IMPERIUM CAPITAL

momentum

Global Matters Weekly

12 October 2020

Ipse dixit? No, thanks

– Lorenzo La Posta, CFA

Pythagoras was a clever man: philosopher, cosmologist, musician and mathematician. His famous theorem within Euclidean geometry is one we all learn at school, despite the 2500 years that have now gone by since the man lived. His opinions were so well respected that his disciples across Magna Graecia would appeal to his assertions, rather than to evidence or reason, as a watertight argument. They would simply use the formula "ipse dixit", literally meaning "he said so". We, at Momentum, are no Pythagoreans and do not accept dogmatic assertions from anyone, nor do we blindly trust common knowledge. All we trust is evidence and when this is not given to us, the scavenger hunt begins.

> where we tend to be sceptic is when researching managers and investment strategies

One of the more frequent instances where we tend to be sceptic is when researching managers and investment strategies. After all, when someone wants to sell you something, they will often highlight the positives and gloss over the negatives, voluntarily (or not) displaying and explaining in the most propaedeutic way for their single goal: convince you to invest with them. Not accusing anyone of being a liar (which, I am sure, no professional is), this is often the reality of a sales pitch. So, as part of our extensive manager due diligence, we analyse a fund's holdings in various ways to understand to what extent the portfolio is aligned with the stated investment philosophy and process, while also trying to learn about what has not (yet) been disclosed. We might challenge the investment team based on sector or country allocation, fundamental factor exposures, style tilts or trading activity as we expect all risk exposures and holdings to have a clear, meaningful and coherent explanation. In addition, we discuss specific stocks to understand what drove certain decisions to try and gauge whether past results were due to luck or skill. We have the highest standards when looking for long term investments and the people behind them must be proper stewards of capital.

> Another area where we want to be evidence-driven is around 'common knowledge'

Another area where we want to be evidence-driven is around 'common knowledge', here referring to well-established concepts that many believe being univocally true simply because they have often been so or, worse, because that is what others say. After all, as human beings it is very easy to fall foul of cognitive biases. The first 'common knowledge' examples I can think of are: a low risk investor should have more bonds, gold is the ultimate defensive asset, Japanese Yen and Swiss Franc are safe havens, higher risk means higher return etc… All these statements are, perhaps, true on average or have proved to be true in many instances in the past. Does that make them univocally true? No, it does not. Finance and economics are social sciences which evolve with humanity and they are, by definition, non-deterministic systems. This must be taken strongly into account when developing forecasting models, bringing investment ideas forward and building appropriate portfolios for our clients.

> we strive to practice what we preach

Lastly, we strive to practice what we preach. We challenge ourselves and our own research process looking for evidence that our scepticism is indeed useful and value-adding, rather than just a cynical characteristic. Practically, we often try to prove that, everything else being equal, the managers we select perform better than the ones we discard, or that our sophisticated portfolio construction models provide better outcomes than simplistic ones. Every time the evidence goes against our a priori, we learn a lesson and improve our process.

It is not easy to be critical, challenging and sceptical and it is even harder to be so in a constructive, appropriate way. Yet, we do our best to provide our clients with ever-improving investment solutions and means to achieve their objectives, which are our ultimate goals.

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The Marketplace

- A strong week for global equity markets which returned 3.6%
- Optimism grows that a US stimulus deal will be reached
- Brent crude oil rose 9.1% to $42.8 a barrel
- Gold rose 1.6% to $1930.4 per ounce.

Market Focus

US

- The major US equity index rose +3.9%, its best weekly gain in three months. Small cap stocks rose by +6.0% on optimism that a fiscal stimulus deal could be reached soon
- The 10-year treasury yield hit a four-month high as prices declined by -0.5% last week
- Initial jobless claims for the week ending October 3rd fell to 840k versus 820k expected. The continuing claims reading for the week fell to a post-pandemic low of 11m versus 12m expected.
- President Trump's chances of winning the next presidential election were cast into further doubt as Joe Biden's lead widened amongst key voter groups and his Covid-19 infection take him off the campaign trail

Europe

- European equities gained +2.3% on the week as a diverse range of companies raised outlooks, and optimism that a US stimulus deal will be reached
- The ECB's account of its September monetary policy meeting noted that 'the recent appreciation of the euro exchange rate had had a material impact on the inflation outlook in the September ECB staff projections.'
- European leaders had an intense weekend of negotiations with UK Prime minster Boris Johnson ahead of a crucial week in talks over a post-Brexit UK-EU trade deal
- The French economy rebounded 16% in the third quarter after a 13.8% contraction in the previous three months
- Coronavirus cases continued to rise sharply in Spain, Italy, France and Belgium. France will place more cities on maximum alert after daily coronavirus cases rose above 18,000

UK

- UK equities ended the week up +1.6%
- UK banks are unlikely to heed Prime Minister Boris Johnson's call to offer low-deposit 95% loan-to-value mortgage deals
- The Bank of England is seeking guidance from financial institutions on the economic effects of implementing negative interest rates
- The Chancellor Rishi Sunak announced further support for workers in companies forced to close because of the pandemic. They will continue to pay 2/3rd of wages for certain roles after the blanket furlough scheme comes to an end
- Gross domestic product rose 2.1% in August, less than half the pace forecasted and down from 6.6% in July. Output is now languishing almost 10% lower than pre-Covid levels. Further monetary stimulus is now looking increasingly likely

Asia/Rest of The World

- Japanese equities had their strongest week in two months ending the week up +2.4%
- The Bank of Japan upgraded its outlook for eight of its nine economic regions and left the last unchanged. Japan's policymakers believe that economic conditions remain severe but are gradually improving in many regions.
- Chinese equities rose +4.0% last week
- China's services PMI rose to 54.8 in September from 54 in August, it's fifth consecutive month of improvement
- Turkey's lira depreciated to a record low against the US dollar as geopolitical risks mount.

Past performance is not indicative of future returns.

Source: Bloomberg. Returns in local currency unless otherwise stated.

Asset Class/Region	Currency	Currency returns			
		Week ending 9 Oct. 2020	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	3.9%	3.4%	9.1%	20.7%
United Kingdom	GBP	1.8%	2.5%	-20.1%	-15.0%
Continental Europe	EUR	2.3%	2.7%	-5.6%	2.5%
Japan	JPY	2.4%	1.3%	-2.1%	6.7%
Asia Pacific (ex Japan)	USD	4.1%	4.1%	6.4%	19.5%
Australia	AUD	5.4%	4.9%	-8.1%	-3.7%
Global	USD	3.6%	3.4%	5.4%	16.4%
Emerging markets equities					
Emerging Europe	USD	2.0%	0.6%	-28.3%	-17.3%
Emerging Asia	USD	3.9%	4.0%	11.8%	27.0%
Emerging Latin America	USD	5.9%	5.3%	-32.8%	-24.7%
BRICs	USD	3.9%	3.7%	5.4%	21.1%
China	USD	4.0%	3.5%	20.0%	39.1%
MENA countries	USD	1.8%	1.8%	-6.2%	0.5%
South Africa	USD	1.4%	3.7%	-19.0%	-8.2%
India	USD	4.7%	6.8%	-4.3%	3.7%
Global emerging markets	USD	3.8%	3.8%	2.2%	15.6%
Bonds					
US Treasuries	USD	-0.5%	-0.7%	8.5%	7.0%
US Treasuries (inflation protected)	USD	0.0%	-0.1%	9.5%	10.1%
US Corporate (investment grade)	USD	0.1%	0.1%	6.6%	7.7%
US High Yield	USD	1.2%	1.4%	1.9%	5.1%
UK Gilts	GBP	-0.3%	-0.9%	8.0%	2.7%
UK Corporate (investment grade)	GBP	0.2%	0.0%	5.1%	4.8%
Euro Government Bonds	EUR	0.3%	0.5%	4.3%	1.5%
Euro Corporate (investment grade)	EUR	0.4%	0.5%	1.3%	0.9%
Euro High Yield	EUR	0.7%	1.0%	-1.8%	0.6%
Japanese Government	JPY	-0.2%	-0.2%	-1.1%	-2.2%
Australian Government	AUD	-0.1%	-0.1%	4.7%	1.9%
Global Government Bonds	USD	0.0%	0.0%	7.5%	6.2%
Global Bonds	USD	0.3%	0.3%	6.8%	6.6%
Global Convertible Bonds	USD	2.2%	2.6%	14.9%	21.3%
Emerging Market Bonds	USD	1.1%	1.0%	2.4%	5.1%

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

Asset Class/Region	Currency	Currency returns			
		Week ending 9 Oct. 2020	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	2.1%	6.6%	-11.7%	-13.1%
Australian Property Securities	AUD	2.5%	4.3%	-15.7%	-17.0%
Asia Property Securities	USD	0.8%	1.2%	-16.7%	-11.8%
Global Property Securities	USD	1.7%	4.1%	-13.7%	-11.4%
Currencies					
Euro	USD	0.9%	0.9%	5.5%	7.7%
UK Pound Sterling	USD	0.7%	0.8%	-0.8%	6.7%
Japanese Yen	USD	-0.3%	-0.2%	3.0%	1.8%
Australian Dollar	USD	1.0%	0.9%	3.3%	7.5%
South African Rand	USD	0.3%	1.3%	-14.6%	-7.8%
Swiss Franc	USD	1.1%	1.3%	6.4%	9.5%
Chinese Yuan	USD	1.4%	1.4%	4.4%	6.5%
Commodities & Alternatives					
Commodities	USD	5.1%	2.1%	-18.1%	-12.1%
Agricultural Commodities	USD	2.8%	2.1%	1.7%	7.7%
Oil	USD	9.1%	4.6%	-37.4%	-26.5%
Gold	USD	1.6%	1.7%	27.4%	28.3%
Hedge funds	USD	0.6%	0.7%	2.3%	5.0%

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

Important notes

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