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Weekly

momentum
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Daring to be different

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Contrarian investing has witnessed remarkable success stories over the years.

The UK is currently experiencing a scorching heatwave, with temperatures reaching 28℃. While it may not be extreme for some of our international readers, it's a significant event for us in the UK. During such heatwaves, consumers tend to rush out and buy fans to keep cool. Last year, fan sales increased by a staggering 1300% as prices surged and stocks ran out. It's interesting to draw parallels between the scarcity of fans during these hot times and the behaviour of investors in the stock market. When temperatures soar, demand for fans skyrockets, much like how investors flock towards popular stocks, driving up prices and leaving little room for bargains. This behaviour sets the stage to discuss contrarian investing.

Contrarian investors understand the value of going against the crowd. Just as contrarian investors would purchase fans in the winter when they are abundant and discounted, they seek undervalued opportunities in the market when others are focused on the hot stocks for the current economic backdrop. Currently, about half of this year's gains in global equities can be attributed to seven stocks, leaving ample room for contrarian investors to find opportunities in other areas of the market which may be overlooked.

Contrarian investing has witnessed remarkable success stories over the years. One noteworthy trade was made by Michael Burry of Scion Capital, who bet against the subprime mortgage market when property prices were continually rising in 2005. Despite facing significant underperformance, client pressure, and criticism, Burry remained steadfast in his view. His conviction paid off in 2008 when the subprime mortgage market collapsed, resulting in substantial gains.

Another example is Sir John Templeton, a legendary investor. During the depths of the Great Depression, Templeton invested $10,000 to purchase stocks trading below $1 on the New York Stock Exchange. Although considered reckless by many, his contrarian mindset enabled him to uncover hidden value and capitalize on the eventual market recovery. Within four years, his investment grew fourfold.

Being a contrarian investor is challenging. It requires the ability to withstand social pressure and the emotional turmoil of seeing investments temporarily out of favour. However, the potential rewards are significant. Contrarian investing allows investors to acquire undervalued and underappreciated assets, presenting opportunities for substantial long-term gains.

Contrarian investors possess the unique ability to detach themselves from herd mentality and think independently. They understand that markets are driven by emotions, often leading to overreactions to short-term news and events. By maintaining a long-term perspective and having the patience to wait for opportunities, contrarian investors can identify undervalued assets that others have overlooked.

In a world where the majority succumbs to the allure of hot stocks during market frenzies, contrarian investing stands as a steadfast and disciplined approach. Just as purchasing fans in winter offers discounts and savings, contrarian investors seek out undervalued opportunities when others are distracted by short-term market trends. While the mental challenges are undeniable, the potential rewards make it worthwhile. By having the courage to swim against the tide and patiently seek out hidden gems, contrarian investors can position themselves for long-term success in the ever-changing world of investing. With markets currently exhibiting high levels of valuation dispersion akin to the tech bubble and COVID-19 periods, diversifying capital away from the herd is prudent for any investor.

Market Focus - 19 June 2023

- Global equities returned 2.7% last week
- US Secretary of State Antony Blinken met Qin Gang, China's top foreign policy official in Beijing, to stabilise strained ties between the world's biggest economies
- Brent crude rose by 2.4% to $76.61 per barrel
- Gold fell by 0.2% to $1957.98 per ounce

US

- US equities rose by 2.6% last week
- The US year-on-year headline Consumer Price Inflation rate fell to just +4.0% (vs. +4.1% expected), which is the slowest inflation has been in 26 months
- The Federal Reserve ended a series of ten successive rate hikes but suggested that more may well be required, signalling two more hikes this year

UK

- UK equities returned 0.9% last week
- The UK labour market remains tight as the unemployment rate fell back to 3.8% over the three months to April (vs. +4.0% expected).
- Wage growth excluding bonuses was up by +7.2% (vs. +6.9% expected).
- Bank of England Governor Andrew Bailey acknowledged that inflation was "taking a lot longer than expected" to come down. Markets are now pricing in more than five 25bps hikes by the December meeting, which would take the Bank Rate up to 5.75%

Europe

- European equities returned 1.7% last week
- The European Central Bank (ECB) announced another 25bps hike as expected, which took the deposit rate up to 3.5% and its highest level since 2001
- ECB President Christine Lagarde later said that "barring a material change to our baseline, it is very likely the case that we will continue to increase rates in July"
- The German ZEW Market Survey showed a rebound in the expectations component to -8.5 (vs. -13.5 expected), ending three consecutive months of decline

Rest of the World/Asia

- Global emerging market equities returned 2.9% last week
- Japanese equities rose by 3.4% last week
- The People's Bank of China made their first stimulatory move, cutting its 1-year medium-term lending facility rate by 10bps to 2.65%
- Year-to-date property investment was down by -7.2% on a year-on-year basis, which again was worse than the -6.7% reading expected by the consensus
- The Bank of Japan maintained its current pace of yield curve control in line with market expectations as the central bank waits to ensure Japan sustainably achieves 2% inflation

Market Summary

Asset Class / Region	Currency	Week ending 16 June	Month to date	YTD 2023	12 months
		Cumulative returns			
Developed Markets Equities					
United States	USD	2.6%	5.6%	15.5%	21.7%
United Kingdom	GBP	0.9%	2.7%	4.1%	11.8%
Continental Europe	EUR	1.7%	3.3%	13.3%	21.5%
Japan	JPY	3.4%	8.0%	23.2%	26.6%
Asia Pacific (ex Japan)	USD	3.1%	7.3%	7.3%	5.4%
Australia	AUD	1.8%	2.3%	5.0%	15.1%
Global	USD	2.7%	5.9%	14.9%	21.0%
Emerging Markets Equities					
Emerging Europe	USD	1.6%	9.4%	15.6%	43.3%
Emerging Asia	USD	3.1%	7.1%	8.4%	3.8%
Emerging Latin America	USD	2.2%	13.3%	19.9%	25.0%
BRICs	USD	3.9%	9.6%	3.6%	1.9%
China	USD	4.8%	11.5%	1.4%	-5.5%
MENA countries	USD	1.3%	3.7%	3.5%	-6.1%
South Africa	USD	4.8%	17.4%	1.3%	1.9%
India	USD	2.0%	2.7%	5.5%	17.9%
Global emerging markets	USD	2.9%	7.7%	8.8%	5.2%
Bonds					
US Treasuries	USD	0.0%	-0.5%	2.0%	-0.4%
US Treasuries (inflation protected)	USD	0.2%	-0.1%	2.2%	-2.1%
US Corporate (investment grade)	USD	0.4%	0.1%	3.0%	2.5%
US High Yield	USD	0.5%	1.6%	5.4%	7.7%
UK Gilts	GBP	-0.9%	-0.9%	-4.1%	-14.2%
UK Corporate (investment grade)	GBP	-0.9%	-0.9%	-0.7%	-6.3%
Euro Government Bonds	EUR	-0.1%	-0.5%	2.4%	-2.6%
Euro Corporate (investment grade)	EUR	-0.3%	-0.5%	1.9%	0.9%
Euro High Yield	EUR	0.3%	1.1%	4.9%	6.5%
Japanese Government	JPY	0.2%	0.2%	2.8%	0.0%
Australian Government	AUD	-0.5%	-2.4%	1.1%	2.9%
Global Government Bonds	USD	0.2%	0.3%	1.5%	-1.6%
Global Bonds	USD	0.4%	0.5%	2.5%	0.4%
Global Convertible Bonds	USD	1.8%	4.3%	5.7%	8.1%
Emerging Market Bonds	USD	0.6%	1.7%	2.8%	4.8%

Asset Class / Region	Currency	Week ending 16 June	Month to date	YTD 2023	12 months
		Cumulative returns			
Property					
US Property Securities	USD	1.2%	4.7%	4.6%	2.8%
Australian Property Securities	AUD	0.9%	-1.0%	2.3%	5.5%
Asia Property Securities	USD	1.2%	6.0%	-3.2%	-4.8%
Global Property Securities	USD	1.1%	4.9%	2.5%	-0.1%
Currencies					
Euro	USD	1.7%	2.8%	2.1%	3.5%
UK Pound Sterling	USD	1.9%	3.6%	6.0%	3.6%
Japanese Yen	USD	-1.8%	-1.5%	-7.6%	-7.1%
Australian Dollar	USD	1.9%	6.2%	0.7%	-2.4%
South African Rand	USD	2.9%	8.7%	-6.4%	-12.3%
Swiss Franc	USD	1.0%	2.3%	3.2%	8.0%
Chinese Yuan	USD	0.1%	-0.2%	-3.2%	-5.9%
Commodities & Alternatives					
Commodities	USD	4.4%	7.7%	-4.2%	-15.3%
Agricultural Commodities	USD	6.1%	10.7%	5.2%	-4.9%
Oil	USD	2.4%	5.4%	-10.8%	-36.1%
Gold	USD	-0.2%	-0.4%	7.3%	5.8%
Hedge funds	USD	0.3%	0.8%	0.6%	0.8%

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

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