Weekly Digest
30 July 2018

The weekly insight into world stock markets

Actually, it's the King of Biscuits

My yearly contribution to the Weekly Digest tends to herald the onset of summer, but this year it's the first day of rain in London in what feels like ten years of sun. As a pasty Yorkshirewoman who despises the heat, the prolonged sunny spell has made me more than a bit irritable, but I realised yesterday that I have the perfect non-weather related excuse for anyone that doesn't like my new attitude – the world we live in right now is just bad tempered. Trump? Short fused. Tariffs? Touchy. Absolutely anything to do with Brexit? Fractious.

Grumpy news now automatically dominates the agenda – even the prospect of a de-escalation in trade war rhetoric between Trump and Europe this week only served to remind everyone that it remains in place for China, where efforts to shift the focus to the domestic by announcing tax cuts on research and development and infrastructure spending just made everyone ask even more questions about tariffs. Who wants to talk about the ECB's decision on Thursday to leave rates and policy unchanged when it's so much more fun to dissect Michel Barnier's rejection of the UK's Brexit customs plan? And no-one seems to care that US earnings season continues to produce positive results pretty much across the board, when Facebook didn't and suffered the largest ever one day loss of corporate market capitalisation and a ton of analyst downgrades.

Looking for the negatives that will stop markets rising further is natural when results are continually good and valuations are looking quite expensive. The other thing that happens is we start looking harder for opportunities, and this is where most of my conversations with our investors are focused right now. Firstly, we are looking at the differentials between those investments that focus on high growth, compared to others which are relatively unloved and so represent 'value'. The Growth/Value effect is very pronounced right now, with global large cap growth stocks returning 112% over the past five years, compared to those with value characteristics which have returned just under 70% (both in GBP). However, though the gap between these two styles remains wide, we continue to be selective, paying heed to the lesson that just because something is cheap, it doesn't mean that it is necessarily good – we have to look at the underlying drivers of future performance. With this in mind, we continue to look for companies which can grow their earnings into higher valuations through methods such as accessing an emerging theme, or targeting a particular demographic.

Whilst the rest of the team were beavering away at that, last week I was busy launching a funds model for those investors who want to incorporate ethical and sustainability concerns into their portfolios. As someone who was managing these types of investments before Trump discovered the caps lock button (and, rather scarily, also before Twitter was invented), what is interesting me right now – and in complete contrast to the overarching air of global crabbiness – is just how many other investors have decided that the way they are going to deal with the current environment is to tell us that 'it's nice to be nice'. Effectively they are saying that we should embrace environmental, social, and governance (commonly known by the acronym ESG) considerations into all of our investment practice. The rationale goes something like this – shareholders with big stakes in companies and established governance teams, can engage with companies to get them to change their behaviour for the better. Equally, avoiding companies with poor environmental records or social practices is good for business, as they will avoid fines (such as BP's £47bn for Deepwater Horizon). Nice.

But hang on, I'm grumpy again. Aren't good investors supposed to be doing this anyway? I'd be terribly annoyed if one of our fund managers wasn't voting against a Chief Executive's ridiculous pay packet, or if they were investing in a company with poor health and safety practices. All managers should be responsible managers, shouldn't they?
As a fund selector I'm very sceptical about anyone trying to send me an ESG-labelled product now who wasn't three years ago, even with the understanding that the emergence of a more socially conscious millennial generation stands to be a driver of these considerations over the longer term. For those mainstream investors who have suddenly 'discovered' ESG, it just looks like a different way to repaper something they should be doing anyway as a way to justify highly valued companies' growth potential, and –if you'll forgive me for being a teeny bit cynical – a higher management fee. 'Proper' investors who work in the responsible and sustainable investing space – like the ones on our list and in our new model – have good track records of forcing observable changes in businesses and industries; they have pragmatic investment policies that weight the good in a company against the less good, rather than just fitting an idea to a company; and, most importantly, they take the risks of investing in less well-known companies which may be at the forefront of societal changes – now that's where the real growth potential comes from. As always, the Monday moral is that we should look through the noise for what really works – for managers who don't charge more for their services, who won't forget about ESG when the market turns, and who all think Nice is just a place in France.

Stacey Parrinder-Johnson
Senior Fund Selection Specialist

FTSE 100 Weekly Winners

BT Group	7.5%
BHP Billiton	5.8%
Pearson	5.8%
Anglo American	5.7%
Reckitt Benckiser Group	4.7%
Ocado Group	4.6%
Glencore	4.6%

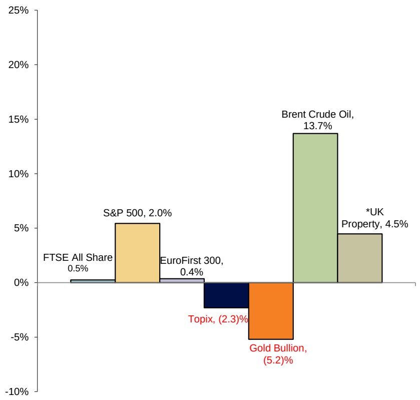
Source: FactSet

FTSE 100 Weekly Losers

Fresnillo	-10%
SSE	-7.3%
Informa	-5.7%
Rightmove	-5.2%
InterContinental Hotels Group	-4.5%
Schroders	-3.8%
ITV	-3.3%

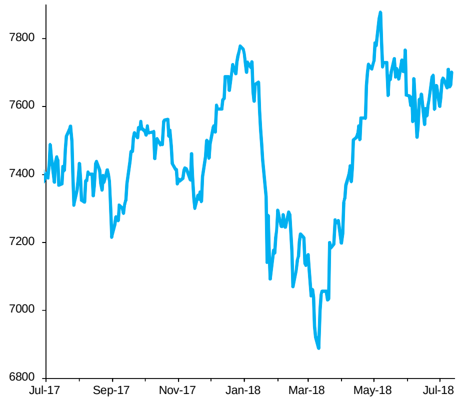
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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