

weekly

Percy's not a pig

by Alex Harvey, CFA

A little over a fortnight ago history was repeated when NASA's Jet Propulsion Laboratory (JPL) successfully landed a rover on the Martian surface. After a near seven-month journey across 300 million miles of space, at a gentle cruising speed of nearly 25,000mph, the rover touched down on 18th February. Perseverance – or Percy for short – was lowered on to the surface by a sky crane, like its cousin Curiosity in 2012, in a feat of incredible human engineering. Of the now five successful JPL rover landings (yes, five!), this was the most accurate ever and was enabled through the experience gleaned over previous rover missions. [If you want to see the landing in real time from the onboard cameras see the link in the footnote¹. It is remarkable to watch and with probably better resolution than my phone].

Believe it or not, there are similarities in what we do here at Momentum to what the rocket scientists do in Pasadena. We talk at length with clients about our outcome-based investment philosophy and how we build portfolios that are designed to make the journey as palatable as possible, enabling clients to stay the course. We hope not to subject them to the heavy G-force associated with space travel and do our best to smooth the client experience. We recognise that investing, like space travel, is not without hazards and occasionally, despite best efforts to navigate a comfortable journey, a shower of space junk (let's call it Covid-19) can throw you temporarily off course. We build safeguards into portfolios to help mitigate any loss of control with gold, treasuries, cash and alternatives all going some way to help smooth the rough edges. However, sometimes they might fail to fire – individually or together – and a combination (of diversifiers) is likely to do a better job of stabilising the module ahead of the next part of the journey.

Beyond the comfort factor, time is an important consideration. You don't want to be getting off at the mid-way point to Mars in the same way you may not want to exit a four-year strategy following a sell off two years in. The perils of jumping ship at that point may be less hazardous to an investor's health than for Nasa's passengers, but both are likely to feel disappointment, and neither will catch up with their fellow passengers who stayed on board.

Eventually the destination will be within sight (of a telescope perhaps). I've used the analogy several times recently that we as investment managers want to bring our clients as close to

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the proverbial 'X marks the spot' as we can. If we do that, whilst minimising the downside risk, we will have done our jobs well. But it doesn't happen by accident and like the teams at the JPL there is a lot of modelling and fine tuning to help align our strategies to that landing zone as their journey progresses. Percy's parachute certainly helped in ensuring the accuracy of the landing and whilst there are no power lines on the Martian surface in which to get entangled (and please keep it that way, Mr Musk), the risk of overshooting the planet altogether or crashing into the surface in a fiery descent are very real possibilities.

Turning the space exploration and investment analogy on its head for a moment, the tail risk for the former is success; so many things can go wrong, and you don't have the luxury of time to put them right. With an outcomes-based investment approach, the tail risk is failing to hit the target landing zone; time is the one constant you do have on your side and so many things can go right if you just let it. The recent success of the value investing style is a good example of how important it is to persevere with a strategy in which others have long lost faith, and let's not forget the rover named 'Value' has had several successful landings before. Success is never guaranteed, but perseverance brings with it the opportunity to learn from prior experience, make marginal improvements to previously less successful attempts, and build faith in a process. Crucial to the success that comes with perseverance is time. Without it, Percy isn't worth his bacon.

¹https://upload.wikimedia.org/wikipedia/commons/0/0d/Perseverance_Rover%27s_Descent_and_Touchdown_on_Mars_Onboard_Camera_Views_.webm

Market Focus

- » Global equities ended the week relatively flat, returning +0.1%.
- » The US Senate has passed President Biden's \$1.9trillion Coronavirus stimulus package.
- » Brent crude rose by +4.9% to \$69.4 a barrel.
- » Gold fell -1.9% to \$1700.6 per ounce

US

- » US equities rose +0.8% last week. Energy and bank stocks outperformed with technology and consumer discretionary stocks underperforming.
- » President Biden is on the brink of his first legislative win since taking office with the House ready to pass his \$1.9trillion Coronavirus relief plan. The senate passed the legislation on a 50-49 vote on Saturday. It is set to be the second biggest economic stimulus package in U.S. history.
- » The February employment report showed nonfarm payrolls increased by 379K (versus 200K expected), taking the unemployment rate down to 6.2%. Most of the gains were in the leisure and hospitality industries.
- » The US treasury 10-year yield rose for a fifth consecutive week as the selloff in US rates continued. Yields rose by +16.1bps to 1.56%. The 2y10y yield curve also moved to its steepest level since November 2015.

Europe

- » European equities returned +0.5% last week.
- » German factory orders for January rose by +1.4% (versus 0.5% expected).
- » Italian retail sales for January fell by more than expected at -3.0% (versus -0.5% expected).
- » The European Banking Authority became the latest high-profile victim of a hacking group purported to be backed by the Chinese government on Microsoft's business email software, which risks becoming a global cybersecurity crisis.
- » Italy blocked 250K doses of the Oxford/AstraZeneca vaccine from going to Australia. France also suggested they might also block further vaccine exports outside of the bloc leading to fears of reprisals.

Rest of the World/Asia

- » The benchmark Global Emerging Markets index returned +0.1% last week
- » Japanese equities returned +1.7% last week
- » Saudi Arabia reported a missile attack on its largest and most protected crude oil facility on Sunday sending oil prices higher though not affecting output.
- » Chinese exports were up 60.1% year-on-year (versus 40.0% expected) and imports were up 22.2% year-on-year (versus 16% expected) up to the end of February.
- » The February manufacturing PMI for Japan rose to 51.4 from 49.8 in January tipping into expansionary territory. This represents the first time the sector grew in almost two years. The services PMI saw a modest increase to 46.3 from 46.1 over the same period.

UK

- » UK equities returned +2.6% last week.
- » Chancellor Rishi Sunak announced further fiscal stimulus in his annual budget last week, pledging £65bn of additional spending and a tax break on business investment.
- » UK gilts returned +0.7% last week.
- » The Office for Budget Responsibility projected that the UK economy would recover and return to its normal size earlier than expected.
- » The UK furlough scheme has been extended to the end of September.
- » UK corporation tax is set to rise to 25% (from 19% currently) in 2023.

Asset Class / Region	Currency	Cumulative returns			
		Week ending 05 March	Month to date	YTD 2021	12 months
Developed Markets Equities					
United States	USD	0.8%	0.8%	2.5%	28.6%
United Kingdom	GBP	2.6%	2.6%	3.7%	0.3%
Continental Europe	EUR	0.5%	0.5%	1.6%	11.0%
Japan	JPY	1.7%	1.7%	5.1%	28.1%
Asia Pacific (ex Japan)	USD	-0.2%	-0.2%	4.7%	34.2%
Australia	AUD	1.1%	1.1%	2.9%	7.9%
Global	USD	0.1%	0.1%	1.7%	26.4%
Emerging Markets Equities					
Emerging Europe	USD	1.5%	1.5%	0.4%	3.4%
Emerging Asia	USD	-0.3%	-0.3%	5.0%	39.3%
Emerging Latin America	USD	2.3%	2.3%	-7.4%	-2.3%
BRICs	USD	-0.1%	-0.1%	3.4%	28.5%
China	USD	-1.6%	-1.6%	4.6%	34.7%
MENA countries	USD	0.1%	0.4%	5.2%	14.4%
South Africa	USD	2.7%	2.7%	8.6%	24.1%
India	USD	3.8%	3.8%	6.8%	35.6%
Global emerging markets	USD	0.1%	0.1%	3.9%	31.6%
Bonds					
US Treasuries	USD	-0.4%	-0.4%	-3.8%	-2.3%
US Treasuries (inflation protected)	USD	-0.5%	-0.5%	-2.1%	4.1%
US Corporate (investment grade)	USD	-1.6%	-1.6%	-4.5%	0.2%
US High Yield	USD	-0.2%	-0.2%	0.5%	8.2%
UK Gilts	GBP	0.7%	0.7%	-6.5%	-4.4%
UK Corporate (investment grade)	GBP	0.5%	0.5%	-4.0%	1.5%
Euro Government Bonds	EUR	0.1%	0.1%	-2.4%	-1.0%
Euro Corporate (investment grade)	EUR	0.2%	0.2%	-0.7%	1.0%
Euro High Yield	EUR	0.1%	0.1%	1.2%	4.8%
Japanese Government	JPY	0.8%	0.8%	-0.5%	-2.3%
Australian Government	AUD	0.5%	0.5%	-4.6%	-4.6%
Global Government Bonds	USD	-0.9%	-0.9%	-4.6%	0.2%
Global Bonds	USD	-1.0%	-1.0%	-3.8%	1.7%
Global Convertible Bonds	USD	-2.8%	-2.8%	0.1%	24.5%
Emerging Market Bonds	USD	-1.3%	-1.3%	-6.7%	-3.6%

Asset Class / Region	Currency	Cumulative returns			
		Week ending 05 March	Month to date	YTD 2021	12 months
Property					
US Property Securities	USD	-0.1%	-0.1%	3.9%	-2.7%
Australian Property Securities	AUD	2.8%	2.8%	-4.6%	-14.9%
Asia Property Securities	USD	-1.9%	-1.9%	4.7%	-2.6%
Global Property Securities	USD	-0.7%	-0.7%	1.8%	-2.3%
Currencies					
Euro	USD	-1.4%	-1.4%	-2.6%	6.2%
UK Pound Sterling	USD	-0.9%	-0.9%	1.3%	6.8%
Japanese Yen	USD	-1.5%	-1.5%	-4.6%	-1.9%
Australian Dollar	USD	-0.6%	-0.6%	-0.3%	16.3%
South African Rand	USD	-1.4%	-1.4%	-4.6%	1.6%
Swiss Franc	USD	-2.3%	-2.3%	-5.0%	1.8%
Chinese Yuan	USD	-0.4%	-0.4%	0.5%	6.8%
Commodities & Alternatives					
Commodities	USD	1.7%	1.7%	15.7%	21.9%
Agricultural Commodities	USD	-0.1%	-0.1%	9.4%	36.7%
Oil	USD	4.9%	4.9%	33.9%	38.7%
Gold	USD	-1.9%	-1.9%	-10.2%	2.0%
Hedge funds	USD	-0.4%	-0.4%	1.1%	8.4%

For more information, please contact:

Anastasiya Volodina
Distribution Services

E: distributionservices@momentum.co.uk

T: +44 (0)207 618 1806

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