www.blackfriarsam.com
client.service@blackfriarsam.com

BLACKFRIARS ASSET MANAGEMENT

DEVELOPING MARKETS INSIGHT

8th May 2019

Market summary

April continued the recent trend, with MSCI Emerging Markets showing its fourth consecutive positive month with a return of 2.1%. Of the 22 trading days, 15 were positive. This leaves GEM Equities with a return of 12.2% for the year.

EMEA was the best region, gaining 5.1%. The major drive came from South Africa's 7.9% advance. Naspers was boosted by the recovery in technology stocks, and thereby its holding in Tencent. Egypt was the best market, jumping 10%. A referendum result could mean President Sisi remains in power until 2030. Russia enjoyed crude oil's 6.4% rally (Brent blend), and improved 3.8%.

Asia was resilient, adding 1.8%. Taiwan enjoyed the recovery in sentiment towards technology stocks, with an improvement of 4%. China rose 2.2%, led by Tencent and Alibaba, these stocks have gained 23.3% and 35.4% respectively since the beginning of the year. Pakistan continued to suffer, shedding 3.7%. The country is in discussion with the IMF to secure a package to counter its balance of payments deficit.

Latin America was the laggard region, only adding 0.4%. Mexico was the only positive country. It improved 5.2%, boosted by Banco Santander's offer to buy out the minorities in its local subsidiary. Colombia was the worst market slipping 2.5%, basically profit-taking, as it remains the second best performer (+21.7%) in the asset class this year. Brazil was calm, losing 0.8%, still waiting on necessary pension reforms.

Technology was the best sector, adding 4.8%. The worst sector was Utilities, down 1.6%.

Argentina

Judging by Argentina's 19.7% leap in January of this year, it looked as though 2019 might be a repeat of 2018's table-topping 72.3% surge. However, the subsequent 26.2% slump is currently suggesting a different outcome. The problem is November's Presidential election, and the fear that incumbent Macri might not be re-elected. Recent opinion polls have him tied with former President Christina Kirchner; albeit with the caveat that many are undecided. Macri was elected in 2015, promising a reform of the tortured economy, which was riddled with subsidies and currency distortions. He succeeded in ending default hold-outs, unifying the currency, and even issuing a 100 year bond.

Unfortunately, inflation has remained high, and the IMF has intervened with a USD56bn package, the largest in history. The country is set to join the MSCI emerging equities index in May, with a weighting of approximately 0.3%. It will also remain in the Frontier-Emerging Index, with a weight of approximately 8%. The election is too close to call. If USA and China can resolve their trade dispute, this could help Macri. The 2019 soy harvest was plentiful; but farmers are sitting on crops, since the spat is causing a glut in grains. A resolution would lead to better prices, which, in turn, would help the peso, reduce inflation and improve the electorate's mood. Meanwhile the 100 year bond is down 17.3% this year, offering a yield to maturity of 10.7% in USD, if one waits until 2117.

*Returns are in US dollars, * MSCI EM Cap Weight Total Return Net Dividends Reinvested*

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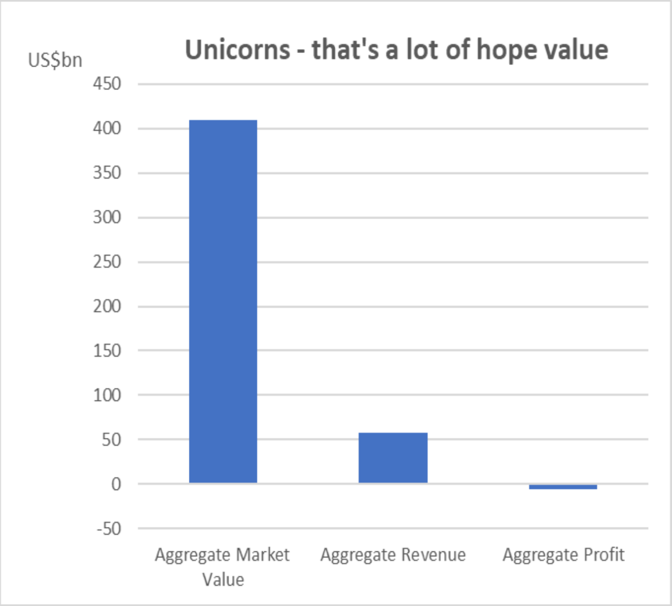
Money for nothing

I have been investing long enough to remember the dotcom boom (and bust) at the turn of the century. That was nearly twenty years ago and there is a whole cohort of fund managers who have entered the business since then (and possibly others whose memory is not what it could be). How else to explain the raft of recent IPOs attracting huge valuations for companies that are barely or un-profitable?

Company	Current Market Value US$m	Last Revenue US$m	Last Profit US$m
Uber	85,000	11,300	-3,000
Lyft	17,300	2,100	-911
Pinterest	16,700	775	-74
Zoom	17,700	330	8
Slack Tech	17,000	400	-140
Chewy.com	4,700	3,500	-268
WeWork	47,000	1,820	-1,900
Netflix	162,000	16,614	1,211
Tesla	42,000	21,461	-1,004
	409,400	**58,300**	**-6,078**



Uber's prospectus deciphered

On a lighter note, this is a precis of the Uber prospectus that appeared as a comment to an article in the FT

- We don't make money
- We probably will never make money
- Our current business relies on shareholders to fund cheap cab rides in the hope that regulators will let us become a monopoly and charge whatever we want but the regulators are not playing along
- We have therefore spent more money expanding into other low margin highly competitive activities like food delivery or trucking despite there being lots of specialist logistics firms so not obvious how we are going to make any money there either
- We hope in the future there will be driverless cars and that we can then make money because no drivers but other people are developing them too
- We have annoyed lots of regulators so we have lots of disputes and problems with regulators
- We don't pay much tax and have done lots of aggressive tax planning and so we have lots of disputes and problems with tax authorities
- We don't employ anyone (or we say we don't) but we have lots of de facto employees and so we have lots of disputes and problems with drivers and employment tribunals
- We don't actually own many assets because we managed to get our drivers to provide their own cars
- We have an app but other cab companies also have apps
- Current investors want to get out and so we hope you will buy some shares anyway because you have heard of us also we need more money to fund the businesses that don't make money
- We are expanding into more business lines that don't make money and we need more money to fund those
- We are really big and you have heard of us plus we say we are a tech disruptor so don't worry that we make no money it will all be great because you will be an Uber investor

AL, BR & TH