Macroeconomic Commentary[1]

As with much of the preceding year, the final quarter of 2019 was characterised by all things Brexit and the US-China trade dispute. With progress being made with regards to both, developed market equities made strong gains over the quarter; the S&P 500, FTSE 100 and Euro STOXX were all up 9.1%, 2.7% and 5.2%, respectively. The Conservative Party won a comfortable majority in the December General Election, paving the way for Boris Johnson to push through his Brexit Withdrawal Agreement. The Conservative Majority provided a welcomed boost to UK equity markets, with banks, housebuilders and utilities having the most to gain. The pound also rallied as a result, up 7.9% against the US dollar and up 4.8% against the Euro. A "phase one" trade deal between the US and China and the fact that the US did not follow through on its promise to impose tariffs on EU auto exports, provided a further catalyst to global trade and equity markets. In the fixed income market, the yield on developed market government bonds increased, with the yield on US, UK and German 10-year bonds all decreasing by 25, 33 and 39 basis points respectively, as the political uncertainty which had surrounded 2019 appeared to be reducing.

Fund Commentary

During the fourth quarter of 2019 the Credo Global Equity Fund (CGEF) increased by 5.4%, comfortably outperforming the MSCI World Index which increased by 0.6%[2] in GBP terms. The main positive contributors over the period were Cigna, Prudential plc, Flutter Entertainment, HCA Healthcare, Alibaba Group and GVC Holdings. The main negative contributors were Frontdoor, Kar Auction Services, Chubb, Verizon, Imperial Brands, and United Parcel Service.

The quarter was driven by macroeconomic and geopolitical news.

In the UK, the Conservative party won a comfortable majority in the General Election, which served two purposes. Firstly, it displaced the inherent risk of a left-wing government taking control of the UK political system, and with that negatively impacting the UK economy, but equally as importantly, meant that the UK could further advance itself towards a constructive and orderly Brexit. The effect of this was to give the UK equity market a "Boris bounce", which we managed to participate in through our UK equity exposure.

Furthermore, the US and China finally agreed a "phase one" trade deal, which effectively led to a risk on environment for US equities.

On the UK side our holdings in Prudential plc, Flutter Entertainment, GVC Holdings, and Spire Group all benefited from general buying, as fund managers re-entered the UK equity markets, after being underweight for a long period of time.

Likewise, Cigna and HCA Healthcare enjoyed a bounce, as the political popularity of Elizabeth Warren waned and with that, her policy of Medicare for All. Alibaba also enjoyed a strong rally following its successful listing in Hong Kong, coupled with the signing of the trade agreement between the US and China.

(1) Source: Bloomberg.
(2) Source: Bloomberg. Performance of the Credo Global Equity Fund Class A Retail Shares over the period 30/09/2019 to 31/12/2019.

Frontdoor was the only significant underperformer during the quarter, succumbing to profit taking, after a very strong run-up through the year.

During the quarter we took the decision to sell our holdings in GVC Holdings and Takeda Pharmaceutical. GVC had enjoyed a significant rally in the intervening few months, and we felt that the corporate governance around the stock, coupled with more stringent compliance and taxation in the UK, left the company exposed. We are also not convinced that the company has the correct strategy for the US sports betting market. Our preference in that space is Flutter Entertainment.

Takeda had similarly enjoyed a strong rally, but we have been underwhelmed by the progress that management has made in consolidating the Shire business into the fold. We are also concerned about the corporate governance and accounting within Takeda and thus felt more comfortable exiting the position.

We initiated positions in Kering, JD Sports, On The Beach, and FedEx.

Looking Forward

The equity market has enjoyed a strong rally and looks to be relatively expensive. This is not a new phenomenon, and something that we have had to deal with for some time. As always, we remain patient and vigilant, and will look to pick up quality companies, at good valuations, as and when the market gives us the opportunity to do so.

Jarrod Cahn, Co-Portfolio Manager.