No stress

Global Matters Weekly

23 January 2023

– Matt Connor — *Investment Analyst*

I have recently returned from a holiday to Cape Verde, where the country's motto of "No Stress" suits the tropical island lifestyle. After returning to (a much colder) reality it has dawned on me that investors ought to take a leaf out of the Cape Verdean's book and try not to stress and act in haste when making investment decisions.

After a torrid 2022 for markets and an increasing likelihood of a recession coming this year[1], you would be forgiven for thinking "No Stress" is an oxymoron when applied to how investors should currently think – but heightened emotions often cloud judgement and can lead to irrational decision making.

Warren Buffet's famous quote that investors should be "fearful when others are greedy, and greedy when others are fearful" is touted so often that it has become somewhat of a platitude, yet it effortlessly describes the opportunistic mindset investors should have in turbulent markets. Data, however, proves that investors tend to do the opposite. UK retail investment funds suffered a year of outflows[2] as selloffs in financial markets pushed investors to withdraw their investments. As Buffet implies, at volatile times, opportunistic entry points are often available to investors to make further investments, even allowing an investor to lower their average cost on holdings that may have fallen in price.

So, why do investors tend do the opposite of what they should do in a bear market? Fear! Fear that their investments could continue to drop in value if they don't sell now and fear that the markets will never recover. Bear markets will happen and that can be a scary thought, especially after a decade long bull run where it seemed like financial markets did nothing but go up. History tells us that bear markets have historically been shorter-lived than bull markets and ultimately, markets have always recovered from even the steepest of selloffs, meaning that a bear market provides an opportune time to invest[3].

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Well-diversified, multi-asset funds such as Momentum's own fund range can also help reduce the impact a bear market has on an investor's portfolio due to the inclusion of defensive assets that can be uncorrelated to equity markets.

For example, within our UK Equity portfolio at Momentum, we have taken advantage of the volatile market conditions to add high-quality holdings to our roster of stocks, such as Games Workshop, Cranswick, and Next15 Communications. We have fully embraced the Cape Verdean "No Stress" mindset in staying calm and logical when analysing new opportunities which we believe will pay off handsomely.

Hopefully after reading this article, you remind yourself of the "No Stress" motto when you see a panic-inducing headline about further pain in the stock market and realise it could be a good opportunity for a long-term investor. At the very least, it may prompt you to book a holiday so you can forget about your worries. I'm sure my suggestion of a company-sponsored trip to Cape Verde to fully immerse myself in the "No Stress" mindset is 100% less likely to happen in the future than a market rebound.

Source: [1] Financial Times: 'US Stocks sink after disappointing retail sales data, [2] Financial Times: 'UK funds set for first year of net outflows in over a decade', [3] Fidelity: 'Bear market basics'

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The Marketplace

- Global equities fell 0.4% last week
- A mixed week for major indices: the European Central Bank indicated it intends to hike interest rates and there are recession fears in the US, however, there were some positive returns in Asia
- Brent crude rose 2.8% to $87.63 a barrel
- Gold rose 0.3% to $1926.08 per ounce

Market Focus

US

- US equities fell 0.7% last week
- Retail sales fell 1.1% in December which in turn led to lower inflation as producer prices fell 0.5%
- Industrial production fell by 0.7% in December- the most since September 2021, driven by a 1.3% drop in manufacturing output
- US weekly initial jobless claims fell to 190k in the second week of 2023 (vs. 214k expected)

Europe

- European equities fell 0.1% last week
- European Central Bank policymakers signalled that they would continue to aggressively hike interest rates, stoking fears of a prolonged economic slowdown

UK

- UK equities fell 1.0% last week
- Inflation slowed for a second consecutive month in December. The consumer price index (CPI) fell to 10.5% from 10.7% in November

Asia/Rest of The World

- Global emerging market equities returned 0.6% last week
- Japanese equities returned 1.3%
- Chinese equities also returned 1.3%
- China's Gross Domestic Product rose 2.9% in the fourth quarter of 2022 and expanded by 3.0% for the full year. The annual growth pace missed the official target of around 5.5% set last March
- The Bank of Japan left its monetary policy unchanged at its January meeting
- Prime Minister Fumio Kishida said that the legal status of COVID-19 could be downgraded this spring to the same level as seasonal influenza.

Global Matters Weekly

23 January 2023

Asset Class/Region	Currency	Currency returns			
		Week ending 20 Jan. 2023	Month to date	YTD 2023	12 months
Developed Market Equities					
United States	USD	-0.7%	3.5%	3.5%	-10.3%
United Kingdom	GBP	-1.0%	4.1%	4.1%	7.9%
Continental Europe	EUR	-0.1%	6.9%	6.9%	-4.9%
Japan	JPY	1.3%	1.9%	1.9%	2.1%
Asia Pacific (ex Japan)	USD	1.1%	8.8%	8.8%	-11.3%
Australia	AUD	1.7%	5.9%	5.9%	6.2%
Global	USD	-0.4%	4.8%	4.8%	-10.1%
Emerging markets equities					
Emerging Europe	USD	2.9%	5.4%	5.4%	-68.3%
Emerging Asia	USD	1.0%	9.4%	9.4%	-14.8%
Emerging Latin America	USD	-0.7%	7.0%	7.0%	10.3%
BRICs	USD	0.8%	9.1%	9.1%	-16.0%
China	USD	1.3%	13.6%	13.6%	-14.2%
MENA countries	USD	-0.3%	1.2%	1.2%	-12.9%
South Africa	USD	-3.5%	6.7%	6.7%	-6.2%
India	USD	0.7%	1.6%	1.6%	-5.7%
Global emerging markets	USD	0.6%	8.4%	8.4%	-15.0%
Bonds					
US Treasuries	USD	0.1%	2.5%	2.5%	-8.2%
US Treasuries (inflation protected)	USD	0.4%	1.9%	1.9%	-8.0%
US Corporate (investment grade)	USD	0.2%	3.4%	3.4%	-10.2%
US High Yield	USD	-0.3%	3.6%	3.6%	-7.0%
UK Gilts	GBP	0.0%	2.7%	2.7%	-20.3%
UK Corporate (investment grade)	GBP	0.0%	3.6%	3.6%	-15.4%
Euro Government Bonds	EUR	0.1%	3.5%	3.5%	-15.1%
Euro Corporate (investment grade)	EUR	0.2%	2.2%	2.2%	-11.5%
Euro High Yield	EUR	0.3%	2.9%	2.9%	-8.6%
Japanese Government	JPY	0.9%	0.3%	0.3%	-5.0%
Australian Government	AUD	1.3%	4.0%	4.0%	-5.5%
Global Government Bonds	USD	0.0%	3.2%	3.2%	-13.7%
Global Bonds	USD	0.1%	3.5%	3.5%	-13.1%
Global Convertible Bonds	USD	0.3%	4.4%	4.4%	-13.2%
Emerging Market Bonds	USD	0.9%	4.0%	4.0%	-18.4%

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	0.1%	6.0%	6.0%	-14.4%
Australian Property Securities	AUD	1.6%	6.1%	6.1%	-12.8%
Asia Property Securities	USD	1.1%	3.1%	3.1%	-7.0%
Global Property Securities	USD	0.1%	5.7%	5.7%	-15.0%
Currencies					
Euro	USD	0.1%	1.2%	1.2%	-4.3%
UK Pound Sterling	USD	1.5%	2.4%	2.4%	-9.1%
Japanese Yen	USD	-1.6%	1.0%	1.0%	-12.0%
Australian Dollar	USD	-0.1%	2.0%	2.0%	-4.2%
South African Rand	USD	-1.9%	-0.6%	-0.6%	-11.6%
Swiss Franc	USD	0.5%	0.0%	0.0%	-0.6%
Chinese Yuan	USD	-1.2%	1.7%	1.7%	-6.5%
Commodities & Alternatives					
Commodities	USD	0.8%	0.7%	0.7%	12.5%
Agricultural Commodities	USD	0.1%	-0.6%	-0.6%	4.6%
Oil	USD	2.8%	2.0%	2.0%	-0.8%
Gold	USD	0.3%	5.6%	5.6%	4.5%
Hedge funds	USD	0.1%	1.2%	1.2%	-2.0%

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

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