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Weekly

momentum
global investment management

Football versus Soccer

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The city has been abuzz with chatter recently after a very public, scathing attack on the unfriendliness of the UK stock market to new listings. Although the comments could be seen as an ego-massaging exercise to divert attention away from a floundering business, therein lies some truth that the UK stock market is evidently less attractive than our cousins across the pond.

The UK government is desperately trying to stem the bleed of British businesses favouring the US, with UK Prime Minister Rishi Sunak encouraging a relaxation of the London Stock Exchange's listing rules. Over-regulation of the markets has contributed to London's decline as a financial powerhouse, and despite Mr. Sunak's lobbying for de-regulation, little has been done to date.

The allure of looser regulation is not the only thing tempting businesses to make the transatlantic trip, it is the valuations they can achieve with a US listing versus the UK. The US has seen a decade of immense wealth creation, with the number of new Initial Public Offerings (IPO) reaching all-time highs in both 2020 and 2021[1] as a result of founders and private capital cashing in on lunatic valuations. Some businesses, such as DoorDash, achieved a whopping 11x sales multiple on its IPO that rocketed to 21x upon its stock market debut. Did I mention DoorDash hasn't turned a profit yet and lost $1.2 billion last year?

Although in the last 12 months, a reality has dawned on many investors which has tempered such irrational exuberance, it does not hide the fact that the US can still be a much more attractive place for companies to list that have significant operations in the country and want to achieve a richer valuation for their private backers. The darling of British innovation, ARM, is seeking a US listing, and is it any wonder why when the NASDAQ trades at a Price-to-Earnings ratio of 25x versus a measly 11x for the FTSE 100. But what can the UK do? De-regulation can only go so far, and the ever-increasing depth of the US market commanding high valuations will only serve to further compound the problem of businesses choosing a new home stateside.

Although low valuations in the UK may dissuade new listings, it can also offer the opportunity to acquire high-quality businesses at a discount. The FTSE 250 trades on a Price-to-Book ratio of 1.4x versus its 10-year average of 2.0x, signalling that many UK companies (and in particular mid-caps) are an undervalued opportunity, one we are taking advantage of with a significant allocation within our multi-asset portfolios. Such opportunity has not gone unnoticed by private equity in their well-documented 'raid on corporate Britain'. Time will tell whether irrational exuberance will lead to unjustifiably high valuations of unprofitable, non-cash generative businesses again, but for now, some CEOs ought to focus on turning a profit rather than rueing what could have been.

...many UK companies (and in particular mid-caps) are an undervalued opportunity...

Sources: [1]Statista.com, Unless stated, all sources are Bloomberg Finance L.P.

Market Focus - 24 April 2023

- **Global equities returned -0.1% last week**
- **Last week saw a significant decline in commodity prices as growing headwinds for the US economy spurred fears of a downturn**
- **Brent crude fell by -5.4% to $81.66 per barrel**
- **Gold fell by -1.1% to $1983.06 per ounce**

US

- US equities fell 0.1% last week
- The composite flash Purchasing Managers' Index (PMI) for April came in above expectations at 53.5 vs. 51.2 expected
- Weekly initial jobless claims surprised on the upside for a fourth consecutive week, coming in at 245k for the week ending 15 April (vs. 240k expected)
- Housing starts decelerated in March, falling to an annualised rate of 1.42 million (vs. 1.4 million expected), with building permits also falling back to 1.413 million (vs. 45 million expected)
- Existing home sales surprised on the downside at an annualised rate of 4.44 million vs. 4.5 million expected
- The Philadelphia Federal Reserve's manufacturing business outlook survey for April fell to a new low at -31.3 vs. -19.3 expected
- The Conference Board's leading index for March also declined by a larger-than-expected -1.2% vs. -0.7% expected

UK

- UK equities returned 0.5% last week
- Consumer Price Index (CPI) fell to 10.1% in March vs. 9.8% expected. Core inflation was also above expectations at 6.2% vs. 6.0% expected.
- Growth in average total pay was up 5.9% (vs. 5.1% expected) over the three months to February, compared to the year prior. The data added to fears that inflation would prove more persistent and that the Bank of England would need to hike rates further

Europe

- European equities returned 0.5% last week
- The European Commission's consumer confidence indicator for the Euro Area climbed to a 14-month high of -17.5 vs. -18.5 expected
- German Producer Price Index inflation fell back to 7.5% year-on-year in March, the lowest year-on-year rate since May 2021
- The composite flash PMI for April beat expectations at 54.4 vs. 53.7 expected

Rest of the World/Asia

- Global emerging market equities returned -2.0% last week
- Japanese equities rose by 0.8% last week
- In Canada, CPI inflation declined to 4.3%
- Exports in Japan rose 4.3% year-on-year in March, down from growth of 6.5% in February, mostly driven by a drop in China-bound shipments
- Japan's headline CPI fell to 3.2% in March, however the core measures continued to accelerate faster than expected

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

Market Summary

Asset Class / Region	Currency	Week ending 21 April	Month to date	YTD 2023	12 months
		Cumulative returns			
Developed Markets Equities					
United States	USD	-0.1%	0.6%	8.0%	-4.8%
United Kingdom	GBP	0.5%	4.1%	7.4%	7.8%
Continental Europe	EUR	0.5%	2.6%	12.8%	6.2%
Japan	JPY	0.8%	1.6%	8.9%	8.5%
Asia Pacific (ex Japan)	USD	-1.9%	-1.1%	3.0%	-5.9%
Australia	AUD	-0.4%	2.1%	5.7%	1.0%
Global	USD	-0.1%	1.2%	9.0%	-3.0%
Emerging Markets Equities					
Emerging Europe	USD	0.1%	6.9%	8.5%	9.4%
Emerging Asia	USD	-2.3%	-1.8%	2.9%	-6.2%
Emerging Latin America	USD	-2.5%	1.7%	5.7%	-6.3%
BRICs	USD	-2.3%	-1.9%	-1.0%	-4.9%
China	USD	-2.4%	-3.8%	0.8%	0.3%
MENA countries	USD	0.8%	3.4%	1.5%	-20.0%
South Africa	USD	-0.6%	1.0%	0.4%	-11.1%
India	USD	-1.6%	1.6%	-1.8%	-4.6%
Global emerging markets	USD	-2.0%	-0.9%	3.1%	-7.2%
Bonds					
US Treasuries	USD	-0.2%	-0.3%	2.8%	-1.8%
US Treasuries (inflation protected)	USD	-0.6%	-0.4%	3.1%	-5.3%
US Corporate (investment grade)	USD	-0.2%	0.0%	3.4%	-0.9%
US High Yield	USD	-0.3%	0.4%	4.2%	-0.9%
UK Gilts	GBP	-1.0%	-2.0%	0.1%	-15.4%
UK Corporate (investment grade)	GBP	-0.1%	-0.2%	2.2%	-9.2%
Euro Government Bonds	EUR	-0.4%	-1.3%	1.3%	-10.1%
Euro Corporate (investment grade)	EUR	0.0%	0.0%	1.6%	-5.9%
Euro High Yield	EUR	-0.1%	0.4%	3.1%	-2.9%
Japanese Government	JPY	-0.1%	-0.6%	1.8%	-1.9%
Australian Government	AUD	-0.8%	-0.8%	4.3%	1.0%
Global Government Bonds	USD	-0.5%	-0.6%	2.5%	-5.6%
Global Bonds	USD	-0.4%	-0.3%	3.0%	-4.4%
Global Convertible Bonds	USD	-0.5%	0.5%	2.9%	-7.0%
Emerging Market Bonds	USD	-1.3%	-0.8%	1.1%	-4.3%

Asset Class / Region	Currency	Week ending 21 April	Month to date	YTD 2023	12 months
		Cumulative returns			
Property					
US Property Securities	USD	2.2%	-0.7%	1.7%	-22.9%
Australian Property Securities	AUD	0.9%	3.2%	3.0%	-15.7%
Asia Property Securities	USD	-1.7%	0.6%	-2.5%	-9.5%
Global Property Securities	USD	0.6%	0.6%	0.9%	-20.2%
Currencies					
Euro	USD	0.0%	1.0%	2.5%	1.2%
UK Pound Sterling	USD	0.2%	0.7%	2.7%	-4.6%
Japanese Yen	USD	-0.3%	-1.0%	-2.3%	-4.1%
Australian Dollar	USD	-0.1%	-0.1%	-1.9%	-9.2%
South African Rand	USD	0.0%	-2.0%	-5.8%	-14.8%
Swiss Franc	USD	0.3%	2.4%	3.3%	6.9%
Chinese Yuan	USD	-0.3%	-0.3%	0.1%	-6.4%
Commodities & Alternatives					
Commodities	USD	-2.1%	0.5%	-4.1%	-14.0%
Agricultural Commodities	USD	-1.2%	-1.0%	-1.4%	-13.6%
Oil	USD	-5.4%	2.4%	-4.9%	-24.6%
Gold	USD	-1.1%	0.7%	8.7%	2.2%
Hedge funds	USD	0.0%	0.3%	0.3%	-2.8%

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

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