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Weekly

momentum

global investment management

"The exposure to high-quality assets in the UK that investment trusts offer, at wide discounts to net asset value, is compelling."

In plain sight

Richard Parfect

Portfolio Manager

24 June 2024

I recently read the book "Red Notice" by Bill Browder. Whilst having long been vaguely aware of his story through his appearance on news interviews, it's embarrassing to admit that 9 years had passed since publication before I read it. It is probably the best international political crime thriller, not least by the fact it tells the sequence of gripping yet tragic and, crucially, true events that surpasses some of the best Hollywood writing. It follows the story of how Bill Browder founded Hermitage Capital Management in 1996 and invested in Russian companies in the early years after the end of the Cold War. However, in doing so he and his team uncovered fraud and corruption that resulted in state sponsored murder instructed from the very top of the Kremlin. Browder, who's life remains under threat to this day, was knighted in the King's Birthday Honours this month. Similar events were of course exposed by others, not least the work and campaigning of Alexei Navalny who tragically fell victim to the regime this year.

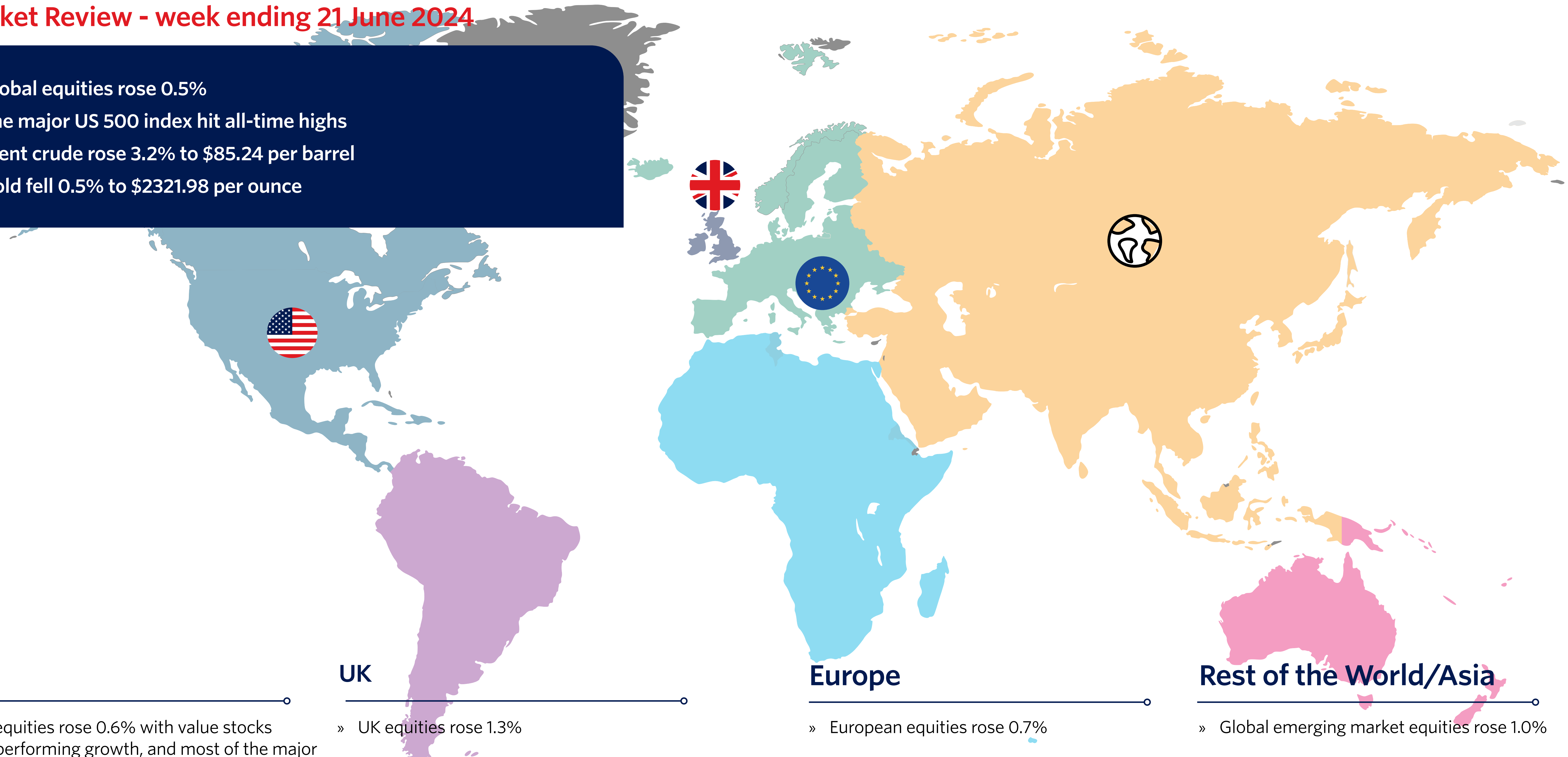
Investors who lost money when Russia invaded Ukraine in 2022 and saw their assets appropriated as a result of sanctions can't complain they weren't warned. I include myself here as I had a small amount invested in the country in my personal pension. People have a natural desire to ignore the risk of bad things to happen or at least rationalise them into thinking those bad things happen to other people. In someways that is a natural coping mechanism, otherwise we wouldn't get out of bed. With the recent commemorations of D-Day and Apple's dramatisation of the bombing campaign with Masters of the Air, it's incredible how those involved coped at the time in the face of such stark odds against survival.

In my case I hadn't bothered to explore in more detail some of the things we were being warned about with regards Russia and to think how events could play out. We always need to try and seek to learn lessons from such events. From my own perspective it has given belated cause to reappraise the risks of investing in countries that do not share the same values as us, indeed have interests counter to ours. This is especially important considering the available returns on offer in the UK and in countries closer to home given where valuations currently sit.

One of the most attractive areas in terms of valuation is that of investment trusts. I have written on this subject a number of times over the last 12 months due to the various headwinds they have faced: rising bond yields; structural outflows from UK index ETFs that hold investment trusts and of course the current interpretation and mis-application of EU cost disclosure rules. All of these headwinds are showing signs of reversal. Consequently, the exposure to high quality assets across infrastructure, property and private equity in the UK and the developed Western World that investment trusts offer, at wide discounts to net asset value, is compelling.

We use investment trusts extensively across the portfolios such as Momentum Diversified Growth Fund (MDGF) and Momentum Diversified Income Fund (MDIF); where the income generation from trusts is crucial. More recently we launched Momentum Real Assets Growth and Income (RAGI) which is a fund of investment trusts and offers a 'one stop shop' enabling access to the space for other ranges such as Harmony and the Momentum Managed Solutions.

Market Review - week ending 21 June 2024



- Global equities rose 0.5%
- The major US 500 index hit all-time highs
- Brent crude rose 3.2% to $85.24 per barrel
- Gold fell 0.5% to $2321.98 per ounce

US

- US equities rose 0.6% with value stocks outperforming growth, and most of the major benchmarks outperforming technology stocks
- The Commerce Department reported that retail sales had increased only 0.1% in May, according to advance estimates, while falling a downwardly revised 0.2% in April
- The Federal Reserve announced that industrial production had expanded 0.9% in May, well above consensus expectations and the fastest pace in nearly a year

UK

- UK equities rose 1.3%
- The Bank of England left its key interest rate unchanged at a 16-year high of 5.25%. Seven members of the Monetary Policy Committee voted to maintain the current rate, two backed a cut to 5%
- Headline inflation rate dropped to the central bank's target of 2% in May, down from 2.3% in April, whilst core inflation fell to 3.5% from 3.9%

Europe

- European equities rose 0.7%
- The Eurozone composite PMI (Purchasing Managers Index) including manufacturing and services fell to 50.8 from 52.2 in May
- With the upcoming first round French elections this Sunday, the far-right National Rally party are continuing to see their support increase with the latest poll of polls showing support at 33%, versus the 27% for the far-left New Popular Front (NPF) and 20% for Macron's movement

Rest of the World/Asia

- Global emerging market equities rose 1.0%
- Japanese equities fell 0.8%
- Chinese equities fell 0.5%
- Japan's core consumer price index rose 2.5% year on year in May, following a 2.2% uptick in April. Also, the flash composite PMI fell to 50.0, from 52.6 in May
- Chinese Industrial production increased by 5.6% in May from a year earlier, slowing from April's 6.7%, this was lower than expected

Market Performance - week ending 21 June 2024

		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 21 June**	**Month to date**	**YTD 2024**	**12 months**
Developed Markets Equities					
United States	USD	0.6%	3.6%	15.1%	26.5%
United Kingdom	GBP	1.3%	-0.2%	8.8%	13.8%
Continental Europe	EUR	0.7%	-0.6%	9.3%	15.8%
Japan	JPY	-0.8%	-1.7%	16.4%	21.5%
Asia Pacific (ex Japan)	USD	0.8%	3.9%	8.5%	11.4%
Australia	AUD	0.9%	1.2%	4.5%	10.8%
Global	USD	0.5%	1.9%	11.6%	21.7%
Emerging Markets Equities					
Emerging Europe	USD	2.5%	-1.1%	13.9%	29.8%
Emerging Asia	USD	0.8%	5.0%	11.1%	13.8%
Emerging Latin America	USD	0.8%	-6.1%	-15.7%	-7.7%
BRICs	USD	-0.4%	1.5%	6.5%	8.0%
China	USD	-0.5%	0.1%	6.9%	-1.2%
MENA countries	USD	0.1%	1.1%	-5.0%	-2.2%
South Africa	USD	7.4%	11.3%	6.6%	11.6%
India	USD	0.2%	4.4%	8.5%	23.8%
Global emerging markets	USD	1.0%	3.9%	7.4%	11.1%
Bonds					
US Treasuries	USD	-0.2%	1.6%	-0.2%	1.4%
US Treasuries (inflation protected)	USD	0.1%	1.1%	1.0%	2.3%
US Corporate (investment grade)	USD	-0.3%	1.2%	0.7%	5.5%
US High Yield	USD	0.2%	0.9%	2.6%	10.8%
UK Gilts	GBP	-0.2%	1.9%	-1.9%	5.8%
UK Corporate (investment grade)	GBP	0.0%	1.0%	0.1%	10.9%
Euro Government Bonds	EUR	-0.2%	0.8%	-1.4%	3.1%
Euro Corporate (investment grade)	EUR	-0.1%	0.8%	0.6%	6.5%
Euro High Yield	EUR	0.2%	0.5%	3.1%	10.3%
Global Government Bonds	USD	-0.3%	0.5%	-3.8%	-1.3%
Global Bonds	USD	-0.3%	0.6%	-2.4%	1.1%
Global Convertible Bonds	USD	0.2%	-0.1%	-1.6%	2.4%
Emerging Market Bonds	USD	-0.1%	1.2%	1.8%	8.8%

		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 21 June**	**Month to date**	**YTD 2024**	**12 months**
Property					
US Property Securities	USD	0.1%	1.4%	-2.1%	7.0%
Australian Property Securities	AUD	0.9%	2.7%	12.1%	21.0%
Asia Property Securities	USD	-3.1%	-4.4%	-11.9%	-11.3%
Global Property Securities	USD	-0.5%	-0.3%	-3.1%	6.3%
Currencies					
Euro	USD	-0.1%	-1.4%	-3.4%	-2.5%
UK Pound Sterling	USD	-0.4%	-0.7%	-1.0%	-0.9%
Japanese Yen	USD	-1.4%	-1.4%	-11.7%	-11.0%
Australian Dollar	USD	0.4%	0.0%	-2.8%	-2.2%
South African Rand	USD	2.4%	4.8%	1.6%	2.2%
Swiss Franc	USD	-0.4%	1.0%	-6.2%	0.0%
Chinese Yuan	USD	-0.1%	-0.3%	-2.2%	-1.1%
Commodities & Alternatives					
Commodities	USD	0.0%	-0.5%	8.2%	7.4%
Agricultural Commodities	USD	-2.7%	-5.3%	1.3%	-4.8%
Oil	USD	3.2%	4.4%	10.6%	10.5%
Gold	USD	-0.5%	-0.2%	12.6%	20.1%

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

For more information, please contact:

Distribution Services

E: distributionservices@momentum.co.uk

T: +44 (0)207 618 1806