IMPERIUM CAPITAL

momentum

An industry in constant evolution

Global Matters Weekly

18 January 2021

– **Robert White, CFA**

It is generally accepted that 2020 saw changes in the way we use technology that are likely to persist even after the pandemic ends. Many changes to society and markets already appear self-evident today, and developing a full understanding of the implications will be important for active managers over the years to come. The Christmas break provided us with a chance to ponder more introspectively over the impact these changes may have on the investment management industry itself, and how best to serve our clients over long term.

Much has been written on how society will change following the pandemic and there are several examples of interesting shifts in consumer trends. My favourite example – albeit admittedly very niche – has been the explosion of interest in the 1,500-year-old game of chess since the pandemic. Despite the success of The Queen's Gambit on Netflix, who would have thought the game would become one of the fastest growing spectator sports on video streaming services such as Twitch[1].

> A key pillar of our philosophy at Momentum is exceptional client service; our investment staff are acutely aware that investing is a journey, and helping clients to remain invested through times of extreme uncertainty is often the most valuable service advisors can provide for their clients.

Investment management has an even longer history; its roots go back 4,000 years to ancient Mesopotamia, although the first stock exchange wasn't established until the early 17th century in Amsterdam. The profession has of course progressed somewhat since then, maturing greatly through the 20th century as a new regulatory framework developed after the Great Depression, and academics developed more precise mathematical understanding of concepts such as diversification and value.

Although the use of such techniques greatly helps investors today, the experience of the pandemic has been a stark reminder that mathematics and volatility numbers do not always accurately account for all investment risks. Tail risk or so-called "black swan" events such as the pandemic are notoriously hard to incorporate in models, and when they occur, investors are much more focussed on the risk of permanent capital loss rather than any statistical measures of historic price dispersion. A key pillar of our philosophy at Momentum is exceptional client service; our investment staff are acutely aware that investing is a journey, and helping clients to remain invested through times of extreme uncertainty is often the most valuable service advisors can provide for their clients.

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Another important issue has been the importance of sustainability in investing. During an international crisis such as this, investors are increasingly thinking about social issues as well as returns, and pressure on boards is increasing through greater numbers of successful shareholder resolutions on ESG matters[2]. The most progressive companies are reacting to this demand, and are mindful of the wellbeing of a broader range of stakeholders than they have been in the past. This is an area where active managers have been ahead of the curve, naturally being more engaged with corporate boards than passive investors that narrowly follow indices.

A final word should be said on the impact of technological innovation generally, as the investment management industry has been operating at the forefront of areas such as natural language processing within AI. The amount of data available today means that investors are constantly looking for an edge over peers through new developments in tech, and increasingly sophisticated computer-driven systematic strategies are becoming more popular. This is a trend we have already embraced at Momentum, blending systematic and traditional strategies to optimise performance for our clients over the long term.

[1] https://www.cbsnews.com/news/online-chess-makes-its-biggest-move/
[2] https://www.ft.com/content/844783f8-c9c4-4cda-960f-bec2543a5e1

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The Marketplace

- Global equities fell -1.4% last week
- President Trump became the first US President to be impeached for a second time
- Brent crude fell -1.6% ending the week at $55.1 a barrel
- Gold fell -1.1% to end the week at $1828.5 an ounce

Market Focus

US

- The large-cap US equity benchmark returned -1.5% over the week
- The 10-year Treasury yield was little changed at 1.1%
- Weekly initial jobless claims came in at 965k, well above the expected 789k and the highest level since August
- The unemployment rate stayed steady at 6.7%, breaking a 7-month streak of improvement
- Nonfarm payrolls for December fell by 140k, against an expected increase of 71k
- The CPI data for December showed prices rose by 0.4% month-on-month, leaving the annual reading at 1.4%
- President-Elect Biden announced a $1.9tn stimulus plan, including direct payments to individuals, small business, state and local government aid
- Fed Chair Powell said that the Fed will be careful in communicating the gradual taper of asset purchases.

UK

- UK equities fell -1.8% on the week
- Bank of England Governor Bailey continued to downplay the likelihood of negative rates, stating that there are "a lot of issues" with the policy tool
- The UK's GDP declined 2.6% in November, the first such contraction since April.

Europe

- The main continental European equity index fell -0.8% last week
- The Euro Area industrial production data for November showed a 2.5% month-on-month increase, against 0.2% expected
- Euro area unemployment fell to 8.3%, against 8.5% expected
- European governments continue to toughen and extend coronavirus lockdowns as new variants emerge, including Italy, Switzerland and Germany
- Heightened political instability continues in Italy as speculation continues over a potential government collapse
- Germany's GDP contracted by 5% in 2020, a smaller contraction than forecast.

Asia/Rest of The World

- The global emerging markets equity benchmark rose +0.3% last week
- Governor Kuroda of the Bank of Japan asserted that the economy was showing signs of recovery
- Japan widened its state of emergency status as coronavirus continues to spread
- The US added another nine Chinese companies to its investment blacklist, as the Trump administration claims they have ties to China's military.

Past performance is not indicative of future returns.

Source: Bloomberg. Returns in local currency unless otherwise stated.

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Asset Class/Region	Currency	Currency returns			
		Week ending 15 Jan. 2021	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	-1.5%	0.4%	0.4%	16.0%
United Kingdom	GBP	-1.8%	4.4%	4.4%	-10.6%
Continental Europe	EUR	-0.8%	1.6%	1.6%	2.1%
Japan	JPY	0.1%	2.9%	2.9%	9.9%
Asia Pacific (ex Japan)	USD	0.2%	5.2%	5.2%	25.2%
Australia	AUD	-0.6%	2.0%	2.0%	-1.2%
Global	USD	-1.4%	1.0%	1.0%	15.3%
Emerging markets equities					
Emerging Europe	USD	-1.3%	4.0%	4.0%	-11.3%
Emerging Asia	USD	0.5%	5.9%	5.9%	32.1%
Emerging Latin America	USD	-2.2%	1.3%	1.3%	-11.3%
BRICs	USD	0.9%	4.7%	4.7%	19.6%
China	USD	1.6%	5.5%	5.5%	31.1%
MENA countries	USD	1.9%	3.2%	3.2%	-0.3%
South Africa	USD	2.1%	1.3%	1.3%	-1.4%
India	USD	0.9%	3.1%	3.1%	14.3%
Global emerging markets	USD	0.3%	5.2%	5.2%	21.9%
Bonds					
US Treasuries	USD	0.1%	-1.2%	-1.2%	6.2%
US Treasuries (inflation protected)	USD	0.5%	-0.4%	-0.4%	10.1%
US Corporate (investment grade)	USD	0.4%	-1.1%	-1.1%	7.8%
US High Yield	USD	0.1%	0.4%	0.4%	6.7%
UK Gilts	GBP	0.1%	-1.4%	-1.4%	5.2%
UK Corporate (investment grade)	GBP	-0.2%	-0.9%	-0.9%	6.2%
Euro Government Bonds	EUR	-0.2%	-0.3%	-0.3%	4.4%
Euro Corporate (investment grade)	EUR	-0.1%	0.1%	0.1%	2.7%
Euro High Yield	EUR	-0.2%	0.4%	0.4%	2.3%
Japanese Government	JPY	0.0%	-0.1%	-0.1%	-0.7%
Australian Government	AUD	0.3%	-0.5%	-0.5%	2.4%
Global Government Bonds	USD	-0.4%	-1.2%	-1.2%	8.4%
Global Bonds	USD	-0.4%	-1.0%	-1.0%	8.3%
Global Convertible Bonds	USD	-0.8%	0.8%	0.8%	23.6%
Emerging Market Bonds	USD	-0.8%	-2.2%	-2.2%	3.7%

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

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Asset Class/Region	Currency	Currency returns			
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Property					
US Property Securities	USD	2.4%	-0.2%	-0.2%	-9.7%
Australian Property Securities	AUD	-1.2%	-3.2%	-3.2%	-14.9%
Asia Property Securities	USD	0.1%	0.4%	0.4%	-11.0%
Global Property Securities	USD	0.7%	-0.8%	-0.8%	-8.3%
Currencies					
Euro	USD	-1.1%	-1.1%	-1.1%	8.4%
UK Pound Sterling	USD	0.2%	-0.3%	-0.3%	4.4%
Japanese Yen	USD	0.2%	-0.5%	-0.5%	5.9%
Australian Dollar	USD	-0.5%	0.4%	0.4%	11.7%
South African Rand	USD	0.8%	-3.4%	-3.4%	-5.2%
Swiss Franc	USD	-0.4%	-0.6%	-0.6%	8.3%
Chinese Yuan	USD	-0.1%	0.7%	0.7%	6.3%
Commodities & Alternatives					
Commodities	USD	0.8%	4.2%	4.2%	-3.0%
Agricultural Commodities	USD	2.9%	4.3%	4.3%	21.2%
Oil	USD	-1.6%	6.4%	6.4%	-13.9%
Gold	USD	-1.1%	-3.5%	-3.5%	17.7%
Hedge funds	USD	0.3%	1.1%	1.1%	6.9%

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

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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).

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