A Bird's Eye View
Sparrows Newsletter
December 2018

KEEP CALM
and
CARRY ON

Geopolitical events continue to dominate market moves as 2018 comes to a close.

The US administration's hostile approach to global trade has been a driver of the risk-off sentiment that prevailed through much of November and into December. Markets are increasingly concerned about the impact of a trade war on growth outside of the US, but also the ramifications for growth in the US as tariffs raise cost pressure for households and businesses.

The meeting between President Xi and President Trump at the end of November suggested some desire on both sides to de-escalate tensions; the market initially welcomed this news but later turned negative again as the hurdles to finding common ground became evident.

Market sentiment has been further unsettled in recent weeks by comments from FOMC members, including Chair J. Powell, culminating in the decision yesterday to continue the Federal Reserve's tightening path.

In December the S&P 500 Index has recorded its largest decline since March (-7.5%) on the back of a new wave of tensions between the US and China and weaker economic data from China. The oil price rose 3.3% after OPEC agreed in Vienna to cut output.

The S&P 500 VIX index has been at elevated levels, around 20, for most of this quarter (for reference during the 2007-2009 Global financial crisis the daily VIX peaked at around 80). Table 1 shows a comparison of daily averages of VIX close over the last quarter of 2008 compared with 2018.

	VIX Average Daily Close		VIX Average Daily Close
Sep-18	13	Sep-08	30
Oct-18	19	Oct-08	61
Nov-18	19	Nov-08	63
December to 18/12/2018	22	December to 18/12/2008	58

Table 1: Daily average VIX close Q4 2008 vs Q4 2018 comparison
Source: http://www.cboe.com/products/vix-index-volatility/vix-options-and-futures/vix-index/vix-historical-data

There is little to suggest that Brexit, or China-US tensions, will be resolved imminently and market volatility seems set to continue in the near term.

Sparrows Capital uses passive ETFs and Index Funds to assemble globally diversified multi asset portfolios matched to each client's individual risk profile. We look to harvest the long-term market returns associated with that profile.

Our disciplined approach uses rebalancing to ensure consistency of risk throughout the cycle. When, due to market fluctuations, a portfolio's risk allocation moves away from its intended weights by more than a predefined margin, we systematically effect trades to restore the intended risk exposure.

Despite the recent equity market volatility, monitoring of client portfolio for threshold breaches has not resulted in any rebalancing trades to date, as asset classes have broadly remained within their target ranges. Additionally, most clients have seen equity falls partially offset by fixed income gains.

It is important to remain invested across the full market cycle, and that means taking a calm and rational approach. The best way to achieve this is to sit back and enjoy the holiday season while Sparrows Capital monitors your portfolios and reacts dispassionately to the whims of news and market noise.

We wish all our readers Happy Holidays.

Raymond Backreedy

For more information on our philosophy, process or if you just want to challenge these observations, please get in touch.

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