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Staying the course

Global Matters Weekly

13 December 2021

– **Alex Harvey, CFA**

As we come into 2021's home straight, few moments can match the drama and rivalry that played out yesterday in Abu Dhabi as the Formula One season drew to a close. A nail-biting final lap decided the 2021 championship after the two key protagonists, Lewis Hamilton and Max Verstappen, started the race on equal points. Even those not of a petrolhead persuasion would be hard pushed not to have enjoyed the spectacle. The lesson of the day was to never give up. In the highly competitive sports arena, we've seen countless times how victory can be snatched from the jaws of defeat. Whilst investment is a different game altogether, similarities can be drawn between our industry and theirs.

The first point of note is that for every driver competing on the track, there is a pit crew of around 20 and a total race team on the ground of perhaps 70 or 80 people. And hundreds more back home. It is a team sport, and everyone has a role to play. Much like an investment business, the faces you see on the factsheets are just the tip of the iceberg and there is a huge team supporting the business beyond the more visible investment desk and sales team.

The car is the investment vehicle and for us that really means the investment process. I like to refer to our process as something of a 'universal chassis', with a shell designed to suit it for the relevant jurisdiction in which we are 'racing' – be that the UK, South Africa, the Middle East, South America or Asia. Conditions will be slightly different in each location and the cars need to be styled accordingly. Higher kerb clearance here, more downforce there. The objective remains the same though; to transport the investment vehicle's passenger – the client – to a shared investment outcome. The only difference perhaps at Momentum is that we may sacrifice speed for comfort, noting our emphasis on the importance of the investment journey.

As we saw in yesterday's race, you also have to take risk. Risk is not always rewarded, but over time considered and calculated risks should translate into improved performance. In Abu Dhabi it was Max Verstappen and the Red Bull team who took the risks (tyre changes) while Lewis Hamilton stuck to his game plan. [In fact, it was something of a free option for Verstappen but that is one for another day]. Ultimately that risk was rewarded as a unique set of circumstances (and a little bit of luck) played out, allowing Verstappen to overtake on the final lap. Tactical decisions were key to his success over the course of the whole championship, not just this race. We take a similar approach with our investment process, with tactical pivots around the long-term strategic investment goal.

Whilst investment is a different game altogether, similarities can be drawn between our industry and the Formula One season

There is also an incredible amount of cutting-edge technology that goes into Formula One today compared to yesteryear (albeit it was the best technology at the time). This drives innovation and shows how far we have come, notably with improvements to driving safety as well as speed. Similarities can be drawn with portfolio management today where risk can be calibrated quite precisely, although tyres do still blow out and cars do still spin off the road. Some things cannot be eliminated; you just have to plan for their eventualities.

As a 10-year-old I remember being plucked out of school one day to visit the McLaren factory in Woking, near where I grew up. It was for some publicity in the local newspaper, and I was fortunate enough to sit in a F1 car cockpit for photographs and to meet John Watson who had returned to the team for his last F1 race, driving the injured Niki Lauda's number 1 car. I also remember the striking red livery on the car from the Marlboro cigarette sponsorship deal. Echoing how attitudes and styles have evolved in the investment industry, McLaren's singular focus on Marlboro - and tobacco sponsorship more broadly - has given way to a more diversified blend of sponsors (and brands) including for McLaren the likes of Cisco (Webex), Stanley Black & Decker (DeWalt), Hilton and Dell Technologies. In another 37 years, perhaps electric engines will have replaced petrol ones, or the cars will float on a cushion of air rather than tyres. Who knows? What I think we can be sure of though is that they will still be racing, and people will still be investing. The journey will continue.

The **Marketplace**

- Global equities rallied 3.3% last week
- US inflation jumped 6.8% in 2021 to the highest level since 1982
- Brent crude rallied 7.5% over the week to $75.2 a barrel
- Gold was flat at $1782.8 per ounce

Market **Focus**

US

- US equities rallied 3.8% last week, their best week since February, with Oil/Gas and Tech outperforming.
- Initial jobless claims of 184k came in much lower than 215k last week, and the 227k forecast, the lowest since 1969. Furthermore, open US jobs stand at c11m, helped by the food service industry.
- US inflation rose 0.8% in November after rising 0.9% in October. Price increases were seen across many sectors, including gas, food and housing. This is the sixth month in a row the US is seeing price increases. Ahead of Friday's release, President Joe Biden released a statement saying that the inflation rate "does not reflect today's reality".
- Pfizer and BioNTech showed that the booster increases the neutralising antibody titers by 25-fold compared to two doses against Omicron.

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned 1.1% last week.
- Japanese equities rose 0.9% over the week.
- Japan's GDP quarter-on-quarter growth fell to 0.9% vs. 0.8% previously and +0.5% estimated.
- Chinese equities rose 1.8% last week.
- China cut reserve requirement ratio for banks and November factory-gate inflation cooled, easing inflation concerns.

Europe

- European equities returned +3.0% last week, with Travel/Leisure outperforming despite ongoing concerns around Omicron.
- German ZEW Economic Sentiment for December was 29.9, vs. the 31.7 forecast.
- Yields pulled back a bit on speculation that the ECB could increase asset purchases via its standard Asset Purchase Program once its emergency purchases end in March 2022.

UK

- UK equities rose 2.3% last week.
- Sterling pared losses triggered by PM Boris Johnson warning the UK is facing a "tidal wave" of Omicron infections. He set an end-of-year deadline for the country's booster program for 18+ year olds and implemented 'Plan B', working from home where possible and wearing face masks in public from today.
- The UK agreed to issue more fishing licenses for EU boats in a deal struck on Saturday.
- GDP month-on-month came in at a mere 0.1% vs. 0.4% in November. 0.6% was forecast.
- Manufacturing production month-on-month came in at 0.0% vs. 0.1% previously and 0.1% estimate.

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Asset Class/Region	Currency	Currency returns			
		Week ending 10 Dec. 2021	Month to date	YTD 2021	12 months
Developed Market Equities					
United States	USD	3.8%	1.3%	26.6%	29.7%
United Kingdom	GBP	2.3%	2.7%	18.0%	15.3%
Continental Europe	EUR	3.0%	2.0%	21.6%	23.6%
Japan	JPY	0.9%	1.4%	11.6%	13.6%
Asia Pacific (ex Japan)	USD	1.6%	1.4%	-2.6%	0.4%
Australia	AUD	1.6%	1.6%	15.7%	14.2%
Global	USD	3.3%	1.1%	20.1%	23.0%
Emerging markets equities					
Emerging Europe	USD	-1.8%	0.1%	13.5%	14.3%
Emerging Asia	USD	1.3%	1.4%	-4.4%	-1.0%
Emerging Latin America	USD	3.0%	5.0%	-8.6%	-7.1%
BRICs	USD	1.3%	0.3%	-9.4%	-6.9%
China	USD	1.8%	-0.7%	-18.8%	-16.5%
MENA countries	USD	1.2%	1.7%	27.1%	27.6%
South Africa	USD	-0.7%	4.0%	0.2%	3.8%
India	USD	1.3%	1.9%	22.3%	28.1%
Global emerging markets	USD	1.1%	1.7%	-2.2%	0.8%
Bonds					
US Treasuries	USD	-1.1%	-0.1%	-2.5%	-2.5%
US Treasuries (inflation protected)	USD	-1.0%	-0.6%	4.8%	5.6%
US Corporate (investment grade)	USD	-0.9%	0.1%	-1.3%	-0.6%
US High Yield	USD	0.7%	0.9%	4.4%	5.4%
UK Gilts	GBP	0.4%	1.3%	-2.0%	-1.9%
UK Corporate (investment grade)	GBP	0.4%	1.1%	-1.3%	-0.9%
Euro Government Bonds	EUR	-0.1%	0.5%	-1.8%	-1.9%
Euro Corporate (investment grade)	EUR	0.1%	0.6%	-0.3%	-0.5%
Euro High Yield	EUR	0.4%	0.7%	3.3%	3.4%
Japanese Government	JPY	0.0%	0.2%	0.0%	-0.2%
Australian Government	AUD	-0.2%	0.4%	-3.3%	-3.1%
Global Government Bonds	USD	-0.4%	0.3%	-5.9%	-5.2%
Global Bonds	USD	-0.3%	0.4%	-5.1%	-4.4%
Global Convertible Bonds	USD	0.8%	-1.3%	-3.8%	-1.1%
Emerging Market Bonds	USD	0.6%	2.4%	-4.2%	-2.6%

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

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Asset Class/Region	Currency	Currency returns			
		Week ending 10 Dec. 2021	Month to date	YTD 2021	12 months
Property					
US Property Securities	USD	2.5%	1.2%	34.7%	37.5%
Australian Property Securities	AUD	2.5%	2.2%	18.7%	17.9%
Asia Property Securities	USD	1.5%	1.1%	-0.9%	-0.5%
Global Property Securities	USD	2.2%	1.2%	19.0%	21.7%
Currencies					
Euro	USD	0.1%	0.5%	-7.4%	-6.6%
UK Pound Sterling	USD	0.2%	-0.2%	-2.8%	-0.3%
Japanese Yen	USD	-0.5%	0.4%	-8.9%	-8.0%
Australian Dollar	USD	2.4%	0.7%	-6.7%	-4.7%
South African Rand	USD	0.9%	1.1%	-8.2%	-5.9%
Swiss Franc	USD	-0.2%	0.5%	-3.9%	-3.6%
Chinese Yuan	USD	0.1%	0.3%	2.5%	2.7%
Commodities & Alternatives					
Commodities	USD	2.8%	0.0%	36.5%	41.8%
Agricultural Commodities	USD	0.5%	-0.2%	31.4%	40.8%
Oil	USD	7.5%	2.3%	45.1%	49.6%
Gold	USD	0.0%	-0.1%	-5.9%	-2.6%
Hedge funds	USD	0.6%	0.0%	3.8%	5.2%

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

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