IMPERIUM CAPITAL

momentum

Striking a chord

Global Matters Weekly

20 June 2022

– **Mark Wright, CFA**

Just over a month ago the United Kingdom (UK) reversed years of embarrassment to finish second place in the Eurovision Song Contest. Sam Ryder's 'Space Man' impressed but was pipped to the post by Ukraine's entry, 'Stefania' by Kalush Orchestra.

Popular opinion is that politics has a big influence on how votes are cast, and this year's result did nothing to dispel those suspicions. It is not inconceivable that the votes cast for Ukraine merely reflected an act of solidarity towards a nation that has tragically found itself mired in war. The UK has also been one of Ukraine's strongest allies – it was the first European country to supply lethal aid.

Prior to this year's competition, the UK's poor performance between 2015 and 2019 was often cited as the consequence of damaged relations from Brexit. The UK finished in the bottom five in four of those years[1]. In the other year, Lucie Jone's 'Never Give Up on You' still only managed fifteenth, leaving the UK firmly in the bottom half of the points table.

Before Brexit entered the British vernacular however, the UK often found itself placed in the bottom quintile; finishing twenty fifth in 2008, 2010 and 2012 – quite a record![2] Ukraine also had great success prior to this year's competition, finishing fifth as recently as last year and winning back in 2016[1].So what else could explain the UK's turnaround?

According to Mark Savage, BBC Music Correspondent, representing the UK in Eurovision became a poisoned chalice. Given the UK's abysmal track record, record labels were unwilling to put capital at risk in upcoming popstars for them to only then finish humiliatingly near the bottom of the points table[2].

However, following the commercial success of last year's winners, Italian rock band, Maneskin (who have since toured with The Rolling Stones), there has been a change in attitude within the UK's music industry. A willingness to take risk and invest in both talent and production has now potentially freed the UK from the shackles of Eurovision misery. Sometimes it pays to be bold.

To deliver successful returns for shareholders, it is essential that companies are equally willing to put shareholder capital at risk,

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invest in the future and take bold decisions. Two companies we have recently invested in have demonstrated a willingness to do just that.

Games Workshop is the world's largest hobby miniatures company. Hobbyists collect, assemble, paint and build armies of these miniatures that they then take to battle in large fantasy tabletop wars. The company is best known for its Warhammer: Age of Sigmar and Warhammer 40,000 universes.

Games Workshop has nearly quadrupled its asset base over the last ten years without making a single acquisition[3]. The returns from this investment has enabled the company to grow its dividend per share more than six-fold over the same time period. Along with investing in the quality of its product offering, management also took a bold decision to reinvent longstanding Warhammer Fantasy Battle as Warhammer: Age of Sigmar which has paid off handsomely.

Cranswick, the UK's largest pork processor (it processes over 60,000 pigs a week), recently increased its dividend for the thirty second consecutive year[4]. Over the last decade, the company has put shareholder capital at risk by spending over half a billion pounds on building state of the art manufacturing facilities to maintain a competitive edge through industry leading margins.

Cranswick also took the bold decision to enter the poultry market the same year that Games Workshop reinvented Warhammer Fantasy Battle. Shareholders have been rewarded - its market share now stands at high single digits, and it contributes twenty percent of group revenues. Management see no reason why the division cannot ultimately be the same size as the existing pork business which has over a 30% market share.

Risking capital alongside bold decisions often reaps reward. Hopefully, the UK's pop industry won't revert back to past timidness and Eurovision misery will prove a thing of the past.

Sources: [1] Eurovisionworld.com, [2] bbc.co.uk, [3]Games Workshop Group Plc [4] Cranswick Plc

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The **Marketplace**

- Global equities fell by 5.9% last week
- All major world indices logged another big week of losses
- Brent crude fell by 7.3% last week to $113.1 per barrel
- Gold fell by 1.7% to $1839.4 per ounce

Market **Focus**

US

- US equities fell 5.8% last week , their worst week since March 2020
- The Chair of the Federal Reserve emphasised their commitment to bringing down inflation, though the route to a soft landing was getting more difficult. Last week the Fed announced it was rasing rates by 75bps to a target range of 1.5% to 1.75%
- Housing starts were down 14.4% in May and building permits fell by 7% against a backdrop of rising mortgage rates
- Weekly jobless claims came in higher than expected at 229K versus ~210K expected
- US retail sales for May contracted 0.3% (vs. +0.1% expected)
- The National Association of Home Builders (NAHB's) housing market index for June fell to a 2-year low of 67 in line with expectations
- The Producer Price Index (PPI) release for May showed that the headline gain in prices rose to 0.8% in line with expectations, this was up from 0.4% in April.

Europe

- European equities fell 4.5% last week
- There was a rally in European sovereign bonds after the ECB Governing Council held an emergency meeting where they reiterated their pledge to act against fragmentation risks in borrowing costs ahead of their July meeting
- Euro Area saw industrial production grow by 0.4% in April (vs. 0.5% expected)
- The Swiss National Bank raised interest rates for the first time in 15 years to -0.25% in an attempt to subdue inflation
- President Macron has lost control of the National Assembly in France by only winning 245 seats out of the 289 needed to control parliament.

UK

- UK equities fell 4.1% last week
- The Bank of England increased interest rates by 25bps to 1.25% as widely expected, with 3 of the 9 committee members continuing to vote for a larger 50bp increase
- The economy unexpectedly shrank 0.3% in April after contracting 0.1% in March
- Employment data saw the number of payrolled employees in May grow by 90k (vs. 70k expected), but unemployment ticked up to 3.8% in the three months to April (vs. 3.6% expected).

Asia/Rest of The World

- The benchmark Global Emerging Markets Index fell 4.7% last week
- Japanese equities fell 5.5% last week
- The Bank of Japan continued to buck the global trend of monetary tightening, with the central bank opting to maintain its purchases of government bonds and equities to reach its 2% price stability target
- Chinese equities fell 2.7% last week
- China's industrial production unexpectedly rebounded 0.7% year-on-year in May (vs. -0.9% expected), against a drop of 2.9% in April. Retail sales slid 6.7% in the period, which is less than 7.1% projected decline and slightly better than April's 11.1% fall
- Japan's Ministry of Finance showed a huge surge in imports in the year to May of 48.9% on the back of high commodity proves and a weak yen.

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Asset Class/Region	Currency	Currency returns			
		Week ending 17 June 2022	Month to date	YTD 2022	12 months
Developed Market Equities					
United States	USD	-5.8%	-11.0%	-22.5%	-12.1%
United Kingdom	GBP	-4.1%	-7.4%	-0.7%	5.0%
Continental Europe	EUR	-4.5%	-9.0%	-18.2%	-12.8%
Japan	JPY	-5.5%	-4.0%	-6.7%	-4.3%
Asia Pacific (ex Japan)	USD	-5.1%	-6.6%	-16.4%	-23.4%
Australia	AUD	-6.6%	-10.2%	-11.3%	-8.4%
Global	USD	-5.9%	-10.9%	-22.4%	-15.8%
Emerging markets equities					
Emerging Europe	USD	-4.1%	-10.0%	-76.8%	-77.1%
Emerging Asia	USD	-4.6%	-5.3%	-17.6%	-25.3%
Emerging Latin America	USD	-6.6%	-14.9%	1.9%	-13.5%
BRICs	USD	-4.0%	-2.8%	-19.6%	-31.0%
China	USD	-2.7%	2.0%	-15.0%	-32.8%
MENA countries	USD	-5.0%	-7.2%	1.2%	8.4%
South Africa	USD	-3.1%	-11.7%	-6.3%	-14.3%
India	USD	-5.4%	-8.2%	-15.2%	-6.0%
Global emerging markets	USD	-4.7%	-6.6%	-17.6%	-24.5%
Bonds					
US Treasuries	USD	-0.5%	-2.1%	-10.0%	-9.6%
US Treasuries (inflation protected)	USD	-2.0%	-2.5%	-8.9%	-4.2%
US Corporate (investment grade)	USD	-1.2%	-3.4%	-14.9%	-14.3%
US High Yield	USD	-2.9%	-5.5%	-13.1%	-11.2%
UK Gilts	GBP	-1.1%	-3.4%	-15.7%	-14.8%
UK Corporate (investment grade)	GBP	-1.7%	-3.8%	-14.6%	-14.5%
Euro Government Bonds	EUR	-0.6%	-3.8%	-13.9%	-14.3%
Euro Corporate (investment grade)	EUR	-2.1%	-4.3%	-12.6%	-13.1%
Euro High Yield	EUR	-3.1%	-4.6%	-12.3%	-12.0%
Japanese Government	JPY	-0.6%	-1.0%	-3.1%	-3.0%
Australian Government	AUD	-2.7%	-4.4%	-12.9%	-13.4%
Global Government Bonds	USD	-1.1%	-4.1%	-15.1%	-16.9%
Global Bonds	USD	-1.4%	-4.4%	-15.4%	-17.2%
Global Convertible Bonds	USD	-4.3%	-6.3%	-21.0%	-25.2%
Emerging Market Bonds	USD	-2.4%	-6.0%	-25.9%	-27.0%

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

Asset Class/Region	Currency	Currency returns			
		Week ending 17 June 2022	Month to date	YTD 2022	12 months
Property					
US Property Securities	USD	-4.7%	-10.9%	-23.6%	-12.0%
Australian Property Securities	AUD	-5.4%	-13.7%	-26.8%	-17.4%
Asia Property Securities	USD	-4.1%	-5.8%	-8.7%	-19.2%
Global Property Securities	USD	-5.0%	-10.5%	-21.4%	-16.6%
Currencies					
Euro	USD	-0.5%	-2.5%	-8.1%	-12.0%
UK Pound Sterling	USD	-1.0%	-3.4%	-9.9%	-12.3%
Japanese Yen	USD	-0.6%	-4.9%	-14.9%	-18.4%
Australian Dollar	USD	-1.7%	-3.6%	-4.8%	-8.2%
South African Rand	USD	-0.8%	-2.7%	-0.6%	-11.8%
Swiss Franc	USD	1.8%	-1.3%	-6.2%	-5.4%
Chinese Yuan	USD	-0.1%	-0.7%	-5.4%	-4.0%
Commodities & Alternatives					
Commodities	USD	-5.6%	-3.3%	31.5%	51.1%
Agricultural Commodities	USD	-1.8%	-1.8%	19.1%	41.5%
Oil	USD	-7.3%	-7.9%	45.4%	54.8%
Gold	USD	-1.7%	-0.4%	0.6%	3.9%
Hedge funds	USD	-1.3%	-1.3%	-4.6%	-4.4%

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

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