global matters weekly

momentum

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Staying out of the rough

by Michael Clough

The past week was an exciting one for golf fans around the world. Normally, by this time of year, all four of golf's major tournaments have been played and people like me must find alternative entertainment until the following April when the Masters tournament comes back around. This year has obviously been far from normal and the Covid pandemic meant the US Open, normally held in June, was pushed back to a late summer week in September. The US Open is regularly dubbed the 'toughest test in golf'. One of the reasons is long, thick grass (known as rough) which sits unsettlingly closely to the finely manicured fairways, punishing any marginally errant shot. Within equities, growth exposure has been the equivalent of finding the fairway this year, whilst sole exposure to value has been akin to hacking through the deep rough.

> *"never lose sight of the fundamentals"*

Behavioural aspects and emotion are always present at any level in golf. A golfer who sees competitors pulling away might become far more risk seeking, leading them to attack flags they ordinarily might not, which can bring danger into play. Regardless of the emotion, it is important to never lose sight of the fundamentals. For the golfer, that's their grip on the club, their posture or ball position in their stance. All three are often reasons for poor shots, admittedly along with a long list of technical reasons too. For us investors, we should never lose sight of the fundamentals either. It can be easy to blindly follow the crowd or chase fashionable momentum stocks that have led the market higher. Such behaviour is dangerous and can come back to bite. Instead, investors should rationally assess the prevailing economic environment and not be afraid to go against the grain.

> *"it is crucial not to compound mistakes"*

In any sport at the highest level it is crucial not to compound mistakes. Doing so is a sure-fire way to end up with a sub optimal result. Top level golfers don't just turn up to the first tee with a caddie by their side and take it from there. They will have played practice rounds in advance, taken notes on undulations, understood where the good misses are and where simply not to hit it. They have a process to fall back on if things don't go their way. Unfortunately, we don't have opportunities for 'dry-runs' when investing but we have our risk management processes to rely on. Scenario analysis, or modelling expected returns over a horizon using current allocations and a set of market variables, is a practice we adopt and is a useful tool for understanding risk exposures. Similarly, regularly reviewing attribution provides a deeper understanding of where, and in what quantity, risks are in portfolios relative to strategic asset allocations.

> *"we have our risk management processes to rely on"*

The world's best golfers are laser-focused on their objectives. Tiger Woods arguably did this better than any other sportsman in his prime. He wasn't going to let crowd noise distract him from winning championships. As investors there is so much information available to us today from so many sources. Filtering the truly valuable information from the noise allows investors to focus on what really matters and that is certainly a prerequisite for making sensible decisions.

> *"Filtering the truly valuable information from the noise allows investors to focus on what really matters"*

Winners in golf are determined over four rounds, not just after playing one great round. As investors, of course we deal with different horizons but the message is the same. At Momentum, we focus on the long term, remain committed to the fundamentals and stick to our processes. That's how we seek to keep our client's portfolios on course and out of the rough.

Market Focus

- Global Covid-19 infections exceed 30 million with the global death toll approaching 1 million.
- A mixed week saw global equities ending the week flat
- Brent crude rose 8.3% to $43.2 a barrel
- Gold rose 0.5% to 1950.9 per ounce

US

- Weekly initial jobless claims up to 12th September came in at 860k vs. 850K expected
- U.S. competition enforcers are said to be preparing a possible antitrust lawsuit against Facebook
- The Fed funds rate remains unchanged at near zero and the central bank announced it will remain so until at least 2023 and an average of 2.0% inflation is reached and stabilized
- The Federal Reserve started a second round of Wall Street stress tests and is considering extending the unprecedented constraints on dividend payments and share buybacks it imposed on the U.S.'s biggest banks
- US equities fell -0.6% last week but value stocks and small caps outperformed

Europe

- The EU is set to sell EUR 225 bn of green bonds as part of the pandemic recovery fund. This will constitute ~30% of the EUR 750 bn rescue package
- European car sales fell by 18% in August, dashing hopes that the industry was starting to recover from the pandemic and suggesting that the market could remain depressed through year-end
- ECB Vice President Luis de Guindos says Europe economy to see significant rebound in Q3 and European policy makers should continue to offer fiscal and monetary stimulus for as long as their economies are suffering the impact of the coronavirus pandemic
- European equities ended the week flat

UK

- The Bank of England's Monetary Policy Committee voted unanimously to hold interest rates at an all-time low of 0.1% and left the level of quantitative easing at £745bn
- The MPC has been briefed on the Bank of England's plans to explore how a negative Bank rate could be implemented effectively and the operational challenges that this would present
- Democratic presidential nominee Joe Biden said a UK-U.S. trade agreement depends on the continued respect for the Northern Ireland peace process
- UK equities declined by -0.5% last week
- The UK government said a round of informal EU trade talks last week were "useful," as European Commission President Ursula von der Leyen told the Financial Times she's "convinced" a deal is possible

Rest of the World/Asia

- The Bank of Japan announced it was keeping long and short-term interest rates unchanged in an effort to reach their 2.0% inflation target
- Japanese equities rose +0.6%
- Chinese equities rose +1.8% after two weeks of losses on the back of retail sales rising 0.5% and industrial production rising 5.6%

Past performance is not indicative of future returns.
Source: Bloomberg, returns in local currency unless otherwise stated.

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Asset Class / Region	Currency	Cumulative returns Week ending 18 September	Month to date	YTD 2020	12 months
Developed Markets Equities					
United States	USD	-0.6%	-5.1%	4.0%	11.9%
United Kingdom	GBP	-0.5%	0.9%	-20.1%	-16.8%
Continental Europe	EUR	0.0%	1.3%	-5.9%	0.2%
Japan	JPY	0.6%	1.7%	-3.0%	5.1%
Asia Pacific (ex Japan)	USD	1.5%	-0.2%	4.4%	14.0%
Australia	AUD	0.1%	-2.9%	-11.7%	-9.4%
Global	USD	0.0%	-3.5%	1.9%	9.4%
Emerging Markets Equities					
Emerging Europe	USD	-0.5%	-3.4%	-25.6%	-17.8%
Emerging Asia	USD	1.9%	0.7%	9.6%	21.8%
Emerging Latin America	USD	0.0%	1.8%	-31.5%	-25.5%
BRICs	USD	1.4%	-0.9%	3.7%	15.1%
China	USD	1.8%	-1.9%	16.9%	29.1%
MENA countries	USD	1.7%	2.7%	-7.3%	-2.1%
South Africa	USD	-0.5%	1.9%	-19.6%	-15.8%
India	USD	0.2%	0.8%	-8.2%	3.7%
Global emerging markets	USD	1.6%	0.7%	0.8%	11.0%
Bonds					
US Treasuries	USD	-0.2%	0.1%	9.2%	9.2%
US Treasuries (inflation protected)	USD	0.0%	-0.5%	9.5%	10.7%
US Corporate (investment grade)	USD	0.1%	0.4%	7.2%	9.6%
US High Yield	USD	0.1%	-0.2%	1.4%	3.7%
UK Gilts	GBP	0.0%	2.0%	9.3%	5.8%
UK Corporate (investment grade)	GBP	0.2%	1.2%	5.8%	6.0%
Euro Government Bonds	EUR	0.3%	1.0%	3.4%	0.9%
Euro Corporate (investment grade)	EUR	0.1%	0.5%	1.0%	0.7%
Euro High Yield	EUR	0.1%	0.5%	-1.6%	-0.3%
Japanese Government	JPY	0.0%	0.4%	-0.9%	-2.0%
Australian Government	AUD	0.2%	0.6%	4.0%	2.8%
Global Government Bonds	USD	0.5%	0.4%	8.0%	7.4%
Global Bonds	USD	0.4%	0.2%	7.1%	7.5%
Global Convertible Bonds	USD	0.7%	-1.0%	12.2%	16.7%
Emerging Market Bonds	USD	-1.0%	-0.6%	2.7%	6.1%

Source: Bloomberg. Past performance is not indicative of future returns.

		Cumulative returns			
Asset Class / Region	Currency	Week ending 18 September	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	-0.1%	-2.1%	-16.1%	-16.7%
Australian Property Securities	AUD	1.8%	-0.8%	-18.6%	-19.1%
Asia Property Securities	USD	1.4%	0.2%	-15.5%	-11.0%
Global Property Securities	USD	0.8%	-0.9%	-15.3%	-12.2%
Currencies					
Euro	USD	0.2%	-0.7%	5.8%	7.3%
UK Pound Sterling	USD	1.3%	-3.2%	-1.3%	3.8%
Japanese Yen	USD	1.7%	1.4%	4.3%	3.6%
Australian Dollar	USD	0.6%	-1.0%	4.5%	6.8%
South African Rand	USD	3.0%	4.2%	-13.4%	-10.0%
Swiss Franc	USD	0.0%	-0.7%	6.5%	9.4%
Chinese Yuan	USD	1.0%	1.2%	3.2%	4.7%
Commodities & Alternatives					
Commodities	USD	3.8%	-1.1%	-17.6%	-14.1%
Agricultural Commodities	USD	2.8%	3.1%	0.4%	8.7%
Oil	USD	8.3%	-4.7%	-37.0%	-32.2%
Gold	USD	0.5%	-1.1%	28.8%	29.3%
Hedge funds	USD	0.5%	0.0%	1.8%	4.7%

Source: Bloomberg. Past performance is not indicative of future returns.

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Important notes