IMPERIUM CAPITAL

momentum

Outrunning dinosaurs with artificial intelligence

Global Matters Weekly

18 July 2022

– **Lorenzo La Posta, CFA**

I am a Millennial, born in the early 90s, which makes me probably one of the last generations to have experienced life before digitalisation took over. Maybe I was too young to be afraid of the millennium bug, but as a kid, using the internet meant monopolising my home's landline. Digital technologies, once a premium item for few, are today embedded in all aspects of our lives and have brought significant changes and improvements to the way we live and operate. Across the many fields of digital innovation, artificial intelligence (AI) has been the most mysterious and perhaps misunderstood: not just an inspiration for fantasy novels, but a game-changer in information processing, used today mostly in search engines, autonomous vehicles, facial recognition, virtual assistants, and automatic language translation.

Ever since the two letters were first put alongside in the 1950s, AI has seen lovers and haters; those who think robots are going to revolt and destroy mankind and those who think AI is just a cool nickname for using a calculator. The reality is (as always) more boring and way simpler: artificial intelligence is simply a discipline across mathematics, statistics, and information technology that seeks to mimic human cognitive skills within a computer. These skills include learning, processing, perceiving, rationality, and logic.

The investment industry has been trying to take advantage of AI to provide better services, from a customer relation perspective to user experience, or from investment strategies to risk management. In particular, we have been exploring what benefits an AI interface can bring to an investment strategy, especially when integrating digital and analogic, quantitative and qualitative, machine and human brain. A well-trained machine can analyse large datasets and discover new information, change, and adapt to fast-changing dynamics, compensate for human cognitive biases (hindsight, hedging, anchoring, confirmation bias etc.) and for human weaknesses (the struggles with complexity), with immediate application in security selection, asset allocation and research, more generally.

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We still have question marks, but the more we learn about it, the more we see the strengths and weaknesses of incorporating artificial intelligence within an investment process. Naturally, there are also some myths and untruths to put right. AI is not always right, especially when the input data is "trash", or problems are ill-defined; AI is not a black box, or at least no more than a person's mind; AI is not just a fancy name for a quantitative strategy, as the latter is a human-driven, human-defined set of rules while the former is only a human-supervised autonomous process; and AI will definitely not solve all your problems, as that would be called "magic".

As an investment manager, we need to keep exploring the extent to which artificial intelligence can enhance our existing investment research capabilities. We need to operate closer to the frontiers of where technology is going. Unless we can tap into that and adopt a more flexible approach to technology, we will lose out as an industry. We risk becoming dinosaurs.

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The **Marketplace**

- Global equities fell 1.3% last week
- Following his visit to Saudi Arabia, US President Joe Biden announced Saudi Arabia was 'committed to support global oil market balancing'
- Brent crude fell 5.5% over the week to $101.16 a barrel
- Gold fell 2.0% to $1708.17 per ounce

Market **Focus**

US

- US equities fell 0.9% last week
- The headline US Consumer Price Index (CPI) reading for June came in at 1.3% (vs. 1.1% expected), the highest since September 2005
- Year-on-year Consumer Price Index (CPI) rose to its highest level since 1981, at 9.1%
- US producer price inflation was 1.1% in June (vs. 0.8% expected)
- The weekly initial jobless claims for the week ending 9 July came in at 244k (vs. 235k expected), the highest level since November 2021
- US earnings season kicked off, with major US financials disappointing. JPMorgan suspended share buybacks, as it looked to improve capital ratios.

Europe

- European equities returned 0.7% last week
- Italian retail sales for May grew by 1.9% (vs. 0.4% expected)
- German ZEW survey which measures economic and financial sentiment saw the expectations reading fall to its lowest level since the sovereign debt crisis at -53.8 (vs. -40.5 expected), whilst the current situation reading fell to -45.8 (vs. -34.5 expected)
- In the Euro Area, industrial production in May grew by 0.8% (vs. 0.3% expected)
- Italian Prime Minister Draghi tried to tender his resignation after the Five Star Movement boycotted a confidence vote in the Senate. His resignation was rejected by President Mattarella.

UK

- UK equities fell by 0.4% last week
- GDP grew by 0.5% in May
- Industrial production rose by 0.9% in May following a 0.1% decline in April
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- Industrial production rose by 0.9% in May following a 0.1% decline in April.

Asia/Rest of The World

- Global emerging market equities fell 3.7% over the week
- In China, Shanghai city reported 59 new infections for Monday, above 50 for the fourth day in a row thus prompting the city authorities to another mass testing effort after finding a highly transmissible Omicron subvariant
- Japanese equities rose 0.3% over the week
- Chinese equities fell 7.4% over the week
- China's Q2 GDP data showed economic growth slowed to just 0.4% year-on-year in Q2 (vs. 1.2% expected). On a quarter-on-quarter basis, there was a 2.6% contraction below expectations of -2.0%, marking the first quarterly contraction since Q1 2020 when the Covid-19 pandemic started.

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Asset Class/Region	Currency	Currency returns			
		Week ending 15 July 2022	Month to date	YTD 2022	12 months
Developed Market Equities					
United States	USD	-0.9%	2.1%	-18.5%	-10.5%
United Kingdom	GBP	-0.4%	-0.1%	1.6%	9.1%
Continental Europe	EUR	-0.7%	1.9%	-15.9%	-9.7%
Japan	JPY	0.3%	1.2%	-3.7%	-0.1%
Asia Pacific (ex Japan)	USD	-3.4%	-3.0%	-18.2%	-24.4%
Australia	AUD	-1.1%	0.6%	-9.4%	-6.2%
Global	USD	-1.3%	0.9%	-19.8%	-14.3%
Emerging markets equities					
Emerging Europe	USD	-4.4%	-6.9%	-78.6%	-78.5%
Emerging Asia	USD	-3.7%	-3.5%	-20.1%	-27.1%
Emerging Latin America	USD	-4.5%	-4.4%	-4.9%	-19.0%
BRICs	USD	-5.7%	-4.9%	-21.1%	-31.6%
China	USD	-7.4%	-7.1%	-17.6%	-34.0%
MENA countries	USD	-1.3%	-2.6%	-3.8%	4.4%
South Africa	USD	-6.7%	-5.2%	-12.2%	-16.5%
India	USD	-1.6%	0.7%	-12.9%	-4.6%
Global emerging markets	USD	-3.7%	-3.5%	-20.5%	-26.7%
Bonds					
US Treasuries	USD	0.9%	0.5%	-8.5%	-9.1%
US Treasuries (inflation protected)	USD	1.0%	1.2%	-8.5%	-5.9%
US Corporate (investment grade)	USD	1.1%	1.1%	-13.4%	-14.0%
US High Yield	USD	0.3%	1.8%	-12.7%	-11.5%
UK Gilts	GBP	0.4%	0.3%	-14.3%	-14.6%
UK Corporate (investment grade)	GBP	0.3%	0.6%	-13.7%	-14.6%
Euro Government Bonds	EUR	1.2%	1.7%	-10.7%	-12.1%
Euro Corporate (investment grade)	EUR	0.8%	2.1%	-10.0%	-11.0%
Euro High Yield	EUR	0.4%	1.4%	-13.2%	-13.1%
Japanese Government	JPY	0.2%	0.2%	-2.9%	-3.5%
Australian Government	AUD	0.4%	1.5%	-8.9%	-11.1%
Global Government Bonds	USD	0.1%	-0.7%	-14.7%	-17.1%
Global Bonds	USD	0.3%	-0.6%	-14.8%	-17.1%
Global Convertible Bonds	USD	-1.1%	-0.4%	-21.2%	-24.1%
Emerging Market Bonds	USD	-1.8%	-1.9%	-28.0%	-29.6%

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	-0.4%	0.5%	-20.3%	-10.5%
Australian Property Securities	AUD	-0.1%	5.2%	-21.2%	-9.8%
Asia Property Securities	USD	-4.1%	-4.5%	-8.8%	-17.8%
Global Property Securities	USD	-1.3%	-0.8%	-20.0%	-16.0%
Currencies					
Euro	USD	-0.8%	-3.8%	-11.5%	-14.6%
UK Pound Sterling	USD	-1.4%	-2.6%	-12.4%	-14.3%
Japanese Yen	USD	-1.7%	-2.1%	-17.0%	-20.6%
Australian Dollar	USD	-0.7%	-1.8%	-6.7%	-8.6%
South African Rand	USD	-1.2%	-4.8%	-6.8%	-14.7%
Swiss Franc	USD	0.0%	-2.5%	-6.8%	-6.0%
Chinese Yuan	USD	-0.9%	-0.9%	-5.9%	-4.4%
Commodities & Alternatives					
Commodities	USD	-3.9%	-5.0%	16.9%	28.9%
Agricultural Commodities	USD	-5.0%	-6.0%	2.5%	15.9%
Oil	USD	-5.5%	-11.9%	30.1%	37.7%
Gold	USD	-2.0%	-5.6%	-6.6%	-6.5%
Hedge funds	USD	-0.2%	-0.5%	-5.5%	-5.5%

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

Important notes