

## Love Actually? Disappointment, actually

## Global Matters Weekly

13 February 2023

– Lorenzo La Posta, CFA — *Portfolio Manager*

A few weeks ago, during the Christmas period, I treated myself to the ideal night in. I was sat on my comfy sofa, blanket on my legs, my girlfriend by my side, hot chocolate in one hand, and TV remote in the other. The lights from the Christmas tree were too bright to enjoy a proper televised experience, but that didn't bother me. What did bother me was the exhausting job of selecting a movie to watch on Netflix, especially for a rom-com junkie like me who's probably seen 99% of the platform's genre. Then it struck me: I hadn't watched *Love Actually*, supposedly the masterpiece of Christmas movies and a true showcase of top-tier British actors. And what a disappointment that was, to see such a great cast interpret (in my opinion) a poorly-written story. It could have been a new holiday tradition, but now I don't think I'll watch it again.

What does this have to do with investments, you may ask? Well, this was just another example of Tom Magliozzi's formula: happiness equals reality minus expectations. I had massive expectations, but the reality was only mediocre, though if I'd have watched it without any expectation at all, I might have liked it. This is precisely the risk that highly valued growth stocks face constantly.

Adidas, the second largest sportswear manufacturer in the world, lost more than 12% overnight as they warned shareholders of a potential major impact on their profits after ending their partnership with Kanye West following his anti-Semitic comments, and that they would take a €500m hit to profits if the entire stock of Yeezy sneakers got written off. At the time of writing, Lyft (the fast-growing Californian ride-sharing platform) is heading for its biggest single-day decline ever (about -35%), after forecasting dramatically lower profits than expected, and saying they will cut prices in an attempt to attract and keep customers. Electronic Arts, one of the longest standing American video game companies (who remembers "E-A-Sports, it's in the game!" when playing FIFA 98?) plummeted around 10%, as it announced to investors that they were killing the mobile versions of two popular games, laying some employees off, and announcing disappointing earnings forecasts.

### At times great companies might not be great investments

Intel tumbled more than 8% after the semiconductor giant reported Q4 results that missed expectations and indicated further weakness in their cloud computing, data centre, and AI-related revenues. Nintendo's stock price dropped more than 7% after they cut their full-year earnings and revenue outlook on weaker demand for their aging Switch console, expected to be lower than initially targeted by one million units. Netflix, the largest online streaming platform with more than 220 million subscribers worldwide, lost more than 50% in April last year after showing that this number had shrunk for the first time in more than 10 years.

What all these companies have in common is undeniable quality, strong market position, and leadership within their sectors. Few people out there would question whether these are great companies, but at times great companies might not be great investments. Assuming that a good investment is one where you pay a little for something that is worth a lot, the issue with great companies is that everyone recognises their worth, uniqueness and leadership, and many are willing to pay up for quality, sometimes too much. When a stock is priced for perfection, or for eternal double-digit growth, markets are extremely susceptible to any obstacle (or a reality check) that might come along the way. Whilst we believe that it's only fair to pay up for those rare gems, the fast growers, the disruptors and the dominants, a certain valuation discipline is always necessary. This discipline encourages investors to be realistic about their assumptions, investment thesis, and expectations and disappointments become less common.

I certainly wasn't very disciplined when I decided to watch *Love Actually*, my expectations were excessive, and the movie underperformed the benchmark (which is *Home Alone!*)

## Global Matters Weekly

13 February 2023

### The Marketplace

- Global equities fell 1.3% last week
- Three Unidentified Flying Objects were downed over North America
- Brent crude rose 8.1% last week to \$86.39 a barrel
- Gold was flat at \$1865.57 per ounce last week

### Market Focus

#### US

- US equities fell 1.1% last week, with energy, oil, and gas outperforming, while retail and commercial services underperformed
- Initial jobless claims for the week ending 4 February was 196k (vs 190k expected)
- The US has downed three flying objects in as many days, the fourth this month. The Pentagon doesn't yet know what the most recent objects were but said they were approaching sensitive military sites and posed a potential threat to commercial aviation

#### Europe

- European equities fell 1.2% last week, with oil and gas and healthcare outperforming, while travel, leisure, and retail underperformed
- German Consumer Price Index year-on-year came in at 8.7% (vs 8.9% expected)
- Turkey's Tayyip Erdogan faces mounting criticism from quake survivors and opposition parties for failing to enforce quality rules during a building boom, contributing to the death toll, which now tops 33,000

#### UK

- UK equities returned 0.2% last week
- UK Q4 Gross Domestic Product was flat, missing a technical recession
- December manufacturing production was flat (vs -0.2% expected)
- January construction Purchasing Managers Index dropped to 48.4 from 48.8 in December (vs 49.6 expected)

#### Asia/Rest of The World

- Global emerging market equities fell 2.4% last week
- Japanese equities returned 0.8% last week
- The Nikkei reported the Japanese government would nominate Kazuo Ueda as the next Bank of Japan governor
- Chinese equities fell 2.9% last week
- China's consumer inflation increased last month with the Lunar New Year holiday and the end of COVID-19 restrictions spurring food costs. The Consumer Price Index rose 2.1% from a year earlier after gaining 1.8% in December
- G-7 members are discussing sanctions on Chinese, Iranian, and North Korean firms that are believed to be providing Russia with parts and technology for military aid.

Global Matters Weekly

13 February 2023

Asset Class/Region	Currency	Currency returns			
		Week ending 10 Feb. 2023	Month to date	YTD 2023	12 months
<b>Developed Market Equities</b>					
United States	USD	-1.1%	0.4%	6.7%	-8.1%
United Kingdom	GBP	0.2%	1.7%	5.8%	8.3%
Continental Europe	EUR	-1.2%	0.9%	8.5%	-0.9%
Japan	JPY	0.8%	0.6%	5.0%	4.0%
Asia Pacific (ex Japan)	USD	-2.2%	-1.3%	7.2%	-11.7%
Australia	AUD	-1.6%	-0.6%	5.6%	6.7%
Global	USD	-1.3%	0.0%	7.1%	-8.3%
<b>Emerging markets equities</b>					
Emerging Europe	USD	-4.2%	-2.8%	0.6%	-71.2%
Emerging Asia	USD	-2.3%	-1.2%	7.4%	-15.3%
Emerging Latin America	USD	-2.3%	-5.7%	3.7%	1.4%
BRICs	USD	-2.3%	-3.0%	4.0%	-19.5%
China	USD	-2.9%	-3.2%	8.2%	-16.6%
MENA countries	USD	-1.5%	-1.7%	-0.2%	-14.4%
South Africa	USD	-5.1%	-3.6%	0.9%	-13.5%
India	USD	-0.2%	0.2%	-1.2%	-6.5%
Global emerging markets	USD	-2.4%	-1.7%	6.0%	-16.6%
<b>Bonds</b>					
US Treasuries	USD	-1.2%	-1.3%	1.2%	-7.9%
US Treasuries (inflation protected)	USD	-0.5%	-0.8%	1.1%	-7.2%
US Corporate (investment grade)	USD	-1.7%	-1.6%	2.3%	-9.0%
US High Yield	USD	-1.8%	-0.8%	3.1%	-5.2%
UK Gilts	GBP	-2.4%	-0.8%	1.9%	-18.3%
UK Corporate (investment grade)	GBP	-2.0%	-0.1%	4.0%	-11.7%
Euro Government Bonds	EUR	-1.2%	-0.3%	2.2%	-13.6%
Euro Corporate (investment grade)	EUR	-0.8%	0.1%	2.1%	-9.2%
Euro High Yield	EUR	-0.2%	1.0%	4.2%	-5.0%
Japanese Government	JPY	-0.4%	0.3%	0.0%	-4.2%
Australian Government	AUD	-2.0%	-1.0%	2.1%	-6.6%
Global Government Bonds	USD	-1.6%	-1.4%	1.4%	-13.4%
Global Bonds	USD	-1.8%	-1.5%	1.8%	-12.7%
Global Convertible Bonds	USD	-1.9%	-0.9%	4.3%	-12.7%
Emerging Market Bonds	USD	-3.4%	-2.1%	1.4%	-19.9%

Global Matters Weekly

13 February 2023

Asset Class/Region	Currency	Currency returns			
		Week ending 10 Feb. 2023	Month to date	YTD 2023	12 months
<b>Property</b>					
US Property Securities	USD	-1.9%	-0.8%	9.7%	-10.0%
Australian Property Securities	AUD	-5.7%	-1.1%	6.9%	-11.9%
Asia Property Securities	USD	-1.4%	-1.5%	1.1%	-11.5%
Global Property Securities	USD	-2.3%	-1.1%	7.2%	-13.4%
<b>Currencies</b>					
Euro	USD	-1.5%	-1.8%	-0.4%	-7.0%
UK Pound Sterling	USD	-0.2%	-2.2%	-0.4%	-11.5%
Japanese Yen	USD	-0.3%	-1.0%	-0.4%	-11.8%
Australian Dollar	USD	-0.4%	-1.9%	1.4%	-4.1%
South African Rand	USD	-2.4%	-2.6%	-4.7%	-15.6%
Swiss Franc	USD	0.0%	-0.8%	-0.3%	-0.1%
Chinese Yuan	USD	-0.5%	-0.8%	1.2%	-6.7%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	2.4%	-1.8%	-1.7%	5.7%
Agricultural Commodities	USD	0.5%	-0.4%	1.9%	4.1%
Oil	USD	8.1%	2.2%	0.6%	-5.5%
Gold	USD	0.0%	-3.3%	2.3%	1.6%
Hedge funds	USD	-0.1%	0.2%	1.8%	-1.8%

## Important notes

This document is for information purposes only and does not constitute any investment advice. This document is only intended for use by Imperium Capital and their clients. This does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the

underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

*Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, EC4R 1EB*

*Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom.*

© Momentum Global Investment Management Limited 2023