

A Euro black swan passes by

Global Matters Weekly

12 July 2021

– Robert White, CFA

As a casual football fan and long-suffering supporter of the English national team, there was only ever one topic I could write about today. No, not the merits of the latest ECB strategy review (perhaps one for another time) but instead last night's dramatic European Championship Final between Italy and England. Given this was the first time the England men's team has reached a final for 55 years, it's been a pretty memorable tournament, despite them falling short at the final hurdle. Since their last footballing success, we've seen nine US bear markets, ten UK Prime Ministers and both multi-century highs and lows for US 10 year government bond yields¹. In that context, the prospect of victory at a major tournament looks like somewhat of a Black Swan event.

Despite the defeat, one of many bright spots for England has been the redemption of manager Gareth Southgate who, as a player, famously missed a penalty in the crucial semi-final match against Germany in 1996 in the same tournament. While even the best players in the world have missed crucial penalties, that doesn't make the feeling any easier to stomach, and the heartbreak of England's unsuccessful penalty takers was plain to see last night. Unsurprisingly, it seems that nerves played a role on the big stage; only five out of ten penalties were converted in total, well short of the long-term average of 75%².

As is often the case with sport, parallels can be found in markets. Looking at the history of the S&P 500 index since 1927, we find that the index delivered positive monthly returns only 60% of the time, a surprising statistic perhaps for investors that believe equity markets only ever go up. This can create real disappointment for unlucky investors in the remaining 40% of negative months, but thankfully there are many ways to improve your market odds.

Firstly, markets give everyone the opportunity to have as many shots as you like before you become successful, as opposed to footballers who have just one attempt during a shootout. Rather than looking at monthly returns, we find the odds of

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success improve for investors who hold their investments for longer time periods. Looking at yearly returns, the odds of a positive return improve to 67%, and extending further to three years improves the odds to an impressive 79%, meaning investors have a better shot at making money over this time frame than the average penalty taker has of scoring.

Secondly, a key advantage for investors is that as well as the odds of winning being in your favour, the payoff when you win is larger too. The average yearly positive price return for the S&P 500 since 1927 was 18.5%, greater than the average negative return of -14.2%, and that's before you even include dividends. This is quite different from penalty shootouts, where misses live long in the memory of players and fans alike, and there is no opportunity to try again.

This tournament has been particularly special due to the presence once again of large crowds of spectators, an encouraging sign that the worst of the pandemic seems to be behind us. With the return of fans, we also saw the return of home advantage, an interesting behavioural phenomenon that benefitted both England and Italy throughout the tournament. As we've written before, behavioural factors also have an important impact on markets, and as active investors, we hope to use these inefficiencies to improve returns for our clients.

Despite the result, fans of both teams should take heart from a thrilling tournament this year, which so nearly didn't happen at all. And while the players cannot retake those crucial penalties, they will have a chance for redemption in 18 months. Here's hoping they won't have to wait another 55 years to reach a final

¹ <https://www.marketwatch.com/story/10-year-treasury-yield-plunged-to-its-lowest-in-234-years-says-deutsche-bank-11596214464>

² https://instatsport.com/football/article/penalty_research

All other data sourced from Bloomberg Finance L.P.

The Marketplace

- Global equities fell -0.8% last week
- Oil prices experienced their biggest daily fall since mid-May amid uncertainty regarding OPEC's latest talks
- Brent crude fell -2.7% over the week to \$74.1 a barrel
- Gold rose 0.6% to \$1797.6 per ounce

Market Focus

US

- US equities fell -0.7% last week
- Weekly initial jobless claims for the week through to July 3rd came in at 373k vs expectations of 350k, just +2k up from their post-pandemic low the previous week
- The continuing claims number also fell to a post-pandemic low at 3.339m vs expectations of 3.350m
- Job openings for May came in at a lower-than-expected 9.209m. The quits rate declined to 2.5% from 2.8% in June, measuring those voluntarily leaving their jobs which is often used as a gauge of how confident workers are feeling
- ISM services PMI came in weaker than expected at 60.1 (vs 63.5 expected). The decline from May's all-time high was the biggest monthly decline since the height of the pandemic last year. However the data print is still firmly in expansionary territory

UK

- UK equities fell -1.1% last week
- Fresh antibody data from the UK's ONS found that 90% of the adult population in England were estimated to have tested positive for antibodies in the week beginning 14th June
- Formal confirmation will be given as to whether the planned easing of restrictions will go ahead on July 19th, with a press conference from Prime Minister Johnson this evening

Europe

- European equities fell -1.0% last week
- French industrial production unexpectedly contracted by -0.3% in May (vs +0.8% expected). German factory orders unexpectedly fell by -3.7% vs an expected increase of +0.9%, marking the first decline of 2021 so far
- Spain's composite PMI reading came in at 63.4, its highest level since February 2000, whilst France's was revised up to a 3-year high of 57.4 (vs flash reading of 57.1). Germany's flash reading was revised slightly downwards to 60.1 (vs flash 60.4), but still marked the highest level for the composite PMI in a decade
- German industrial production unexpectedly fell -0.3% in May (vs expectations of +0.5%), while Italian retail sales grew by a weaker-than-expected +0.2% (vs +3.0% expected)
- Euro Area retail sales grew by +4.6% in May (vs +4.3% expected)
- ECB policy makers have agreed to increase their inflation goal to 2.0% and allow prices to overshoot when needed

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned -2.8% last week
- Japanese equities fell -1.8% over the week
- Chinese equities fell -5.3% last week
- China's June PPI reading came out in line with expectations at +8.8% year-on-year, while CPI came in slightly lower than expectations at +1.1% year-on-year
- Japan's May household spending came in at +11.6% year-on-year against expectations of +11.0% year-on-year, while real cash earnings came in at +2.0% year-on-year (vs +2.4% expected)

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Asset Class/Region	Currency	Currency returns			
		Week ending 9 July 2021	Month to date	YTD 2021	12 months
Developed Market Equities					
United States	USD	-0.7%	0.6%	15.7%	38.6%
United Kingdom	GBP	-1.1%	0.1%	11.5%	19.8%
Continental Europe	EUR	-1.0%	-0.3%	14.8%	26.9%
Japan	JPY	-1.8%	-1.2%	7.6%	25.9%
Asia Pacific (ex Japan)	USD	-2.3%	-3.7%	2.9%	24.1%
Australia	AUD	0.5%	0.4%	13.3%	27.1%
Global	USD	-0.8%	0.2%	13.3%	36.8%
Emerging markets equities					
Emerging Europe	USD	-1.8%	-1.0%	13.3%	29.0%
Emerging Asia	USD	-2.8%	-4.5%	1.3%	22.5%
Emerging Latin America	USD	-4.7%	-4.8%	3.6%	30.6%
BRICs	USD	-4.2%	-6.0%	-1.0%	12.1%
China	USD	-5.3%	-7.9%	-6.2%	2.0%
MENA countries	USD	-1.1%	-1.0%	19.0%	36.3%
South Africa	USD	-2.1%	-2.6%	7.6%	27.0%
India	USD	-0.2%	-0.4%	10.8%	48.0%
Global emerging markets	USD	-2.8%	-4.1%	3.1%	24.2%
Bonds					
US Treasuries	USD	0.9%	1.0%	-1.8%	-3.1%
US Treasuries (inflation protected)	USD	0.2%	0.6%	2.2%	6.3%
US Corporate (investment grade)	USD	0.8%	0.9%	-0.3%	2.7%
US High Yield	USD	0.2%	0.4%	4.0%	14.4%
UK Gilts	GBP	1.4%	1.5%	-4.3%	-5.2%
UK Corporate (investment grade)	GBP	0.9%	1.1%	-1.8%	2.9%
Euro Government Bonds	EUR	0.5%	0.8%	-2.3%	0.3%
Euro Corporate (investment grade)	EUR	0.3%	0.5%	0.1%	3.7%
Euro High Yield	EUR	0.0%	0.1%	3.1%	10.7%
Japanese Government	JPY	0.2%	0.4%	0.2%	0.1%
Australian Government	AUD	0.9%	1.2%	-1.1%	-0.7%
Global Government Bonds	USD	1.0%	1.0%	-3.7%	0.2%
Global Bonds	USD	0.7%	0.8%	-2.8%	1.9%
Global Convertible Bonds	USD	-0.7%	-0.6%	1.0%	17.8%
Emerging Market Bonds	USD	0.5%	0.5%	-2.7%	3.7%

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Asset Class/Region	Currency	Currency returns			
		Week ending 9 July 2021	Month to date	YTD 2021	12 months
Property					
US Property Securities	USD	0.6%	1.5%	23.0%	41.0%
Australian Property Securities	AUD	0.3%	0.2%	7.9%	29.7%
Asia Property Securities	USD	-0.3%	-0.4%	6.7%	12.6%
Global Property Securities	USD	0.5%	1.2%	15.2%	32.7%
Currencies					
Euro	USD	0.0%	0.0%	-3.1%	4.9%
UK Pound Sterling	USD	-0.2%	-0.2%	0.9%	9.2%
Japanese Yen	USD	1.3%	1.2%	-5.9%	-2.3%
Australian Dollar	USD	-0.8%	-0.7%	-3.3%	7.0%
South African Rand	USD	-0.2%	0.1%	2.6%	18.0%
Swiss Franc	USD	0.8%	1.1%	-3.3%	2.7%
Chinese Yuan	USD	-0.3%	-0.5%	0.6%	7.8%
Commodities & Alternatives					
Commodities	USD	-2.5%	-1.7%	26.1%	52.6%
Agricultural Commodities	USD	-3.7%	-4.3%	14.7%	46.4%
Oil	USD	-2.7%	-1.3%	43.1%	75.0%
Gold	USD	0.6%	1.4%	-5.1%	-0.1%
Hedge funds	USD	-0.4%	-0.3%	3.6%	10.9%

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