weekly digest

momentum

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Time in the market

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Amidst the recent political and market uncertainty it is all too easy to lose sight of the importance of investing for your long term financial wellness.

Sophisticated investors are well versed with the "time in the market not timing the market" arguments and while they border on the trite, that does not diminish their significance. Likewise the rather hackneyed quote from Einstein that compound interest is the "eighth wonder of the world". It's easier to see the wonder, of course, when interest rates are materially above zero. You don't need to be a Nobel prize winning theoretical physicist to calculate that a rate of interest close to zero remains pretty close to zero even when compounded for a very long time. The implication for us is that it is, on balance, better to be in than out. It is always difficult to top up investments when the going is tough but it can be just as heart wrenching to add to a position once the market has rallied and, not only is it difficult, it could be less rewarding to boot.

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When it comes to inflation and real returns on assets the inverse is the case. Purchasing power is reduced on a compounded basis by the effect of inflation. Ronald Reagan (of all people) is quoted as referring to inflation as "as violent as a mugger, as frightening as an armed robber and as deadly as a hit-man". The imagery is pure Hollywood but I think the metaphor is unsuited to inflation's impact on the real value of assets. Reagan was right about the outcome but wrong about the experience. That is because rather than being overt like a mugger or a robber inflation is covert, silent, almost insidious but the effects are no less crippling over the long term.

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That is why when working with advisers all over the globe we ensure we talk about clients' long term financial wellness. Inflation, if left unchecked, will compound relentlessly, silently denuding the value of the pound in your pocket. Clearly it is sensible to aim for a strategy that delivers returns in excess of inflation. Both greater time lines and greater risk tolerance enhance the scope for investments to exceed inflation rates. The good news is that investment assets should provide risk premia that result in returns greater than inflation. The bad news is that those returns can come in fits and starts which is totally at odds with inflation based time series which tend to be very low volatility. That is why we believe that investors needing to beat inflation should look for investment managers deliberately targeting real returns.

Periods like this do not help because investors are minded to defer investments. The default parking space for uninvested capital is cash but the interest rates available on cash presently are, on the whole, below the prevailing level of inflation meaning that cashed up investors are not simply standing still in real terms, they are going backwards. I believe that this is a scenario that precious few can afford. Most people do not have the resources to retire on the basis of their current savings meaning that this capital has to work for them – it has to grow – as they move towards retirement. It is imperative that investors ensure that their money works as hard for them as they did for it, otherwise they run the risk of a vastly reduced standard of living in retirement or even, in more extreme cases, no retirement at all.

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Market Focus

- Brent crude rose 1.3% to $67.1 a barrel.
- Global growth and exports slump.
- Gold rose 1.1% to $1333 per ounce.
- The US-China trade war continues into its seventh month.

US

- Another round of trade talks between US and Chinese officials unfolded this week, news emerged that the negotiators have made progress on a number of structural issues. On Sunday, President Trump said the US would delay an increase in tariffs on $200bn of Chinese goods set for March 1st.
- US equities moved slightly higher again last week with the major gauge rising 0.6%.
- 10-year Treasury yields rose 4.1 basis points.
- Weekly Jobless Claims fell by 23k in the week to 216K.
- Bernie Sanders is to try and seek the Democratic nomination in 2020 for a second time.

UK

- An international policy agreement to ensure derivatives can continue to be traded and settled in London has been reached by the UK, the US and EU counterparts.
- UK equities fell 0.5% last week .
- Theresa May is to delay the ‘meaningful vote’ on her Brexit deal until the 12th of March. This to give her deal the maximum chance of being voted through Parliament to avoid a no-deal cliff edge.
- A £9.5bn merger between two of the UKs largest supermarkets, Sainsbury’s and Asda is in doubt after a provisional ruling by the Competition and Markets Authority.

Europe

- The euro-area Composite PMI increased to 51.4 in February from the previous month’s final 51 and above market expectations of 51.1. This was driven by strong results in the service sector but tempered by poor manufacturing results.
- Germany’s Manufacturing PMI dropped to 47.6 in February, the lowest level since December 2012 and well below expectations of 49.7.

Rest of the World/Asia

- Japanese equities rose 2.0% last week.
- South African equities rose 2.5% on the week as the finance minister unveiled controversial budget plans.
- China’s large-cap CSI 300 index has seen more than $1trn added to it this year and is trading 20% higher than its low at the beginning of January.

Past performance is not indicative of future returns.
Source: Bloomberg, returns in local currency unless otherwise stated.

Currency returns					
Asset class/region	Currency	Week ending 22 February	Month to date	YTD 2019	12 months
Developed markets equities					
United States	USD	0.6%	3.4%	11.6%	4.7%
United Kingdom	GBP	-0.5%	3.6%	7.4%	3.1%
Continental Europe	EUR	0.8%	3.6%	9.8%	-0.9%
Japan	JPY	2.0%	2.7%	7.7%	-5.8%
Asia Pacific (ex Japan)	USD	3.0%	2.7%	10.1%	-6.4%
Australia	AUD	1.8%	5.6%	9.7%	8.1%
Global	USD	1.0%	3.0%	11.0%	0.5%
Emerging markets equities					
Emerging Europe	USD	1.7%	-1.7%	9.7%	-11.1%
Emerging Asia	USD	3.1%	2.1%	9.6%	-9.3%
Emerging Latin America	USD	1.1%	-1.0%	13.8%	-4.7%
BRICs	USD	3.0%	1.8%	11.9%	-9.1%
MENA countries	USD	0.3%	-0.6%	5.8%	7.8%
South Africa	USD	3.8%	-4.7%	7.0%	-22.4%
India	USD	1.2%	-0.3%	-2.4%	-3.5%
Global emerging markets	USD	2.8%	0.9%	9.8%	-9.6%
Bonds					
US Treasuries	USD	0.0%	0.0%	0.5%	4.0%
US Treasuries (inflation protected)	USD	0.4%	0.3%	1.7%	2.6%
US Corporate (investment grade)	USD	0.0%	0.3%	2.7%	3.0%
US High Yield	USD	0.3%	1.2%	5.8%	4.1%
UK Gilts	GBP	0.1%	0.7%	1.7%	4.7%
UK Corporate (investment grade)	GBP	0.2%	0.7%	2.6%	2.5%
Euro Government Bonds	EUR	0.1%	-0.2%	0.9%	2.4%
Euro Corporate (investment grade)	EUR	0.1%	0.7%	1.8%	1.0%
Euro High Yield	EUR	0.6%	1.2%	3.4%	0.0%
Japanese Government	JPY	0.1%	0.5%	1.0%	2.0%
Australian Government	AUD	0.1%	1.1%	1.8%	7.8%
Global Government Bonds	USD	0.4%	-0.7%	0.6%	-0.7%
Global Bonds	USD	0.4%	-0.4%	1.0%	-0.5%
Global Convertible Bonds	USD	0.6%	1.5%	5.6%	-1.9%
Emerging Market Bonds	USD	0.2%	-0.4%	4.7%	2.1%

Source: Bloomberg. **Past performance is not indicative of future returns.**

Currency returns					
Asset class/region	Currency	Week ending 22 February	Month to date	YTD 2019	12 months
Property					
US Property Securities	USD	0.2%	2.0%	14.0%	20.9%
Australian Property Securities	AUD	0.2%	3.0%	9.3%	16.5%
Asia Property Securities	USD	2.4%	0.8%	10.3%	4.9%
Global Property Securities	USD	1.0%	0.7%	11.3%	9.3%
Currencies					
Euro	USD	0.6%	-0.9%	-0.9%	-8.0%
UK Pound Sterling	USD	1.5%	-0.4%	2.5%	-6.4%
Japanese Yen	USD	0.0%	-1.6%	-0.8%	-3.4%
Australian Dollar	USD	0.2%	-1.8%	1.4%	-9.0%
South African Rand	USD	1.4%	-4.6%	3.1%	-16.3%
Swiss Franc	USD	0.7%	-0.5%	-1.6%	-6.6%
Chinese Yuan	USD	0.9%	-0.2%	2.4%	-5.4%
Commodities & Alternatives					
Commodities	USD	1.5%	2.7%	9.5%	-2.0%
Agricultural Commodities	USD	0.2%	-1.4%	0.7%	-8.2%
Oil	USD	1.3%	8.5%	24.8%	1.1%
Gold	USD	1.1%	0.8%	4.0%	0.2%
Hedge funds	USD	0.3%	0.5%	2.7%	-5.1%

Source: Bloomberg. Past performance is not indicative of future returns.

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