

Global Matters Weekly

8 June 2020

Playing the odds

– Robert White, CFA

While markets continue their remarkable rebound, the most important event for many people this month will be the return of the Premier League, something that cannot come soon enough for loyal fans (particularly Liverpool supporters). The resumption of top flight football provides a welcome distraction during these trying times as the German Bundesliga has already shown, even if the atmosphere is somewhat diminished by empty stadiums. The great thing about professional sport is that so much is captured by data, the quality and depth of which is extremely rich. This is something it has in common with financial markets and – like financial markets – reveals interesting insights into the nature of human decision making which can be instructive for investors.

Perhaps the most undisputed statistical phenomenon in sport is the concept of home team advantage. This has been present across different sports over long time periods, and in the Premier League specifically it is estimated to increase the chances of winning by around 16%. The reasons for this are debated by statisticians and laymen alike, but empirical evidence points to social pressure exerted by home crowds on referees as a contributing factor¹. Recent results in the Bundesliga seem to support this theory, as the home win rate has dropped from 40% to 21% since teams have started to play so-called “ghost games” without supporters physically present.

Looking at betting data provides another interesting perspective. Rather than dispassionately weighing up statistical data to make decisions, many bettors are influenced by all sorts of often irrational factors. Studies have shown that gamblers are more inclined to back favourites over underdogs, as well as beloved local or otherwise glamorous teams, despite being offered relatively poor odds. Bookmakers of course are well aware of this fact,

and through accurate assessment of the odds as well as a strong understanding of customer behaviour, they are able to generate healthy profits.

The behavioural and emotional biases present in sports and betting markets are examples of the sort of thinking that influences all human decision making, and behavioural finance theory has been successful in describing how this also applies to investment decisions. Markets are after all a social construct where fair price is determined by the assessment of independent buyers and sellers. Investors can find irrational comforts in their favourite stocks, overpaying for recent winners or familiar names they know well from their domestic market. They can also be swayed by the power of crowds, following popular opinion rather than making difficult decisions on their own merits.

Making correct investment decisions is inherently more complex and consequential than predicting the outcome of a sporting fixture, and so it is important that investors are well informed and aware of the potential for emotional biases to impact decision making. There is no shortage of historical data and academic theory to inform decisions, but such information needs to be understood in a contemporary context and applied appropriately.

Our goal as active managers is to apply this knowledge correctly to help our clients achieve their investment goals. Inefficient markets provide specialist managers with the opportunity to generate excess profits in their areas of expertise, while our diversified approach to portfolio construction targets factors that have been shown to generate long term returns while limiting risk. We believe this is the best way to maximise the odds of success, and over the long term is certainly preferable to betting against the bookmakers!

¹ <https://freakonomics.com/2011/12/18/football-freakonomics-how-advantageous-is-home-field-advantage-and-why/>

The Marketplace

- Global equities rallied to post-lockdown highs
- Big upside surprise in US jobs data
- Brent crude rallied 19.7% ending the week at \$42.3 a barrel
- Gold fell 2.6% ending the week at \$1685.1 an ounce

Market Focus

US

- The US's trade representative sounded a positive note on the phase one trade deal with China saying it was fulfilling its commitments on structural change.
- US equities ended the week up 4.9%, their best weekly gain in two months. That's a rise of 42.8% from the March low and just -5.9% off their all-time high. The only laggards were consumer staples and healthcare
- The U.S. markets ended the week on a positive note after the employment report showcased an unexpected increase in payrolls. Nonfarm payrolls increased by 2.5 million and private payrolls by 3.1 million, smashing consensus estimates of -7.5 and -6.75 million respectively
- The US 10-year Treasury yield rose to its highest level since March as investors sold off following positive economic data. It's currently standing at 0.9%

Europe

- German Chancellor Angela Merkel's coalition agreed on a sweeping €130Bn stimulus package designed to spur short-term consumer spending and get businesses investing again. The plan tops expectations by 30%.
- President Trump says the EU must lower the tariff on U.S. lobster or he will put tariffs on EU cars.

- Encouraging signs that virus spread is contained as European economies ease lockdown
- The ECB keeps key interest rates unchanged. Eurozone inflation slowed to 0.1%, a 4-year low. The eurozone PMI for May rose to 31.9 from 13.6 the previous month

UK

- The UK is in talks with a rival to Huawei in the development of 5G as Boris Johnson's officials revise the British government's stance toward China in the wake of the global coronavirus pandemic
- The EU's chief negotiator, Michel Barnier expressed frustration "that there was no substantial progress" in the ongoing talks over the UK's future relationship with the bloc. Five months remain for the preparation of a full legal text of any agreement
- Bank of England Governor Bailey has warned that about £36Bn of UK government-backed emergency loans to small business are at the risk of turning toxic, potentially hampering the economy's recovery from the pandemic
- The UK is pressing ahead with a controversial two-week quarantine on international arrivals from today. Major airline groups are threatening to jointly sue the government over the policy which they argue is ineffective and potentially ruinous to their recovery.

Asia/Rest of The World

- Saudi Arabia made some of the biggest price increases for crude exports in at least two decades, doubling down on its strategy to bolster the oil market after OPEC+ producers extended historic output cuts
- Japan's official unemployment rate at 2.6% for April. However, that doesn't include 4.2 million furloughed workers which would have increased the rate to 11.4%
- Chinese equities rose last week with the benchmark index gaining 2.8%

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Asset Class/Region	Currency	Currency returns			
		Week ending 5 June 2020	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	4.9%	4.9%	-0.5%	14.6%
United Kingdom	GBP	6.5%	6.5%	-13.6%	-8.2%
Continental Europe	EUR	6.9%	6.9%	-6.5%	4.7%
Japan	JPY	3.1%	3.1%	-5.1%	8.2%
Asia Pacific (ex Japan)	USD	7.9%	7.9%	-6.3%	4.9%
Australia	AUD	4.2%	4.2%	-9.0%	-2.2%
Global	USD	5.6%	5.6%	-3.1%	10.1%
Emerging markets equities					
Emerging Europe	USD	6.5%	6.5%	-19.5%	-5.7%
Emerging Asia	USD	7.1%	7.1%	-4.5%	9.4%
Emerging Latin America	USD	15.8%	15.8%	-28.7%	-21.7%
BRICs	USD	7.2%	7.2%	-8.1%	5.0%
China	USD	6.3%	6.3%	1.0%	19.1%
MENA countries	USD	2.9%	1.7%	-16.4%	-15.1%
South Africa	USD	13.1%	13.1%	-22.3%	-17.7%
India	USD	5.9%	5.9%	-21.1%	-21.5%
Global emerging markets	USD	7.9%	7.9%	-9.3%	2.4%
Bonds					
US Treasuries	USD	-1.6%	-1.6%	7.3%	10.1%
US Treasuries (inflation protected)	USD	-0.9%	-0.9%	4.2%	7.2%
US Corporate (investment grade)	USD	0.5%	0.5%	3.5%	10.5%
US High Yield	USD	3.1%	3.1%	-1.8%	4.0%
UK Gilts	GBP	-2.7%	-2.7%	7.5%	9.6%
UK Corporate (investment grade)	GBP	0.1%	0.1%	1.8%	6.5%
Euro Government Bonds	EUR	-0.7%	-0.7%	0.3%	2.8%
Euro Corporate (investment grade)	EUR	1.2%	1.2%	-1.3%	0.8%
Euro High Yield	EUR	3.0%	3.0%	-4.3%	0.9%
Japanese Government	JPY	-0.5%	-0.5%	-1.1%	-1.5%
Australian Government	AUD	-1.2%	-1.2%	2.8%	4.4%
Global Government Bonds	USD	-0.8%	-0.8%	3.2%	5.3%
Global Bonds	USD	0.1%	0.1%	2.7%	5.5%
Global Convertible Bonds	USD	2.6%	2.6%	4.4%	11.5%
Emerging Market Bonds	USD	2.1%	2.1%	-0.1%	4.4%

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Property					
US Property Securities	USD	11.2%	11.2%	-12.4%	-7.7%
Australian Property Securities	AUD	4.7%	4.7%	-17.0%	-17.0%
Asia Property Securities	USD	7.2%	7.2%	-14.8%	-10.7%
Global Property Securities	USD	9.7%	9.7%	-14.3%	-7.5%
Currencies					
Euro	USD	1.7%	1.7%	0.6%	0.5%
UK Pound Sterling	USD	2.9%	2.9%	-4.4%	-0.1%
Japanese Yen	USD	-1.8%	-1.8%	-1.1%	-1.3%
Australian Dollar	USD	5.0%	5.0%	-0.8%	0.0%
South African Rand	USD	4.2%	4.2%	-17.1%	-11.9%
Swiss Franc	USD	-0.1%	-0.1%	0.4%	3.3%
Chinese Yuan	USD	0.7%	0.7%	-1.7%	-2.5%
Commodities & Alternatives					
Commodities	USD	4.7%	4.7%	-25.0%	-18.6%
Agricultural Commodities	USD	2.4%	2.4%	-9.7%	-7.7%
Oil	USD	19.7%	19.7%	-35.9%	-30.2%
Gold	USD	-2.6%	-2.6%	10.7%	26.8%
Hedge funds	USD	0.7%	0.7%	-2.1%	3.3%

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