E.I. Sturdza Family Fund

March 2019 Fund Commentary

MARKET DEVELOPMENT

The recent release of European PMI data was not encouraging in the Investment Adviser's opinion. Germany's manufacturing PMI was the lowest in the last six years and drove German Bund yields into negative territory for the first time since 2016. During the month, the U.S. 10-year treasury yield also fell sharply, causing the 3-month / 10-year curve to invert. Generally, growth in the U.S. has slowed recently but remains robust on a relative basis.

Central banks have turned dovish around the globe. According to the Investment Adviser, fears around China's growth could further abate as increased stimulus should help global growth to overcome its lowest point in the second half of 2019. In turn and should this scenario unfold, it will most certainly push the Fed and other Central Banks to return to a rate-hiking path.

The team think, that the recent slowdown in U.S. growth is associated with the 6-week government shutdown, some seasonal adjustments, and tighter financial conditions during the second half of 2018, which have now largely reversed. Furthermore, the February manufacturing and non-manufacturing ISMs remained healthy at 54.2 and 59.7 respectively. Consumption also remains strong thanks to sustained employment growth coupled with accelerating wages. Against this backdrop and contemplating easing political tensions going forward, it wouldn't be surprising in the team's opinion to see a more resilient GDP growth than currently expected at the end of 2019.

The Euro Area has continued to suffer as the economy tries to deal with weak exports to emerging markets, troubles in the banking sector, and political uncertainty. Q4 GDP growth was low (0.8% QoQ annualized), and, as mentioned above, the manufacturing PMIs were not promising. Nonetheless, there are some signs of improvement with regards to certain indicators: Wage growth is starting to look healthier and fiscal policy is expected to boost the region's growth in 2019. In the Investment Adviser's opinion going forward it is important to observe the knock-on effects of the Chinese stimulus programs on emerging markets, global growth and the Euro Area. If the stimulus measures are successful, the export outlook for the Euro Area should recover over the course of 2019.

Turning to Japan, whose outlook also remains highly correlated with Chinese stimulus, inflation has not picked up despite stronger wage growth, with the year-on-year CPI inflation (ex energy and food) standing at 0.4% in February. As such, the biggest downside risk for this year appears to be Prime Minister Abe's planned consumption tax hike from 8% to 10%. The government has placed measures to soften the impact (most important of which is the 5% rebate on electronically purchased goods from small retailers after 1st October). Nonetheless, the Investment Adviser does expect the retail landscape to suffer in general as a result of the consumption tax hike. This said, the team also expects that there will be some niches of resilience, especially in higher priced and more exclusive product categories.

Looking at emerging markets and especially China, the focus lies on the country's growth outlook and its seemingly increased monetary stimulus, with total social financing in both January and February having increased by double digits year-on-year. The team think, that recent data releases were encouraging enough to ease some growth concerns. Indeed, signs of growth stabilisation have appeared, as evidenced by the manufacturing PMI

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INVESTMENT APPROACH

An active and flexible investment process, managing a mixed asset investment portfolio predominantly comprised of equities and fixed income investments. Investing directly or indirectly, up to 80% and a minimum of 51%, in global equities or equity related instruments and between 20-49% in fixed income instruments. Focusing on strong growth companies that the Investment Adviser deem to be underappreciated by the market, whilst fixed income investments will be selected based on global macro economic analysis and evaluation of central banks' policies.

INVESTMENT OBJECTIVE

To achieve capital appreciation over the long term.

A sub-fund of E.I. Sturdza plc. Registered in Ireland.

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rebounding to 49.9 in February and fixed-asset investment beating expectations on a year-on-year basis for both January and February combined. This said, the amount of liquidity injected is very likely to be smaller than in previous periods as the PBOC warned of the risk of excessive speculation. As such, the effectiveness of this program and its size need to be observed very closely. Furthermore, other emerging economies such as Brazil and Mexico are showing positive signs after a tough 2018. This said, other emerging markets (e.g. South Africa) continue to suffer.

Finally, on the interest rate front, central banks have generally turned dovish. Most notably, the ECB and Federal Reserve have signaled no rate hikes this year. In turn, these developments pushed global long-term rates down, with Germany and Japan seeing their 10-year bond yields decline below 0%. Nonetheless, if one takes into consideration the pockets of strength in recent data releases and the fact that central banks have again adopted an accommodative stance, then it is possible that we may be subject to slow growth over the long term, rather than an immediate decline.

PORTFOLIO STRATEGY

The Fund gained 1.72% during the month. In terms of positive equity contributors by sector, Information Technology was the strongest monthly contributor, followed by Consumer Staples and Consumer Discretionary. Individual top contributors were led by Ulta Beauty, following strong earnings and guidance, Apple, and Broadcom. On the other hand, the main negative contributors were companies exposed to either a) further regulatory rumors on drug rebates from Washington and b) interest rate expectations being revised down. As such, Centene was the largest monthly detractor followed by Bank of America and Charles Schwab. The Fund exited its position in Bank of America in March.

MARKET OUTLOOK

Given the developments described above, the team think that it is easy to turn cyclically bearish on the global growth outlook and risk assets, especially given the increased market sensitivity as the cycle extends. While the short term horizon is still packed with uncertainties on various fronts, overall sentiment should improve in the Investment Adviser's opinion as global growth reaches its low and tensions are progressively addressed. Indeed, there appear to be some encouraging signs out there, such as the service sector PMIs which have generally improved, suggesting that the weakness in global growth remains somewhat isolated, for now at least, in trade and manufacturing. According to the team, the U.S. Treasury curve's partial inversion reflects the significant uncertainties clouding the cyclical outlook discussed above, and constitutes a market-based indicator which will require further monitoring.

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