SKERRITTS VIEW – NOVEMBER 2019

UK Reaches Meltdown:

Having survived what appeared to be a tricky month of October without any major market correction, the UK currency literally went into meltdown on October 28th. But fear not….it was only the 50 pence pieces that had been minted to commemorate the illusive Brexit date of 31st October that succumbed. It wasn't a dull month though by any means, with a general election being called in the UK, an increased likelihood that the US President is going to face an impeachment trial, civil unrest in Hong Kong continuing on a seemingly daily basis, and a relentless will it/won't it debate on whether the simmering trade war leads to a global recession by the end of next year. Cheery stuff indeed.

Did Anyone Notice The Following Announcements In October?

However, did anyone notice the following announcements during October?

"Third-quarter fashion and leather growth beats estimates for LVMH" [Bloomberg October 9th]

"Harley Davidson's shares went up 6.4% as the company managed to beat earnings expectations for both its revenue and profit" [Marketcheck October 22nd]

"Tesla's stock popped big when trading began on Thursday, after the electric automaker turned in an unexpectedly profitable third quarter and better than anticipated progress toward getting its Shanghai factory operational" [CNBC October 24th]

"Hermes Beat Sales Forecasts Despite Hong Kong Protests" [Bloomberg October 24th]

"The Gucci fashion house reported sales…still beat estimates. The Italian brand's expansion was led by the Asia-Pacific region, making it the latest luxury label to show that Chinese consumers are still splashing out amid a deepening trade war with the US and protests in the Hong Kong shopping hub" [Bloomberg October 25th]

"L'Oréal jumps on quarterly revenue beat" [CNBC October 30th]

These comments highlight one or two important things that should be borne in mind when navigating the coming months.

Invest In The Market That You Have, Not The One That You Want:

We repeat this phrase from last month, and will continue to repeat it for as long as it remains relevant. With the election now having been announced, and with polarisation of views as extreme as they have been in living memory, it will be extremely important from an investing perspective to make decisions, not based upon personal preference, but upon the facts that face us regardless of bias. Invest on the basis of what is happening, not on what you think should be happening.

Take the list of quotes above. What do they tell us? LVMH, Harley Davidson, Kering (Gucci), Hermes, Tesla….these names read like a who's who in the luxury goods sector and they're all booming. In other words, income inequality is alive and kicking with its diamond encrusted boots on. The wealthy keep spending, despite there being record levels of household debt on either side of the Atlantic:

"Unsecured debt as a percentage of disposable income is at 31 per cent, also a record high for the quarter" [TUC.org September 2019]

"Household debt increased by $192 billion (1.4 percent) to $13.86 trillion in the second quarter of 2019. It was the twentieth consecutive quarter with an increase, and the total is now $1.2 trillion higher, in nominal terms, than the previous peak of $12.68 trillion in the third quarter of 2008" [Federal Bank of New York Q2 2019]

Income inequality is probably the main factor driving the rise of Socialism in the UK (Jeremy Corbyn's Labour Party) and the US *("Elizabeth Warren Is Officially Leading the 2020 Polls" Vanity Fare October 9th)*. As vulgar as it may seem to some, the luxury sector remains a viable investment theme even in the face of strong headwinds.

This leads to a second point.

Invest In Themes That Benefit The Companies, Not Just The Consumer:

As regular readers will know, we love investing in a theme. But as thematic investment gains traction and grows, so the investor needs to be careful to avoid investing in a theme for theme's sake and will need to try to identify those themes and disruptors that benefit the company, and not just the consumer. Take luxury as an example. The companies clearly stand to gain from the willingness of their consumers to pay top dollar for the goods that they are purchasing, even benefitting from the "snob" value of overpaying for something simply because of the name or logo attaching to it. Compare this to the number of retailers that we see disappearing from our High Streets as they compete for the majority's hard earned.

Another example of a theme that we like is Cyber Security. The threat to government, industry and the "man in the street" of cyber-crime is ever-present and ever-growing. To invest in a sector which is essential as well as commercially strong has clear longer term viability (something that could arguably be repeated to include robotics and AI), whereas other newer "themes" that on the face of it appear interesting have immediately hit trouble, such as *"Uber and Lyft Stocks Hit Record Low" [Crunchbase October 1st]*, *"GrubHub shares plummeted 43% to their lowest level in 2.5 years. Delivery is a commodity — it doesn't matter where you get it from, it's the same (just like socks)" [Robinhood Snacks October 30th]*.

A theme that falls into this latter category for us is ESG. ESG stands for Environmental, Social and Governance and is a hot topic just about everywhere at the moment, and has been getting a lot of attention. And rightly so. But is it yet a theme that can reward investors as opposed to the population at large? Indeed, should it be allowed to? Surely ESG considerations transcend profit and all companies, regardless of sector or profitability, should follow their guidelines as to how they can comply. Is ESG important? Without hesitation, of course it is. Is it an investment opportunity? Not for us just now, and we're not convinced that it should be.

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