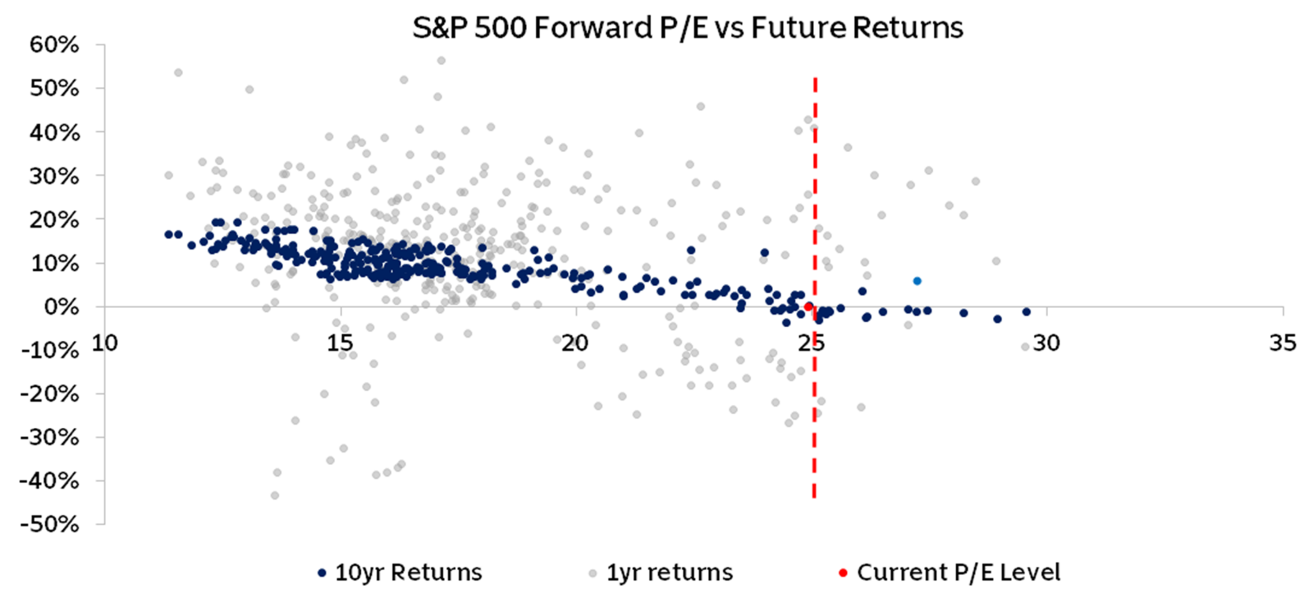
Chart of the Week

18 November 2024



Sources: Momentum Global Investment Management, Bloomberg Finance L.P., data to 31 October 2024.

The price of patience

Gary Moglione
Fund Manager

What this chart shows?

This chart illustrates the relationship between the S&P 500's forward Price-to-Earnings (P/E) ratio and subsequent returns over one-year and ten-year periods. Each dot represents a specific starting P/E level and the S&P 500's return from that point, either over one year (grey dots) or ten years (blue dots). The red dashed line marks the current forward P/E level for reference. The one-year returns are scattered, with little consistent pattern relative to the starting P/E, suggesting short-term returns are not strongly affected by initial valuation. In contrast, the ten-year returns show a clear downward trend as the starting P/E increases, indicating a stronger relationship between valuation and long-term performance. This means that the lower the starting P/E, the higher the probability of achieving robust returns over the following decade, while elevated P/E levels have historically been associated with lower ten-year returns. The current forward P/E, positioned above 25, suggests a cautionary outlook for ten-year returns from this valuation level.

Why is this important?

The chart highlights a fundamental principle of long-term investing: valuation matters. Over short periods, market returns are influenced by a multitude of factors, including economic cycles, interest rates, and investor sentiment. As a result, the starting P/E ratio has minimal impact on one-year returns, making short-term performance difficult to predict and often unrelated to valuation. However, the ten-year return pattern underscores that valuations become crucial over longer time horizons. Historically, entering the market at lower P/E levels has been associated with strong long-term returns, benefiting from both earnings growth and potential valuation expansion. Conversely, starting at high valuations, such as the current forward P/E level above 25, may lead to subdued or even negative returns as valuations revert to more sustainable levels over time. For long-term investors, this chart emphasizes the importance of patience and discipline when investing in attractively valued markets. With the current high P/E suggesting lower expected returns, investors may need to adjust expectations or prioritise undervalued opportunities to enhance long-term return potential.

Weekly market update

week ending 15 November 2024

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Global markets were shaped by the US election and Federal Reserve rate cut, fostering initial optimism but ending the week on a volatile note as inflation concerns, and mixed economic data weighed on sentiment.

US

- Stock markets fluctuated as investors digested election results and a Federal Reserve rate cut. Major indices recorded weekly losses despite initial post-election rallies
- Bitcoin surged to historic levels above $90,000, driven by expectations of crypto-friendly policy under the new administration
- Inflation concerns persisted with mixed economic data, including rising Producer Price Index (PPI) figures
- Employment data was strong, with jobless claims reaching a new low since May

UK

- Rachel Reeves plans to introduce legislation to pool £1.3 trillion of pension savings into "megafunds" to unlock £80 billion of extra investment to boost growth
- UK GDP growth estimates were revised downward as concerns over post-Brexit trade continued
- UK Manufacturing production for September was -0.1% vs flat expectations
- Sterling strengthened slightly against the dollar, reflecting optimism in the housing and retail sectors

Europe

- The European Central Bank maintained its policy stance, signalling caution amid stagnant growth and persistent inflation
- European equity markets were mixed as investors remained cautious ahead of more economic data releases
- Energy stocks gained as oil prices rose due to geopolitical tensions in the Middle East
- Marine Le Pen risks missing out on the next presidential race after prosecutors sought an immediate five-year ban on her running for office at the end of an embezzlement trial

Rest of the World/Asia

- China reported a substantial increase in its trade surplus, driven by a rebound in exports
- Tech stocks, including Alibaba, experienced volatility, reflecting uncertainty in consumer spending and regulatory environments
- The Bank of Japan maintained its ultra-loose monetary policy, citing the need to support economic recovery and the yen weakened further against the dollar, benefiting export-oriented companies
- In Latin America, Brazil's stock market hit new highs amid political stability and robust commodities demand

Weekly market data

week ending 15 November 2024

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Asset Class / Region	Currency	Week ending 15 November	Month to date	YTD 2024	12 months
Developed Markets Equities					
United States	USD	-2.1%	2.9%	24.1%	31.7%
United Kingdom	GBP	0.0%	-0.4%	7.8%	11.8%
Continental Europe	EUR	-0.7%	-0.9%	6.2%	12.4%
Japan	JPY	-1.1%	0.6%	17.1%	17.0%
Asia Pacific (ex Japan)	USD	-4.3%	-2.4%	11.2%	16.6%
Australia	AUD	0.1%	1.9%	13.0%	21.1%
Global	USD	-2.1%	1.8%	18.6%	26.5%
Emerging Markets Equities					
Emerging Europe	USD	-2.7%	0.8%	3.8%	9.3%
Emerging Asia	USD	-4.9%	-3.4%	12.1%	16.2%
Emerging Latin America	USD	-1.8%	-2.0%	-18.6%	-10.4%
BRICs	USD	-4.4%	-3.1%	10.6%	11.9%
China	USD	-6.1%	-3.3%	17.6%	11.2%
MENA countries	USD	-1.4%	-0.5%	0.0%	6.0%
South Africa	USD	-5.7%	-5.3%	12.0%	15.5%
India	USD	-2.6%	-3.2%	8.0%	19.2%
Global emerging markets	USD	-4.4%	-3.0%	8.3%	13.0%
Bonds					
US Treasuries	USD	-0.7%	-0.7%	0.7%	5.5%
US Treasuries (inflation protected)	USD	-1.0%	-0.7%	2.2%	6.1%
US Corporate (investment grade)	USD	-1.1%	-0.4%	3.0%	9.7%
US High Yield	USD	-0.4%	0.4%	7.8%	13.5%
UK Gilts	GBP	-0.1%	-0.1%	-2.9%	2.3%
UK Corporate (investment grade)	GBP	0.0%	0.5%	1.4%	7.1%
Euro Government Bonds	EUR	0.5%	0.7%	1.6%	6.7%
Euro Corporate (investment grade)	EUR	0.2%	0.8%	4.3%	8.2%
Euro High Yield	EUR	0.2%	0.4%	7.8%	12.2%
Global Government Bonds	USD	-1.3%	-1.5%	-2.3%	3.4%
Global Bonds	USD	-1.2%	-1.3%	-0.9%	5.1%
Global Convertible Bonds	USD	-0.7%	0.7%	5.9%	12.5%
Emerging Market Bonds	USD	-0.9%	-0.2%	5.5%	14.1%

Cumulative returns: Week ending 15 November, Month to date, YTD 2024, 12 months

Asset Class / Region	Currency	Week ending 15 November	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	-1.9%	0.4%	11.9%	25.7%
Australian Property Securities	AUD	2.7%	0.5%	20.5%	29.8%
Asia Property Securities	USD	-4.7%	-4.3%	-7.0%	-2.4%
Global Property Securities	USD	-2.4%	-1.2%	6.7%	18.3%
Currencies					
Euro	USD	-1.5%	-2.9%	-4.7%	-2.8%
UK Pound Sterling	USD	-2.1%	-1.8%	-1.1%	1.6%
Japanese Yen	USD	-1.1%	-1.4%	-8.7%	-2.0%
Australian Dollar	USD	-1.7%	-1.6%	-5.4%	-0.9%
South African Rand	USD	-3.3%	-3.1%	0.3%	-0.1%
Swiss Franc	USD	-1.2%	-2.4%	-5.4%	0.1%
Chinese Yuan	USD	-0.6%	-1.5%	-1.8%	0.2%
Commodities & Alternatives					
Commodities	USD	-2.4%	-1.7%	2.6%	-0.7%
Agricultural Commodities	USD	-1.7%	-0.3%	2.3%	0.0%
Oil	USD	-3.8%	-2.9%	-7.8%	-12.5%
Gold	USD	-4.5%	-6.4%	24.2%	30.7%

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

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