

December 2019

Global Investment Commentary

SUMMARY

Considering the last quarter of 2018 saw the MSCI World Index fall by 13.31%, the fourth quarter of 2019 was, with the help of central bank support, far more generous, providing investors with a positive return of 8.68%. Over the year, US equities delivered handsomely (+31.49%), European equities were not far behind (+28.22%) and, despite what can only be described as challenging times, UK equities also produced a respectable return, albeit comparatively modest (+17.32%). In summary, for those who had the appetite for 'risk on', equity markets provided some spectacular performance in 2019. And, unusually in a year when equities performed well, government bonds also provided good numbers.

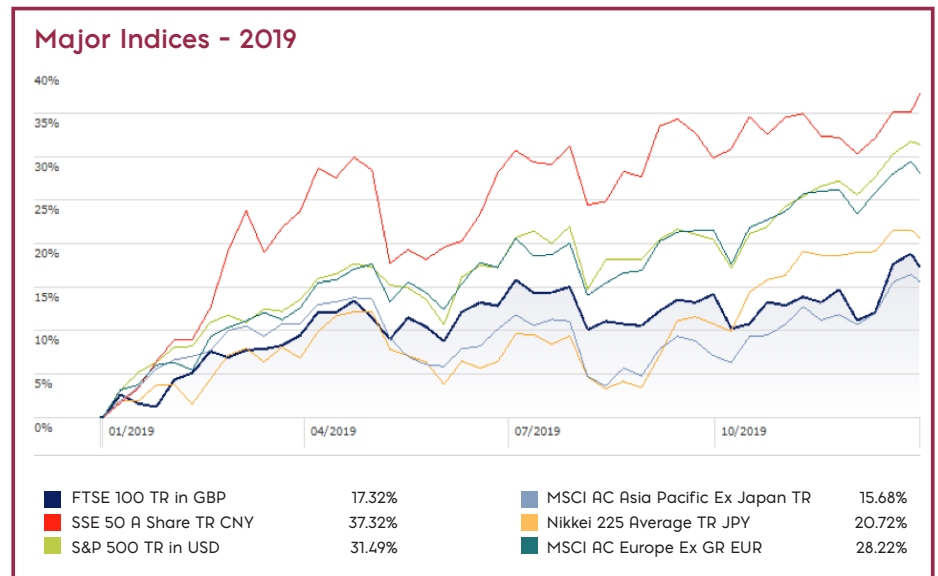
Market Round Up

After the sharp fall in equities during the fourth quarter of 2018, the first four months of 2019 brought a strong rebound, as central banks signalled that rather than raise interest rates they would provide yet more stimulus to try to maintain economic growth. Clearly, markets believed they would succeed.

From the end of April to the end of September, global equities broadly traded sideways, with the occasional blip, as investors observed the development of the trade negotiations between the US and China and studied the UK's political landscape and its implications for Brexit.

Remarkably, by the end of September, the 20+ year Treasury index was up 20%, while the MSCI World was up 18%. The flood of central bank liquidity had obviously worked. For both traditional risk-on and risk-off assets to produce such strong performance at the same time was unusual.

By the time Q4 arrived, many may have felt that, all things considered, they had done rather nicely. However, events in the closing stages of the year were positively received and gave



Source: FE

markets further momentum into the festive period, with all major equity indices benefiting.

Regional highlights

UK markets fluctuated throughout the year, amid uncertainty surrounding a Brexit deal and the wider political landscape. However, confidence was high by year end following a Conservative majority victory and the reassurance that a Brexit deal of some sort would go through in 2020.

Despite negative economic data, European equities still managed to perform impressively. With Christine

Lagarde now in place as the new President of the European Central Bank (ECB), all eyes will be on how European equities perform as the region navigates through what look likely to be tricky times ahead.

In the US, news around a potential US-China trade deal heavily dictated the movements of the S&P 500 index during 2019. By year end, a 'phase one' deal was announced and this saw markets rally to record highs in December.

In Asia, Hong Kong's Hang Seng index struggled in the later stages of the year, amid rioting over the introduction of an extradition bill. Although the bill was withdrawn in

September, the sentiment among protesters seemed to be that this was too little, too late and by then clashes with police had become more frequent and violent.

In China, the Shanghai Stock Exchange 50 index spectacularly gained 37.32% to dull the pain of 2018 when it was down -17.48%, while Japanese equities quietly trundled along to +20% for the year.

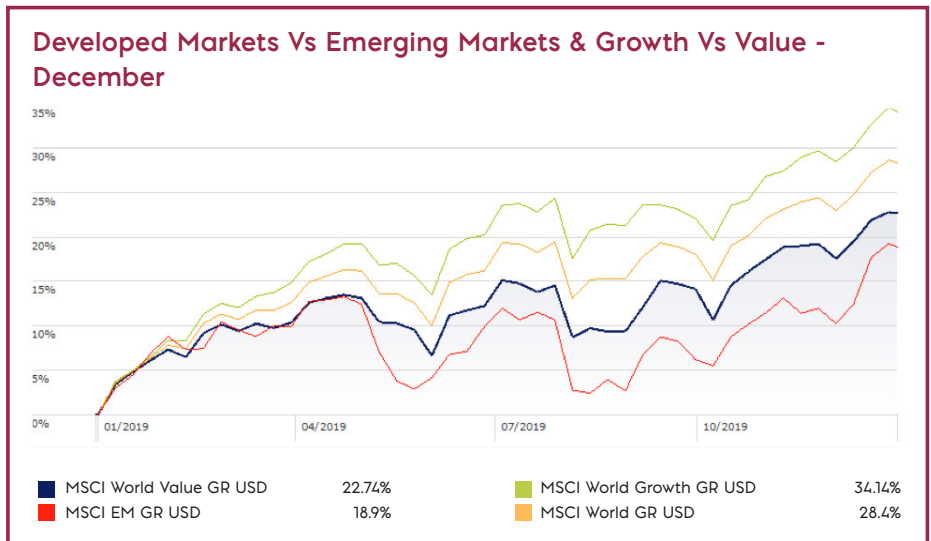
Developed markets vs emerging markets and value vs growth

Developed markets (MSCI World) outstripped their emerging market counterparts (MSCI EM) by almost 10% during 2019, with developed markets up 28.4% against 18.9% returned by emerging markets. In the value (MSCI World Value) versus growth (MSCI Growth) race, again there was a clear winner with growth stocks (+34.14%) leaving value stocks (+22.74%) in their wake by some 11.4%.

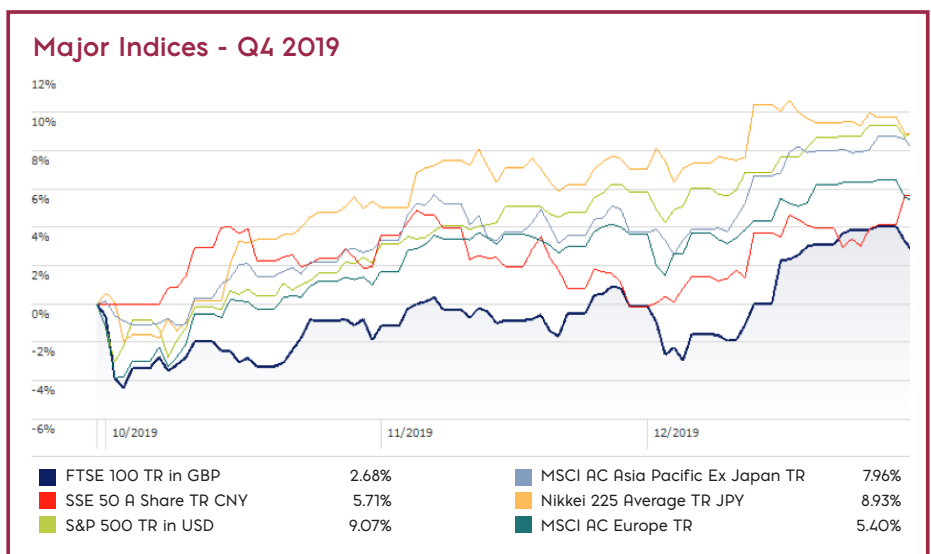
Q4 2019

The fourth quarter also saw two significant political risks avoided, at least for now. US tariffs on China were scheduled to increase on 15 December but a 'phase one' trade deal avoided that outcome and provided a significant relief for equity markets. The fact that the US did not impose tariffs on European Union auto exports also helped support equities. How long the trade peace will last remains unclear, but the market ended the quarter cheered by the fact the worst-case scenario for trade had, in the short term at least, been avoided.

The large majority for the Conservative Party in the UK election in December removed the threat of nationalisation for some utility companies. The utility sector in the UK rallied 6% following the vote. In addition, the election cleared the way for the UK to pass the European



Source: FE



Source: FE

Union (Withdrawal Agreement) Bill, which will trigger a transition period during which little will change until the end of 2020. The implications of the election result helped lift UK stocks and sterling over the quarter. However, the pound's initial rally after the election result soon faded after the announcement that it would be made law that there would be no extension to the transition period beyond the end of 2020, giving the UK government a very short period of time to negotiate a free trade deal that avoids a hard Brexit.

Summary

It has generally been a good year to be invested across most major

asset classes. However, 2020 is unlikely to be so broadly positive for assets and such high returns are likely to be harder to find. If the global economy reaccelerates, equities should rise, although higher starting valuations might limit the extent of the upside. In this scenario, government bond yields should also move higher, rather than fall as they did in 2019.

On the other hand, if growth continues to slow and pressure on profits causes companies to cut jobs, then 2020 could be another good year for government bonds and a more challenging year for equities and corporate credit. Either way, with the Brexit trade negotiations and the US election to contend with, 2020 is unlikely to

be without its thrills and spills, with plenty of uncertainty likely to linger.

While 2019 showed that uncertainty does not have to be the enemy of investors, it will be no easy task to navigate successfully through this prolonged period of political uncertainty, particularly given the fragile economic backdrop. We are resisting the temptation to ease off the handbrake as we start the year and we continue

to believe a broadly neutral stance, with balanced, diversified exposure across asset classes and geographies, still makes sense, until both the political and economic outlooks are clearer.

Economic projections (31/12/2019)

Economic Growth

Country/Region	Real GDP YOY Growth (%)		
	2019	2020	2021
UK	1.3	1.0	1.5
USA	2.3	1.8	1.8
Eurozone	1.2	1.0	1.2
Germany	0.5	0.7	1.2
France	1.3	1.2	1.3
Japan	0.9	0.4	0.8
China	6.1	5.9	5.8
India	6.8	5.1	6.2
Asia	5.3	5.2	5.3
Emerging Markets	4.4	4.5	4.7

Source: Bloomberg

Interest Rates

Country/Region	Central Bank Interest Rates (%)		
	2019	2020	2021
UK	0.75	0.75	0.85
USA	1.75	1.55	1.65
Eurozone	0.00	0.00	0.00
Japan	-0.10	-0.10	0.00
China	4.35	4.25	4.20
India	5.15	4.85	5.05

Source: Bloomberg

Foreign Currency Exchange Rates

Currency Pair	Exchange Rate		
	2019	2020	2021
GBP/USD	1.33	1.35	1.40
EUR/GBP	0.85	0.85	0.85
EUR/USD	1.12	1.15	1.18
USD/JPY	108.61	107.00	106.50
EUR/JPY	121.77	122.00	124.00
USD/CNY	6.96	6.95	7.00
USD/INR	71.38	71.50	69.65

Source: Bloomberg

Risk Warnings

The following is a summary only of some key items in the Prospectus.

Capital is at risk. Investors in Protected Cell Company (PCC) must have the financial expertise and willingness to accept the risks inherent in this investment.

Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds.

The Master funds will be exposed to stock markets. Stock market prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events.

It should be appreciated that the value of Shares is not guaranteed and may go down as well as up and that investors may not receive, on redemption of their Shares, the amount that they originally invested.

Investment in the Company should only be undertaken as part of a diversified investment portfolio. Investment in the Shares should be viewed as a medium to long term investment.

Shares may not be redeemed otherwise than on any Dealing Day.

There will not be any secondary market in the shares of the Company.

Regulatory Information

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 **Marlborough International Management Limited, Town Mills South,
La Rue du Pre, St Peter Port, Guernsey, GY1 3HZ, Channel Islands**

 **Investor Support: +44 (0)1204 589 336**

 **Email: enquiries@marlboroughgroup.com**

 **Website: www.marlboroughinternational.gg**

 **Administrator: (Postal applications) Louvre Fund Services Limited, First Floor,
St Peter's House, Le Bordage, St Peter Port, Guernsey, GY1 1BR**

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