

## SECOND QUARTER 2019 REVIEW AND OUTLOOK

### EXECUTIVE SUMMARY

#### Portfolio Themes

- **Quality Tilt:** We prefer equities with stronger balance sheets and consistent margins.
- **Overweight to Information Technology:** The Information Technology sector is heavily skewed toward large, high-quality firms. The sector should benefit from robust global IT spending driven by the growing demand for products and services related to mobile, cloud computing and the “Internet of Things.”
- **Overweight to Energy:** Energy demand remains robust and the sector often outperforms late-cycle, with tailwinds from physical demand via economic growth and financial demand via inflation.

#### Market Outlook

- **Expect the Bull Market to Continue:** We expect the market to keep climbing, though the pace likely slows in the year’s second half.
- **Strong Economic Drivers:** In both developed and emerging markets, economic drivers remain strong. We believe these fundamentals will come to the forefront as sentiment improves.
- **Global Political Gridlock:** In much of the developed world political gridlock persists decreasing the likelihood that sweeping legislation, potentially hurting equities, passes. This gridlock tempers current political volatility.

Global equities added another 3.6% in Q2, capping the strongest first-half since the late 1980s.<sup>i</sup> As we anticipated, Q2 brought more volatility than Q1, but robust returns in June carried equities to all-time highs, with the MSCI All Country World index returning 16.2% year to date.<sup>ii</sup> Now that the sharp, V-shaped rebound is behind us, it would be unrealistic to expect this pace to continue. US equities also tend to slow somewhat in the back-half of a president’s third year. That being said, we still see plenty of room for the bull market to continue.

Emerging Markets (EM) equities are nicely positive for the year, up 10.6% through the end of June.<sup>iii</sup> EM should continue to do well from here as fundamental health in EM economies surprises sceptical investors—a positive for equities.

Markets are behaving largely as we would expect during a later-stage bull market. Larger and higher-quality equities are outperforming as investors reward fast-growing companies with healthy gross margins. Market breadth—the percentage of companies outperforming the index—is narrowing, which is normal in the later stages of a market cycle.

Many see the United States’ rising trade tensions with China and Mexico as driving volatility and souring sentiment. After US and Chinese negotiators seemingly made progress toward a deal earlier in the year, negotiations stalled during the quarter and the US announced a new round of tariffs. However, at the conclusion of the late June G-20 summit, US President Trump and Chinese President Xi Jinping announced a pause on further tariffs. President Trump also reversed course from May and stated his administration will allow US firms to sell products such as semiconductors to Chinese telecom giant Huawei. Regardless, we continue to believe US tariffs’ impact on China’s economy is far smaller than many fear. Meanwhile, Mexico ratified the USMCA—NAFTA’s replacement. Congressional approval from the US and Canada is still pending, and neither country has a clear ratification timeline. However, we largely see this as a non-factor, given the revised agreement doesn’t materially change NAFTA-established terms of trade.

<sup>i</sup> Source: FactSet, as of 30/06/2019. MSCI All Country World Index return with net dividends, 31/03/2019 – 30/06/2019.

<sup>ii</sup> Source: FactSet, as of 30/06/2019. MSCI All Country World Index return with net dividends, 31/12/2018 – 28/06/2019.

<sup>iii</sup> Source: FactSet, as of 28/06/2019. MSCI Emerging Markets Index return with net dividends, 31/12/2018 – 30/06/2019.

The economic backdrop looks favourable for equities. Low interest rates, low inflation and moderate economic growth collide, resulting in an ongoing global economic expansion that is neither too hot nor too cold. Many pundits see this incorrectly, predicting the current cycle is coming to an end based on the bull market's age and the recent global growth slowdown. Economic ebbs and flows are normal. Fear of heights—prevalent today—is just another brick in the bull market's proverbial wall of worry.

Politics took center stage in Q2 with June's Democratic debates in the US. We think it is too early to parse next year's election. With 25 Democrats vying to challenge President Trump, there is still far too much uncertainty. The time to focus on the election will come, but only once the nominees are apparent. In the meantime, while we remain in the presidential cycle's best year, we are also at the point where gains typically slow, partly due to campaign chatter's drag on sentiment.

Yet European political tailwinds are powering up. We just entered the aftermath of May's European Parliamentary election, usually a sweet spot as falling uncertainty boosts Continental European equities. Further, in Spain, the center-left Socialists, led by former Prime Minister Pedro Sánchez, won the lower house with the best showing for a single party. However, the election still left them far from a majority. Both elections further entrench gridlock across the continent, as multiparty governments will be required to lead. This should prevent sweeping legislation from passing—another plus for equities, which dislike the associated uncertainty. Meanwhile in the UK, Prime Minister Theresa May announced she will resign as Conservative Party leader.

In EM politics, Indonesian voters elected President Joko Widodo, who ran on a market-friendly platform, to a second five-year term in April. Reform hopes tied to his election likely support Indonesian equities in the near term. In Turkey, opposition candidate Ekrem Imamoglu emerged victorious in a redo of Istanbul's mayoral election, ordered by President Recep Tayyip Erdoğan's government after his party's candidate lost the first vote. While it is possible that consecutive defeats in the country's commercial capital will cause him to moderate his more authoritarian impulses, the possibility of moderation doesn't outweigh the negative of his persistent economic meddling.

One distinct characteristic of this long, grinding bull market is its seemingly endless wall of worry. Headlines today discuss oil, Iran, tariffs, Brexit, the inverted US yield curve, a seemingly weak global economy and more. In our view, all are either too old, small or misunderstood to derail the bull. Some are a combination of the three. Given significant advances in energy efficiency compared to the 1970s, oil markets are well supplied—coupled with moderate demand growth, oil is unlikely to be a major factor either way. Tariffs are too small to have a meaningful impact, even with the latest threats, altogether totaling just 0.3% of global GDP.<sup>iv</sup> Brexit stokes uncertainty but seems likely to end soon, and sentiment is too dour in our view, giving way for potential upside. As for the US yield curve, the time to worry is when people lose interest and the global yield curve inverts. Lastly, slower growth isn't a self-fulfilling prophecy, and equities don't rely on rapid GDP growth. While we continuously monitor for signs of a bear market developing, there is little pointing to that happening now.

<sup>iv</sup> Source: FactSet, US Trade Representative, Bloomberg and US Census Bureau, as of 27/06/2019. Includes threatened US tariffs on global autos and \$300 billion in Chinese goods.

1. **Fisher Investments Europe:** Fisher Investments Europe Limited is registered in England (Company No. 3850593) and authorised and regulated by the UK Financial Conduct Authority (“FCA”) (FCA No. 191609). Fisher Investments Europe’s permitted business is agreeing to carry on a regulated activity, managing investments, advising on investments, making arrangements with a view to transactions in investments, arranging deals in investments, dealing in investments as agent, advising on pension transfers and pension opt-outs, and insurance mediation. You can check this on the FCA’s register by visiting the FCA’s website [www.fca.gov.uk/register/home.do](http://www.fca.gov.uk/register/home.do) or by contacting the FCA on +44 0845 606 1234. The FCA’s address is 25 The North Colonnade, Canary Wharf, London E14 5HS.
2. **Communications:** Fisher Investments Europe can be contacted by mail at 6-10 Whitfield Street, London W1T 2RE; by telephone on +44 0800 144 4731; or by email to [FIEOperations@fisherinvestments.co.uk](mailto:FIEOperations@fisherinvestments.co.uk). All communications with Fisher Investments Europe will be in English only. Fisher Investments Europe’s web address is <https://institutional.fisherinvestments.com/en-us/mifidii>.
3. **Services:** These Terms of Business explain the services offered to professional clients and will apply from when Fisher Investments Europe begins to advise you. Fisher Investments Europe offers restricted advice only (meaning it does not offer independent advice based on an analysis of the whole of the market), as more fully explained in Clause 4 below. As part of its services, Fisher Investments Europe seeks to:
  - a. Reasonably determine your client categorisation;
  - b. Understand your financial circumstances and investment aims to determine whether the full discretionary investment service described in Clause 4 and the proposed investment mandate and accompanying benchmark(s) (or an Undertaking for Collective Investment in Transferable Securities (“UCITS”) with a similar mandate and benchmark for which Fisher Investments Europe’s parent company serves as investment manager) are suitable for you;
  - c. Explain features of the investment strategy;
  - d. Describe investment performance as it relates to the investment strategy;
  - e. Provide a full explanation of costs;
  - f. Assist in the completion of documentation;
  - g. Where specifically agreed, review your position periodically and suggest adjustments where appropriate.

Fisher Investments Europe will not provide ongoing services unless you enter into an agreement for discretionary investment management services or invest in a UCITS as described in Clause 4.

4. **Discretionary Investment Management Service and Investments:** To help you achieve your financial goals, Fisher Investments Europe may offer its discretionary investment management services. In such case, Fisher Investments Europe will delegate the portfolio management function, as well as certain ancillary services, to its parent company, Fisher Asset Management, LLC, trading as Fisher Investments, which has its headquarters in the USA and is regulated by the US Securities and Exchange Commission. In certain limited circumstances where appropriate, Fisher Investments Europe may recommend that you establish a discretionary investment management relationship directly with Fisher Investments. In such case, Fisher Investments Europe acts as an introducing firm. A separate investment management agreement will govern any discretionary investment management relationship whether with Fisher Investments Europe or with Fisher Investments. Subject to applicable regulations, for qualified investors Fisher Investments Europe may recommend an investment in UCITS regulated by the Central Bank of Ireland and for which Fisher Investments serves as investment manager.
5. **Client Categorisation:** Fisher Investments Europe deals with both retail clients and professional clients. All clients and potential clients who deal with Fisher Investments Europe’s institutional relationship managers (“RMs”) will be treated as professional clients, either through qualification as a professional client or, in the case of local municipal authorities, through opting up to be treated as a professional client. Accordingly, you are categorised as a professional client. You have the right to request re-categorisation as a retail client which offers a higher degree of regulatory protection, but Fisher Investments Europe does not normally agree to requests of this kind.

6. **Financial Services Compensation Scheme (“FSCS”):** Whilst the activities of Fisher Investments Europe are covered by the FSCS, compensation under the FSCS in the event Fisher Investments Europe is unable to meet its liabilities because of its financial circumstances is only available to eligible claimants. In addition, the protections of the UK regulatory regime, including the FSCS, do not apply in relation to the services of Fisher Investments or any non-UK service providers or to the extent your assets are invested in non-UK funds or ETFs. In the event you are eligible and do have a valid claim, the FSCS may be able to compensate you for the full amount of your claim up to £50,000 per person per firm. You can contact Fisher Investments Europe or the FSCS ([www.fscs.org.uk](http://www.fscs.org.uk)) in order to obtain more information regarding the conditions governing compensation and the formalities which must be completed to obtain compensation.
7. **Risks:** Investments in securities present numerous risks, including various market, currency, currency fluctuation, economic, political, instability, business, differences in financial reporting, liquidity risk, interest rate risk, credit risk, and other risks, and can be very volatile. Investing in securities can result in a loss, including a loss of principal. Using leverage to purchase and maintain larger security positions will increase exposure to market volatility and risk of loss and is not recommended. Investments in securities are only suitable for clients who are capable of undertaking and bearing a risk of loss. Specific risks associated with particular types of securities that may be held in your account are explained further in the IMA.

Past performance is not a guarantee nor a reliable indicator of future investment returns. Fisher Investments Europe cannot guarantee and makes no representation or warranty as to future investment returns or performance. There is no guarantee for avoidance of loss, which is impossible with investments in securities, and you have not received any such guarantee or similar warranty from Fisher Investments Europe or any representatives thereof.

8. **Data Protection:** To advise you on financial matters, Fisher Investments Europe may collect personal and sensitive information subject to applicable data protection laws. By providing such information to Fisher Investments Europe, you consent to Fisher Investments Europe processing your data, both manually and electronically, including transferring data outside the European Economic Area, including to its parent, Fisher Investments, in the United States, for the purposes of providing services and enabling Fisher Investments to provide services, maintaining records, analysing your financial situation, providing information to regulatory bodies and service providers assisting Fisher Investments Europe and/or Fisher Investments in providing services, or otherwise permitted by law. Upon request, you are entitled to obtain access to and to rectify the data relating to you.
9. **Custody and Execution:** Neither Fisher Investments Europe nor Fisher Investments is authorised to hold client money. Neither Fisher Investments Europe nor Fisher Investments will accept cheques made out to it in respect of investments, nor will they handle cash. All client assets are held at external custodians where each client has a direct account in their own name. If you appoint Fisher Investments Europe as your discretionary asset manager, execution of transactions will be arranged through such custodians and brokers and at such prices and commissions that Fisher Investments determines in good faith to be in your best interests. Further information regarding selection of brokers is set out in the investment management agreement with Fisher Investments Europe (the “IMA”).

If you appoint Fisher Investments Europe as your discretionary asset manager, Fisher Investments Europe or Fisher Investments, pursuant to an outsourcing agreement with Fisher Investments Europe, will arrange for the execution of transactions through those custodians and brokers and at such prices and commissions that it determines in good faith will be in your best interests. Further information regarding the selection of brokers is governed by the IMA. Fisher Investments Europe does not structure or charge its fees in such a way as to discriminate unfairly between execution venues.

The brokers and dealers to which your transactions may be allocated will use various execution venues, including without limitation:

- a. Regulated Markets in the USA or elsewhere (usually those exchanges where companies have their primary listing and other exchanges on which their securities are admitted to trading);
- b. Multi-Lateral Trading Facilities (“MTF”) and Organised Trading Facilities (“OTF”) in the USA or elsewhere (i.e. a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments—in the system and in accordance with non-discretionary rules—in a way that results in a contract);

- c. Systematic Internalisers (which are investment firms dealing as principal and providing liquidity on a systematic basis);
- d. Other liquidity providers that have similar functions to any of the above;
- e. Counterparties that may access the above venues on behalf of Fisher Investments Europe or Fisher Investments (or their clients) or trade on their own account.

You must be notified and approve of any off-venue trades prior to execution unless previously agreed to by you directly with the custodian. As a result of brokers/dealers using the execution venues mentioned above, your transactions may be executed on an execution venue that is neither a regulated market in the European Union nor an MTF in the European Union and therefore you will be required to expressly consent to the execution policy of Fisher Investments Europe by signing the IMA.

Fisher Investments Europe's top five trading venues are listed on its website.

Generally, financial instruments will not be affected if a custodian suspends payments or goes bankrupt. This is due to the fact that you will normally be able to take possession of your financial instruments based on the custodian's registration of your rights. Generally, it is only if the custodian fails to handle your financial instruments or register your rights correctly where you may not be able to take possession of the financial instruments.

If you appoint Fisher Investments Europe as your discretionary asset manager, you will receive a periodic statement every calendar quarter. This statement compares the performance of your account with that of a relevant benchmark in order to facilitate the assessment of performance achieved by the account. For performance, management fee calculation and reporting purposes, exchange traded equity securities are valued based upon the price on the exchange or market on which they trade as of the close of business of such exchange or market. All equity securities that are not traded on a listed exchange are valued using a modelled estimate of the bid price, also known as a bid evaluation, provided by Fisher Investments Europe's primary pricing service. Fixed income securities are valued based on market quotations or a bid evaluation provided by Fisher Investments Europe's primary pricing service. All securities are valued daily given a price from Fisher Investments Europe's primary pricing service is provided; otherwise, all securities are valued on at least a monthly basis.

10. **Conflicts of Interest:** Fisher Investments Europe has a conflicts of interest policy to identify, manage and disclose conflicts of interest. Fisher Investments Europe, Fisher Investments or any of their employees or representatives may have with a client of Fisher Investments Europe, or that may exist between two clients of Fisher Investments Europe. Fisher Investments Europe's conflicts of interest policy covers gifts and favours, outside employment, client privacy, inadvertent custody, marketing and sales activities, recommendations and advice, and discretionary investment management services. RMs employed by Fisher Investments Europe are paid a variable component of their total remuneration, calculated as a percentage by reference to management fees paid to the Investment Manager during the first three years of the client relationship. Such remuneration will not increase or impact the fees payable by you. Details on Fisher Investments Europe's conflicts of interest policy are available on request. In addition, Fisher Investments Europe provides a copy of Fisher Investments' Form ADV Parts 2A and 2B to all clients, detailing additional conflicts of interest applicable to Fisher Investments.
11. **Fees:** If you appoint Fisher Investments Europe as your discretionary investment manager, you will pay management fees to Fisher Investments Europe as detailed in the IMA. Fisher Investments Europe will pay a portion of such management fees to Fisher Investments as the sub-manager. If you appoint Fisher Investments directly as your discretionary investment manager, you will pay management fees directly to Fisher Investments as detailed in the investment management agreement. If you invest in a UCITS fund managed by Fisher Investments, Fisher Investments will receive its management fee indirectly through the UCITS. Fisher Investments Europe does not charge a separate fee for its introducing or distribution services. You will also incur transaction and custody fees charged by brokers and custodians. However, any such additional fees will be payable directly to brokers/custodians, and neither Fisher Investments Europe nor Fisher Investments will share in any commission or other remuneration.
12. **Termination:** If you wish to cease using the services of Fisher Investments Europe at any time, then send notification and the arrangement will cease in accordance with the IMA. However, if a transaction is in the middle of being arranged on your behalf at that time and it is too late to unwind it, then the transaction may need to be completed first.

13. **Complaints:** Fisher Investments Europe seeks to provide a high standard of service to clients at all times. If you have a complaint about services, please contact Fisher Investments Europe:
- by writing to: Head of Compliance  
Fisher Investments Europe Limited  
2nd Floor, 6-10 Whitfield Street  
London W1T 2RE
- or by calling: +44 0800 144 4731
- or by emailing: FIEOperations@fisherinvestments.co.uk

Fisher Investments Europe will endeavour to resolve the matter, as soon as practicable and generally within 8 weeks. If you are dissatisfied with the outcome of any complaint made to Fisher Investments Europe, or you do not receive a response within such time, you may be eligible to complain directly to the UK Financial Ombudsman Service (“FOS”). Further details in respect of FOS can be found at [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk).

14. **Governing Law:** These Terms of Business are governed by English law.

---

**Should you have any questions about any of the information provided above, please contact FIE by mail at 2nd Floor 6-10 Whitfield Street, London W1T 2RE or by telephone at +44 (0)207 299 6848.**

*For professional client use only.*

*Fisher Investments Europe Limited (FIE) is authorised and regulated by the Financial Conduct Authority (FCA). It is registered in England, Company Number 3850593. Fisher Investment Europe's FCA reference number is 191609. FIE is wholly-owned by Fisher Asset Management, LLC, trading as Fisher Investments (FI), which is wholly-owned by Fisher Investments, Inc. Fisher FI is an investment adviser registered with the United States Securities and Exchange Commission. FIE delegates investment management to FI. As of 30 June 2019, FI managed over \$110 billion USD. FI and its subsidiaries consist of four business units – Fisher Investments Institutional Group, Fisher Investments US Private Client Group, Fisher Investments International Private Client Group, and Fisher Investments 401(k) Solutions Group. FIIG services significantly all of FI's institutional accounts. Fisher Investments US Private Client Group and Fisher Investments International Private Client Group manage and serve a variety of equity, fixed income, and balanced assets for a substantial majority of the firm's private client accounts. 401(k) Solutions provides investment-related fiduciary and plan consulting services to employer sponsored retirement plans in the United States with less than \$20 million USD in assets. FI's Investment Policy Committee (the IPC) is responsible for all strategic investment decisions for both business units. When FI cannot directly manage assets for clients in select European countries, its wholly-owned subsidiary based in the UK, FIE, serves as the investment manager. In this arrangement, FIE delegates portfolio management to its parent company, FI. FIE's Investment Oversight Committee (IOC) oversees portfolio management conducted by FI. The IOC helps ensure FI, as sub-manager, manages the portfolio in accordance with the investment management agreement between FIE and the client. The IPC has ultimate decision-making authority and accountability for the firm's strategies. The IPC is also responsible for all strategic investment decisions affecting this mandate, subject to oversight by the IOC.*

*FIE is wholly-owned by FI, which is wholly-owned by Fisher Investments, Inc. Since inception, Fisher Investments, Inc. has been 100% Fisher-family and employee-owned, with Ken Fisher owning more than 75% of Fisher Investments Inc.*

*Unless otherwise specified, references to investment professionals, operations personnel, and middle and back office personnel are references to FI employees. "We", "our," "us" and "the firm" generally refer to the combined capabilities of FIE and FI.*

*The foregoing information constitutes the general views of FI and should not be regarded as personalised investment advice or a reflection of the performance of FI or its clients. This analysis is for informational purposes only. It has been formulated with data provided to FI and is assumed to be reliable. FI makes no claim to its accuracy. Investing in securities involves the risk of loss. FI has provided its general comments to you based on information they believe to be reliable. There can be no assurances that they will continue to hold this view; FI may change its views at any time based on new information, analysis, or reconsideration.*

*This material may also be found posted on the Fisher Investments Europe website at [FisherInvestmentsEurope.com](http://FisherInvestmentsEurope.com). If your firm wishes to be removed from receiving these materials in the future or wishes to pay for this material, please contact Fisher Investments Europe.*