

A Lo-Fi approach to news can be beneficial

– James Klempster, CFA

England winning the Cricket World Cup reminds me of the first time I saw high definition TV. Watching the cricket, I was blown away by the quality of the picture, but it took me a while to get used to seeing some of the pundits' faces in such unforgiving detail. A decade or so later and either I have become accustomed to it or the presenters have embraced make up. Either way the lesson for me is that it is not always helpful to have more information. Sometimes a lo-fi smear actually helps. The problem is that information is truly ubiquitous these days and this onslaught does not necessarily make us better investors. Of course, data are extremely important and judicious use of qualitative techniques to screen investments is unquestionably useful. The levels of computational power available to all of us was beyond comprehension only a few years ago. As a profession we have only just started scratching the surface of what we can achieve with machine learning techniques, artificial intelligence and big data and only the most fervent luddite would argue that these analytical tools will not change the way we all invest in time.

While an abundance of data is to be celebrated, relentless noise is not. For example, at the start of June, Woodford's Income Fund was gated following significant investor withdrawals. This is clearly a problematic decision for his investors but the decision to suspend trading in the fund has been taken to protect investors in the fund. Yet the coverage of the market moves in the mainstream media – the media that end users of investments are most likely to consume – was shrill to say the least. Many of us are doubtless aware of the academic studies that suggest investors feel losses up to twice as acutely as they experience gains. This sensitivity must be augmented by alarmist coverage. What is more, market gains of a similar

size are not reported with equal fervour. The impact of the combination of a constant stream of information during difficult times for investors combined with loss aversion and fragile investor sentiment should not be underestimated as it can lead to knee jerk reactions.

We all know that one of the greatest gifts afforded to investors is the benefit of patience. Time horizons can very effectively reduce the impact of short-term market downsides and so it is up to us all, as fiduciaries, to do whatever we can to remind our investors why they invested in the first place and for how long. Poorly timed liquidations, by definition, cut short investors' time horizons and mean that they are unable to hit their stated financial objectives. Trying to tone down the definition of the day-to-day distractions should be our objective. The question is 'how?'. We can't switch information off in a meaningful sense today so simply ignoring the noise is impossible. What we can do is control how we react to the information. We need to understand what is going on and embrace downside moves for what they often are; opportunities.

I believe that engagement with clients is essential. The value of a relationship with a trusted adviser is at its greatest when the going gets tough. You may not be able to capture this benefit in a client statement but a combination of expectation management, filtering useful information from dangerous and counselling that the future will be ok provide incalculable benefits to clients. Fund managers can aid this process both through minimising downsides wherever possible and providing information to help investors stay the course. To date we haven't found any effective substitute for trusted human relationships.

The Marketplace

- US large-cap benchmarks reached new highs
- The European Commission lowers growth and inflation forecasts for next year
- Brent crude rallied 3.9%, ending the week at \$66.7 per barrel
- Gold prices rose 0.9% to \$1411 an ounce

Market Focus

US

- A slightly stronger-than-expected CPI report. The US consumer price index rose 1.6% in June, but the core rate, which strips out volatile items like food and fuel prices, rose to an 18-month high of 2.1%.
- The US benchmark large-cap index advanced to fresh all-time highs, ending the week up 0.8% and closing above 3000 for the first time.
- US equities were partially boosted by a softer dollar, which fell -0.5% on a trade-weighted basis.
- The 2y10y Treasuries curve steepened +10 basis points (bps) to 27.3 bps, the biggest steepening week since early October. That move was driven by a 1.2 bps fall in the 2-year Treasury yield, as expectations continued to firm a Federal Reserve rate cut. At the same time, the yield on the 10-year Treasury rose 8.8 basis points to 2.12%.

Europe

- On Thursday, the French parliament approved a digital services tax aimed at the largest technology firms. The 3% levy will be imposed on total annual revenues. In response, the US administration ordered an inquiry into the planned tax, arguing that it unfairly targets American tech giants such as Google and Facebook.

- The European Commission lowered its eurozone growth and inflation forecasts for next year, saying that elevated uncertainty around US trade policy posed a major risk to the bloc.
- In Greece, the centre-right New Democracy Party won an outright majority in Sunday's general election. The business-friendly leader, Kyriakos Mitsotakis, took office this week with a mandate for reform.
- European equities fell 1.0% on the week.

UK

- The UK economy grew by 0.3% in May, after declining 0.4% in April. To avoid contraction in the second quarter June's growth figures will have to be strong.
- Industrial production in the UK increased 1.4% from a month earlier in May, slightly below expectations of a 1.5% gain.
- UK equities fell 0.6% on the week.

Asia/Rest of The World

- Stocks in China recorded a weekly loss, with the large-cap index falling 2.2%. On Friday, China reported that export growth in June fell 1.3% from a year ago, while imports fell a larger-than-expected 7.3% in the same period.
- On a year-over-year basis, Chinese imports of US goods fell 31% to \$9.4 billion in June, while exports to the US declined 7.8% to \$39.3 billion. China's trade surplus with the US widened by 3%.
- In Turkey, President Erdogan dismissed the governor of Turkey's central bank and replaced him with his deputy. The announcement has prompted renewed concern over the central bank's independence. In light of these events, Turkish stocks declined 2.5% on the week.

Asset Class/Region	Currency	Currency returns			
		Week ending 12 July 2019	Month to date	YTD 2019	12 months
Developed Market Equities					
United States	USD	0.8%	2.5%	21.1%	9.2%
United Kingdom	GBP	-0.6%	1.0%	14.1%	2.4%
Continental Europe	EUR	-1.0%	0.3%	17.7%	4.7%
Japan	JPY	-1.0%	1.6%	6.9%	-5.6%
Asia Pacific (ex Japan)	USD	-1.0%	-0.2%	12.0%	0.5%
Australia	AUD	-0.8%	1.2%	21.1%	11.5%
Global	USD	0.3%	1.6%	18.9%	5.9%
Emerging markets equities					
Emerging Europe	USD	-1.5%	0.0%	20.4%	14.8%
Emerging Asia	USD	-1.2%	-0.7%	8.9%	-2.7%
Emerging Latin America	USD	1.1%	3.5%	16.6%	18.1%
BRICs	USD	-1.3%	0.2%	14.0%	2.7%
MENA countries	USD	1.4%	1.8%	11.2%	7.2%
South Africa	USD	0.4%	-1.0%	10.2%	-4.4%
India	USD	-2.2%	-1.4%	8.8%	5.7%
Global emerging markets	USD	-0.8%	-0.1%	10.5%	0.7%
Bonds					
US Treasuries	USD	-0.3%	-0.6%	4.8%	6.7%
US Treasuries (inflation protected)	USD	0.2%	0.0%	6.4%	4.7%
US Corporate (investment grade)	USD	-0.4%	-0.5%	9.4%	9.4%
US High Yield	USD	-0.1%	0.2%	10.2%	7.2%
UK Gilts	GBP	-0.7%	0.5%	5.5%	5.6%
UK Corporate (investment grade)	GBP	-0.4%	0.8%	7.8%	7.1%
Euro Government Bonds	EUR	-0.9%	-0.1%	5.9%	6.1%
Euro Corporate (investment grade)	EUR	-0.2%	0.2%	5.6%	4.6%
Euro High Yield	EUR	-0.3%	0.5%	8.3%	5.0%
Japanese Government	JPY	-0.5%	-0.3%	2.6%	2.8%
Australian Government	AUD	-0.9%	-0.7%	7.1%	10.6%
Global Government Bonds	USD	-0.4%	-0.8%	4.5%	5.0%
Global Bonds	USD	-0.3%	-0.7%	4.9%	5.0%
Global Convertible Bonds	USD	0.3%	0.5%	8.0%	2.8%
Emerging Market Bonds	USD	-1.0%	-0.3%	10.4%	9.7%

Asset Class/Region	Currency	Currency returns			
		Week ending 12 July 2019	Month to date	YTD 2019	12 months
Property					
US Property Securities	USD	-0.1%	2.3%	19.8%	10.8%
Australian Property Securities	AUD	-2.6%	4.0%	21.3%	16.1%
Asia Property Securities	USD	-1.3%	0.9%	13.8%	11.8%
Global Property Securities	USD	-0.2%	2.1%	17.4%	9.7%
Currencies					
Euro	USD	0.4%	-0.8%	-1.6%	-3.5%
UK Pound Sterling	USD	0.4%	-1.0%	-1.4%	-4.9%
Japanese Yen	USD	0.6%	0.0%	1.6%	4.2%
Australian Dollar	USD	0.6%	0.1%	-0.4%	-5.3%
South African Rand	USD	1.6%	1.1%	3.1%	-4.9%
Swiss Franc	USD	0.8%	-0.7%	-0.1%	1.7%
Chinese Yuan	USD	0.2%	-0.2%	0.0%	-3.3%
Commodities & Alternatives					
Commodities	USD	2.2%	1.5%	9.2%	-2.7%
Agricultural Commodities	USD	0.7%	0.0%	-1.1%	-4.6%
Oil	USD	3.9%	0.3%	24.0%	-10.4%
Gold	USD	0.9%	0.1%	10.1%	13.2%
Hedge funds	USD	-0.2%	0.4%	4.7%	-2.2%

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