Weekly Digest

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Investec
Wealth & Investment

The weekly insight into world stock markets

A Matter Of Opinion

I have yet to hear a Tottenham Hotspur fan who doesn't think that their new stadium is the best in the world. As a Welsh rugby supporter I am quick to point out that the space ship that has landed in north London holds some 12,000 fewer spectators than Cardiff's Principality Stadium and doesn't even have a roof. Of course, we are all displaying our biases with these opinions, but at least they are relatively harmless. When it comes to investing and politics the stakes are more serious, and yet many participants display biases verging on mania, with facts carefully cherry-picked to suit the arguments. Thus, for example, hard-core Value investors deem Growth investors to be heretics, while we can only despair at the divisions wrought by the domestic political agenda.

A lot of notes pass across my desk every week, and you might be surprised by how little consensus there is amongst economists and strategists. For every one who says that the next move in US interest rates is up, there's another who says they are going down. For every equity market bull, there is an opposing bear. Some of these analysts are fairly flexible and will shift their views according to the latest developments and market movements. Others are much more ideological in their opinions and remain fixed on their ultimate destination. Market action over the last six months has, in turn, vindicated both bull and bear camps. What is more remarkable is that we are all observing exactly the same data. Going back to biases, this is not dissimilar to listening to the reactions of opposing football supporters after a contentious decision – either that penalty was "nailed on", or the referee was blind/incompetent, etc.

Before we retire for the Easter break, it's not a bad moment to have a quick look at some of this year's market developments. At the end of last week Bank of America Merrill Lynch's strategist published a list of asset classes he follows. All the headline asset classes (eg major regional equities and various categories of bonds and commodities) are up year-to-date when measured in US dollars. Thirteen out of thirteen. Lucky for some! 23/23 large equity markets are in positive territory. All thirteen global equity industry subsectors are up. Seventeen flavours of Fixed Income, ranging from sovereign bonds to corporate credit, have risen. Six out of eight commodities are up. In fact, only Silver (-1.9%) and Natural Gas (-3.2%) have failed to provide gains. Apparently the annualised* gain for equities (taking the gain so far and assuming it carries on at the same pace for the rest of the year) is the highest on record, and year-to-date commodity returns are the best in a century.

(*I sometimes refer to this as the "Inverdale Factor", based on my observation that the eponymous sports broadcaster would often react to a couple of early tries by saying something along the lines of: "Well, if they carry on like this, they'll put over a hundred points on the board". Which, of course, they never did.)

Why has everything done so well? After all, it's a bit odd that bonds have risen (usually a sign of impending slowdown) at the same time as equities and commodities (usually a sign of increasing activity). This circle can be squared to some degree by the relative outperformance of the Growth style versus Value. Investors are willing to pay up for the (perceived) certainty of higher structural long-term growth, the valuation of which is being boosted by a lower discount rate. Falling bond yields are a symptom of the lingering uncertainties in the global economy. Of course, the reining back of any threat of tighter monetary policy, notably by the Federal Reserve and the European Central Bank, has also been instrumental. And we must not ignore what is not revealed in the current year market data: and that is just how bad things were at the end of last year, when equity and corporate bond markets in particular started to price in a sharp economic downturn.

One of the catalysts for the big equity market slide in the fourth quarter of 2018 was, in my opinion, the IMF's downgrade of global economic growth forecasts at the beginning of October. Yes, there were other factors, including a surprisingly hawkish speech from the chairman of the Federal Reserve, as well as one from the US Vice President raising the stakes in the trade dispute with China. But the IMF's downgrades seemed to crystallise investors' fears of an incipient slowdown. And so it was slightly worrying last week when the IMF once again downgraded its growth forecasts and highlighted a number of global risks. The 2019 forecast for global GDP growth was cut from 3.7% to 3.3%, with 2020 nudged down 0.1% to 3.6%. The fact that the 2020 reduction was not so draconian was a relief, but the key point this time is that monetary policy is not being tightened. Indeed, financial conditions, a measure that includes interest rates, equity market ratings, bond yields and the availability of bank lending, for example, are currently easing pretty much everywhere. So it looks as though we have dodged that bullet, even if equities did have a one-day knee-jerk wobble.

Where does that leave us for the next quarter? It would be surprising, not to say unnerving, if the same trends were to continue at the same pace, but a more gradual appreciation of equities with a tick up in bond yields is our central view. The corporate earnings season which kicks off in earnest this week will give us a better view of current corporate health and the outlook for the rest of the year. And, for better or worse, the political cast of Trump, Xi, May, Corbyn, et al will have a continuing role to play.

John Wyn-Evans
Head of Investment Strategy

FTSE 100 Weekly Winners

easyJet	8.7%
GVC Holdings	7.0%
Schroders	6.5%
TUI	4.9%
Experian	4.8%
Tesco	4.3%
Lloyds Banking Group	4.2%

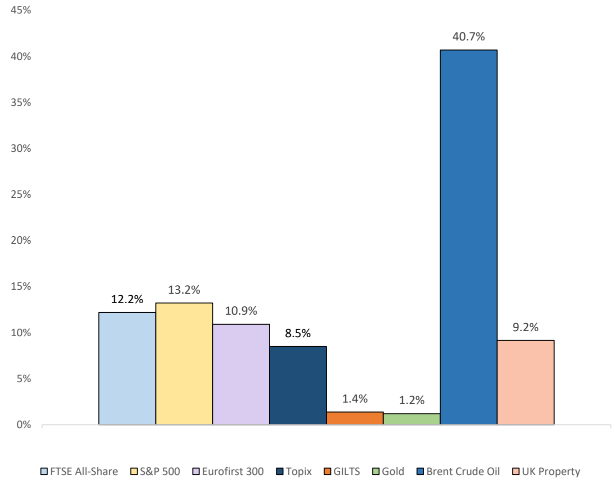
Source: FactSet

FTSE 100 Weekly Losers

Fresnillo	-10.%
Reckitt Benckiser	-7.5%
Just Eat	-5.4%
Standard Life Aberdeen	-5.1%
Whitbread	-3.8%
Rolls-Royce	-3.8%
Aviva	-2.9%

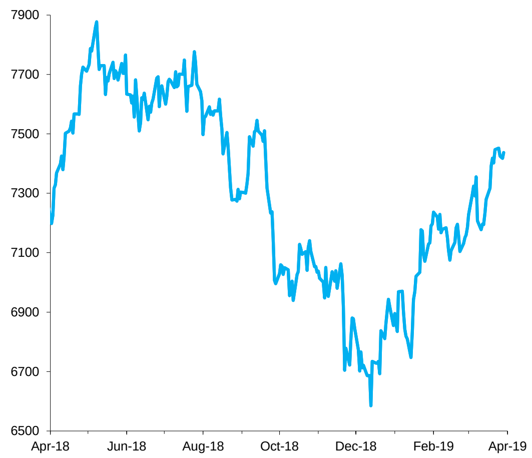
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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