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momentum
global investment management

The fragility of trust

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In 1954 two DeHavilland Comets were lost in separate midair accidents for unknown reasons at the time. The aircraft was a pioneering venture by the British aeronautical industry that launched the world's first production jet airliner.

Subsequent investigations found that the gauge of metal used was insufficient to withstand repeated pressurisation and de-pressurisation cycles which resulted in catastrophic un-survivable failure. After the aircraft was re-designed it did not re-enter commercial service until 1958.

However, trust in the product had been irreparably damaged and with Boeing's successful launch of the larger 707, benefitting from the lessons of the Comet tragedies, the foundation of Boeing's dominance in civil aircraft production was set.

Unfortunately, without disciplined management, success can beget complacency. Fast forward to 2018 and a Boeing 737 Max, the latest iteration of the most successful airliner in history crashes after the pilots lose control.

This is soon followed by a second tragedy with another 737 Max under identical circumstances in March 2019. After extensive re-engineering of its software systems it was not cleared for return to service until November 2020.

The news in January that an Alaskan Airlines B737 Max suffered a failure in its fuselage demonstrated that production problems have extended into the structure itself. If the aircraft had been at a higher altitude it could have been a complete tragedy.

It has to be said that Airbus has not been immune from its own production problems, but certainly not on this scale or with the same fatal results. The Netflix documentary "Downfall", which precedes the latest calamity, gives an enlightening account of how Boeing got into this mess.

In its heyday the strapline was "If it ain't Boeing I'm not going". You can still buy such merchandise: If It's Not Boeing I'm Not Going T-Shirt – The Boeing Store. However, in an ironic turn of events, the travel portal "Kayak" has a screen that customers can use to screen out Boeing 737 Max aircraft from travel options.

As managers of investment portfolios, what can we learn from this? Firstly, it's important to remember that regardless of a company's longevity, it is still run by individuals who will eventually leave, potentially leading to a loss of company culture.

While longevity can indicate resilience and strength, it doesn't guarantee them. Afterall, we are obliged to remind retail investors that "past performance is no guarantee of future performance".

Secondly, it is that vital attribute of 'self-awareness'.

No matter how successful fund managers may apparently have been, we need to pinch ourselves and be humble. It is probably fair to say that no fund manager is as good as he/she is held up to be nor as bad as they might be accused of being- especially after periods of significant outperformance or underperformance, as luck will almost certainly have played a part in both outcomes.

Finally, applying observations of Boeing's woes we can assume that Emirates is going to have to wait even longer for the delivery of its new generation B777x aircraft. These new super-sized versions of the otherwise successful B777 program have already been stuck in testing and certification hell for a number of years. Whilst their role is to replace the existing B777 fleet within Emirates, as opposed to their A380s; it does highlight the fleet capacity problem facing the airline and the increased need for the existing leased A380s.

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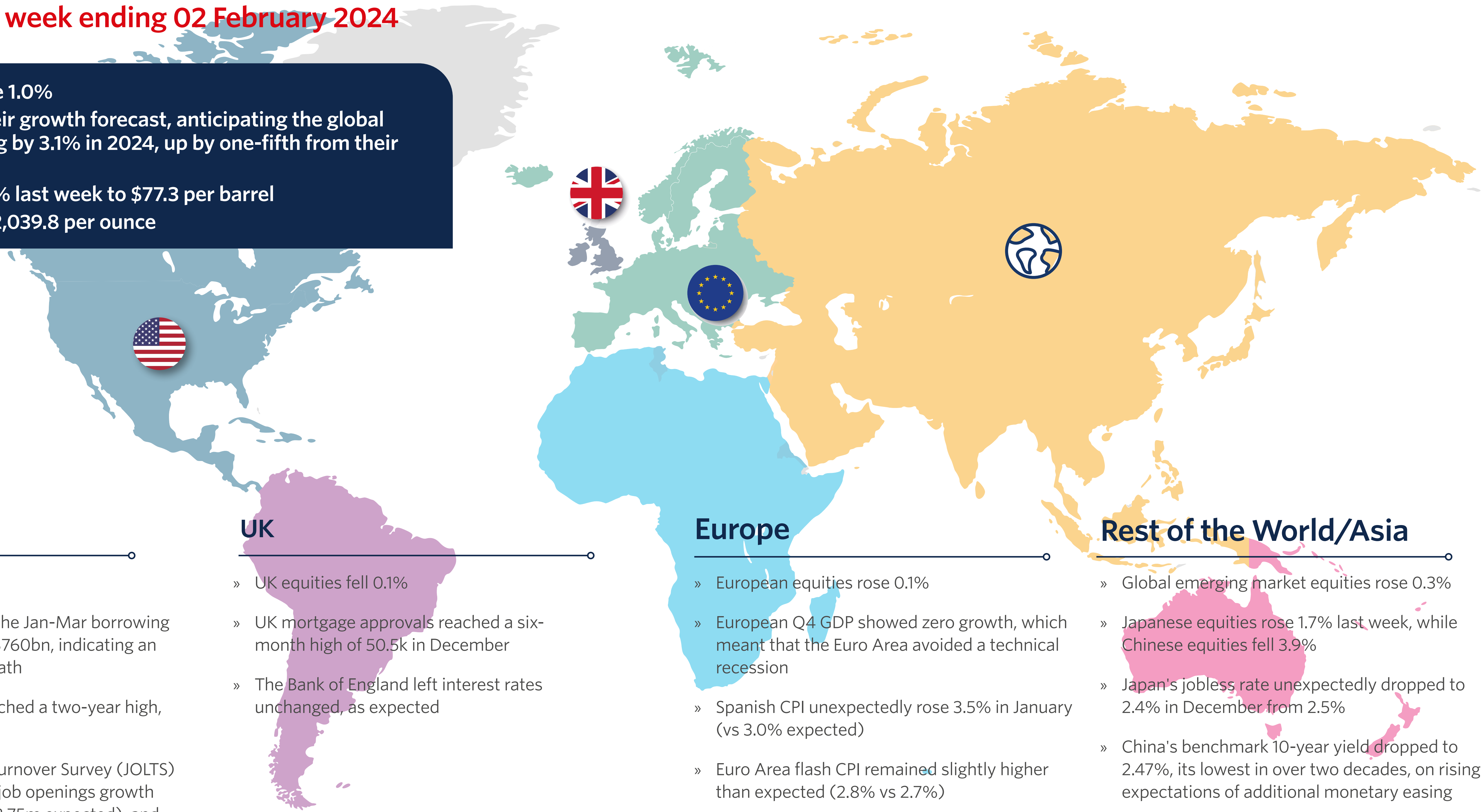
Market Review - week ending 02 February 2024



- Global equities rose 1.0%
- The IMF revised their growth forecast, anticipating the global economy expanding by 3.1% in 2024, up by one-fifth from their October forecast
- Brent crude fell 7.4% last week to $77.3 per barrel
- Gold rose 1.1% to $2,039.8 per ounce

US

- US equities rose 1.4%
- The US Treasury lowered the Jan-Mar borrowing estimate from $816bn to $760bn, indicating an improved budget deficit path
- Consumer confidence reached a two-year high, rising to 114.8 in January
- Job Openings and Labor Turnover Survey (JOLTS) data showed unexpected job openings growth (9.026m in December vs 8.75m expected), and ADP's private payrolls increased by 107k (vs 150k expected)
- The ISM manufacturing print rose to a 15-month high of 49.1 (vs 47.2 expected)
- Nonfarm productivity exceeded expectations in Q4 at an annualised rate of 3.2%
- Weekly initial jobless claims for the week ending January 27th rose to 224k vs 212k expected
- Strong payrolls report for January showed significant beats in headline (353k vs 185k expected) and private (317k vs 170k) numbers

UK

- UK equities fell 0.1%
- UK mortgage approvals reached a six-month high of 50.5k in December
- The Bank of England left interest rates unchanged, as expected

Europe

- European equities rose 0.1%
- European Q4 GDP showed zero growth, which meant that the Euro Area avoided a technical recession
- Spanish CPI unexpectedly rose 3.5% in January (vs 3.0% expected)
- Euro Area flash CPI remained slightly higher than expected (2.8% vs 2.7%)
- The unemployment rate in the Euro Area held steady at 6.4% in December

Rest of the World/Asia

- Global emerging market equities rose 0.3%
- Japanese equities rose 1.7% last week, while Chinese equities fell 3.9%
- Japan's jobless rate unexpectedly dropped to 2.4% in December from 2.5%
- China's benchmark 10-year yield dropped to 2.47%, its lowest in over two decades, on rising expectations of additional monetary easing
- Japan's retail sales unexpectedly contracted 2.9% month-on-month in December (vs +0.2% expected)
- China's official 2024 PMI data showed manufacturing activity shrinking for the fourth consecutive month in January
- The Caixin manufacturing PMI in China remained at 50.8 in January

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

Market Performance - week ending 02 February 2024

Asset Class / Region	Currency	Cumulative returns: Week ending 02 February	Month to date	YTD 2024	12 months
Developed Markets Equities					
United States	USD	1.4%	2.3%	4.0%	20.0%
United Kingdom	GBP	-0.1%	-0.1%	-1.3%	1.7%
Continental Europe	EUR	0.1%	-0.4%	1.6%	9.3%
Japan	JPY	1.7%	-0.4%	7.3%	32.5%
Asia Pacific (ex Japan)	USD	0.5%	1.0%	-3.8%	-6.3%
Australia	AUD	1.9%	0.2%	1.4%	6.8%
Global	USD	1.0%	1.3%	2.5%	15.9%
Emerging Markets Equities					
Emerging Europe	USD	3.6%	1.7%	4.0%	29.9%
Emerging Asia	USD	0.6%	1.6%	-3.7%	-6.0%
Emerging Latin America	USD	-0.7%	0.0%	-4.8%	15.9%
BRICs	USD	-1.2%	0.3%	-5.4%	-10.4%
China	USD	-3.9%	0.1%	-10.5%	-29.9%
MENA countries	USD	-1.8%	0.5%	0.6%	5.8%
South Africa	USD	-1.6%	-1.4%	-7.0%	-13.1%
India	USD	2.5%	0.6%	0.9%	24.0%
Global emerging markets	USD	0.3%	1.3%	-3.4%	-3.0%
Bonds					
US Treasuries	USD	0.7%	-0.3%	-0.6%	0.5%
US Treasuries (inflation protected)	USD	0.2%	-0.8%	-0.6%	0.6%
US Corporate (investment grade)	USD	0.5%	-0.4%	-0.3%	3.1%
US High Yield	USD	0.0%	0.0%	0.0%	7.4%
UK Gilts	GBP	0.5%	-0.9%	-3.2%	-4.4%
UK Corporate (investment grade)	GBP	0.6%	-0.6%	-1.6%	1.6%
Euro Government Bonds	EUR	0.3%	-0.6%	-1.0%	1.5%
Euro Corporate (investment grade)	EUR	0.2%	-0.5%	-0.4%	4.0%
Euro High Yield	EUR	0.0%	-0.1%	0.8%	8.2%
Japanese Government	JPY	0.5%	0.6%	-0.2%	0.0%
Australian Government	AUD	1.5%	0.2%	0.3%	1.7%
Global Government Bonds	USD	0.4%	-0.7%	-2.4%	-2.5%
Global Bonds	USD	0.3%	-0.7%	-1.8%	-0.3%
Global Convertible Bonds	USD	0.0%	0.1%	-2.0%	-0.3%
Emerging Market Bonds	USD	0.8%	0.0%	-1.3%	2.6%

Asset Class / Region	Currency	Cumulative returns: Week ending 02 February	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	-0.6%	0.6%	-3.6%	-4.8%
Australian Property Securities	AUD	6.1%	1.7%	3.0%	4.9%
Asia Property Securities	USD	-0.5%	-1.1%	-6.7%	-13.6%
Global Property Securities	USD	-0.4%	-0.3%	-4.1%	-4.9%
Currencies					
Euro	USD	-0.7%	-0.6%	-2.5%	-1.1%
UK Pound Sterling	USD	-0.7%	-0.8%	-1.1%	3.1%
Japanese Yen	USD	-0.4%	-1.5%	-5.2%	-13.5%
Australian Dollar	USD	-1.1%	-1.3%	-4.8%	-8.1%
South African Rand	USD	-0.8%	-1.4%	-3.5%	-9.7%
Swiss Franc	USD	-0.4%	-0.9%	-3.3%	5.3%
Chinese Yuan*	USD	-0.2%	-0.3%	-1.3%	-6.4%
Commodities & Alternatives					
Commodities	USD	-2.8%	-2.0%	-0.5%	-3.3%
Agricultural Commodities	USD	0.2%	-0.3%	1.1%	-0.4%
Oil	USD	-7.4%	-5.4%	0.4%	-5.9%
Gold	USD	1.1%	-0.5%	-1.1%	6.7%

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

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