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IMPERIUM CAPITAL

Global Matters Weekly

4 July 2022

Buy Now, Paid Lots

– **Matt Connor**

Over recent years, the acronym 'BNPL' has dominated headlines due to the stratospheric rise of companies such as Klarna and Clearpay offering consumers a modern spin on a type of credit that was made popular in the twentieth century, instalment plans. Headlines associated with Buy Now, Pay Later have overwhelmingly been negative as regulators look to crack down on loose lending amid the cost-of-living crisis. In this week's Global Matters Weekly we focus on 'BNPL' stocks; high dividend-yielding companies within our UK Equity portfolio that you can Buy Now, (and be) Paid Lots.

Our first example is Vistry Group, the UK's 'Large Housebuilder of the Year' with an estimated dividend yield of 8.8% that has grown by over 7% per annum over the last five years[1]. This impressive yield is coupled with an attractive valuation, trading at only 0.8x of its book value for a business that delivers double-digit return on equity.

In its latest results, Vistry delivered exceptional financial performance, growing revenue by 23% and doubling adjusted operating profit. It has since commenced a share buyback programme. The current housing market backdrop of high demand and lack of supply is overwhelmingly encouraging for Vistry, who have seen the positive momentum continue into this year and have already guided that pre-tax profit will be at the top-end of market forecasts, as a result of price increases outstripping build cost inflation.

An inflation beating dividend yield, high cash generation, and strong Environmental, Social and Governance (ESG) credentials sounds too good to be true, especially in the current high inflationary environment. However, Diversified Energy Co ticks all those boxes with an estimated dividend yield of just shy of 12%, having grown 13% per annum over the last three years with cash conversion of 93% and a $15m investment in reducing emissions.[2]

High-yielding and undervalued companies may provide investors with attractive returns.

Diversified Energy owns, operates, and retires natural gas wells in the United States (US) and produces enough natural gas to meet 5.5% of daily residential US demand3. Whilst on the surface a producer of natural gas may not seem like the best ESG candidate, it is the cleanest fossil fuel and Diversified Energy has a sustainability focus at the core of its business. The company performs asset management on existing oil and gas wells, preventing additional environmental impact of drilling new wells as well as removing a large financial liability of retiring wells from the States where it operates. Diversified Energy also recently invested to focus on leak detection and well retirement, exceeding its State-obligated targets by 70% for the latter.

As rampant inflation is at the forefront of investor's minds and with yields on cash and gilts dwarfed by inflation, high-yielding and undervalued companies may provide investors with attractive returns from both an income and capital appreciation perspective.

Sources: [1] Vistrygroup.co.uk. [2]Diversified Energy: 2021 Annual Report – cash conversion. [3]Diversified Energy: 2021 Sustainability Report

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The Marketplace

- Global equities fell 2.2% last week
- G7 ministers have reportedly agreed to explore imposing a cap on Russian gas and oil exports in the hope that it will help cushion the impact of higher energy prices on western economies
- Brent crude fell 1.3% over the week to $111.6 a barrel
- Gold fell 0.8% to $1811.4 per ounce

Market Focus

US

- US equities fell 2.2% last week
- House price growth showed signs of slowing with the S&P CoreLogic Case-Shiller index rising 20.4% year-on-year in April, down from the 20.6% gain in March
- GDP shrank at an annualised rate of 1.6% in Q1
- Personal spending for May came in at 0.2% below expectations of 0.4%
- The MNI Chicago PMI came in at 56.0 (vs. 58.0 expected)
- The ISM Manufacturing PMI dropped to 53.0 in June vs. expectations of 55.0
- The Dallas Fed's manufacturing activity index for June fell to -17.7 vs -6.5 expected, sitting at a 2-year low
- The Conference Board's consumer confidence index fell to the lowest level since February 2021 at 98.7 in June vs 100.0 expected
- Weekly initial jobless claims for the week ending 25 June came in at 231k vs. 230k expected.

Europe

- European equities returned -1.3% last week
- The Euro Area unemployment rate came in at 6.6% vs. 6.8% expected, its lowest level since the formation of the single currency
- German unemployment unexpectedly rose 133k in June (vs. -5k expected) as Ukrainian refugees are now being included in this measure
- The Euro Area's M3 money supply grew by 5.6% year-on-year in May, the slowest pace since February 2020
- Germany's GfK consumer confidence reading fell to a record low of -27.4 vs. -27.3 expected
- Spain's CPI for June came in at 10% year-on-year, surprising on the upside, vs. estimates of 8.7%
- Germany's CPI for June came in below expectations at 8.2% vs. 8.8%
- French CPI came in as expected at 6.5% in June.

UK

- UK equities fell 0.4% last week
- GDP for Q1 came in as expected at 0.8%
- Mortgage approvals for May were 66.2k vs. estimates for a fall to 64k.

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned -1.6% last week.
- Japanese equities returned -1.0% over the week.
- Chinese equities fell 0.2% last week
- The People's Bank of China (PBOC) Governor Yi Gang pledged to provide further monetary support to the economy to recover from Covid related lockdowns
- Unemployment in Japan edged up to 2.6% in May from 2.5% in the previous month
- Japan's retail sales came in at 3.6% year-on-year in May
- China's Caixin/Markit manufacturing PMI advanced to 51.7 in June, returning to expansionary territory for the first time in four months
- Tokyo's CPI rose 2.3% year-on-year in June with core CPI advancing 2.1%.

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Asset Class/Region	Currency	Currency returns			
		Week ending 1 July 2022	Month to date	YTD 2022	12 months
Developed Market Equities					
United States	USD	-2.2%	1.1%	-19.3%	-10.5%
United Kingdom	GBP	-0.4%	0.0%	1.7%	7.8%
Continental Europe	EUR	-1.3%	0.2%	-17.3%	-11.1%
Japan	JPY	-1.0%	-1.4%	-6.1%	-2.6%
Asia Pacific (ex Japan)	USD	-1.6%	-1.0%	-16.5%	-23.7%
Australia	AUD	-0.4%	-0.4%	-10.3%	-6.3%
Global	USD	-2.2%	0.5%	-20.1%	-14.2%
Emerging markets equities					
Emerging Europe	USD	-3.1%	-1.2%	-77.3%	-77.5%
Emerging Asia	USD	-1.7%	-0.8%	-17.9%	-26.1%
Emerging Latin America	USD	-1.3%	-0.8%	-1.4%	-16.1%
BRICs	USD	-0.3%	-0.2%	-17.1%	-29.9%
China	USD	-0.2%	0.0%	-11.2%	-31.5%
MENA countries	USD	1.4%	-0.2%	-1.4%	5.7%
South Africa	USD	-4.8%	-0.7%	-8.0%	-12.9%
India	USD	-0.5%	-0.2%	-13.6%	-3.9%
Global emerging markets	USD	-1.6%	-0.8%	-18.3%	-25.5%
Bonds					
US Treasuries	USD	1.4%	0.7%	-8.3%	-7.9%
US Treasuries (inflation protected)	USD	-0.3%	1.1%	-8.7%	-4.8%
US Corporate (investment grade)	USD	0.8%	0.6%	-13.9%	-13.7%
US High Yield	USD	-1.6%	0.2%	-14.0%	-12.8%
UK Gilts	GBP	1.7%	1.9%	-13.0%	-12.4%
UK Corporate (investment grade)	GBP	0.6%	1.3%	-13.1%	-13.5%
Euro Government Bonds	EUR	1.7%	1.3%	-11.1%	-11.6%
Euro Corporate (investment grade)	EUR	0.5%	0.8%	-11.1%	-11.7%
Euro High Yield	EUR	-1.9%	0.2%	-14.3%	-14.0%
Japanese Government	JPY	0.2%	0.2%	-3.0%	-3.1%
Australian Government	AUD	1.0%	0.5%	-9.7%	-10.8%
Global Government Bonds	USD	0.7%	0.7%	-13.6%	-15.1%
Global Bonds	USD	0.6%	0.4%	-14.0%	-15.6%
Global Convertible Bonds	USD	-1.7%	-1.2%	-20.7%	-25.0%
Emerging Market Bonds	USD	-0.3%	1.1%	-25.8%	-26.8%

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

Asset Class/Region	Currency	Currency returns			
		Week ending 1 July 2022	Month to date	YTD 2022	12 months
Property					
US Property Securities	USD	-0.3%	1.8%	-19.3%	-6.1%
Australian Property Securities	AUD	-3.2%	1.5%	-24.0%	-13.6%
Asia Property Securities	USD	1.4%	-0.2%	-4.7%	-13.3%
Global Property Securities	USD	-0.8%	0.7%	-18.7%	-12.6%
Currencies					
Euro	USD	-1.4%	-0.8%	-8.6%	-12.2%
UK Pound Sterling	USD	-1.8%	-1.1%	-11.0%	-12.5%
Japanese Yen	USD	-0.1%	0.3%	-15.0%	-17.5%
Australian Dollar	USD	-2.3%	-1.8%	-6.8%	-9.1%
South African Rand	USD	-3.7%	-0.8%	-2.8%	-12.0%
Swiss Franc	USD	-0.4%	-0.8%	-5.3%	-3.8%
Chinese Yuan	USD	-0.2%	0.0%	-5.2%	-3.5%
Commodities & Alternatives					
Commodities	USD	-2.4%	0.0%	23.1%	34.7%
Agricultural Commodities	USD	-3.6%	-2.1%	6.7%	20.0%
Oil	USD	-1.3%	-2.8%	43.5%	47.2%
Gold	USD	-0.8%	0.1%	-1.0%	2.2%
Hedge funds	USD	-0.2%	0.0%	-5.0%	-5.2%

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

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