globalmatters Weekly

momentum
global investment management

Stocking fillers for your portfolio

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It's that time of year again where Mariah Carey and Michael Bublé are defrosted for their annual appearances, Coca-Cola's Christmas truck graces our cities, and sock sales men and women are awoken from their slumber. What a wonderful time of the year.

One would be forgiven for not celebrating this year's misery in markets with profit warnings aplenty due to rampant inflation, rising interest rates, and plunging consumer confidence. There is light at the end of the tunnel however, with growing belief that we have seen 'peak rates,' along with encouraging inflation data.

With the future looking that little bit brighter, where should you look to spread Christmas cheer to your investment portfolio? These portfolio stocking fillers will hopefully bring you joy over the next few years.

UK equities are trading at a wide discount to their long run-average on a price-to-book(P/B)ratio basis, as well as trading at a similar level to the aftermath of the GFC on a cyclically adjusted price-to-earnings ratio. The valuation gap is more apparent in the mid-cap space, where the FTSE 250 is trading on a c.20% discount to its 5-year average P/B ratio despite boasting a higher forecast return on equity than it has typically earned and whilst yielding 4.3%. Momentum's own direct UK equity portfolio would probably be Santa's choice of exposure to this opportunity, as it has an even better Return on Equity than the FTSE 250 despite being on a lower P/B rating – all whilst yielding closer to 5%!

Another Great British stocking filler is the world of listed investment trusts. Despite enjoying a recent rally thanks to the drop in bond yields, listed real estate, infrastructure and private equity investment trusts are still trading on wide discounts to their Net Asset Value. Investment trust valuations are currently a "once in a generation" opportunity according to my colleague, Richard Parfect who detailed in his most recent blog Global Matters Weekly: Use it or lose it | (momentum.co.uk). Investment trusts have recently been the subject of tedious cost disclosure regulatory guidance, of which Richard and Momentum have been a leading force in the fight against such measures that unfairly punish those allocating towards investment trusts. With a solution getting nearer and the issue being debated in the House of Lords soon, the opportunity in investment trusts may be like the hot toy at Christmas, disappearing quicker than you think.

The final stocking filler is like that one distant relative you see at Christmas time, a bit boring. Although a discussion around government bonds usually requires something stronger than a Buck's Fizz to get through, there is a valid argument now we may be at 'peak rates' to increase the duration of a portfolio's fixed income exposure. Duration is an indicator of how sensitive a bond is to interest rates, and as interest rates fall, bond prices increase – offering a capital gain opportunity. Longer maturity bonds have a higher duration, which means these bonds will be most sensitive to a fall (or rise) in interest rates, which could provide an excellent opportunity if we really are at 'peak rates'.

> There is light at the end of the tunnel, with growing belief that we have seen 'peak rates'

Sources: All data is sourced Bloomberg Finance L.P., Momentum Global Investment Management.

Market Focus - 20 November 2023

- Global equities rose 3% last week
- US President Joe Biden met China's President Xi Jinping in California, with the US President stating that the talks were "some of the most constructive and productive discussions we've had"
- Brent crude fell 1.0% last week to $80.61 per barrel
- Gold rose 2.1% to $1980.20 per ounce

US

- US equities rose 2.3% last week
- Consumer Price Index (CPI) for October came in at 0% (vs 0.1% expected), lower gasoline costs were a big part of the reduction, falling -5% on the month
- Jobless claims rose to 231,000 (vs 220,000 expected)
- US Congress averted a government shutdown by passing a temporary spending bill until mid-January 2024
- Industrial production for October fell 0.6% (vs -0.4% expected)

UK

- UK equities rose 2% last week
- CPI slowed more sharply than expected to a two-year low of 4.6% (vs 4.7% expected)
- Retail sales fell to their lowest level since February 2021, declining 0.3% in October (vs a 0.3% increase expected)
- Average annual growth in earnings (excluding bonuses) was 7.7% in Q3, down from a peak of 7.9% two months earlier

Europe

- European equities rose 3% last week
- Industrial production in the Eurozone fell 1.1% on the month compared to the 0.6% increase the previous month
- The unemployment rate in France rose to 7.4% in Q3 vs (7.3% expected), leaving the number of unemployed people at its highest level in two years
- In Germany, the Federal Constitutional Court ruled that €60bn from unspent COVID-19 funds could not be moved into an off-budget Climate Fund

Rest of the World/Asia

- Global emerging market equities rose 3% last week
- Japanese equities rose 2.3% last week
- Chinese equities rose 1.3% last week
- In China, industrial output grew 4.6% year-on-year in October (vs 4.5% expected), while retail sales advanced 7.6% (vs 7% expected)
- Japan's economy shrank at its fastest annualised quarterly pace in two years, contracting 2.1% (vs -0.4% expected) in Q3
- Exports in Japan rose 1.6% on the year (vs 1.0% expected), while imports slipped -12.5% (vs -12.8% expected)

Market Summary - 20 November 2023

		Cumulative returns			
Asset Class / Region	Currency	Week ending 17 November	Month to date	YTD 2023	12 months
Developed Markets Equities					
United States	USD	2.3%	7.7%	18.8%	15.7%
United Kingdom	GBP	2.0%	2.8%	4.3%	6.0%
Continental Europe	EUR	3.0%	5.8%	11.6%	10.3%
Japan	JPY	2.3%	6.1%	29.4%	24.7%
Asia Pacific (ex Japan)	USD	2.9%	6.2%	1.4%	4.1%
Australia	AUD	1.4%	4.4%	4.2%	3.0%
Global	USD	3.0%	7.9%	16.4%	14.9%
Emerging Markets Equities					
Emerging Europe	USD	5.0%	7.0%	24.9%	38.9%
Emerging Asia	USD	2.8%	6.2%	3.0%	5.6%
Emerging Latin America	USD	4.5%	12.5%	20.9%	21.7%
BRICs	USD	1.8%	4.3%	-0.8%	4.3%
China	USD	1.3%	2.6%	-9.0%	-0.3%
MENA countries	USD	1.9%	4.6%	0.7%	-4.8%
South Africa	USD	4.8%	8.2%	-4.3%	-2.7%
India	USD	1.6%	3.5%	9.4%	6.6%
Global emerging markets	USD	3.0%	6.7%	4.5%	6.4%
Bonds					
US Treasuries	USD	1.0%	2.6%	0.1%	0.4%
US Treasuries (inflation protected)	USD	0.8%	2.2%	0.4%	1.0%
US Corporate (investment grade)	USD	1.6%	4.0%	2.6%	3.8%
US High Yield	USD	0.9%	3.0%	7.8%	8.2%
UK Gilts	GBP	1.9%	3.8%	-1.0%	-5.6%
UK Corporate (investment grade)	GBP	1.8%	3.6%	4.7%	3.3%
Euro Government Bonds	EUR	1.1%	2.1%	2.5%	-1.4%
Euro Corporate (investment grade)	EUR	0.8%	1.4%	4.2%	3.6%
Euro High Yield	EUR	0.7%	1.7%	7.6%	8.2%
Japanese Government	JPY	0.7%	1.8%	-0.4%	-2.4%
Australian Government	AUD	1.0%	2.6%	1.1%	-0.7%
Global Government Bonds	USD	1.9%	3.6%	-1.2%	-0.6%
Global Bonds	USD	2.0%	3.9%	0.9%	1.7%
Global Convertible Bonds	USD	2.6%	4.5%	2.8%	3.5%
Emerging Market Bonds	USD	1.7%	4.0%	2.2%	4.7%

		Cumulative returns			
Asset Class / Region	Currency	Week ending 17 November	Month to date	YTD 2023	12 months
Property					
US Property Securities	USD	3.8%	7.2%	-0.5%	-1.6%
Australian Property Securities	AUD	3.9%	11.8%	3.1%	0.8%
Asia Property Securities	USD	3.0%	4.9%	-9.8%	-6.3%
Global Property Securities	USD	4.2%	8.2%	-0.7%	-0.2%
Currencies					
Euro	USD	2.0%	3.0%	1.7%	5.2%
UK Pound Sterling	USD	1.8%	2.4%	2.8%	5.1%
Japanese Yen	USD	1.2%	1.2%	-12.5%	-6.3%
Australian Dollar	USD	2.3%	2.6%	-4.6%	-2.6%
South African Rand	USD	2.1%	1.8%	-7.2%	-5.4%
Swiss Franc	USD	1.8%	2.6%	4.0%	7.5%
Chinese Yuan*	USD	1.1%	1.4%	-4.4%	-0.7%
Commodities & Alternatives					
Commodities	USD	0.6%	-2.0%	-2.6%	-2.9%
Agricultural Commodities	USD	0.9%	1.1%	1.9%	2.6%
Oil	USD	-1.0%	-7.8%	-6.2%	-10.2%
Gold	USD	2.1%	-0.2%	8.6%	12.5%

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

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