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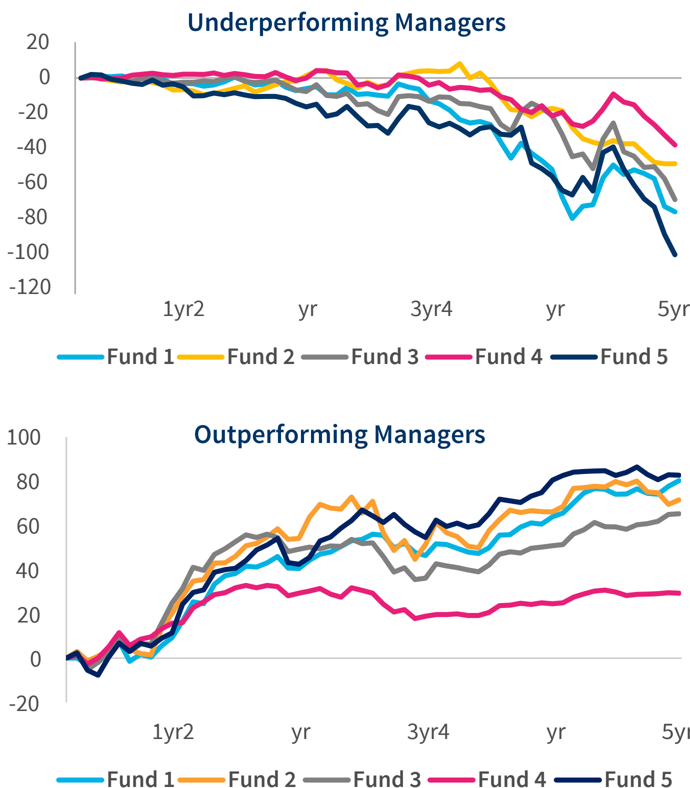
Past performance is not indicative of future results

Global Matters Weekly

5 July 2021

– Gary Moglione

“Past performance is not indicative of future results” is a compliance warning on most investment oriented material that everyone knows but not many people seem to actually implement into their decision making. A Fund Managers performance can dictate whether they become a hero or villain in the eyes of the public and the press. This then influences investment flows and ultimately determines whether the fund thrives or is liquidated. The charts below highlight the relative performance of two groups of US Equity funds versus the S&P 500 index. One group is amongst the worst performers with average underperformance of 64.9% over 5 years whereas the other group have posted almost a mirror image of 65.9% outperformance.



Source: Bloomberg Finance L.P., Momentum Global Investment Management

That’s a huge 130% difference in returns between the averages of the two groups. Are there any key differences in the structure or processes that would help identify good managers and bad managers? As you may have guessed, the answer is no because there are no differences. Both charts show the same 5 US Equity value managers but in two subsequent five-year periods (Dec 94 to Dec 99 and Dec 99 to Dec 04). By the end of 1999 the underperformance of value managers was so severe that value managers were being

> **A Fund Managers performance can dictate whether they become a hero or villain in the eyes of the public**

sacked, replaced and retiring as they struggled with falling assets under management and the press questioned whether value investing worked in this new technology led environment. They were struggling to attract inflows as investors preferred the spectacular returns delivered by the world changing technology companies that growth managers had invested in. Sounds very familiar doesn’t it? The next few months saw the bursting of the tech bubble followed by seven years of strong performance from value strategies. If you step back and look through history there have been constant, sometimes violent, swings between styles. The recent success of growth stocks has been one of the strongest and longest in history. It has been so great that investors under the age of 35 have really only seen one type of market throughout their career. Due to the longevity of this growth cycle, investing in yesterday’s winners has been a profitable strategy for a long period but this will come to an end at some point. Inflection points can be so painful for investors that fail to appreciate the effect of a change in environment and sentiment. The market’s strongest performers tend to change every decade and we have seen Nifty Fifty in the 1960s (Growth), Commodities in the 70s (Value), Technology in the 90s (Growth), Banks and Commodities (Value) in the early 2000s and then the FAANGs (Growth) in the 2010s. As with the swing in style preference there then are changes in the personalities perceived as investment gurus who then grow assets considerably based on a tailwind of style fuelled performance. We can see this in the past couple of decades with the rise and fall of value investors Neil Woodford and Mark Barnett (although they may have heightened their fall by holding illiquid assets when investing into a severe style headwind) only to be replaced in the last decade by growth investors such as Baillie Gifford and Fundsmith. History suggests the outcomes for these two high profile companies could be very different over the next decade compared to the previous one if their strong growth tilt persists.

The examples in the charts above are extremes in that I have chosen managers with a strong style bias and the performance periods straddle a significant inflection point this time around but the message is clear. Historic performance is worth looking at but can be misleading, take a longer-term view and take into account the type of environment the fund has been operating in. However, with inflation expectations rising there is the potential that the inflection point has already passed but we still need to be positioned for the next few years of a new cycle. Investors should be looking at their portfolio with a critical eye to see if they have been blinkered by the success of growth over the past decade and left with a strong, potentially unintended, style bias.

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The Marketplace

- Global equities rose +0.7% last week
- 130 countries and jurisdictions endorsed a new global tax framework that has been in negotiations for many years
- Brent crude was flat for the week remaining at$76.2 a barrel
- Gold rose 0.3% to $1787.3 per ounce

Market Focus

US

- US equities rose +1.7% last week
- Weekly initial jobless claims fell to a post-pandemic low of 364k against expectations of 388k for the week ending 26th June
- ADP's report of private payrolls showed a +692k increase in June vs expectations of +600k
- The headline number for nonfarm payrolls was up +850k (vs +720k expected), marking the strongest job growth in 10 months
- The unemployment rate ticked up to 5.9%, higher than expectations of +5.6%
- The ISM manufacturing reading came in at 60.6, below expectations of 60.9
- The US composite PMI fell from 68.7 in May to 63.9 in June. The final manufacturing PMI reading came in at 62.1, revised down slightly from the flash reading of 62.6
- Pending home sales were up +8.0% in May (vs -1.0% expected)

Europe

- European equities fell -0.3% last week
- The unemployment rate in the Euro Area for May fell to +7.9% (vs +8.0% expected)
- Unemployment in Germany fell by a stronger-than-expected -38k in June (vs -20k expected)
- The Euro Area composite PMI reading reached a fifteen year high of 59.5 ahead of the 59.2 flash estimate
- Meanwhile the manufacturing PMI rose to an all-time high of 63.4. Both Germany and France also saw upward revisions from their flash readings at 65.1 (vs 64.9) and 59.0 (vs 58.6) respectively
- June's flash CPI reading for the Euro Area came in at +1.9% as expected, down slightly from its 2-year high of +2.0% last month

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned -1.7% last week
- Japanese equities fell -0.2% over the week
- Chinese equities fell -2.9% last week
- China's official June composite PMI softened to 52.9 (vs 54.2 last month) with the services PMI at 53.5, against last month's reading at 55.2 contributing a large part to that softening. The Manufacturing PMI printed broadly in line with expectations at 50.9
- China's Caixin manufacturing reading softened to 51.3 missing expectations of 51.9, but remained in expansionary territory
- Japan's May retail sales printed at +8.2% year-on-year slightly ahead of expectations of +8.1%year-on-year
- Japan's final services PMI came in at 48.0 vs its 47.2 flash reading. The final manufacturing PMI reading improved to 52.4 from the flash reading of 51.5
- The Japanese government is planning to extend virus restrictions that are in place in Tokyo and its neighbouring prefectures by about a month, covering the entire duration of the Olympic games as Covid-19 case numbers creep higher

UK

- UK equities fell -0.1% last week
- Q1's GDP reading was revised to show a larger -1.6% contraction (vs -1.5% previously)
- Prime Minister Johnson said that the UK was "very likely" to remove the remaining Covid-19 restrictions on July 19th
- The UK's Joint Committee on Vaccination and Immunisation recommended that the elderly and most vulnerable should begin to receive a third dose Covid-19 booster vaccine from September

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Asset Class/Region	Currency	Currency returns			
		Week ending 2 July 2021	Month to date	YTD 2021	12 months
Developed Market Equities					
United States	USD	1.7%	1.3%	16.5%	40.6%
United Kingdom	GBP	-0.1%	1.2%	12.7%	17.4%
Continental Europe	EUR	-0.3%	0.7%	16.0%	27.1%
Japan	JPY	-0.2%	0.7%	9.6%	29.5%
Asia Pacific (ex Japan)	USD	-1.8%	-1.5%	5.3%	33.4%
Australia	AUD	0.1%	-0.1%	12.8%	24.9%
Global	USD	0.7%	1.0%	14.1%	38.7%
Emerging markets equities					
Emerging Europe	USD	-0.8%	0.8%	15.4%	30.7%
Emerging Asia	USD	-1.9%	-1.8%	4.1%	34.5%
Emerging Latin America	USD	-1.7%	-0.1%	8.8%	39.2%
BRICs	USD	-2.4%	-1.8%	3.4%	26.9%
China	USD	-2.9%	-2.7%	-0.9%	19.4%
MENA countries	USD	0.4%	0.1%	20.4%	40.1%
South Africa	USD	-1.0%	-0.5%	9.9%	34.2%
India	USD	-1.3%	-0.2%	11.0%	51.4%
Global emerging markets	USD	-1.7%	-1.4%	6.0%	34.9%
Bonds					
US Treasuries	USD	0.7%	0.1%	-2.7%	-3.3%
US Treasuries (inflation protected)	USD	0.9%	0.3%	1.9%	6.5%
US Corporate (investment grade)	USD	0.8%	0.2%	-1.1%	2.9%
US High Yield	USD	0.5%	0.2%	3.8%	14.7%
UK Gilts	GBP	0.7%	0.1%	-5.7%	-6.2%
UK Corporate (investment grade)	GBP	0.6%	0.2%	-2.6%	2.7%
Euro Government Bonds	EUR	0.9%	0.3%	-2.7%	0.2%
Euro Corporate (investment grade)	EUR	0.3%	0.1%	-0.3%	3.6%
Euro High Yield	EUR	0.0%	0.0%	3.1%	10.9%
Japanese Government	JPY	0.1%	0.2%	0.0%	0.4%
Australian Government	AUD	0.6%	0.3%	-2.0%	-1.3%
Global Government Bonds	USD	0.2%	0.1%	-4.6%	0.1%
Global Bonds	USD	0.1%	0.1%	-3.4%	1.9%
Global Convertible Bonds	USD	-0.5%	0.2%	1.7%	20.5%
Emerging Market Bonds	USD	0.0%	0.0%	-3.2%	3.3%

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Asset Class/Region	Currency	Currency returns			
		Week ending 2 July 2021	Month to date	YTD 2021	12 months
Property					
US Property Securities	USD	-0.7%	0.8%	22.3%	34.9%
Australian Property Securities	AUD	-2.1%	-0.2%	7.5%	21.4%
Asia Property Securities	USD	-1.9%	0.0%	7.1%	12.7%
Global Property Securities	USD	-0.9%	0.7%	14.7%	29.3%
Currencies					
Euro	USD	-0.8%	0.0%	-3.1%	5.5%
UK Pound Sterling	USD	-0.7%	0.0%	1.1%	10.8%
Japanese Yen	USD	-0.4%	-0.1%	-7.1%	-3.3%
Australian Dollar	USD	-1.2%	0.1%	-2.5%	8.4%
South African Rand	USD	-1.0%	0.3%	2.7%	19.0%
Swiss Franc	USD	-0.6%	0.3%	-4.1%	2.5%
Chinese Yuan	USD	-0.3%	-0.2%	0.8%	9.2%
Commodities & Alternatives					
Commodities	USD	2.3%	0.8%	29.4%	58.0%
Agricultural Commodities	USD	3.8%	-0.6%	19.2%	54.9%
Oil	USD	0.0%	1.4%	47.0%	76.6%
Gold	USD	0.3%	0.8%	-5.7%	0.6%
Hedge funds	USD	0.0%	0.1%	4.1%	12.0%

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