Weekly Digest
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Investec
Wealth & Investment

The weekly insight into world stock markets

Teary Shame

Last week, no sooner had I hit the "Send" button on the Weekly Digest, which covered the topic of trade wars, than China announced its own round of retaliatory tariffs, triggering a further market sell-off and apocalyptic headlines. The old saying that this morning's newspaper is tonight's fish and chip wrapper remains metaphorically true in the digital world, especially given the proliferation of media outlets all trying to outdo each other in terms of stridency – often hugely disproportionate to the import of the news itself.

Maybe that's just a gripe from someone who must increasingly admit to himself that he's not as young as he used to be, but the advantage of a bit of experience is also knowing when to stand back from the noise. That's not to ignore the threats, but to balance the risks against the rewards. Geopolitical risk has been a key reason for the gradual reduction in our appetite for risk over the last couple of years, but that doesn't mean we have to hide in a bunker. I have written before that a Game Theory approach to threats such as nuclear war with North Korea, or the escalation of a China/US trade war brings us to the conclusion that the worst outcome for us as investors is equally destructive for the players. Therefore logic suggests that a hard defensive strategy is too aggressive and would prevent us from benefitting from what remains a growing global economy.

Reading the headlines, one might be forgiven for thinking that last week was one of carnage for equity markets, but the numbers tell a different story. The MSCI All-Countries World Index ended last week just 0.82% lower. Similarly the S&P 500 was down a mere 0.76%, and the EuroStoxx 50 UP 1.6%, bolstered by the fact that Trump parked the threat of tariffs on cars for at least six months. China's Shanghai Composite Index sustained more damage, falling 2.33%, but was more vulnerable to profit-taking than most, having run very hard so far this year.

Meanwhile there are plenty of companies that continue to do very well. Steady growers that we prefer, such as Diageo, Unilever, Compass Group, Sage, Halma, RELX and Experian, to name but a few, are all trading at or very close to all-time highs. These names are very much representative of the "Growth" style of investing that has hugely outperformed "Value" since the financial crisis. As we have discussed before, it makes sense that in a low-growth world characterised by low interest rates investors are prepared to pay higher up-front valuations for what growth there is. I discussed the subject in "Style Counsel" on October 22nd 2018, quoting a fund manager representing each discipline, both of whom were exhorting immediate investment in their preferred style. For the record, since then the Growth manager has delivered a total return of 14.2%, while the Value manager has returned just 0.15%. Obviously that does not close the case, but it illustrates the difficulties of timing any rotation.

I make no bones about the fact that I struggle with Value as a concept, partly owing to the wide interpretation of what constitutes Value. Some Value managers' quality thresholds are a lot lower than others' (and ours). We don't want to buy cheap junk (even if it does rally to the top of the performance tables on occasion). Bearing this in mind I took myself along to the London Value Investor Conference last week for some "re-education". I was actually pleasantly surprised that some of the speakers were willing to question the foundations of modern value investing and, notably, the Efficient Market Theory. One eminence grise even suggested that there is no such thing as a Value cycle – just periods when Growth doesn't work! One thread that wove itself through the day was the attention to preservation of capital, mainly by not exposing oneself to balance sheet risk. Effectively, be very wary of taking too much exposure to highly-leveraged entities whose equity can go to zero in a downturn. We agree with that! A lot of attendees were less interested in the intellectual concepts and only pricked up their ears when stock tips were disseminated. Some of these were very interesting. Maybe familiarity has bred contempt in me, but I found the non-UK tips a lot more attractive, bolstering my view that fishing in a UK-only pool is highly restrictive. In the same way that Identity Politics has polarised the political world, I suspect that style investing will be another case of "ne'er the twain shall meet".

Which neatly (I think) brings me back to domestic issues. Whatever polarity there has been historically between Conservative and Labour supporters, it is now exacerbated by Brexit. Indeed, we seem to have parties within parties. The net effect in the short term has been to undermine sterling again owing to the threat created by the multiple outcomes still possible: No-Deal Brexit, Deal Brexit, Second Referendum, No Brexit and, of course, a general election with the possibility of a Labour (-controlled) government. Last week it was the latter factor combined with the potential for a new Eurosceptic Tory Party leader that put the skids under the pound. As in the past, this provided a boost to overseas earners and non-UK investments while undermining our global purchasing power – why does this always seem to happen before the holiday season? Maybe that's why Mrs May takes her walking holidays in Wales. This week's EU elections might not provide much clarity other than to confirm the polarity. Counting the percentages in support of those parties campaigning on Brexit will inform that debate, but our First Past The Post parliamentary system means that support does not equal seats. The only guarantee seems to be the PM's imminent departure, hence this week's anagrammatic title.

John Wyn-Evans
Head of Investment Strategy

FTSE 100 Weekly Winners

Micro Focus International	6.9%
BP	6.1%
DCC	6.0%
Rio Tinto	5.9%
Compass Group	5.4%
Experian	5.4%
Hargreaves Lansdown	5.3%

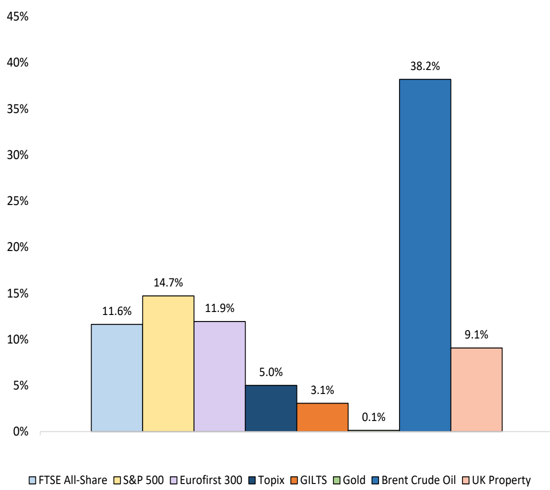
Source: FactSet

FTSE 100 Weekly Losers

Vodafone	-10.6%
Ocado Group	-7.2%
Just Eat	-6.5%
SSE	-6.4%
Kingfisher	-6.1%
NMC Health	-5.5%
J Sainsbury	-5.0%

Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months

Source: FactSet

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