ERIC STURDZA
INVESTMENTS

Sturdza Family Fund

July 2019 Fund Commentary

MARKET DEVELOPMENT

Equity markets continued their ascent during July, albeit at a reduced pace following the strong June rebound. The MSCI World Net Total Return Index gained +0.5%, with US equities and the Dollar (DXY Index +2.48%) leading in contribution.

At the index level, volatility remained very low during the month, as investors scrutinized generally positive quarterly earnings reports and carefully awaited the Federal Reserve's interest rate decision.

The earnings season produced few major surprises, with expectations generally met or exceeded, and neutral tones on future developments. This said, earnings per share growth remained muted for the index with many companies benchmarking against strong 2018 results and some increases in costs. In the Investment Adviser's opinion, trade remains the important topic, with some companies reassuring investors about the state of global trends (e.g. Texas Instruments) while others demonstrated the real impact of Sino-American trade tensions (e.g. Cisco).

Taking these global frictions into account, the Federal Reserve cut interest rates by 0.25%, the first such move since 2008. Given the intensity of the rate curve moves in recent months, coupled with implied expectations oscillating between 25 and 50bps before the meeting, the markets were underwhelmed. One noteworthy development was the immediate end of quantitative tightening, signalling a willingness to "grease" the bond market's wheels and ensure abundant liquidity. Given the relative stability of US economic numbers to date, especially on the employment side, the Investment Adviser believes the question on many investors' mind is whether the Federal Reserve is responding to economic dynamics - detecting a significant build-up of weakness in leading indicators, or yielding to increasing external pressure from the bond market and from President Trump.

PORTFOLIO DEVELOPMENT

The Fund's performance was mainly driven by the equity book this month, with companies earnings providing the main catalysts. Alphabet and Sherwin-Williams were the leading contributors on the back of sound quarterly numbers and generally strong guidance. Alphabet reversed the relative weakness it experienced last quarter, allaying some investors' fears of a profitability slowdown for now. Sherwin-Williams exceeded growth expectations across the board in stark contrast to its competitors, who attributed their slow growth to weather disruptions. SAP and Keyence were the main detractors, both reporting numbers below expectations. SAP's investor base is growing impatient with the delayed liftoff in the company's cost restructuring and transition to the cloud, while Keyence saw a larger than expected decrease in revenue impact profitability and most key metrics for the company. The global industrial slowdown was deemed the culprit, with the company prioritizing increasing sales initiatives to stabilize and return to growth. In both cases, the investments are maintained as the fundamental drivers of the investment cases remain in place.

Eric I. Sturdza
PORTFOLIO MANAGER

Constantin Sturdza
PORTFOLIO MANAGER

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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MARKET OUTLOOK

The Investment Adviser's outlook remains that of cautious optimism, with economic growth slowing against a backdrop of ongoing trade tensions, increasing pessimism from the bond market and limited ammunition within global central banks. The ECB's Draghi pleaded once again for significant fiscal stimulus in the fight for inflation. The timely nomination of Christine Lagarde as the head of the ECB only confirms the reality of decreasing marginal impact of monetary stimulus at negative rates. As yield curves continue to decrease and flatten, the idea of a late cycle slowdown is growing in popularity by the day. The Fund's allocation to equities has continued to decrease, progressively reaching below 55% in July for the first time since launch, poised to seize investment opportunities as they materialize.