OLIVAR & GREB
CAPITAL MANAGEMENT

Client Note: August 2018

Market Overview:

The first half of 2018 has been characterized primarily by strength in the US tech market, and weakness elsewhere. The following table shows the year-to-date returns for several indices. This article will outline the current environment in several of these markets, featuring a stock in each, to better understand reasons for the market fluctuations, as well as future outlook.

Indices	YTD Return
Chinese Stock Market:	-21.08%
Goldminer Index:	-20.45%
Latin American Market:	-14.43%
Emerging Markets:	-9.66%
UK Stock Market:	-4.85%
US Stock Market:	**6.64%**

Chinese Stock Market:

Throughout 2018, we've seen escalating rhetoric about a potential trade war between China and the US. Each side has proposed larger and larger tariffs against the other, and as of yet, the two sides don't appear particularly close to resolving their differences.

In reality, both sides have too much to lose if this trade war continues to intensify. Looking back in history, global tariffs enacted in 1930 played a major role in causing the 1930s Great Depression, an outcome China nor the US can afford. While Trump is notorious for bluffing to get a better deal, a brief look at his Twitter feed shows that he's obsessed with economic figures and how the stock market is doing. For these reasons, we view this as a short-term issue that will likely be resolved without too much economic damage.

Combining this political friction with slower economic output and a weaker currency, Chinese shares have slipped into correction territory: -21% YTD.

Featured Chinese Stock: JD.com

While trade war issues matter little to JD's actual business, they have contributed to a lagging share price for the year. Geopolitics aside, JD stock also slipped as EPS and revenue came in below expectations. A closer look shows that growth rates remain strong at over 30%, and the revenue issue is as a result of the Yuan. Should the Yuan keep slipping, it will continue to appear as though JD's revenue growth rate is decelerating, and continue to dampen the valuation in the short-term.

As for concerns over profitability, many analysts and investors appear misguided. While JD's core retail business is profitable, their CEO frequently emphasizes that he does not intend to generate major profits during the current growth cycle. JD has made no secret of its intention to closely imitate Amazon. Investors, who ignored Amazon's limited profitability in its early stages, have made a fortune over the years. While there's no guarantee that JD can closely match Amazon's success, they are certainly one of the most dynamic and promising tech companies on the scene today. Investing in China is risky, especially as emerging markets are in a tailspin, but patient investors will likely be rewarded.

Latin American Stock Market:

Argentina continues to tumble, sending much of Latin America with it. The Peso, which started the year at 20 to the USD, crossed 33 at the time of writing, a staggering 8% loss today alone. With a 45% benchmark interest rate, it has become nearly impossible to buy property, start a business, and engage in other productive economic activity in the region. To try and fight rapid inflation, Argentina is throwing its reserve of dollars at the market trying to stabilize the currency, while jacking up interest rates to attract capital. However, without fundamental economic reforms, these emergency measures historically end up failing. Combine this with countless corruption scandals, and it's easy to see why the country and much of the continent are in a downturn.

Featured Latin American Stock: Despegar.com Corp (DESP)

Travel Company Despagar.com shouldn't be hit nearly as hard compared to economically sensitive stocks (such as banks), and yet investors are selling everything related to Argentina. A closer look shows that DESP's business is continuing along well, with transactions rising 18%, and other metrics continuing along trend. What went wrong was that revenue was only up 4%, since consumers, given difficult economic conditions in Argentina and Brazil, traded down to cheaper vacations. Thus, even while transaction growth was strong, it didn't funnel down to revenues or profits. The key point is that in this environment the overall industry contracted, thus leading Despegar.com to take aggressive market share gains. For a long-term investor who can weather a downturn, this is exactly what you want to see. The company remains profitable and with a strong balance sheet, however until sentiment shifts will likely remain at a depressed valuation.