

Weekly Digest

Week ending 19 June 2016

Performance differentials hidden behind headline market returns

Despite concerns over growth, US interest rate policy, a UK referendum and an impending US presidential election the global market is essentially flat in US dollar terms year to date. When it comes to market returns, the devil is in the detail, however. For example, of the major markets, only the US is in positive territory in local currency. Europe ex UK is down close to 9% with Japan's year to date falls more than double at circa 19%. The Pacific ex Japan markets have fared better with a return of -1.8% and, interestingly, the UK's market fall of -1.2% year to date is proving to be closest to the return of 2.2% for the US.

In fact Emerging Markets (EM) have outperformed Developed Markets (DM) with a US dollar return of 2.5% (0.9% in Local currency). Conventional wisdom tells us that the emerging markets are sensitive to low commodity prices and a strong US dollar, and perhaps the recent strengthening of commodity prices combined with a weaker (or at least less strong) US dollar have provided a fillip to returns. But it may also have something to do with fact that, thanks to their relative underperformance since 2011, EM equities are simply very good value today. EM bottomed sooner than DM and turned and rallied strongly post financial crisis, but they have underperformed developed markets since 2011, with DM outperforming by over 60% since then. Indeed emerging markets have provided negative annualised returns of -4.0% since the start of 2011, whereas developed market equities are up by nearly 7% annualised.

There have also been substantial sectoral differentials year to date within DM. The weakest sector is Financials, down nearly 11%, which has been weighed upon by the growing proliferation of negative interest rates which have provided yet more restraints on the ability for banks to be profitable. Consumer discretionary stocks have also come

under pressure as concerns over global growth have come to the fore in 2016. Conversely, the much maligned energy stocks have proven to be among the strongest performers year to date with a gain of close to 10% as pressure eased on crude.

This demonstrates a number of key factors. Firstly, just because a region, stock or sector is unpopular today does not mean it is a bad investment. If bought at the right price it can be a very good investment indeed. Generally speaking prices will be low when sentiment is overly pessimistic which in turn can result in a fertile hunting ground for those who are patient and able to live with some short term volatility. Valuation remains key as a means of identifying cheap asset classes or sectors and we would have much more conviction about the prospects of a cheap market that is viewed negatively than an expensive one. Given the breadth of potential returns between countries, regions, sectors (as well as between investment styles) it makes sense to keep a reasonably well diversified allocation to the markets. Clearly the best way to profit from these potential performance differentials is to take active positions, but it is dangerous to position a portfolio with too great an emphasis on any one potential source of returns as you may be at the very least early and potentially wrong altogether. Against this backdrop it is clear that there is still plenty of scope for active managers to add value in markets today. This is without even taking into account the sorts of returns differentials that take place on an intra-stock basis as opposed to the large differentials that are present intra-market, -sector, -region and so on. We believe that passive investments are useful where there is little scope for the value add that justifies the additional cost of active. Efficient returns help us, as multi-asset managers, create optimal combinations of assets and strategies that target an outcome for our investors.

The Marketplace

- Global equities fall despite a late week rally
- “Brexit” polls suggest that the Remain camp has regained momentum
- Central banks keep rates on hold, as bond yields reach historic lows
- Greece attains additional bailout funding
- Gold price rises amid broad commodity losses

Market Focus

Global

- Monetary policy authorities at US Federal Reserve, The Bank of England, the Bank of Japan and The Swiss National Bank all kept their policy rates on hold.

US

- The S&P 500 lost 1.2% in a week where the VIX volatility index, or the so-called ‘fear index’, rose by 22.8% on Monday to reach its highest levels since February.

UK

- EU referendum campaigning was temporarily suspended on Thursday following the shooting of Jo Cox, the Labour MP for Batley and Spen, on Thursday. The majority of ‘Brexit’ polls prior to this happening had shown a slight lead for the Leave campaign, but momentum seems to have shifted back to Remain over the weekend.

- Uncertainty around the referendum led UK equities to fall by 1.5% last week, although equities rose on Friday and at the time of writing are rallying, following the shift in opinion polls.

Europe

- Demand for safe haven assets and continued Central Bank bond purchases saw German government 10-year bond yields and Swiss government 30-year yields fall below zero for the first time ever, although the yields recovered somewhat to close the week at +0.019% and +0.010% respectively.
- On Friday Greece secured an additional €7.5bn (\$8.4bn) of bailout funding, putting fears at rest that disagreements between the IMF and European Commission over Greece’s attainment of fiscal targets might result in it defaulting on repayments due in early July.

China

- Commodities fell by 0.8% this week. In particular, Brent Crude oil fell by 2.7% to close on Friday below USD 50 at USD 49.2 per barrel, despite this it is still up 31.9% for year-to-date 2016. News that US drillers set up new oil rigs for a third week in a row dampened sentiment.
- Gold’s status as a safe haven asset helped it gain 2% throughout the week following an increase in risk aversion from UK EU referendum fears.

James Klempster, CFA & Jonathan Adamson

Asset Class/Region	Currency	Currency returns			
		Week ending 17 June 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	-1.1%	-1.1%	2.1%	0.1%
United Kingdom	GBP	-1.5%	-3.0%	-1.2%	-6.8%
Continental Europe	EUR	-2.4%	-6.0%	-9.4%	-12.1%
Japan	JPY	-6.0%	-9.3%	-18.3%	-21.9%
Asia Pacific (ex Japan)	USD	-2.6%	-1.0%	-0.8%	-13.3%
Australia	AUD	-2.8%	-4.0%	-0.5%	-3.3%
Global	USD	-1.7%	-2.2%	-0.5%	-5.3%
Emerging Market Equities					
Emerging Europe	USD	-2.4%	-1.6%	8.8%	-12.8%
Emerging Asia	USD	-2.2%	-0.5%	-1.0%	-14.7%
Emerging Latin America	USD	-0.3%	3.2%	16.2%	-14.9%
BRICs	USD	-1.7%	-0.9%	-0.2%	-20.6%
MENA countries	USD	-1.1%	1.0%	-0.6%	-20.0%
South Africa	USD	-3.3%	1.2%	8.7%	-16.1%
India	USD	-0.2%	0.5%	2.2%	-2.3%
Global Emerging Markets	USD	-2.1%	0.1%	2.4%	-14.8%
Bonds					
US Treasuries	USD	0.2%	1.5%	4.8%	5.9%
US Treasuries (inflation protected)	USD	-0.5%	1.0%	5.3%	3.1%
US Corporate (investment grade)	USD	-0.2%	1.2%	6.6%	6.5%
US High Yield	USD	-0.8%	0.2%	8.3%	0.6%
UK Gilts	GBP	0.6%	2.7%	8.7%	11.4%
UK Corporate (investment grade)	GBP	-0.1%	1.7%	6.2%	7.5%
Euro Government Bonds	EUR	-0.4%	0.6%	4.0%	7.2%
Euro Corporate (investment grade)	EUR	-0.2%	0.5%	3.6%	4.5%
Euro High Yield	EUR	-1.0%	-0.5%	3.8%	3.4%
Japanese Government	JPY	0.1%	0.5%	6.7%	9.3%
Australian Government	AUD	0.2%	1.3%	5.5%	7.7%
Global Government Bonds	USD	0.5%	2.8%	9.7%	10.9%
Global Bonds	USD	0.2%	2.0%	7.8%	8.0%
Global Convertible Bonds	USD	-0.8%	-0.6%	-0.4%	-2.8%
Emerging Market Bonds	USD	-0.3%	1.5%	9.0%	10.8%

Weekly Digest

Week ending 19 June 2016

Asset Class/Region	Currency	Currency returns			
		Week ending 17 June 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	1.1%	2.3%	8.1%	13.0%
Australian Property Securities	AUD	-0.4%	0.8%	12.2%	15.3%
Asia Property Securities	USD	-3.1%	-1.8%	-1.2%	-9.9%
Global Property Securities	USD	-1.0%	0.5%	5.5%	4.4%
Currencies					
Euro	USD	0.2%	1.4%	3.9%	-0.5%
UK Pound Sterling	USD	0.7%	-0.8%	-2.6%	-9.3%
Japanese Yen	USD	2.8%	6.4%	15.5%	18.6%
Australian Dollar	USD	0.3%	2.2%	1.5%	-4.6%
South African Rand	USD	0.0%	3.7%	2.1%	-19.0%
Swiss Franc	USD	0.5%	3.6%	4.5%	-3.9%
Chinese Yuan	USD	-0.2%	0.0%	-1.4%	-5.7%
Commodities & Alternatives					
Commodities	USD	-0.8%	2.4%	10.9%	-15.5%
Agricultural Commodities	USD	-0.2%	4.6%	10.3%	3.1%
Oil	USD	-2.7%	-1.0%	31.9%	-23.0%
Gold	USD	2.0%	6.9%	22.4%	9.6%
Hedge funds	USD	-0.5%	-0.1%	-1.3%	-6.7%

Important notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, EC4R 1EB

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.

© Momentum Global Investment Management Limited 2016