COMMENTARY

Jupiter Merlin Portfolios

For the month of December 2018

January 2019

Jupiter Independent Funds Team

2018: in with a bang, out with a whimper

2018 in markets was akin to a boxing match. If investors strutted into the ring in January 2018 full of beans and swagger, they ended it on the canvas, down though not out. It's been a bruising year, especially for equities globally and despite a short-lived post-Boxing Day burst of enthusiasm, very few stock market indices have closed the year at level higher than a year ago.

Trump back in the frame at home and abroad

President Trump was the game-changer with his head-on clash with China and Europe as he attempts to reset America's international agenda and reassert its authority. One significant element is his employment of tariffs and trade barriers. The trade war with China was due to ramp up significantly from 1st January 2019, however, talks between Trump and President Xi at November's G20 meeting secured a temporary truce until the Spring. Since Christmas there has been further contact between the two leaders ("a good talk, a very good talk", reported Trump), but no concrete outcome. Still, it has given markets a modicum of hope (if not confidence) that there may be progress in the New Year. There have been false dawns before and given the long-term strategic struggles as the world's geopolitical tectonic plates shift and grate, we think it still prudent to assume tariffs remain a real threat to global trade until they are definitively removed from the agenda.

December was noteworthy too for Trump being firmly rebuffed by the US central bank, the Federal Reserve (the Fed). Although the appointments of the Chairman and his/her fellow governors are political, the mandate of the Federal Open Markets Committee (FOMC), which sets US interest rates, makes it clear that the FOMC should be independent of political interference and its members free of party-political partisanship. With equity markets stalling and the US economy showing signs of slowing, neither of which suits the President's political agenda, Trump very publicly attempted to sway FOMC policy ahead of both the last two committee meetings, tweeting that it would be making a "terrible mistake, a really terrible mistake" if it continued to raise interest rates under the present circumstances. Faced with above-target inflation, unemployment at a 40-year low, and an economy still likely to grow at 2.5% in 2019, the FOMC under Jerome Powell decided in December that it should indeed raise interest rates by another quarter point, bringing the total number of such rises to nine since the current cycle began exactly three years ago in December 2015. Markets are now assuming that with the Fed still pursuing a twin-pronged approach to monetary policy, raising interest rates on the one hand while simultaneously sucking capital out on the other (it aims to shrink its balance sheet by $1 trillion over the course of 2018/19), the pace at which interest rates increase from here will slacken to perhaps two interest rate rises in 2019 rather than the four which were assumed six months ago. If there is a fear, it is that the combination of this monetary tightening and the frictional effect of tariffs will throttle US economic growth. The Fed is dancing on the edge of a cliff.

OPEC tries to stabilise oil prices

The final event upon which to report for December will bring seasonal cheer both to hard-pressed motorists and home-owners who rely on heating oil and gas, much less so to those companies which produce and refine oil and those countries whose economies depend on exporting it. OPEC, the cartel of oil-producing nations which between them account for over a third of global oil exports, met in December for its half-yearly session to set production schedules for the next six months. As the global economy decelerates but most producers continued pumping at a constant rate, so inventories had been building and the price of crude had been weakening again, Brent crude having peaked in October at $86/barrel. OPEC therefore decided to slow production by 1.2m barrels per day in an attempt to help stabilise the price at $60. At the time of writing at the month-end, it has slipped again to $53, back to where it was in August 2017.

It's been a relief these past couple of weeks to have a break from wretched Brexit. Normal hostilities resume when Parliament reconvenes on 7th January. Crunch time approaches but as we've said many times before, we're interested but not obsessed.

We believe the Jupiter Merlin Portfolios are appropriately structured to deal with the challenges. We seek to invest in funds run by experienced managers with a blend of styles but who share our core philosophy of trying to capture good performance in buoyant markets while minimising as far as possible the risk of losses in more challenging conditions. The Portfolios are certainly not immune from market volatility but over time they are anticipated to be less volatile, and of course we are long-term investors, investing in managers who themselves are long-term investors who can use such volatility as an opportunity.

We thank you for your continuing support.

Risks

Charges tend to be higher than for conventional Unit Trusts to allow for a portion of the charges applicable to underlying funds. All of the Jupiter Merlin Income Portfolio, Jupiter Merlin Balanced Portfolio and Jupiter Merlin Conservative Portfolio's expenses are charged to capital, which can reduce the potential for capital growth. The NURS Key Investor Information Document, Supplementary Information Document and Scheme Particulars are available from Jupiter on request. The Jupiter Merlin Conservative Portfolio can invest more than 35% of its value in securities issued or guaranteed by an EEA state.