned over the past few years that the days seem to be gone for fearing the potential effects of geopolitical issues affecting the oil price materially. If this is indeed the case, it is a hugely positive fundamental economical factor.

S&P 500 Index – Performance Leading Up to Presidential Impeachment and Two Years Afterwards (indexed to 100 on impeachment date)

The above chart reflects the S&P 500 performance of the years running up to the three US presidential impeachment dates, and for the subsequent two years. President Nixon was impeached in October 1973, in the midst of the oil (and inflation) crisis. The stock market had a weak performance at the time, and worsened after his impeachment. Contrary to this, President Clinton was impeached in a positive economic environment and the build-up to the technology bubble. Shares did well after his impeachment. We dare say that fundamental economic circumstances may again affect shares this year more than President Trump's impeachment.

US elections occur on the first Tuesday following the first Monday of November in the respective election years. The following chart reflects the S&P 500 performance in the years leading up to and following the respective US presidential elections since 1980:

S&P 500 – Price Performance the Year Preceding and Following US Election Dates (indexed to 100 on the election date)

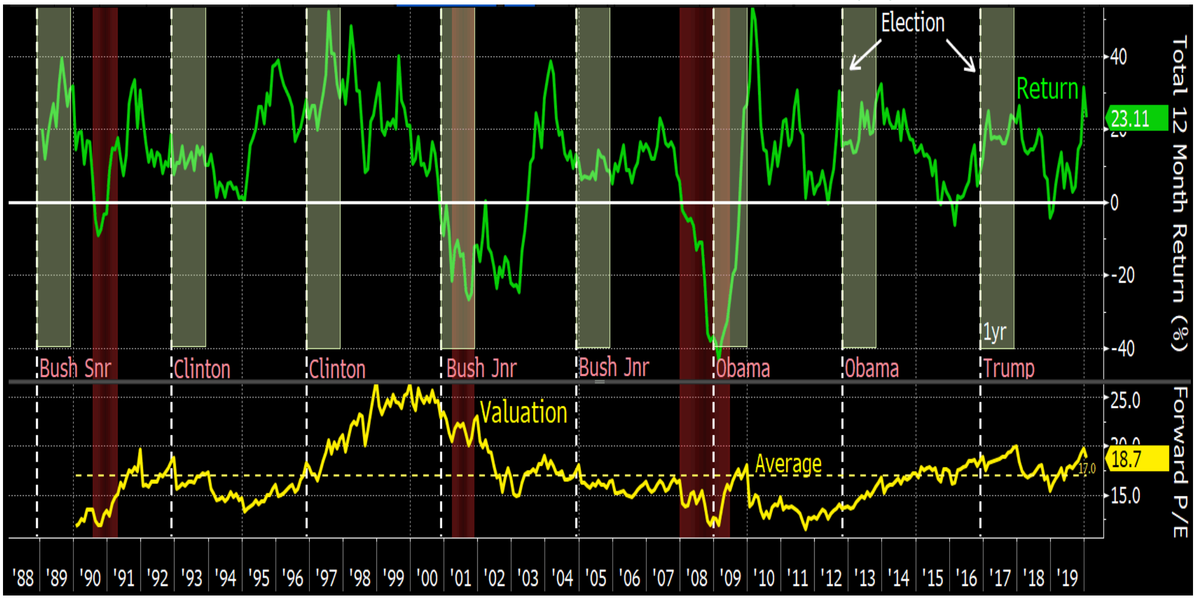


Source: Bloomberg & Stonehage Fleming Investment Management Limited. January 2020. ***Past performance should not be used as a guide to future performance.***

Barring two elections (2000 and 2008) all others were preceded with positive performances over the preceding twelve-month period (the values to the left of the election date are below the 100-index level). Apart from one election (1980) all others had positive performances over the following twelve-month periods.

The 2000-election occurred during the technology bubble, while the 2008 election occurred just before the Credit Crisis. It is clear that these material events affected share performances much more than what the elections did. The overall two-year result over the 2008 election still delivered a +22% result.

S&P 500 – Return in Context of US Presidential Elections (%) & P/E Valuations



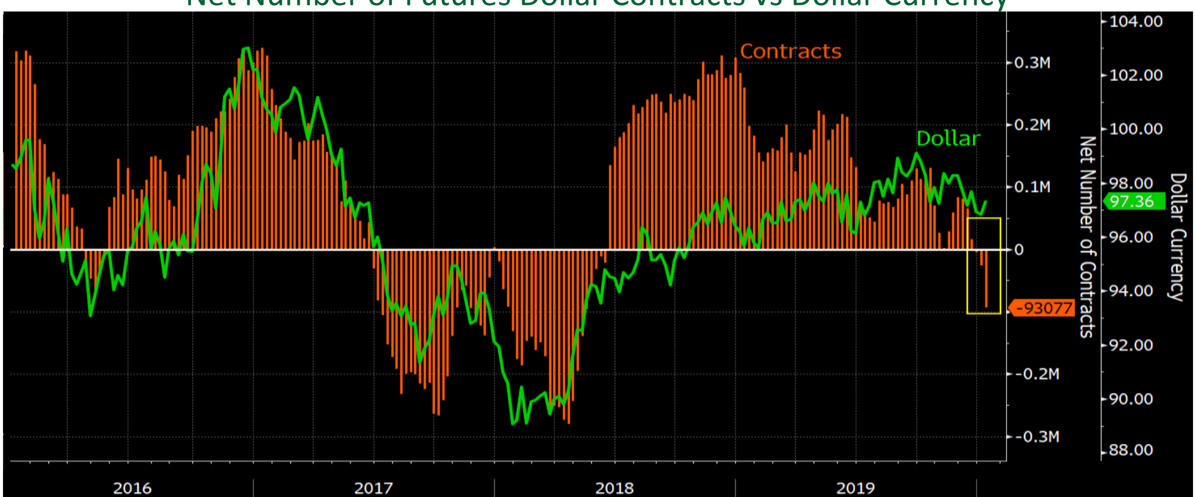
The shaded areas in the above chart reflect the S&P 500 returns following each elections. Again, the returns were predominantly positive. Logically the economic circumstances (recessions) and equity valuations (forward P/E's) were determinant in the returns rather than the successful political party.

All-in-all, all other issues being equal, the above historical data around US elections provides more reason for optimism rather than pessimism about this year's presidential election.

6. CURRENCIES

Our approach to currencies is rather to be very aware of current trends and underlying supportive data than to attempt to forecast currency movements. We invest predominantly in truly global businesses and in this way own a well-spread basked of major currencies. Current developments around currency trading provide important information. The following chart reflects the net number of forward Dollar contracts against the movements of the currency:

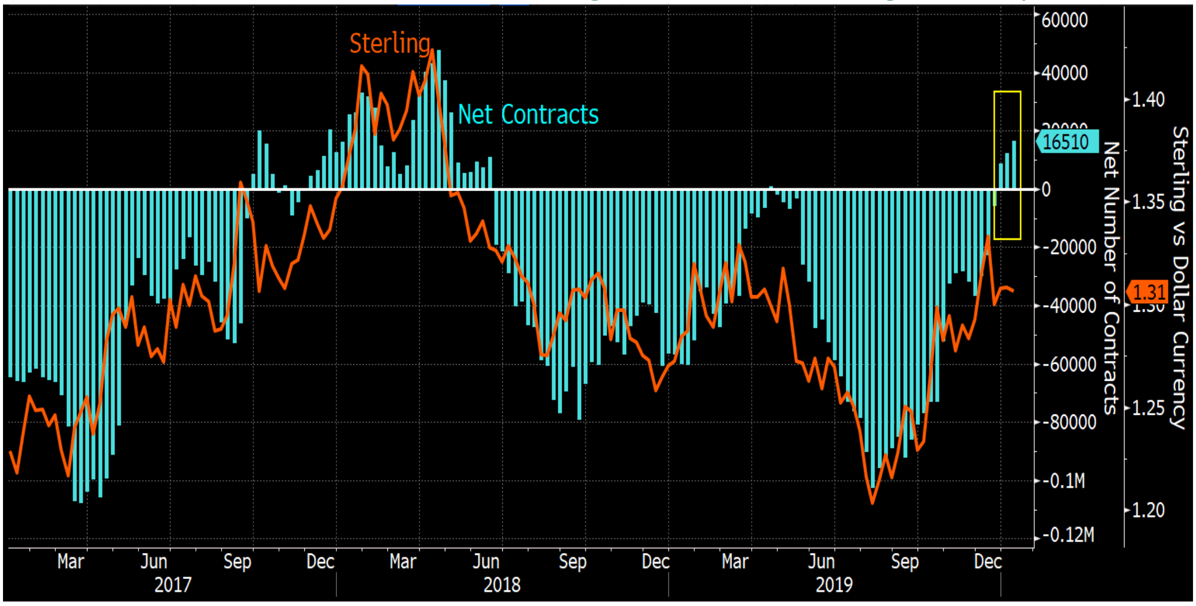
Net Number of Futures Dollar Contracts vs Dollar Currency



Source: Bloomberg & Stonehage Fleming Investment Management Limited. January 2020. ***Past performance should not be used as a guide to future performance.***

The net number of long vs short Dollar futures contracts switched for the first time in a year and a half to a negative number right at the end of last year and seems to be accelerating. The overall trend has been downwards for a year. The Dollar seems to have started depreciating more recently. Should its trend downwards continue it is expected to 'oil the wheels' of the global economy, including the US.

Net Number of Futures Sterling Contracts vs Sterling Currency



The inverse scenario is happening to Sterling, quite logically. This also makes sense against the backdrop of more political certainty in the UK following their clear election outcome.

We are not adjusting our portfolio for these developments – the sustainability of growth and valuation of our global businesses is rather the determining factor. That having been said, a weaker Dollar provides more certainty for the US and the global economic backdrop.

7. START TO 2020

Last year started off very strong with the S&P 500 index appreciating by +7.9% in January (off the low base of December). The market usually delivers a strong year if the particular January performance has been strong. 2019 stayed true to form in this context.

Another relevant pattern is that years with a positive S&P 500 first week (5 trading days) provide positive results over the particular calendar year in more than three quarters of the time. This year's first week provided a +0.7% result. On this basis we've had a good start to 2020.

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Source: Bloomberg & Stonehage Fleming Investment Management Limited. January 2020. ***Past performance should not be used as a guide to future performance.***

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