

No stress

Global Matters Weekly

23 January 2023

– Matt Connor – Investment Analyst

I have recently returned from a holiday to Cape Verde, where the country's motto of "No Stress" suits the tropical island lifestyle. After returning to (a much colder) reality it has dawned on me that investors ought to take a leaf out of the Cape Verdean's book and try not to stress and act in haste when making investment decisions.

After a torrid 2022 for markets and an increasing likelihood of a recession coming this year¹, you would be forgiven for thinking "No Stress" is an oxymoron when applied to how investors should currently think – but heightened emotions often cloud judgement and can lead to irrational decision making.

Warren Buffet's famous quote that investors should be "fearful when others are greedy, and greedy when others are fearful" is touted so often that it has become somewhat of a platitude, yet it effortlessly describes the opportunistic mindset investors should have in turbulent markets. Data, however, proves that investors tend to do the opposite. UK retail investment funds suffered a year of outflows² as selloffs in financial markets pushed investors to withdraw their investments. As Buffet implies, at volatile times, opportunistic entry points are often available to investors to make further investments, even allowing an investor to lower their average cost on holdings that may have fallen in price.

So, why do investors tend to do the opposite of what they should do in a bear market? Fear! Fear that their investments could continue to drop in value if they don't sell now and fear that the markets will never recover. Bear markets will happen and that can be a scary thought, especially after a decade long bull run where it seemed like financial markets did nothing but go up. History tells us that bear markets

Heightened emotions often cloud judgement and can lead to irrational decision making.

have historically been shorter-lived than bull markets and ultimately, markets have always recovered from even the steepest of selloffs, meaning that a bear market provides an opportune time to invest³.

Well-diversified, multi-asset funds such as Momentum's own fund range can also help reduce the impact a bear market has on an investor's portfolio due to the inclusion of defensive assets that can be uncorrelated to equity markets.

For example, within our UK Equity portfolio at Momentum, we have taken advantage of the volatile market conditions to add high-quality holdings to our roster of stocks, such as Games Workshop, Cranswick, and Next15 Communications. We have fully embraced the Cape Verdean "No Stress" mindset in staying calm and logical when analysing new opportunities which we believe will pay off handsomely.

Hopefully after reading this article, you remind yourself of the "No Stress" motto when you see a panic-inducing headline about further pain in the stock market and realise it could be a good opportunity for a long-term investor. At the very least, it may prompt you to book a holiday so you can forget about your worries. I'm sure my suggestion of a company-sponsored trip to Cape Verde to fully immerse myself in the "No Stress" mindset is 100% less likely to happen in the future than a market rebound.

The Marketplace

- Global equities fell 0.4% last week
- A mixed week for major indices: the European Central Bank indicated it intends to hike interest rates and there are recession fears in the US, however, there were some positive returns in Asia
- Brent crude rose 2.8% to \$87.63 a barrel
- Gold rose 0.3% to \$1926.08 per ounce

Market Focus

US

- US equities fell 0.7% last week
- Retail sales fell 1.1% in December which in turn led to lower inflation as producer prices fell 0.5%
- Industrial production fell by 0.7% in December- the most since September 2021, driven by a 1.3% drop in manufacturing output
- US weekly initial jobless claims fell to 190k in the second week of 2023 (vs. 214k expected)

Europe

- European equities fell 0.1% last week
- European Central Bank policymakers signalled that they would continue to aggressively hike interest rates, stoking fears of a prolonged economic slowdown

UK

- UK equities fell 1.0% last week
- Inflation slowed for a second consecutive month in December. The consumer price index (CPI) fell to 10.5% from 10.7% in November

Asia/Rest of The World

- Global emerging market equities returned 0.6% last week
- Japanese equities returned 1.3%
- Chinese equities also returned 1.3%
- China's Gross Domestic Product rose 2.9% in the fourth quarter of 2022 and expanded by 3.0% for the full year. The annual growth pace missed the official target of around 5.5% set last March
- The Bank of Japan left its monetary policy unchanged at its January meeting
- Prime Minister Fumio Kishida said that the legal status of COVID-19 could be downgraded this spring to the same level as seasonal influenza.

Global Matters Weekly

23 January 2023

| Asset Class/Region | Currency | Currency returns | | | |
|-------------------------------------|----------|-----------------------------|------------------|----------|-----------|
| | | Week ending 20 Jan. 2023 | Month to date | YTD 2023 | 12 months |
| Developed Market Equities | | | | | |
| United States | USD | -0.7% | 3.5% | 3.5% | -10.3% |
| United Kingdom | GBP | -1.0% | 4.1% | 4.1% | 7.9% |
| Continental Europe | EUR | -0.1% | 6.9% | 6.9% | -4.9% |
| Japan | JPY | 1.3% | 1.9% | 1.9% | 2.1% |
| Asia Pacific (ex Japan) | USD | 1.1% | 8.8% | 8.8% | -11.3% |
| Australia | AUD | 1.7% | 5.9% | 5.9% | 6.2% |
| Global | USD | -0.4% | 4.8% | 4.8% | -10.1% |
| Emerging markets equities | | | | | |
| Emerging Europe | USD | 2.9% | 5.4% | 5.4% | -68.3% |
| Emerging Asia | USD | 1.0% | 9.4% | 9.4% | -14.8% |
| Emerging Latin America | USD | -0.7% | 7.0% | 7.0% | 10.3% |
| BRICs | USD | 0.8% | 9.1% | 9.1% | -16.0% |
| China | USD | 1.3% | 13.6% | 13.6% | -14.2% |
| MENA countries | USD | -0.3% | 1.2% | 1.2% | -12.9% |
| South Africa | USD | -3.5% | 6.7% | 6.7% | -6.2% |
| India | USD | 0.7% | 1.6% | 1.6% | -5.7% |
| Global emerging markets | USD | 0.6% | 8.4% | 8.4% | -15.0% |
| Bonds | | | | | |
| US Treasuries | USD | 0.1% | 2.5% | 2.5% | -8.2% |
| US Treasuries (inflation protected) | USD | 0.4% | 1.9% | 1.9% | -8.0% |
| US Corporate (investment grade) | USD | 0.2% | 3.4% | 3.4% | -10.2% |
| US High Yield | USD | -0.3% | 3.6% | 3.6% | -7.0% |
| UK Gilts | GBP | 0.0% | 2.7% | 2.7% | -20.3% |
| UK Corporate (investment grade) | GBP | 0.0% | 3.6% | 3.6% | -15.4% |
| Euro Government Bonds | EUR | 0.1% | 3.5% | 3.5% | -15.1% |
| Euro Corporate (investment grade) | EUR | 0.2% | 2.2% | 2.2% | -11.5% |
| Euro High Yield | EUR | 0.3% | 2.9% | 2.9% | -8.6% |
| Japanese Government | JPY | 0.9% | 0.3% | 0.3% | -5.0% |
| Australian Government | AUD | 1.3% | 4.0% | 4.0% | -5.5% |
| Global Government Bonds | USD | 0.0% | 3.2% | 3.2% | -13.7% |
| Global Bonds | USD | 0.1% | 3.5% | 3.5% | -13.1% |
| Global Convertible Bonds | USD | 0.3% | 4.4% | 4.4% | -13.2% |
| Emerging Market Bonds | USD | 0.9% | 4.0% | 4.0% | -18.4% |

Global Matters Weekly

23 January 2023

| Asset Class/Region | Currency | Currency returns | | | |
|---------------------------------------|----------|-----------------------------|------------------|----------|-----------|
| | | Week ending 20 Jan. 2023 | Month to date | YTD 2023 | 12 months |
| Property | | | | | |
| US Property Securities | USD | 0.1% | 6.0% | 6.0% | -14.4% |
| Australian Property Securities | AUD | 1.6% | 6.1% | 6.1% | -12.8% |
| Asia Property Securities | USD | 1.1% | 3.1% | 3.1% | -7.0% |
| Global Property Securities | USD | 0.1% | 5.7% | 5.7% | -15.0% |
| Currencies | | | | | |
| Euro | USD | 0.1% | 1.2% | 1.2% | -4.3% |
| UK Pound Sterling | USD | 1.5% | 2.4% | 2.4% | -9.1% |
| Japanese Yen | USD | -1.6% | 1.0% | 1.0% | -12.0% |
| Australian Dollar | USD | -0.1% | 2.0% | 2.0% | -4.2% |
| South African Rand | USD | -1.9% | -0.6% | -0.6% | -11.6% |
| Swiss Franc | USD | 0.5% | 0.0% | 0.0% | -0.6% |
| Chinese Yuan | USD | -1.2% | 1.7% | 1.7% | -6.5% |
| Commodities & Alternatives | | | | | |
| Commodities | USD | 0.8% | 0.7% | 0.7% | 12.5% |
| Agricultural Commodities | USD | 0.1% | -0.6% | -0.6% | 4.6% |
| Oil | USD | 2.8% | 2.0% | 2.0% | -0.8% |
| Gold | USD | 0.3% | 5.6% | 5.6% | 4.5% |
| Hedge funds | USD | 0.1% | 1.2% | 1.2% | -2.0% |

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.

© Momentum Global Investment Management Limited 2023