

## Investing goals

## Global Matters Weekly

25 April 2022

– Stephen Nguyen, CFA

As an avid sports fan, I have always enjoyed being involved in all things sports related. Having participated in various team-based and individual sports throughout my life, I of course enjoy watching a variety of different sports, be it golf, tennis, or football. Sporting events often bring people together and teach us the importance of values and hard work. If we look at successful sports teams or individuals, there are lots of similarities that can be drawn between them and professional investors.

Over the Easter weekend, I took my son to watch the Liverpool vs. Manchester City game at Wembley Stadium, firstly as it would be fun, but also as an opportunity for him to learn from two top teams competing at the highest level. Sports and investing have lots in common: taking advantage of opportunities, learning to avoid or minimise mistakes and having the right mental tenacity, and these are what differentiates the average investment/sport managers from the great ones.

As the footballing season approaches its final stretch, it is interesting to see both teams fighting for the top prizes (both with very good chances). The recent successes of these two teams did not happen overnight, as they required patience and arguably two of the best managers in the world overseeing the project. Football managers offer an interesting analogy for the skills, temperament and challenges presented to investment managers.

A key attribute common to both fields is the ability to maintain conviction and discipline, particularly to one's philosophy and process. An investment manager lacking discipline will be less consistent in their decision making and as a result would often have unpredictable returns over the long run. Similarly, take Manchester City manager Pep Guardiola's footballing philosophy: it did not yield a trophy immediately, but he did not abandon it. Rather, he stayed disciplined and patient and of course has now been handsomely rewarded. Good football and investment managers with a strong long-term track record have the ability and confidence to maintain discipline in both good and challenging times. Staying focused is another important attribute as both are often faced with numerous ideas and opinions, but they require the ability to block out unnecessary noise when making key decisions.

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Setting clear objectives is also important as this will dictate decisions when constructing portfolios or selecting eleven players, as it is not simply an exercise of picking the best individuals. Football managers select a combination of players that are best suited to achieve the objective – beating the opposition team up next. Similarly, an investment manager's job is not simply picking the 'best' investments but constructing a portfolio combining the optimal selection of holdings to best achieve the desired outcome. Investment managers would need to choose a mix of asset classes and strategies to strike an appropriate balance between delivering on the return objectives whilst minimising risks. The optimal portfolio also requires constant monitoring and changes depending on market conditions, which is not dissimilar to football managers tweaking formation depending on the opposition.

Deciding on the optimal portfolio / starting team is just the beginning. Over the course of the season, players could underperform or suffer injuries which would require difficult decisions to be made. Similarly, over the course of an investment cycle it would be naïve for investment managers to expect today's best ideas to remain so indefinitely. Our job is to adapt to prevailing market conditions and to tweak portfolios regularly to ensure an optimal blend of assets is in place. Lastly, to ensure portfolio holdings are the best in class, we are required to be constantly searching for new ideas, just as a football manager would look at the transfer market to ensure the team has the right players to achieve the desired objectives.

The challenges faced by top managers are non-trivial, so therefore it is vital that investors and fans remain patient and don't get overly influenced by shorter term adversities. Successful, disciplined managers with a sound, seasoned process and strong long-term track record will often deliver on their objectives, so it would be unwise to bet against them.

## The Marketplace

- Global equities declined 2.6% last week
- Lockdown restrictions widen in China as concerns escalate in the capital Beijing
- Brent crude fell 4.5% to 1067 a barrel amid concerns about China's demand and after Libya said it would resume output at its closed fields in the coming days
- Gold fell by 0.2% to \$1,931.6 per ounce.

## Market Focus

### US

- US equities fell by 2.7% last week. Transport and REITs outperformed while metal miners and media underperformed
- Jerome Powell said a half-point rate increase is on the table for next month's Federal Open Market Committee (FOMC) meeting and noted he saw merit in "front-end loading" moves
- A record 70% of US firms boosted wages in the first quarter, and most businesses are passing along higher costs to consumers
- US existing home sales for March were 5.77m (vs. 5.8m expected)
- Crude oil weekly inventories were -8.02m barrels (vs. +2.471m expected).

### Europe

- European equities fell by 0.9% last week, with Construction and Banks outperforming, while Basic Resources and Healthcare underperformed
- President Macron won a second term, the first to do so in 20 years, defeating Marine Le Pen. Investors feared a Le Pen win would shake markets on the scale of the Brexit vote
- Christine Lagarde said inflation would likely be more than double the European Central Bank's target by year-end
- European CPI for March was 7.4% (vs. 7.5% expected)
- The USA announced new military aid of \$300m for Ukraine
- German April Manufacturing PMI came in at 54.1 (vs. 54.5 expected).

### UK

- UK equities fell by 1.2% last week
- Andrew Bailey said the Bank of England (BoE) is walking a very tight line between tackling inflation and the risk that tightening could create a recession
- The UK government is apparently preparing legislation that would allow it to scrap critical parts of the post-Brexit deal regarding Northern Ireland
- UK March retail sales were -1.4% (vs -0.3% expected)
- UK PMI came in lighter than expected, with the Composite at 57.6 (vs 59.7 expected); Manufacturing at 55.3 (vs 59 expected) and Services at 58.3 (vs 60 expected).

### Asia/Rest of The World

- The benchmark Global Emerging Markets Index fell by 3.3% last week, dragged lower by China
- Japanese equities rose by 0.5% last week
- Chinese equities fell by 6.8%, with record Shanghai fatalities of 51 causing concern for Beijing, mandating three-day Covid-19 testing to crackdown on the virus
- China Q1 GDP was 4.8% (vs. 4.4 expected), industrial production for March was 5% (vs. 4.5% expected).

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Asset Class/Region	Currency	Currency returns			
		Week ending 22 April 2022	Month to date	YTD 2022	12 months
<b>Developed Market Equities</b>					
United States	USD	-2.7%	-7.1%	-10.1%	4.3%
United Kingdom	GBP	-1.2%	-0.3%	5.3%	15.6%
Continental Europe	EUR	-0.9%	-1.7%	-8.6%	2.7%
Japan	JPY	0.5%	-3.2%	-3.3%	1.5%
Asia Pacific (ex Japan)	USD	-3.0%	-6.1%	-10.8%	-17.5%
Australia	AUD	-0.7%	-0.5%	1.9%	10.3%
Global	USD	-2.6%	-6.8%	-10.4%	0.0%
<b>Emerging markets equities</b>					
Emerging Europe	USD	-2.3%	-5.5%	-72.2%	-69.0%
Emerging Asia	USD	-3.3%	-6.7%	-14.1%	-21.5%
Emerging Latin America	USD	-4.7%	-7.1%	17.9%	9.4%
BRICs	USD	-5.2%	-7.5%	-18.9%	-28.6%
China	USD	-6.8%	-10.4%	-21.7%	-39.4%
MENA countries	USD	-0.4%	2.5%	16.7%	32.3%
South Africa	USD	-7.2%	-13.0%	6.1%	-4.7%
India	USD	-2.3%	-2.8%	-3.5%	18.4%
Global emerging markets	USD	-3.3%	-6.3%	-12.2%	-18.0%
<b>Bonds</b>					
US Treasuries	USD	-0.5%	-3.0%	-8.1%	-7.2%
US Treasuries (inflation protected)	USD	0.3%	-2.3%	-5.2%	1.2%
US Corporate (investment grade)	USD	-1.4%	-5.0%	-12.4%	-10.3%
US High Yield	USD	-0.9%	-2.6%	-7.4%	-4.1%
UK Gilts	GBP	-0.1%	-2.7%	-10.2%	-9.5%
UK Corporate (investment grade)	GBP	-0.8%	-2.4%	-9.2%	-9.1%
Euro Government Bonds	EUR	-0.9%	-2.8%	-8.5%	-9.3%
Euro Corporate (investment grade)	EUR	-1.0%	-1.8%	-7.1%	-7.6%
Euro High Yield	EUR	-0.3%	-1.4%	-5.6%	-4.4%
Japanese Government	JPY	-0.5%	-0.2%	-2.3%	-2.5%
Australian Government	AUD	-1.2%	-1.9%	-8.0%	-8.1%
Global Government Bonds	USD	-1.1%	-4.3%	-10.6%	-12.9%
Global Bonds	USD	-1.2%	-4.6%	-11.1%	-13.2%
Global Convertible Bonds	USD	-1.8%	-4.4%	-11.1%	-15.6%
Emerging Market Bonds	USD	-2.0%	-8.1%	-21.0%	-20.3%

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<b>Property</b>					
US Property Securities	USD	0.9%	-0.4%	-3.3%	19.0%
Australian Property Securities	AUD	1.3%	-0.7%	-7.8%	10.5%
Asia Property Securities	USD	-2.6%	-2.9%	-2.3%	-12.4%
Global Property Securities	USD	-0.5%	-2.3%	-4.6%	6.0%
<b>Currencies</b>					
Euro	USD	-0.2%	-3.4%	-5.3%	-10.2%
UK Pound Sterling	USD	-1.7%	-2.3%	-5.2%	-7.3%
Japanese Yen	USD	-1.9%	-5.4%	-10.8%	-16.1%
Australian Dollar	USD	-2.1%	-3.7%	-0.5%	-6.3%
South African Rand	USD	-6.2%	-7.2%	2.0%	-8.4%
Swiss Franc	USD	-1.6%	-3.7%	-4.9%	-4.1%
Chinese Yuan	USD	-2.0%	-2.4%	-2.2%	-0.2%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	-2.6%	1.2%	31.6%	57.7%
Agricultural Commodities	USD	-0.1%	4.0%	23.3%	41.6%
Oil	USD	-4.5%	-6.0%	37.1%	63.1%
Gold	USD	-2.4%	0.0%	5.6%	8.4%
Hedge funds	USD	-0.2%	-0.2%	-1.4%	-0.1%

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