



Decision time



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14 August 2023

On Thursday last week I was presented with two looming Friday deadlines; producing the Global Matters Weekly blog and selecting a fantasy football team before the new season kicks off. Should I forego a season's worth of sporting entertainment and punditry in pursuit of the perfect blog, or click the auto-select button (but rue my decision in a few weeks' time)? If you are reading this, then I will have achieved at least one of those Friday goals (no pun intended). My fantasy team may have taken the back seat, but the auto pick selection may in the end prove better than my own.

Ultimately, my desire to field a team comes down to the mentality that you need 'to be in it to win it', which applies as much to investing as it does to fantasy football. The choice to be in the market, or not, is probably the single most important investment decision a person can take. Stock markets do go up over time, as the underlying companies grow their earnings through a combination of both sales growth and/or improving margins, with a proportion of these earnings finding their way back to equity investors through dividends (the 'payout ratio' on the MSCI UK and MSCI World indexes is around 42%¹ today).

Those dividends are a crucial component of total returns, boosting returns to global equities by an annualised 2.3%² per annum over the last 30 years, which when compounded more than doubles the simple index price return over the same period. In fact, the contribution to global equity total returns from dividends accounts fully for the 10 best days' returns since 1993. In other words, if you'd missed out on the 10 best trading days for global equities over the last 30 years – an often highlighted investment statistic – your annualised return would be 2.5% lower. 'Time in the market', not 'timing the market', as the old adage goes. Sitting it out can also be painful, waiting for a lower entry point as the market rallies higher. This fear of missing out, or 'FOMO', acts as a siren call. Eventually the investor capitulates, buys in late in the rally, and helps to give it that last hurrah. A classic human behavioural bias.

Granted, the stock market journey can be bumpy as earnings and valuations oscillate with the business cycle, but long-term investors can wear this shorter-term volatility – and in some cases benefit from it. In most markets, and the US in particular, there is a strong correlation between forward total returns and starting valuation, and buying cheap historically has yielded higher returns. Today however, with a prospective price earnings ratio of 20.6x, the S&P500 does not look particularly cheap. The 4.85% earnings yield that backs out from that valuation does not look so enticing when Treasury bills pay north of 5%. The S&P500 equity risk premium is wafer thin today, and we see better long-term opportunities elsewhere, as my colleague [Matt Connor discussed last week](#).

What companies may have though, which cash does not, is pricing power: the ability to pass on an increase in the cost of providing a good or service. As such, companies can shield themselves (and their investors) from the effects of inflation, which remains the key macro investment risk today. Equities arguably offer investors the best long-term inflation protection so they might just be worth paying for, and with cash rates expected to fall back next year, the lure of equities – and other risky assets – will become more appealing.

Inflation continues to trend lower in most countries, which is unquestionably a good thing for markets and ordinarily should encourage adding to portfolio risk. However other indicators, most notably labour markets, which remain tight and seemingly unaffected by the last 18 months of Federal Reserve hikes, would suggest more caution. At Momentum Global Investment Management, we have added meaningfully to our government bond allocations over the last year, and likely have not finished, as valuations in those markets continue to rerate. As policy rates near their endgame though, we would expect to see more rotation into risky assets, and any periods of weakness provide an opportunity to do that. So, in football parlance we're probably more '4-4-2' today. Which reminds me, I'd better get on with that team selection!

*Companies
can shield
themselves (and
their investors) from the
effects of inflation, which
remains the key macro
investment risk
today.*

Sources: ¹Bloomberg Finance LLP., ²MSCI World equity annualised returns from 31 August 1993 to 10 August 2023; price return 5.5% total returns 7.8%.

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Market Focus - 14 August 2023

- » Global equities fell by 0.3% last week
- » Last week 10-year Treasury yields reached the highest weekly close we have seen in nine months
- » Brent crude rose by 0.7% to \$86.81 per barrel
- » Gold fell by 1.5% to \$1913.76 per ounce

US

- » US equities fell by 0.3% last week
- » The July US Consumer Price Index (CPI) issued monthly headline inflation at 0.17% and core inflation at 0.16%, annual headline inflation came in 3.2%, a touch below consensus of 3.3%, while core was in line at 4.7%
- » Moody's downgraded ten small and midsize banks also putting several larger firms on review or negative outlook, in total 29 banks received some kind of action

UK

- » UK equities rose by 0.1% last week
- » Q2 Gross Domestic Product (GDP) came in at 0.2% quarter-on-quarter (vs. 0.0% expected), with the monthly June GDP print at 0.5%

Europe

- » European equities rose by 0.1% last week
- » Germany's industrial production reported a larger-than-expected -1.5% month-on-month decline in June (vs. -0.5% expected)
- » There was a sharp decline (-8.27%) in Italian banks after the Italian government announced a one-off windfall tax of banks, that will amount to 40% of the excess net interest margin earned in 2023 (or 2022, if that is higher)
- » European natural gas prices spiked at 27% (with a 40% intra-day high), the largest percentage increase since early March 2022

Rest of the World/Asia

- » Global emerging market equities fell 1.9% last week
- » Chinese equities fell by 3.7% last week
- » Exports in China dropped for the third consecutive month, sliding -14.5% year-on-year in July (vs. -13.2% expected; -12.4% in June), recording its biggest drop since July 2020
- » Household spending in Japan fell 4.2% year-on-year in June (vs. -3.8% expected) and real wages declined for the fifteenth consecutive month, easing -1.6% year-on-year in June (vs. -0.9% expected)
- » Chinese annual CPI fell in July for the first time in 28 months, slipping -0.3% year-on-year (vs. -0.4% expected)

Market Summary

Cumulative returns					
Asset Class / Region	Currency	Week ending 11 August	Month to date	YTD 2023	12 months
Developed Markets Equities					
United States	USD	-0.3%	-2.7%	17.1%	7.4%
United Kingdom	GBP	0.1%	-1.6%	3.2%	4.2%
Continental Europe	EUR	0.1%	-2.4%	12.0%	9.0%
Japan	JPY	1.3%	-0.8%	23.5%	22.4%
Asia Pacific (ex Japan)	USD	-1.9%	-4.6%	3.9%	0.0%
Australia	AUD	0.2%	-0.9%	6.6%	8.6%
Global	USD	-0.4%	-2.9%	15.5%	7.9%
Emerging Markets Equities					
Emerging Europe	USD	0.0%	-0.4%	23.7%	45.3%
Emerging Asia	USD	-2.2%	-4.7%	5.3%	0.4%
Emerging Latin America	USD	-1.6%	-5.3%	18.1%	17.2%
BRICs	USD	-2.5%	-4.8%	2.3%	-0.4%
China	USD	-3.7%	-5.8%	-1.4%	-3.8%
MENA countries	USD	-0.3%	-2.3%	3.9%	-10.5%
South Africa	USD	-2.3%	-8.8%	-2.8%	-7.4%
India	USD	-0.7%	-2.3%	7.9%	6.7%
Global emerging markets	USD	-1.9%	-4.6%	6.3%	1.2%
Bonds					
US Treasuries	USD	-0.6%	-1.0%	0.4%	-3.6%
US Treasuries (inflation protected)	USD	-0.6%	-1.1%	0.9%	-4.9%
US Corporate (investment grade)	USD	-0.6%	-1.5%	2.1%	-1.6%
US High Yield	USD	0.3%	-0.3%	6.6%	2.3%
UK Gilts	GBP	-1.1%	-1.9%	-4.7%	-17.2%
UK Corporate (investment grade)	GBP	-0.7%	-1.1%	0.3%	-8.3%
Euro Government Bonds	EUR	-0.2%	-0.7%	1.7%	-8.6%
Euro Corporate (investment grade)	EUR	-0.2%	-0.4%	2.7%	-3.4%
Euro High Yield	EUR	0.2%	0.0%	5.6%	3.2%
Japanese Government	JPY	0.5%	-0.2%	0.9%	-2.8%
Australian Government	AUD	0.5%	0.0%	1.7%	-0.9%
Global Government Bonds	USD	-0.8%	-1.4%	-0.4%	-5.6%
Global Bonds	USD	-0.7%	-1.4%	1.2%	-3.8%
Global Convertible Bonds	USD	-1.0%	-2.8%	5.6%	1.7%
Emerging Market Bonds	USD	0.3%	-1.1%	4.0%	1.1%

Cumulative returns					
Asset Class / Region	Currency	Week ending 11 August	Month to date	YTD 2023	12 months
Property					
US Property Securities	USD	0.3%	-2.3%	5.2%	-10.0%
Australian Property Securities	AUD	0.0%	-2.7%	2.7%	-6.5%
Asia Property Securities	USD	-0.7%	-3.7%	-6.7%	-9.3%
Global Property Securities	USD	-0.2%	-2.8%	2.5%	-9.8%
Currencies					
Euro	USD	-0.8%	-0.5%	2.2%	6.0%
UK Pound Sterling	USD	-0.7%	-1.3%	4.9%	3.8%
Japanese Yen	USD	-2.1%	-1.9%	-9.6%	-8.4%
Australian Dollar	USD	-1.7%	-3.5%	-4.8%	-8.8%
South African Rand	USD	-2.9%	-5.9%	-10.1%	-14.4%
Swiss Franc	USD	-0.7%	-0.9%	5.1%	7.1%
Chinese Yuan	USD	-0.9%	-1.3%	-4.7%	-6.8%
Commodities & Alternatives					
Commodities	USD	0.1%	-0.8%	-0.4%	-5.2%
Agricultural Commodities	USD	-0.2%	-1.3%	3.0%	2.3%
Oil	USD	0.7%	1.5%	1.0%	-12.8%
Gold	USD	-1.5%	-2.9%	4.9%	7.0%
Hedge funds*	USD	0.0%	0.0%	1.0%	0.5%

*Hedge funds data as at 27/07/2023

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