IMPERIUM CAPITAL

momentum

Definitely Maybe

Global Matters Weekly

23 May 2022

– **Richard Parfect**

In our industry there is often a level of expectation placed upon fund managers to fully understand everything that is going on and, worse still, to have Sage like skills in predicting the future. This pressure is heightened should the unfortunate individual concerned be in the public eye or rolled out in front of the media to give comment on events. Of course, the investment industry is not alone in this.

When someone is interviewed on the premise of being an "expert", I am reminded of Michael Gove who commented in the lead up to the Brexit vote in 2016 who said, "I think the people in this country have had enough of experts…"

Recent tragic events in Ukraine have illustrated in depressingly graphic detail how badly "experts" can get it wrong. From the governments and their agencies who were convinced with all certainty that Putin could be contained through economic cooperation; to the armchair commentators who (so far falsely) predicted Ukraine would be defeated within a few weeks; we have seen how the "known unknowns" are often beyond the analytical skills of even the most informed.
Over confidence in the prediction of something positive or negative is an easy trap to fall into - as they say, "a little knowledge is a dangerous thing". Such excessive conviction is what leads towards the mispricing of assets that we seek to exploit. One such example is an investment that we have to admit to having got partly wrong prior to COVID, but in more recent times has defied market expectations and added value to our portfolios:

We have been investors in two aircraft leasing vehicles, which without going into too much detail have two key components to them: a lessee in the form of Emirates and physical assets in the shape of a portfolio of A380 "super jumbos". Entering a global pandemic with such an asset was admittedly painful

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(but not excessively so as we are careful with sizing our investments). Despite aviation shutting down, the high-quality counterparty of Emirates came through, as they continued to pay their lease obligations, consequently we received our contractual income on time and in full. Meanwhile, turning to the physical asset value, industry "experts" had professed with complete certainty that the pandemic was the final nail in the coffin for the A380 and that all operators would retire them as soon as possible.

Fast forward to this year, and despite a war waging in Europe (which one would ordinarily expect to bring aviation to a halt), airlines are struggling to keep up with the level of demand for air travel. They are rushing to reactivate their fleets to enable travellers to reconnect with the world. Of greater concern for Emirates is the protracted delays to the certification process and deliveries of the new Boeing 777x (the purported successor to the A380) and the technical problems befalling the relatively new Airbus 350. The result of these problems with new aircraft means the embedded fleet of A380 aircraft will be crucial to Emirates for many more years to come. Furthermore, other airlines that declared they were to retire their A380s have reactivated them for similar reasons. The result for us is that we received a high level of income from the vehicles through the pandemic and their capital value over the last six months has been strongly positive whilst other "risk assets" have fallen in value.

The moral to all of this is that valuation continues to dictate returns and that the nearest we can get to certainty in investing is, with apologies to Oasis, "Definitely Maybe".

[1] *Yale University, http://www.econ.yale.edu/~shiller/data.htm*

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The Marketplace

- Global equities fell 1.6% last week
- The S&P has seen seven consecutive weekly declines for the first time since the dotcom bubble burst in 2001
- Brent crude rose 0.9% over the week to $112.6 a barrel
- Gold returned 1.9% to $1846.5 per ounce.

Market Focus

US

- US equities fell 3.0% last week
- The Empire State manufacturing survey for May came in below expectations at -11.6 (vs. 15.0 expected). The Prices Paid index fell to a 14-month low of 73.7
- Retail sales in April were up by 0.9% (vs 1.0% expected). Industrial production came in above expectations at 1.1% (vs. 0.5% expected)
- Housing starts in April fell to an annualised rate of 1.724m vs. 1.756m expected
- Mortgage purchase applications fell 11.9% in the week ending 13 May, leaving them at their lowest levels since May 2020
- Weekly initial jobless claims for the week ending May 14 rose to 218k vs. 200k expected, its highest level since January
- The Philadelphia Fed's manufacturing business outlook survey for May fell to 2.6 (vs. 15.0 expected)
- The number of existing home sales in April fell to its lowest level since June 2020, coming in at an annualised rate of 5.61m vs. 5.64m expected.

Europe

- European equities returned -0.7% last week
- The latest estimate of Eurozone GDP in Q1 showed an expansion larger than expected of +0.3% vs. +0.2% prior
- Eurozone Consumer Price Index (CPI) for April came in at 7.4% year-on-year (vs. 7.5% expected)

UK

- UK equities returned -0.2% last week
- The unemployment rate fell to 3.7% in the three months to March vs. 3.8% expected, the lowest it has been since 1974
- The number of job vacancies was larger than the total number of unemployed for the first time, and the estimate of payrolled employees in April saw an increase of +121k vs. +51k expected
- CPI inflation rose to a 40-year high of 9.0% year-on-year in April
- UK Foreign Secretary Truss announced plans to introduce legislation that would override parts of the Northern Ireland Protocol
- Retail sales for April came in at +1.4% (vs. -0.2% expected).

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned 3.1% last week.
- Japanese equities returned 0.7% over the week.
- Chinese equities returned 4.7% last week
- Japan's Q1 GDP contracted by -1.0%, less than the -1.8% expected
- Japan's national CPI rose 2.5% year-on-year in April, the highest for the headline rate since October 2014
- Australia's unemployment rate fell to its lowest level since 1974 at 3.9%
- The Peoples Bank of China (PBoC) lowered key interest rates by the largest amount on record, cutting the 5-year loan prime rate (LPR) – the reference rate for home mortgages – from 4.6% to 4.45%.

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Asset Class/Region	Currency	Currency returns			
		Week ending 20 May 2022	Month to date	YTD 2022	12 months
Developed Market Equities					
United States	USD	-3.0%	-5.5%	-17.8%	-5.3%
United Kingdom	GBP	-0.2%	-1.5%	4.2%	12.3%
Continental Europe	EUR	-0.7%	-4.2%	-13.0%	-2.8%
Japan	JPY	0.7%	-1.2%	-4.7%	1.4%
Asia Pacific (ex Japan)	USD	3.4%	-3.4%	-13.7%	-19.3%
Australia	AUD	1.2%	-3.5%	-2.2%	6.0%
Global	USD	-1.6%	-4.8%	-17.2%	-8.4%
Emerging markets equities					
Emerging Europe	USD	2.8%	-4.3%	-75.0%	-73.9%
Emerging Asia	USD	3.5%	-3.7%	-16.5%	-22.3%
Emerging Latin America	USD	6.0%	3.0%	14.1%	2.0%
BRICs	USD	4.3%	-3.6%	-20.2%	-30.1%
China	USD	4.7%	-2.9%	-20.1%	-36.8%
MENA countries	USD	-2.5%	-9.1%	6.4%	17.7%
South Africa	USD	0.3%	-6.2%	-1.5%	-11.1%
India	USD	2.5%	-6.4%	-10.0%	3.6%
Global emerging markets	USD	3.1%	-3.7%	-15.4%	-20.3%
Bonds					
US Treasuries	USD	0.7%	0.5%	-7.8%	-6.5%
US Treasuries (inflation protected)	USD	-0.1%	-2.3%	-6.9%	-1.4%
US Corporate (investment grade)	USD	0.4%	-0.3%	-13.0%	-10.8%
US High Yield	USD	-0.7%	-3.1%	-11.0%	-8.0%
UK Gilts	GBP	-1.5%	-0.3%	-10.4%	-8.4%
UK Corporate (investment grade)	GBP	-1.1%	-0.5%	-10.3%	-9.4%
Euro Government Bonds	EUR	-0.4%	-0.5%	-9.3%	-8.7%
Euro Corporate (investment grade)	EUR	-0.2%	-0.7%	-8.2%	-8.1%
Euro High Yield	EUR	-0.3%	-1.8%	-8.6%	-7.4%
Japanese Government	JPY	0.1%	-0.1%	-2.0%	-2.0%
Australian Government	AUD	0.5%	-0.9%	-8.8%	-8.6%
Global Government Bonds	USD	0.9%	0.3%	-11.2%	-13.3%
Global Bonds	USD	0.9%	0.1%	-11.8%	-13.8%
Global Convertible Bonds	USD	0.5%	-4.8%	-17.1%	-19.9%
Emerging Market Bonds	USD	0.3%	-1.0%	-23.0%	-22.9%

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	-3.0%	-10.2%	-17.9%	0.2%
Australian Property Securities	AUD	-0.4%	-10.9%	-17.3%	-1.0%
Asia Property Securities	USD	2.8%	0.0%	-3.4%	-12.4%
Global Property Securities	USD	-0.5%	-7.2%	-14.9%	-6.0%
Currencies					
Euro	USD	1.3%	0.0%	-7.4%	-13.7%
UK Pound Sterling	USD	1.9%	-0.8%	-7.9%	-12.0%
Japanese Yen	USD	1.3%	1.5%	-9.9%	-14.8%
Australian Dollar	USD	1.4%	-0.9%	-3.6%	-9.7%
South African Rand	USD	1.5%	-1.1%	0.0%	-12.2%
Swiss Franc	USD	2.8%	-0.2%	-6.5%	-7.8%
Chinese Yuan	USD	1.4%	-1.3%	-5.0%	-3.9%
Commodities & Alternatives					
Commodities	USD	1.3%	1.3%	34.4%	56.9%
Agricultural Commodities	USD	0.0%	-0.1%	23.8%	40.3%
Oil	USD	0.9%	2.9%	44.7%	72.9%
Gold	USD	1.9%	-2.7%	0.9%	-1.9%
Hedge funds	USD	0.0%	-1.7%	-3.9%	-3.0%

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

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