globalmatters Weekly

momentum global investment management

We believe in blending equity style factors to deliver more efficient returns.

Risky business

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Everyday decisions involve making balanced judgements between risks and rewards and we are essentially hardwired as humans to be natural risk management machines. Whether we realise it or not, we are constantly evaluating risks in every aspect of life, including social and professional settings, yet surprisingly and in spite of its crucial role, risk management is often seen as 'boring' and therefore tends to be overlooked. Whether we're making personal or investment choices, these always come with an element of risk. Therefore, it pays to thoroughly understand the risks involved in any venture, so that they can be managed and minimised.

Risk models are a useful place to start as they provide high-level insights. However, they shouldn't be relied upon in isolation. These models tend to be backward-looking and fail to incorporate future regime changes. It is crucial to assess risk from multiple perspectives; this includes forward-looking assessments, stress testing (what happens if past crises reoccur?) and scenario analysis (how would the portfolio behave under certain pre-determined conditions?). While models and quantitative tools are useful, they do have limitations. It is important to challenge assumptions; for example, how might a portfolio react if correlations were to deviate from historical norms, as was the case in 2022 when long-term correlations between bonds and equites broke down.

Sound risk management goes beyond standard quantitative measures like volatility and diversification ratio. Diversification should also be evaluated qualitatively, to ensure portfolio exposures don't all add up to the same kind of risk - for example, overweighting value stocks while simultaneously underweighting duration within a multi-asset portfolio.

At Momentum, we believe in blending equity style factors to deliver more efficient returns. This process involves more than just investing X% in value, Y% in quality, and Z% in momentum stocks. To achieve a balance between risk and returns, our research team look at minimising unintended factor exposures; for example, the negative value exposure that typically comes with buying high momentum stocks. We construct portfolios by finding the right balance based on various risk and return factors, whether that's reducing tracking error, maximising information ratio, minimising expected shortfall or maximising decorrelation to fully cover all bases.

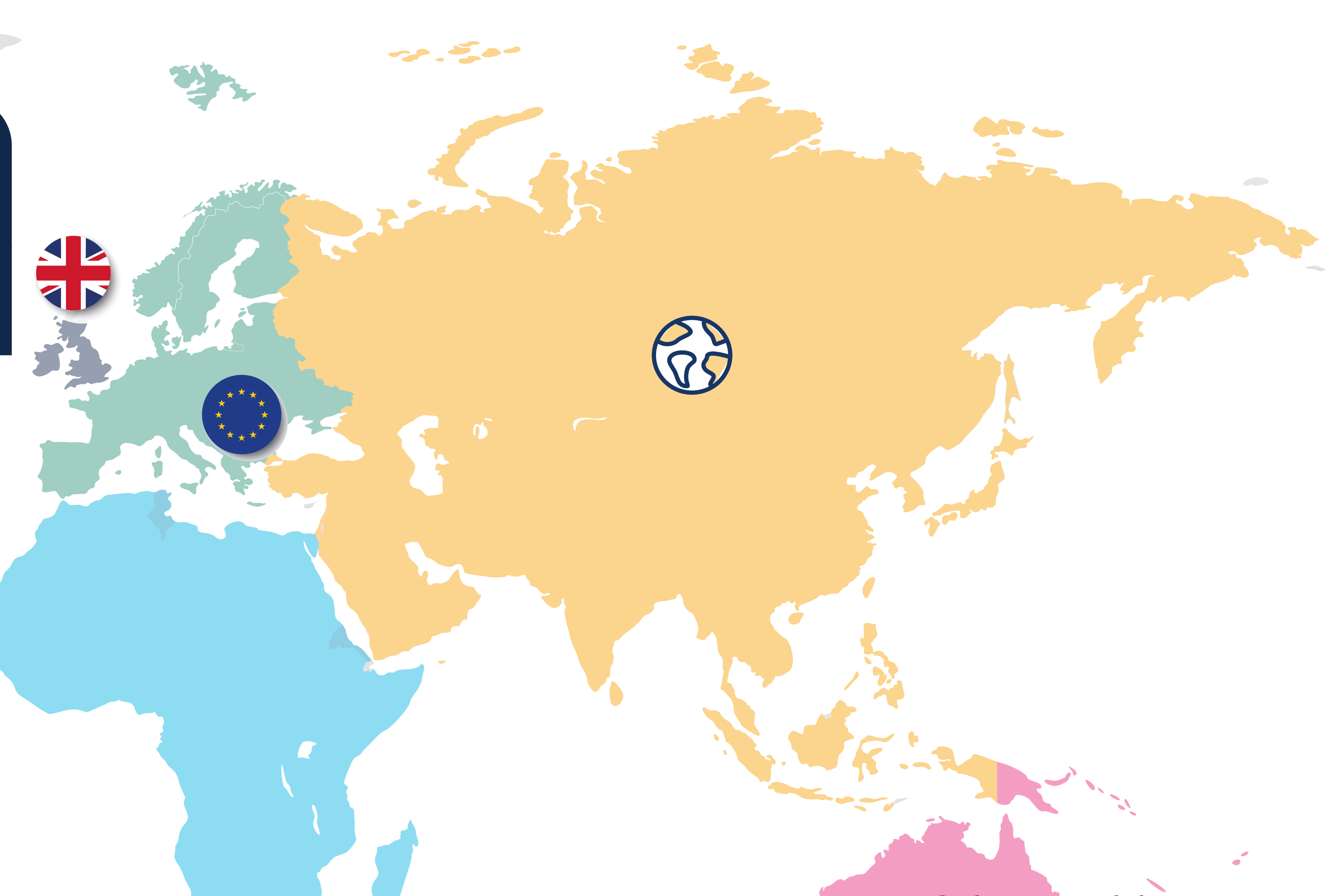
The risk of overpaying for an investment is clearly important. The best way to mitigate this is to use a robust valuation framework embedded within the investment process. At MGIM we are risk champions, and the entire team constantly assesses a spectrum of risks that could potentially derail good outcomes for our clients.

What sets a great investment manager apart from a good one is the ability to balance expected risk and return effectively to achieve desired outcomes. Investment managers face a multitude of risks, but the ultimate risk is the permanent loss of capital, something quantitative models in isolation will fail to detect.

From a process perspective, it is much better to embrace risk culturally rather than isolate it within a specific team. The risk function should not solely be focused on risk avoidance since taking risks is essential to generating returns. Collaboration between portfolio managers and risk experts is key to understanding compensated and uncompensated risks. Risk management is most effective when it is incorporated into the investment process, with risk experts actively involved in the investment decisions, working closely alongside portfolio managers. Whether we like it or not, risk is part of investing, so let's not make it a taboo subject...

Market Focus - 2 October 2023

- Global equities fell 0.9% last week
- All major indices saw declines as the prospect of longer-term high interest rates in Europe and the US weighed on investor sentiment
- Brent Crude oil rose 2.2% to $95.31 a barrel
- Gold fell 4.0% to $1848.63 per ounce



US

- US equities fell 0.7% last week
- The US narrowly averted a disruptive and costly shutdown of federal agencies as Congress passed compromise legislation to keep the government running until 17 November 2023
- The Conference Board's gauge of US consumer confidence dipped to 103.0 in September 2023, a reading that was below expectations and down from the preceding month's upwardly revised reading of 108.7
- The United Auto Workers union escalated its strike against the big three US automakers on Friday, as industrial action entered its third week

UK

- UK equities fell 0.8% last week
- Chancellor Jeremy Hunt has pledged to end the 'vicious circle of ever-rising taxes' by reforming the benefits system and tackling the spiralling cost of public services
- Mortgage approvals fell to the lowest level in six months in August 2023, as prospective homeowners stayed away from the property market and average mortgage costs approached 5%
- Revised official figures show the UK economy performed better than France and Germany since the pandemic; delivering a boost to Prime Minister Rishi Sunak

Europe

- European equities fell 0.7% last week
- European Central Bank (ECB) President Christine Lagarde and Chief Economist Philip Lane reaffirmed their commitment to maintaining a restrictive monetary policy for an extended period to bring inflation back to the 2% target
- Consumer prices increased 4.3% annually in September - weaker than forecast and the slowest pace in about two years. This inflation rate was a marked improvement from the 5.2% registered in August 2023

Rest of the World/Asia

- Global emerging market equities fell 1.1% last week
- Japanese equities fell 1.4%
- Chinese equities fell 1.3%
- Japan's Prime Minister Fumio Kishida outlined a new economic stimulus plan last week, the details of which are to be decided in October and which will be funded by a supplementary budget
- China's Vice Premier He Lifeng and Foreign Minister Wang Yi are discussing possible visits to Washington DC to prepare for a potential summit between Xi Jinping and Joe Biden

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Market Summary - 2 October 2023

		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 29 September**	**Month to date**	**YTD 2023**	**12 months**
Developed Markets Equities					
United States	USD	-0.7%	-4.8%	12.7%	19.2%
United Kingdom	GBP	-0.8%	2.9%	5.2%	14.3%
Continental Europe	EUR	-0.7%	-2.5%	9.2%	21.9%
Japan	JPY	-1.4%	0.5%	25.7%	27.5%
Asia Pacific (ex Japan)	USD	-1.0%	-2.7%	-0.4%	11.5%
Australia	AUD	-0.3%	-2.8%	3.7%	12.1%
Global	USD	-0.9%	-4.3%	11.1%	20.8%
Emerging Markets Equities					
Emerging Europe	USD	-0.2%	-5.7%	15.0%	65.5%
Emerging Asia	USD	-1.2%	-2.6%	1.0%	12.1%
Emerging Latin America	USD	-1.6%	-2.3%	12.9%	21.0%
BRICs	USD	-1.0%	-1.1%	-1.1%	8.5%
China	USD	-1.3%	-2.8%	-7.3%	5.1%
MENA countries	USD	0.3%	-2.3%	0.7%	-5.2%
South Africa	USD	-2.6%	-3.5%	-9.9%	8.0%
India	USD	-0.3%	1.5%	8.9%	15.8%
Global emerging markets	USD	-1.1%	-2.6%	1.8%	12.0%
Bonds					
US Treasuries	USD	-0.7%	-2.2%	-1.3%	-1.0%
US Treasuries (inflation protected)	USD	-0.9%	-1.9%	-0.9%	0.7%
US Corporate (investment grade)	USD	-1.0%	-2.5%	0.4%	3.9%
US High Yield	USD	-0.4%	-1.2%	6.0%	10.4%
UK Gilts	GBP	-1.4%	-1.0%	-4.3%	-1.7%
UK Corporate (investment grade)	GBP	-0.9%	0.0%	1.3%	8.7%
Euro Government Bonds	EUR	-0.7%	-2.7%	0.0%	-1.7%
Euro Corporate (investment grade)	EUR	-0.2%	-0.9%	2.3%	4.0%
Euro High Yield	EUR	-0.3%	0.3%	6.1%	11.1%
Japanese Government	JPY	-0.2%	-0.7%	-0.5%	-2.4%
Australian Government	AUD	-0.5%	-1.9%	0.4%	1.0%
Global Government Bonds	USD	-0.9%	-3.1%	-3.4%	0.3%
Global Bonds	USD	-1.0%	-3.1%	-1.7%	2.5%
Global Convertible Bonds	USD	-0.6%	-2.9%	1.8%	8.3%
Emerging Market Bonds	USD	-1.6%	-3.7%	-0.2%	8.6%

		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 29 September**	**Month to date**	**YTD 2023**	**12 months**
Property					
US Property Securities	USD	-1.6%	-7.0%	-2.9%	3.2%
Australian Property Securities	AUD	-1.3%	-8.7%	-2.1%	6.8%
Asia Property Securities	USD	-0.7%	-2.2%	-9.8%	-1.2%
Global Property Securities	USD	-1.5%	-5.4%	-3.6%	5.0%
Currencies					
Euro	USD	-0.7%	-2.4%	-1.2%	8.2%
UK Pound Sterling	USD	-0.4%	-3.6%	0.9%	10.4%
Japanese Yen	USD	-0.7%	-2.6%	-12.3%	-3.3%
Australian Dollar	USD	-0.1%	-0.4%	-5.5%	-0.6%
South African Rand	USD	-0.7%	0.0%	-9.8%	-4.6%
Swiss Franc	USD	-0.9%	-3.5%	0.8%	7.2%
Chinese Yuan	USD	0.0%	-0.5%	-5.5%	-2.3%
Commodities & Alternatives					
Commodities	USD	-0.6%	0.9%	1.3%	5.3%
Agricultural Commodities	USD	-1.5%	-2.9%	0.8%	2.8%
Oil	USD	2.2%	9.7%	10.9%	7.7%
Gold	USD	-4.0%	-4.8%	1.3%	11.4%

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

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