

Gibraltar Asset Management Stock Market Commentary

# 'Stock Market suffers sharp setback'



GIBRALTAR ASSET MANAGEMENT LIMITED  
STOCKBROKERS & INVESTMENT MANAGERS

The stock market hit its first real rough patch of the year in May as trade relations between the US and China continued to deteriorate. Stocks were broadly advancing across the first four months of 2019, with all sectors participating, small-caps joining large-caps in the winner's cycle, and most investing styles up nicely for the year. Now the market is no longer trading on fundamentals or technicals. We have entered a one-topic market. The topic is tariffs.

by **Mark Maloney**,  
Managing Director, Gibraltar  
Asset Management Limited

**Market Outlook**

**O**ur allocation to the stock market remains at equalweight. The threat of a new escalation in the trade war has obscured one of the bigger investing stories in 2019, namely the turnaround in first-quarter earnings. A strong profits performance took place in what was expected to be the most-challenging quarter for earnings during 2019. But stocks are now entering a traditionally weak seasonal period without a strong catalyst. And with fundamentals sliding over from the driver's seat as perceived progress, or setback, on trade discussions takes over the market's direction, we are sticking with our neutral position on equities. It is interesting to note that company directors have reacted to the market volatility, tariff confusion and Brexit developments by stepping in and snatching up shares when stocks have dropped briefly but dramatically. Yes, time will tell if the acquired shares move higher still or fall back down. But there is no denying that current insider sentiment is positive. While awaiting any new round of talks, even informal talks at the upcoming G-20 summit, investors should be prepared to navigate through the next few months with trade-related disruptions only

worsening. Indeed, investors should be prepared for a substantially longer period in which poor trade relations with China negatively impact the investing landscape. When undertaking strategic planning, businesses crave stability, whether in exchange rates, interest rates, or trade policy. The current lack of clarity on trade policy is denying companies the stability they need to construct and execute their strategic plans. Therefore, we believe that volatility is likely to remain high in the near term. A favourable backdrop does remain for equities, which includes continuing good jobs growth, strong consumer sentiment, muted inflation, and central banks on pause with interest rate hikes. Depending on how much harm is caused to the economy and market by the escalating rounds of tariffs and counter-tariffs, we will amend our advice as needed in the coming months.

**Recommended Investment**

CVC Credit Partners European Opportunities Listed on the London Stock Exchange with sterling and euro share classes (CCPG.L/CCPE.L), this investment trust aims to return 8-12% per annum over the medium term, including a quarterly dividend of 5.5p per annum, which represents an attractive dividend yield of 5.1%. CVC Credit Partners European Opportunities operates an

actively managed credit strategy, generating high income and capital gains combined with significant downside protection given its investment policy that at least 50% of the portfolio should be invested in senior-secured debt investments. The diversified portfolio currently has exposure to 67 corporate credits across a wide range of sectors with 80% of investments currently "senior-secured". A minimum of 70% of assets must be invested in obligations domiciled in Western Europe and both sterling and euro share classes are hedged back to their respective currency. The investment manager, CVC Credit Partners, manages \$18.7bn in assets in the US and Europe. The portfolio comprises two broad categories of investment, "Performing Credit" (~60%) and "Credit

Opportunities" (~40%) and reflects the management team's best ideas across the two strategies. i-Performing Credit - This strategy is focused on large, liquid names, where the managers are able to actively trade positions. Typically, positions will be trading at close to par and the primary driver of returns is expected to be the cash income generated by loan interest and high yield coupons. Returns are expected to be in the range of 4-7% per annum. ii-Credit Opportunities - This strategy seeks to take advantage of opportunities presented by European banks' regulatory-driven desire to sell down legacy exposures. These investments are typically less liquid and are purchased at a discount to their par value. This gives the manager the opportunity to generate capital gains from the expected pull to par. Returns are expected to be in the range of 7-20% per annum. The portfolio is actively managed in terms of the allocation between 'Performing Credit' and 'Credit Opportunities', with the manager having historically repositioned the portfolio in order to take advantage of perceived relative value opportunities or to adopt more defensive

positioning, where it considers it is warranted by the market outlook. The trust has performed well over the last 5 years, returning 33% and is currently trading at its NAV. The trust operates a contractual quarterly tender at a price close to NAV for up to 24.99% of its shares in issue. We feel this established structural feature should limit downside discount risk. Another attraction of the trust is that 92% of the portfolio is invested in floating rate assets. Therefore, should interest rates rise, so will the investment trust's yield. Combined with the current yield of 5.1%, we rate the shares a strong buy.

*Please be aware that the value of your investments may fall as well as rise and your capital is at risk. Income from the investment may fluctuate in value in money terms. Gibraltar Asset Management is a trading name of Gibraltar Asset Management Limited, registered in Gibraltar, number 18064. Gibraltar Asset Management Limited is authorised and regulated by the Financial Services Commission and is a member of the London Stock Exchange. Registered office: World Trade Center, Suite 5.28, Gibraltar. Tel: +350 200 75181. Email: gam@gam.gi*

**GO Gib Oil**

**Raring to GO**

- Fuels & Lubricants
- Car Products & Accessories
- Express Café & Convenience Store
- Loyalty Rewards

T: +350 2000 3400  
E: info@giboil.com  
www.giboil.com

Authorised Distributor for Shell Lubricants in Gibraltar

GIB OIL EXPRESS



The Freephone Helpline #116123 is now operational on Saturday and Sunday from 1900 (7pm) to midnight and from Monday to Friday 4pm to midnight. Anonymous & confidential