



## October Review

The fund returned -4.72% in October, which compared to the S&P 500 ETF return of -2.56%, in sterling terms.

The Q3 earnings season has been closely scrutinised for signals as to the health of the US economy, and now with 75% of the S&P 500 having reported the verdict is that things are not quite as bad as feared. Earnings are -1.15% for the S&P 500 on a year over year basis, but due to the fact that expectations have been ratcheted down ahead of time, this has not been that negative for prices at the aggregate level. There is also the hope of a trade deal and the reality of an accommodative Federal Reserve which is also boosting stock prices.

The Fund's recent underperformance has been caused by certain stocks missing their Q3 earnings numbers. As such we have been lightening up on positions going into numbers to mitigate potential downside. WWE is one such example. The company that owns the rights to worldwide wrestling missed its number, we had reduced our weighting before the earnings report and will be looking to add back to the position. On the positive side, a new position Charter Communications performed well in the month, and was up over 13% as it posted better than expected numbers.

## Market Outlook

Our macro process identifies that we are transitioning from Quad 4 into Quad 3. The Quad 3 set up is that growth slows but inflation rises. This return of inflation is contrary to the general consensus that inflation has been 'tamed for good'. This re-emergence of inflation is a cyclical turn and is important as it relates to sector and factor positioning. The energy sector in particular tends to perform well in the Quad 3 environment, and we have started to add positions in this sector. With growth slowing and inflation picking up, also known as stagflation, those companies who have pricing power really come to the fore in performance terms. Sectors that do not have pricing power, like consumer staples, tend to underperform in this economic backdrop. We are zero weight in consumer staples and are looking to add some cyclical in terms of industrials, financials and energy on a selective basis.

*Felix Wintle 6 November 2019*