COMMENTARY

Jupiter Merlin Portfolios

For the month of May 2019

June 2019

Jupiter Independent Funds Team

Trumps sets the cat among the pigeons again

What a difference a month makes. More accurately, what a difference President Trump makes in a month. At the beginning of May, the US S&P 500 Index hit an all-time high within a whisper of the magic 3000 mark; since then it has lost nearly 7% in dollar terms. In the UK, the FTSE 100 Index is also down by approaching 5%. Bond price movements have been significant too; by the close of May, Germany's 10Yr Bund yield had plummeted to minus 0.2% (by definition if the income paid on a bond is fixed, when prices rise yields fall and vice versa, with a negative yield effectively meaning the investor pays the issuer for the bond), UK 10Yr Gilt yields fell through 1% to 0.86% and the US 10Yr Treasury yield fell almost half a percentage point to 2.1%. What's going on and what is this seemingly contradictory data telling us?

Last month we wrote that while there were optimistic noises from Washington about a potentially satisfactory conclusion to the US-China trade talks and an agreement on tariffs, there were still persistent sticking points that would determine whether the outcome would be truce or stalemate. In fact, it was neither. President Trump accused China of reneging on the informal agreement and not only walked away from the talks but implemented a rapid escalation of tariff rates, rekindling all the worries markets had about the corrosive effects of what are in effect a fixed tax on global trade flows. In military language, trade talks went from near-détente to nuclear in a heartbeat. As if that weren't enough, by the end of May Trump had also announced punitive tariffs against Mexico in a political move designed to force Mexico to stem migration to the US.

To which add (it was a busy month!): Trump tightening the sanction screw against Iran and its own belligerent response threatening a resumption of its nuclear weapons programme; Mrs May being ousted as UK Prime Minister; a significant polarisation of politics across Europe, evident in the EU Parliamentary elections, including runaway success for the UK's new Brexit Party and President Macron being beaten in to second place by Marine Le Pen's National Rally party in France; political paralysis again in Belgium following the general election; the collapse of the Austrian government; and deteriorating economic data on both sides of the Atlantic. It's a heady brew.

Investors head for safety

After the dismal 2018 year-end, 2019 saw equity markets enjoying one of the best performances on record for a calendar first quarter, performance which persisted to the end of April. However, as Trump did a year ago when he first announced tariffs targeted largely at China and Germany, he has again upset the apple cart and kicked the traces. Against this febrile backdrop, investors have moved quickly to 'de-risk', reducing some exposure to equities, simultaneously moving towards assets regarded as 'safe havens', principally developed markets' sovereign debt (e.g. the US and Germany—countries least likely to default when the debt, held as bonds, is due for redemption).

Spotlight swings again on to central banks

Where from here? Politics is interesting, fascinating, but forecasting is best left to the political pundits. Much of politics is contextual to investors but where it has an immediate and direct impact, as now, we believe the safest approach is to maintain perspective and react when necessary. Of more direct concern is what our old friends the central banks do to head off the fear of incipient global economic deceleration, or even recession. The US Federal Reserve (the Fed) has been cagey in its public utterances since the turn of the year, save most recently that it would not run policy around investor sentiment, trying to rebut accusations that it appeared to do precisely that in January, known as the Powell Policy Pivot. Nevertheless, bond markets are shamelessly leading the witness, at the time of writing not only anticipating the next move by the Fed being to cut interest rates within the next quarter, but to have reduced them by 0.75 of a percentage point by this time next year to 1.5%, less than half the level Chairman Powell was indicating they'd be only last December . At least the Fed has some headroom to do so; unlike the European Central Bank and the Bank of England which are already up against the stops.

We believe the Jupiter Merlin Portfolios are appropriately structured to deal with such 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

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.

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