FINANCIAL PARTNERS

Global Matters Weekly

Safe Hands for Troubled Times

10 Aug 2020

– *Robert White, CFA*

In a world where unprecedented events seem to be happening with regular occurrence, it is more important than ever to find stewards of capital with the talent, temperament and expertise to navigate through such uncertain times. This is no easy task and recent studies have reminded us that past performance in isolation is not a sufficient guide. Here at Momentum, we believe the key lies in thorough due diligence backed by an experienced and independent research team.

The latest in the long line of unprecedented events this year has been the release of US GDP figures which revealed an annualised -32.9% decline during the second quarter. While annualising the period from April to June is somewhat misleading given the highly unusual circumstances, it is nonetheless a startling figure which was certainly not in anyone's forecasts at the start of the year.

When looking to allocate capital during periods of economic crisis, it is natural to look for managers who have been through tough periods before and have come through them with flying colours. This process is complicated by several factors. Firstly, the average US fund has a life of less than nine years and so probably would not have been around during the last great crisis. Secondly, even if the same structure is still going, the original portfolio managers may have moved on, creating uncertainty around how much knowledge has been retained within the business. Thirdly, there is always a question as to how similar the current crisis is to any preceding ones (and finding an investor with experience of the last global pandemic in 1918 would be challenging to say the least…).

On top of this, a recent study by James Choi of Yale School of Management has shown that over the period between 1994-2018, funds with historically strong returns have statistically failed to outperform poorly performing funds over the subsequent 10 years[1]. This raises questions over the utility of using past performance data as a guide to the future.

Given all of the above, selecting the best managers from a global universe of funds requires a particular level of care. At Momentum we have developed a mixture of quantitative and qualitative tools to help us in this respect, and we spend a lot of time talking with investment managers to fully understand their philosophy, process and areas of expertise. Our longevity and pedigree in working this way also gives us the advantage of tracking how funds, investors and management companies develop over time, providing us with greater conviction in our conclusions.

One important factor to analyse is an organisation's culture. While a lot of this is intangible, much flows from the business structure and the overall incentivisation framework for the team. Investment teams with long term incentives and a vested interest in the business are likely to be more aligned with investors, particularly during tough times. Another key area is understanding the specifics of particular manager styles. This gives more context to past performance, and helps us to better understand the causes rather than simply relying on it as a forward predictor of returns.

Our approach has not only helped us identify the top talent in investing ahead of their peak, but also provides the structure for us to build diversified portfolios with complementary performance drivers. Our blend of funds with contrasting styles and philosophies provides resilience through different economic environments, which is especially helpful when uncertainty remains high.

[1] https://insights.som.yale.edu/insights/does-mutual-fund-s-past-performance-predict-its-future

The **Marketplace**

- The tech rift between the US and China intensified last week
- A positive week for markets as global equities rose 2.2%
- Brent crude rose 2.5% ending the week at $44.4 a barrel
- Gold rose 3.0% to $2035.5 an ounce

Market **Focus**

US

- President Trump signed a pair of executive orders last Friday prohibiting U.S. residents from conducting business with TikTok, WeChat or the apps' Chinese owners beginning in 45 days, citing the national security risk of leaving users personal data exposed.
- US equities rose 2.5% as strong US ISM data and some positive earnings data moved the major index to within ~1% of February's all-time high.
- Payrolls increased by 1.76 million in July versus 1.48 million estimated. This follows a rise of 4.79 million in June. Manufacturing payrolls rose by only 26,000 versus an expected 261,000.
- The ISM US services reading came in at 58.1 vs. 55.0 estimated, even though the employment index fell to 42.1 from 43.1. This was the highest level since February 2019.
- Initial jobless claims fell by 249,000 to 1.19 million in the week ending August 1st. The unemployment rate fell to 10.2% from June's 11.1%.

Europe

- Euro Area composite PMI registered 54.9 (vs. the 54.8 flash reading), the highest since June 2018.
- Spain, Germany and France all recorded jumps in the number of people infected with Covid-19 last week.
- German factory orders rose 27.9% in June vs an estimated 10.1% increase. They're now standing at around 90% of the pre-pandemic level.
- European equities rose 2% last week

UK

- July car sales rise 11% in first monthly gain of the year. The UK is also set to remove tariffs on Japanese cars in 2026 under a trade deal the two countries are seeking to complete by the end of the month.
- PM Boris Johnson's government will invest nearly £1.3Bn in building projects and provide £2Bn in energy efficiency grants in a bid to create jobs.
- Composite PMI rose to 57.0 (vs. 57.1 flash), as services PMI rose to 56.5 (just under the 56.6 flash reading) which was the highest since August 2015.
- Bank of England Governor Andrew Bailey said the central bank is ready to support the U.K. economy's recovery effort as officials sought to reassure investors that they won't tighten monetary policy soon. The MPC linked any future tightening to inflation rising to the target of 2%.
- UK equities returned 2.2% last week

Asia/Rest of the World

- Chinese equities rallied last week on the back of some healthy data. July's manufacturing PMI rose to 52.8 from June's 51.2, a near-decade high. Exports rose by 7.2% last month as foreign demand increased
- Japanese equities rallied 3.4% last week with the major benchmark now standing at -5.6% year to date
- Turkish equities fell-5.9% last week. The government announced plans to stabilize the lira by lifting trading restrictions that have led to liquidity issues and the currency's weakness
- Brazil's death toll from Covid-19 now exceeds 100,000, the world's second highest figure

Past performance is not indicative of future returns.

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

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Asset Class/Region	Currency	Currency returns			
		Week ending 07 August 2020	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	2.5%	2.5%	4.6%	17.8%
United Kingdom	GBP	2.2%	2.2%	-19.7%	-14.6%
Continental Europe	EUR	2.0%	2.0%	-8.0%	3.4%
Japan	JPY	3.4%	3.4%	-8.9%	5.8%
Asia Pacific (ex Japan)	USD	1.5%	1.5%	2.8%	18.1%
Australia	AUD	1.4%	1.4%	-8.8%	-4.5%
Global	USD	2.2%	2.2%	1.0%	13.4%
Emerging markets equities					
Emerging Europe	USD	1.7%	1.7%	-21.6%	-9.2%
Emerging Asia	USD	1.6%	1.6%	7.5%	26.9%
Emerging Latin America	USD	-2.9%	-2.9%	-30.2%	-23.9%
BRICs	USD	0.8%	0.8%	2.1%	18.7%
China	USD	1.2%	1.2%	14.6%	36.0%
MENA countries	USD	0.8%	0.8%	-14.2%	-13.4%
South Africa	USD	-3.4%	-3.4%	-22.3%	-13.8%
India	USD	1.2%	1.2%	-11.9%	-1.1%
Global emerging markets	USD	1.0%	1.0%	-0.7%	14.7%
Bonds					
US Treasuries	USD	-0.2%	-0.2%	10.4%	9.7%
US Treasuries (inflation protected)	USD	0.3%	0.3%	9.4%	9.8%
US Corporate (investment grade)	USD	0.4%	0.4%	8.9%	11.2%
US High Yield	USD	0.6%	0.6%	1.2%	5.8%
UK Gilts	GBP	-0.8%	-0.8%	9.4%	6.9%
UK Corporate (investment grade)	GBP	-0.2%	-0.2%	5.1%	5.5%
Euro Government Bonds	EUR	0.2%	0.2%	3.4%	1.0%
Euro Corporate (investment grade)	EUR	0.1%	0.1%	0.4%	-0.4%
Euro High Yield	EUR	0.6%	0.6%	-3.1%	-0.3%
Japanese Government	JPY	-0.1%	-0.1%	-0.8%	-2.3%
Australian Government	AUD	0.1%	0.1%	4.5%	2.2%
Global Government Bonds	USD	-0.2%	-0.2%	7.8%	6.5%
Global Bonds	USD	-0.1%	-0.1%	7.1%	6.8%
Global Convertible Bonds	USD	0.7%	0.7%	10.7%	16.7%
Emerging Market Bonds	USD	1.5%	1.5%	4.5%	4.9%

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

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Asset Class/Region	Currency	Currency returns			
		Week ending 07 August 2020	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	1.7%	1.7%	-14.3%	-10.4%
Australian Property Securities	AUD	0.6%	0.6%	-21.9%	-25.3%
Asia Property Securities	USD	0.7%	0.7%	-18.9%	-11.3%
Global Property Securities	USD	1.4%	1.4%	-16.2%	-9.3%
Currencies					
Euro	USD	-0.2%	-0.2%	4.8%	4.8%
UK Pound Sterling	USD	-0.4%	-0.4%	-1.7%	7.3%
Japanese Yen	USD	-0.2%	-0.2%	2.4%	-0.2%
Australian Dollar	USD	0.1%	0.1%	1.9%	5.8%
South African Rand	USD	-3.5%	-3.5%	-20.8%	-14.7%
Swiss Franc	USD	-0.1%	-0.1%	5.7%	6.3%
Chinese Yuan	USD	0.1%	0.1%	-0.1%	1.3%
Commodities & Alternatives					
Commodities	USD	2.6%	2.6%	-19.7%	-11.1%
Agricultural Commodities	USD	-1.2%	-1.2%	-8.9%	-2.0%
Oil	USD	2.5%	2.5%	-32.7%	-21.0%
Gold	USD	3.0%	3.0%	33.7%	35.2%
Hedge funds	USD	0.8%	0.8%	1.0%	5.0%

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Important notes