



July Review

July started off well performance wise, but as we worked our way through earnings season, we did see some stocks sell off quite hard, and we underperformed in the last few days of the month. Whilst we were pleased that we did not own Facebook, we did own Twitter and that stock fell some 27% after numbers. The weakness in these two names sent a shiver through techland and many other stocks fell in sympathy. Electronic Arts was a faller after numbers but merely due to the fact that they didn't raise guidance post their fiscal Q1, which they have done only once in the last 5 years anyway. Investors have become knee-jerk sellers on any perceived weakness but we see these moves as short term corrections in much longer secular bullish trends. On the positive side was Grubhub which was up over 16% after numbers, as was Flir Systems which was up over 12%. The general tone this earnings season is one of shoot first and ask questions later and stocks that don't blow the lights out are getting sold. But this is where opportunities present themselves, and we can take advantage of other investors' skittishness.

Market Outlook

At the macro level, global growth continues to slow, and whilst the US had a great Q2 GDP print of 4.1%, the yoy growth rate of the US is likely to slow from here. With that in mind, we continue to avoid the cyclical parts of the market like Industrials, Materials, Financials and areas of Tech and Discretionary. For example, we have sold our position in Wynn Resorts, which depends on consumer spending in Macau, but have retained our position in Home Depot which we view as much less cyclical due to its domestic exposure.

At the margin we are looking to be defensive in our asset allocation and note that, while many commentators predict that inflation and rates are going to continue to rise, we believe inflation and the ten year yield are probably peaking. The US dollar is likely to perform well in this environment.

Sector & stock selection will be key in the second half of 2018