IMPERIUM CAPITAL

momentum

Weekly Digest

16 September 2019

Time for Clear Heads

– *James Klempster, CFA*

It all seems a bit breathless at the moment, doesn't it? Long gone are the reassuringly (if artificially) benign times of 2017 where markets were bid up seemingly without any heed being paid to what was going on in the real world. Today, hunkered down in the City's metaphorical ivory towers, there can be no doubt there's plenty going on out there.

Quite a lot of the noise is unhelpful. Barely a day goes by without a Presidential tweet, a Brexit deadline, an inverted yield curve or data surprise to knock the market off its stride. Is it right, however or are the fears overdone presently?

It is easy enough to paint a negative picture at the moment. We are now over a decade past the financial crisis and we are in the longest (and one of the most tepid) economic expansion in history. Simply by sheer dint of time passed it is tempting to think growth can't possibly go on for much longer. But this expansion was pretty long in the tooth a couple of years ago and even then there were plenty of commentators seeing the cracks in growth starting to appear. They were illusory, however. Equity and bond markets have risen sharply this year, driven by the prospect of easier financial conditions, and valuations have become stretched in some areas, notably in fixed income. The economic backdrop has deteriorated, corporate earnings are under pressure especially in sectors most exposed to manufacturing, and markets are largely discounting sizeable policy easing by central banks in coming months.

The extent of the global slowdown needs to be kept in perspective; trade and manufacturing are contracting but the service sector continues to grow, employment remains strong and the consumer is generally in good shape. There are no signs of systemic financial problems and an ensuing liquidity crunch nor of capacity shortages, inflation and a sudden tightening of policy. With inflation subdued central banks have considerable flexibility in keeping policy ultra-loose for much longer, thereby extending this extraordinary cycle.

Furthermore, the corporate sector is in a solid position financially and while it is true to asset that levels of corporate debt have increased it is also a pretty rational response in response to all time low levels of interest rates. Clearly we live in unusual times. There is about USD15 trillion of government bond issuance in negative territory including the entire German and Swiss yield curves and even the Spanish and Portuguese curves are negative in the short end. It goes without saying that these levels are without precedent. Fundamentally they are only a good deal if one believes protracted recessionary or deflationary periods lie ahead. Global growth is paltry but positive and so the prices of a large proportion of government debt worldwide does not seem to reflect the macro backdrop as it stands today.

The apparent antipathy on the part of market participants may yet prove to be correct. The past year neatly demonstrates the unpredictability of politics and its ability to provide either a positive or a negative impetus to markets. Good fundamental analysis should be rewarded in the long run. Periods of market uncertainty and volatility such as these present a good opportunity to find undervalued assets that can be invested in for the long term. As a result, while it is near impossible to predict political outcomes as a source of investment theses, it is imperative to remain alive to identifying where the markets have mispriced the odds of an outcome compared to other available data.

The falls in interest rates this year, both at the short end and throughout the yield curve, across all government bond markets, provides a strong underpinning to equities and other risk assets, offsetting the more challenging conditions faced by the corporate sector. Against a backdrop of heightened uncertainty some consolidation is overdue, but we believe that the cycle has further to run and any falls in markets will give rise to opportunities to add to risk assets, while at all times maintaining careful diversification in portfolios to provide protection during inevitable shorter term setbacks. Ultimately most equity markets remain reasonably priced and the overarching cautious mood does not suggest the collective exuberance or mania that could so easily tip into a recession. Nevertheless care is warranted from investors today and our central bankers and politicians must demonstrate a similar level of prudence.

The **Marketplace**

- Attacks on oil production facilities in Saudi Arabia cause a rise of as much as 20% in oil after market close
- The US-China trade war talks marginally progressed
- Brent crude returned -2.1% (Friday's close), ending the week at $60.2 per barrel
- Gold fell 1.8% ending the week at $1490.3 an ounce

Market **Focus**

US

- The jobs report was slightly weaker than expected, with the headline number reading 130,000.
- August core CPI print was higher than expected at +0.3% mom (vs +0.2% expected), with PPI rising to 1.8% (vs 1.7% expected).
- US equities underperformed global equities by 30 basis points, returning only 1.0%.
- US Treasuries fell 2.3% on the week, with US corporate bonds falling 2.2%.

Europe

- The ECB cut its deposit rate to -0.5% (a 10 basis point cut) and relaunched its quantitative easing programme, stating that it will be purchasing €20bn of securities every month from November.
- European markets gained following this announcement of quantitative easing, ending the week up by 0.9%.
- Germany's institute for economic research cut its growth forecast for this year by 10 basis points to 0.5%, and next year's forecast to 1.2% (from 1.7%).
- European government bonds fell 1.2% with their investment-grade counterparts falling 0.7%.

UK

- Wage data reported basic earnings growth of 3.8% year-on year, 10 basis points above the forecasted figure.
- MPs rejected the possibility of holding a mid-October general election for the second time.
- Equity markets gained 1.1% over the week, bringing their year-to -date figure to 13.2%.
- Gilts fell by 2.9% over the week, with their investment grade counterparts also falling by 1.6%.

Asia/Rest of The World

- August trade data for China printed that the trade balance stood at $34.8bn compared to $44.3bn expected, primarily due to exports declining unexpectedly.
- Chinese stocks advanced as the US and China trade war outlook turned more positive and the expectations of more stimulus from Beijing increased.
- Japanese GDP for Q2 produced a disappointing figure as the data printed a growth of 1.3% vs. an estimate of 1.8% (annualised).

Past performance is not indicative of future returns.

Source: Bloomberg. Returns in local currency unless otherwise stated.

Asset Class/Region	Currency	Currency returns			
		Week ending 13 Sept. 2019	Month to date	YTD 2019	12 months
Developed Market Equities					
United States	USD	1.0%	2.8%	21.2%	5.0%
United Kingdom	GBP	1.1%	2.4%	13.2%	5.6%
Continental Europe	EUR	0.9%	3.1%	20.4%	7.9%
Japan	JPY	4.7%	6.5%	9.2%	-3.6%
Asia Pacific (ex Japan)	USD	1.9%	4.4%	10.6%	3.2%
Australia	AUD	0.5%	1.5%	22.2%	13.6%
Global	USD	1.3%	3.2%	18.9%	4.0%
Emerging markets equities					
Emerging Europe	USD	2.4%	5.0%	19.2%	20.8%
Emerging Asia	USD	2.0%	4.4%	8.4%	0.7%
Emerging Latin America	USD	1.1%	4.2%	8.0%	15.1%
BRICs	USD	2.1%	4.7%	12.4%	9.7%
MENA countries	USD	-1.7%	-1.5%	3.0%	3.8%
South Africa	USD	4.5%	9.3%	7.8%	6.8%
India	USD	3.3%	1.2%	1.2%	0.1%
Global emerging markets	USD	1.9%	4.4%	8.5%	3.5%
Bonds					
US Treasuries	USD	-2.3%	-2.5%	6.4%	8.8%
US Treasuries (inflation protected)	USD	-1.9%	-2.3%	7.1%	6.1%
US Corporate (investment grade)	USD	-2.2%	-2.5%	11.1%	10.8%
US High Yield	USD	0.2%	0.5%	11.5%	6.8%
UK Gilts	GBP	-2.9%	-2.9%	8.3%	9.8%
UK Corporate (investment grade)	GBP	-1.6%	-1.6%	9.3%	8.8%
Euro Government Bonds	EUR	-1.2%	-1.5%	8.8%	9.8%
Euro Corporate (investment grade)	EUR	-0.7%	-1.1%	6.5%	5.8%
Euro High Yield	EUR	0.3%	0.4%	9.9%	6.0%
Japanese Government	JPY	-1.1%	-1.7%	3.1%	4.4%
Australian Government	AUD	-0.4%	-1.8%	9.1%	12.0%
Global Government Bonds	USD	-1.8%	-2.1%	5.8%	6.9%
Global Bonds	USD	-1.4%	-1.5%	5.9%	6.5%
Global Convertible Bonds	USD	0.6%	1.2%	7.6%	3.0%
Emerging Market Bonds	USD	-1.8%	-0.4%	8.3%	9.5%

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

Asset Class/Region	Currency	Currency returns			
		Week ending 13 Sept. 2019	Month to date	YTD 2019	12 months
Property					
US Property Securities	USD	-1.5%	-0.1%	22.3%	10.9%
Australian Property Securities	AUD	-0.7%	-3.4%	16.3%	9.6%
Asia Property Securities	USD	1.5%	3.8%	9.8%	12.8%
Global Property Securities	USD	-0.3%	1.0%	17.4%	10.3%
Currencies					
Euro	USD	0.4%	0.8%	-3.3%	-5.2%
UK Pound Sterling	USD	1.4%	2.5%	-2.2%	-4.9%
Japanese Yen	USD	-1.2%	-1.6%	1.4%	3.5%
Australian Dollar	USD	0.5%	2.3%	-2.3%	-4.3%
South African Rand	USD	1.4%	4.2%	-1.3%	1.6%
Swiss Franc	USD	-0.3%	0.0%	-0.8%	-2.3%
Chinese Yuan	USD	0.5%	1.1%	-2.8%	-3.1%
Commodities & Alternatives					
Commodities	USD	0.8%	2.5%	5.5%	-5.0%
Agricultural Commodities	USD	3.8%	2.6%	-7.8%	-8.9%
Oil	USD	-2.1%	-0.3%	11.9%	-23.0%
Gold	USD	-1.8%	-2.2%	16.3%	23.8%
Hedge funds	USD	-0.2%	0.3%	5.6%	-0.2%

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

Important notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at
The Rex Building, 62 Queen Street, EC4R 1EB

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.

© Momentum Global Investment Management Limited 2019