Investec

OUT OF THE ORDINARY

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The rise of ‘CIO eyes’

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It’s that time of year when John Wyn-Evans takes a well-deserved break, so I’m taking over the Digest this week, which is the one that marks my one year anniversary as Chief Investment Officer of Investec Wealth & Investment.

Moving to London nearly a decade ago, one of the strangest things I experienced straight out of the train station is what we’ve come to

term in my family as 'Millican eyes'. I bear more than a passing resemblance to the comedian Sarah Millican, both in looks, intonation, and laugh. People hear my northern accent and put two and two together to make twenty two... and then come the eyes. When people see a famous person, they tend to get this look. It is part recognition, part amusement, part hopefulness, and it results in an anticipatory, shiny-eyed gaze.

Over the past year this look has also spread to the workplace, now experienced in the form of 'CIO eyes'. As humans, we all tend to look to leaders for the one big answer, the absolute direction we should take without looking back. This is particularly true when times are uncertain – which is a word that definitely applies to a year which has seen large market reversals, rising inflation and a war. Our colleagues – and you, our clients – are counting on me to help guide us through. I know. You tell me with your eyes.

What makes providing answers tricky at the moment is that the market is anxious. Broadly speaking, three main actors come together to move markets – central banks, companies, and governments. Usually, when we aren't certain about the actions of one, knowing what the others are doing makes up for it. But right now we don't have much long-term clarity on any of them, so markets are reacting based on the smallest pieces of news, compounded by algorithmic trading. It can all feel slightly frantic.

There seem to have been more words written this year on central bank responses to inflation, and the balancing of growth and rates, than all the words in every Harry Potter book ever printed. Following closely from inflation commentary now comes recession commentary, with companies being affected by growth fears. Though a better than anticipated inflation number in the US last week (lower than expected) drove markets higher, the number remains very elevated. With inflation and growth ultimately continuing to be driven by supply issues, the numbers are likely to be more volatile until those underlying supply issues – particularly relating to energy – are solved. This is why we are seeing renewed efforts from President Biden to address oil supply with Saudi Arabia, as well as incentives to drive investment in the energy transition. But these are long term solutions to short term problems, which is one of the reasons why we have not yet made moves away from our current stance at our Asset Allocation Committee.

By far and away the most ignored market actor is government. Unfortunately it's the most opaque one too. We tend to focus on the shiny, personality-led bits of politics, but what's really key is us having visibility not on the people, but on how things get done. This is hard to see right now, no matter which geography. In the US, the recent reversal of Roe vs. Wade might not have had a large effect on consumption or on companies, but it is a significant indicator that the Supreme Court is willing to reverse decisions in a partisan manner. In China, regulation is much more unpredictable, and over time we've seen some quite extreme changes to business and social policies which has made it harder for investors to get certainty on the risks and returns they can expect. And here in the UK, we have the Conservative Party leadership race. Boris Johnson did an excellent job of bolstering his power by ensuring that no challenger became popular enough to build a credible support base, and so now we have two candidates that everyone is trying to figure out – most of all civil servants – as they focus on winning votes over proposing implementable policies.

Over the past ten years, markets have been driven by one of those actors – central banks – through the main characteristic of low interest rates. The relative stability of this one element meant that moves by the other two actors didn't destabilise markets significantly – for example, in terms of government action, neither Trump nor Brexit negatively impacted markets over a prolonged period. When conditions are supportive of one market characteristic, it favours investors who get that big binary call right, and stick to it. Naturally this benefits the lone wolf, the 'star CIO', the independent maverick. But the opposite is also true – when there isn't a defined characteristic, and the path isn't clear, you need as many people searching for the way forward as possible.

So to make this happen, when people look at me with those 'CIO eyes', I now give them right back. Not only has 2022 has seen our Investment & Research Office capability double in size, but we have increased the participation of colleagues from across our business in researching our investment strategy. A large part of the work involved is investigating geopolitical developments, and we have groups looking more in-depth at oil markets, as well as sustainability and technological issues. I'm very proud of the work they are doing, and am confident that we can continue to navigate you through these tricky times well. To paraphrase the proverb, a thousand heads are better than one.

Economic Commentary

FTSE 100 weekly winners

Flutter Entertainment Plc	23.7%
Aviva plc	16.4%
Admiral Group plc	15.3%
Mondi plc	15.2%
Hargreaves Lansdown plc	10.6%
Entain PLC	8.7%
Polymetal International Plc	7.8%

FTSE 100 weekly losers

GSK plc	-13.0%
Hikma Pharmaceuticals Plc	-4.5%
Just Eat Takeaway.com N.V.	-4.1%
Royal Mail plc	-4.1%
Antofagasta plc	-2.2%
BAE Systems plc	-1.8%
Rio Tinto plc	-1.7%

FTSE 100 index, past 12 months

EuroStoxx 600 index, past 12 months

S&P 500 index, past 12 months

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