Weekly Digest

7 August 2017

The weekly insight into world stock markets

Joking Aside…

Here's a joke. What does Snow White sing when she's in the photo booth having her passport photo done? "Someday my prints will come". Terrible, granted, but I'll bet it is one of the only jokes you've heard recently that isn't about Trump or Brexit. Think back to all those TV panel shows you've seen lately, and I'll bet you 50p that you can't remember a joke that was about something else.

At the minute, the focus of the investment world seems to have fallen into the same trap as our comedians have – not because both subjects are easy fodder for jokes, but because they mean uncertainty, and if there's anything that stock market participants don't like, it's uncertainty. So we spend days trying to make sense of it. We talk about the impact of the Trump presidency, with last week's mixed US economic data – including weaker GDP and manufacturing numbers – going hand in hand with an attempt to analyse the impact of the loss of the Obamacare repeal bill vote, which was like watching one of the more high-drama episodes of The West Wing. In the UK, we want to figure out the meaning of the more dovish attitude to rate policy by the MPC, who announced a 'no change' decision at the end of their meeting last Thursday, and try to read more into how the decision was affected by Governor Mark Carney's somewhat dismal warnings about the potential impacts of Brexit, in whatever form it will take.

But, if comedians are going for the low hanging fruit, it makes me wonder if there's something else we're missing investment-wise. At the minute, I'm thinking a lot about volatility – how stock prices fluctuate over time periods – which is key to how we look at the risks and returns of our investments. Despite all the uncertainty that seems to be out there, in fact, overall stock market volatility has been quite low - essentially, over the past few years upticks in stock prices have been more prevalent than down. Winners have kept winning, and everything else has been a sideshow.

What's changing now is that people are starting to think seriously about an increase in market volatility (i.e. prices falling as well as rising). 'Stuff is starting to go down!' one exasperated market commentator said on Friday, as Tobacco stocks continued to be hit after the FDA said it was looking to increase regulation on nicotine levels, and Technology wobbled as some of the larger names were sold off through the week in favour of Financial and Energy names. US inflation numbers due next week could also have an impact on how we see future Federal Reserve moves and the prices of much-favoured 'bond-proxy' stocks. Now, Mr Wyn-Evans has been covering the macroeconomic issues which would cause market volatility to increase for quite a while, but it wouldn't be August if I didn't commandeer the Weekly Digest to talk about funds, because volatility is of paramount importance to fund selection.

Managing funds is all about adding value – we want to choose fund managers who can demonstrate they give us better returns than could be achieved from merely tracking an index over time – otherwise we could just buy an ETF product and all go home, which would be effective, albeit as dull as plywood. The thing is, is that active management doesn't work as well in lower volatility markets as it does in higher volatility ones, because adding value is as much about protecting capital on the downside and avoiding losers as it is about picking winners. If you think about it, if stock prices are static or just tick up consistently, there's nothing much for an active manager to sink their teeth into. So over the past few years, the winners in the fund world have been those with really big positions in the sectors which have benefited from consistent upticks, and ETFs. Managers who have been looking for valuation opportunities have been stuck, and there have been few proper opportunities to show any skill at mitigating losses.

Fundamentally, this isn't an argument about the market falling, it's one about opportunities. Despite the doom-mongers saying so, volatility isn't something to be scared of in markets – we have to accept that things can go down as well as up – the key is to recognise that what we've gone through is a period of abnormality, sectors are starting to rotate, and active managers are starting to perk up again. Now all I have to do is get a joke about volatility onto Mock The Week…..

Finally, the first name of Lady Penelope's chauffeur, Parker, was Aloysius. This week, sheep can recognise other sheep as well as humans. But how many different faces can a sheep recognise at one time?

Stacey Parrinder-Johnson
Fund Selection Specialist

FTSE 100 Weekly Winners

Next	13.7%
Intertek Group	9.0%
Direct Line Insurance Group	8.8%
Admiral Group	6.2%
Royal Bank of Scotland Group	5.8%
Severn Trent	5.6%
Merlin Entertainments	5.3%

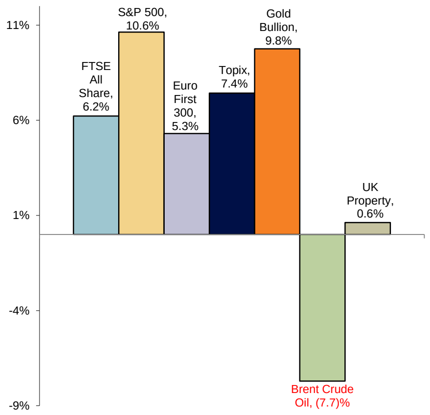
Source: FactSet

FTSE 100 Weekly Losers

ConvaTec Group	-8.4%
Micro Focus International	-6.1%
Shire	-5.7%
Barratt Developments	-3.9%
Fresnillo	-3.9%
BAE Systems	-3.1%
Standard Chartered	-3.0%

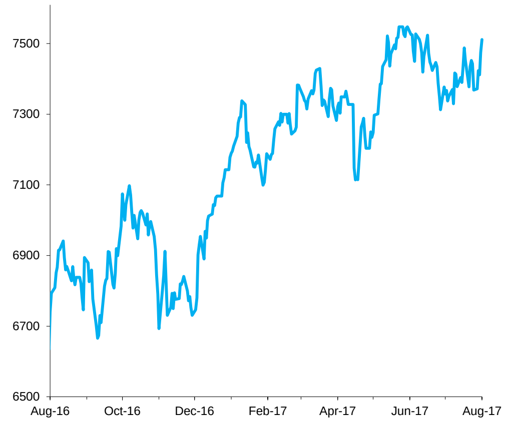
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

investecwin.co.uk
Member firm of the London Stock Exchange. Authorised and regulated by the Financial Conduct Authority.
Investec Wealth & Investment Limited is registered in England.
Registered No. 2122340. Registered Office: 2 Gresham Street, London EC2V 7QP.

IWI740 v1