momentum

Global Matters Weekly

16 October 2023

Fly Me to the Moon

– Mark Wright, CFA — *Portfolio Manager*

The term "irrational exuberance" was popularized by former Chairman of the US Federal Reserve, Alan Greenspan, when he referred to the ebullient behaviour of investors towards internet stocks in the mid-1990s. Such behaviour ultimately led to the 'Dot-Com Bubble" and subsequent stock market crash in the early 2000s.

He questioned whether central banks should address irrational exuberance by pre-emptively tightening monetary policy. Mr Greenspan presumably concluded that they shouldn't, because the Federal Reserve didn't begin raising interest rates until late 1999.

Investors rarely seem to learn from past booms and busts, and we frequently observe evidence of irrational exuberance across all asset classes. It was irrational exuberance that led investors to buy 30-year UK government bonds on yields of just 0.6% during the COVID-19 pandemic, and still as low as 0.8% as recently as December 2021. The 0.625% 2050 bond I am referring to now yields close to 5% and has fallen a staggering 64% from its issue price – so much for being a safe haven asset.

More reminiscent of the Dot-Com Bubble was the IPO of Moonpig, the online greeting card and gifting business, in February 2021. Ludicrously low yields on long dated government bonds helped fuel undue optimism towards digital businesses exhibiting rapid growth.

We were fond of Moonpig's business model from the outset but were less fond of the lofty valuation at which the company managed to raise money from investors at its IPO. The valuation ultimately reached 52x earnings just a few months after its stock market debut[1].

Moonpig dominates the online greeting card market in the UK with a 70% market share[2], whilst online penetration for greeting cards has been growing faster than many other product categories, such as cosmetics & toiletries, clothing & footwear, and homewares. The company is still gaining market share, as Moonpig leverages its powerful brand, scale and vast customer dataset that it has accumulated over the last 23 years from 266m cumulative customer transactions[3].

> Having sat on the sidelines for the best part of two years, the growth opportunity for Moonpig is clear.

Its marketing budget is a multiple of all of its competitors' budgets combined which creates a significant economic moat and barrier to entry.

Moonpig's strategy is simple – grow the customer base, get those customers to order more frequently and get them to spend more on each order, for example by attaching a gift. Moonpig benefits from a loyal customer base that generates 89% of the company's revenue in any one year[4]. The company sends 84 million reminders of special dates, such as birthdays and wedding anniversaries every year to its customer base, helping to encourage them to delve into their wallet and purses to send a card and/or gift to someone for that special occasion.

The average person purchases 23 cards per annum but only 3.3 of those are purchased from Moonpig[5]. At the same time, 72% of those cards purchased are given with a gift[6], but a much smaller percentage of Moonpig customers currently attach a gift. That should improve, following the recent acquisition of Buyagift and Red Letter Days, the UK's largest and third largest gift experiences platforms, respectively. The company also has a presence in Australia and the United States but is yet to "press go" in promoting and expanding the business there.

The growth opportunity for Moonpig is clear. Having sat on the sidelines for the best part of two years, Moonpig shares can now be found in Momentum's direct UK equity portfolio. Earlier this year, the shares had fallen almost 80% from their peak to a much more sensible valuation. This was despite the business trading reasonably well since its IPO. The business model hasn't changed, and if anything, Moonpig is now a more compelling proposition to investors, with expansion in the United States a much closer reality now than it was at IPO. An old colleague of mine used to walk through the office singing "Fly me to the Moon". We are hoping Moonpig does just that.

Sources: [1-6] Moonpig Group Plc. Unless stated all other data is sourced Bloomberg Finance L.P..

Global Matters Weekly

16 October 2023

The **Marketplace**

- Global equities rose 0.6% last week
- The International Monetary Fund published their latest global growth forecasts, keeping expectations for 2023 at 3.0%, but lowering the 2024 projection to 2.9%
- Brent crude rose 7.5% to $90.89 a barrel, its largest weekly increase since February as concerns rose over risks to oil supply from the Middle East
- Gold rose 5.4% to $1932.82 per ounce

Market **Focus**

US

- US equities rose 0.5% last week
- Headline Consumer Price Index (CPI) came in at 0.4%, above the consensus of 0.3%. Core CPI came in at a five-month high of 0.32%, with decent increases in some of the stickier categories
- The monthly gain in headline Producer Price Index (PPI) was at 0.5% (vs. 0.3% expected), whilst PPI excluding food and energy was up 0.3% (vs. 0.2% expected), pushing the year-on-year measure for headline PPI up to 2.2%
- Minutes from the Fed's September meeting repeated some key messages with all Federal Open Market Committee members agreeing that "policy should remain restrictive for some time". The minutes added focus to the details of the CPI print, noting that "significant progress in reducing inflation had yet to become apparent in the prices of core services excluding housing"

Europe

- European equities rose 0.9% last week
- Several speakers from the European Central Bank, including Dutch central bank President Klaas Knot said that returning inflation to target in 2025 "would be an acceptable return for me". Deutsche Bundesbank President Joachim Nagel also said that "pausing could be an option"
- Industrial production recovered in August increasing by 0.6% over the month, in contrast to the 1.3% decrease in the prior month

UK

- UK equities rose 1.6% last week
- GDP grew by 0.2% in August, after contracting by a revised 0.6% in July
- Bank of England Chief Economist Huw Pill said that interest rate decisions were becoming "finely balanced"
- Industrial production fell by 0.7% in August, softening from the 1.1% fall in July

Asia/Rest of The World

- Global emerging market equities rose 1.5% last week
- Japanese equities rose 2.0%
- Chinese equities rose 1.3%
- Japan's PPI inflation for September fell more than expected to 2.0% year-on-year vs 2.4% expected
- China's inflation data was weaker than expected, with CPI flat in September on a year-on-year basis vs 0.2% expected
- US Senate Majority Leader Chuck Schumer met with Chinese President Xi Jinping in Beijing to discuss US-China relations in Xi's first meeting with US senators since 2015

NDL

momentum

Global Matters Weekly

16 October 2023

Asset Class/Region	Currency	Currency returns			
		Week ending 13 Oct. 2023	Month to date	YTD 2023	12 months
Developed Market Equities					
United States	USD	0.5%	1.0%	13.7%	19.3%
United Kingdom	GBP	1.6%	0.1%	5.4%	15.0%
Continental Europe	EUR	0.9%	-0.2%	9.0%	19.9%
Japan	JPY	2.0%	-0.6%	24.9%	27.7%
Asia Pacific (ex Japan)	USD	1.3%	0.0%	-0.4%	15.1%
Australia	AUD	1.4%	0.0%	3.8%	10.6%
Global	USD	0.6%	0.3%	11.5%	20.7%
Emerging markets equities					
Emerging Europe	USD	1.7%	-0.6%	14.3%	60.6%
Emerging Asia	USD	1.5%	0.5%	1.5%	16.7%
Emerging Latin America	USD	3.1%	-3.1%	9.4%	10.4%
BRICs	USD	1.3%	-0.4%	-1.5%	11.1%
China	USD	1.3%	-0.6%	-7.8%	11.3%
MENA countries	USD	-2.1%	-3.7%	-3.0%	-8.6%
South Africa	USD	5.7%	1.7%	-8.3%	9.8%
India	USD	0.4%	0.4%	9.4%	15.9%
Global emerging markets	USD	1.5%	-0.1%	1.7%	14.3%
Bonds					
US Treasuries	USD	1.0%	-0.1%	-1.3%	0.2%
US Treasuries (inflation protected)	USD	1.5%	0.0%	-0.8%	0.8%
US Corporate (investment grade)	USD	1.2%	-0.2%	0.2%	4.9%
US High Yield	USD	0.7%	-0.7%	5.3%	9.2%
UK Gilts	GBP	1.8%	0.3%	-3.9%	2.5%
UK Corporate (investment grade)	GBP	1.3%	0.1%	1.3%	11.4%
Euro Government Bonds	EUR	1.1%	0.4%	0.4%	-0.4%
Euro Corporate (investment grade)	EUR	0.6%	0.2%	2.5%	4.8%
Euro High Yield	EUR	0.5%	-0.2%	5.9%	11.6%
Japanese Government	JPY	0.5%	-0.1%	-0.6%	-2.2%
Australian Government	AUD	0.4%	0.4%	0.8%	1.3%
Global Government Bonds	USD	0.8%	-0.2%	-3.6%	1.6%
Global Bonds	USD	0.8%	-0.3%	-2.0%	3.7%
Global Convertible Bonds	USD	-0.2%	-1.3%	0.5%	7.6%
Emerging Market Bonds	USD	1.5%	-0.9%	-1.1%	9.5%

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

Global Matters Weekly

16 October 2023

Asset Class/Region	Currency	Currency returns			
		Week ending 13 Oct. 2023	Month to date	YTD 2023	12 months
Property					
US Property Securities	USD	1.5%	-0.3%	-3.1%	3.2%
Australian Property Securities	AUD	1.1%	0.6%	-1.5%	8.4%
Asia Property Securities	USD	0.3%	-1.3%	-11.0%	-1.1%
Global Property Securities	USD	0.7%	-1.1%	-4.6%	5.0%
Currencies					
Euro	USD	-0.7%	-0.7%	-1.9%	7.5%
UK Pound Sterling	USD	-0.8%	-0.6%	0.3%	7.1%
Japanese Yen	USD	-0.2%	-0.1%	-12.4%	-1.6%
Australian Dollar	USD	-1.3%	-2.3%	-7.7%	0.2%
South African Rand	USD	1.6%	-0.6%	-10.4%	-3.9%
Swiss Franc	USD	1.0%	1.5%	2.3%	10.9%
Chinese Yuan	USD	-0.1%	-0.1%	-5.6%	-1.9%
Commodities & Alternatives					
Commodities	USD	2.5%	-0.3%	1.0%	0.4%
Agricultural Commodities	USD	0.6%	1.1%	2.0%	2.2%
Oil	USD	7.5%	-4.6%	5.8%	-3.9%
Gold	USD	5.4%	4.6%	6.0%	16.0%

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

Important notes

This document is for information purposes only and does not constitute any investment advice. This document is only intended for use by Newport Distribution Ltd and their clients. This 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.

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.