COMMENTARY

Jupiter Merlin Portfolios

For the month of June 2019

July 2019

Jupiter Independent Funds Team

Trump and Xi resume civilities

It's that man Trump again. Having only weeks ago not only walked away from trade talks with China but then immediately ratcheted up the punitive tariffs another significant notch, he held constructive talks with President Xi at the G20 Summit in Osaka at the end of June. Nothing substantive was agreed but at least the post-match interviews were optimistic, even if that optimism was limited to breaking the stand-off and re-opening full dialogue at the diplomatic level. Meanwhile the tariff regime remains as now. Given trade tensions are merely one symptom of a much bigger, long-term geo-political battle of supremacy and ideology, however much hope or optimism there might be that a mutually acceptable trade accommodation is brokered, we maintain the pragmatic assumption that tariffs are in place until such time as they are definitively relaxed or removed.

Government bond yields continue to sink

All of which matters because it has a direct bearing on wider global trade. Against a backdrop of what are effectively taxes on trade flows, the pace of economic growth is slowly decelerating. That in turn throws the spotlight uncomfortably on our old friends the principal central banks, a recurring but unavoidable theme in these digests. Government bonds worldwide have seen a collapse in yields in anticipation that the central banks, the cavalry, are going to ride to the rescue of the beleaguered economies, the homesteaders, with a posse of lower interest rates and other monetary stimuli. More cynically, investors are shamelessly leading the witness, driving yields down to force central banks to reduce interest rates in similar fashion (yields and interest rates tend to correlate) in a great big game of monetary policy poker. Since last month's edition, bond yields have continued to sink: the key 10 Year Government bonds in Germany, France, Holland, Switzerland and Japan are all negative (i.e. you as the bond-holder are paying for the privilege of owning those bonds, rather than being compensated for the risk you take in the event of a default, however small that risk might be). It is estimated that approaching 30% of all the world's government debt is now negative yielding.

Mario Draghi: the ECB's emperor with no clothes

So, who's calling whose bluff? In the US, the Federal Reserve (the Fed) noted the vulnerability of the economy but in June was still sufficiently sanguine to deem an immediate interest rate cut unnecessary; it worries about wage inflation in a period of economic expansion and generationally low unemployment. Despite Trump publicly humiliating Jerome Powell (his own appointee as Fed Chairman) for failing to relax policy and support the economy, and the markets expecting interest rates to be at least a percentage point lower this time next year, so far the Fed is exerting its independence and remaining aloof. In Europe, however, the European Central Bank (ECB) was forced to admit that such is the parlous state of the Eurozone economy (of the three core economies Italy is in recession, Germany is within a gnat's whisker of it and France is in its usual state of atrophy), the ECB mooted its willingness to resume quantitative easing (printing money) and might even go as far as reducing interest rates further. From minus 0.4%. QE was only completed by the ECB in December and interest rates are already negative; the ECB statement is as big an admission of policy failure as is possible for a central banker to admit. The incumbent President, Mario Draghi, retires on October 31st; his nominated successor, Christine Lagarde, President of the IMF, is an interesting choice: a politician and lawyer, she has no hands-on experience of monetary policy and recently was highly critical of the ECB. If the lady doth protest too much, the remedy is now in her hands. Strategically she will bring her political nous and federalist agenda to fostering financial union across the eurozone but from an investor's more immediate point of view, the question is whether she can introduce radically different thinking to relieve the economic torpor she inherits. As for the Bank of England, interest rates might go up or down, seemingly depending on from which side of the bed Mark Carney gets up on any given morning. Hopefully he might have a clearer idea when he opens the curtains on November 1st (All Saints Day) when we should have left the EU with or without a deal.

We believe the Jupiter Merlin Portfolios are appropriately structured to deal with such challenges. With liquidity uppermost in our mind, 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

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.