

Patience is a Virtue

Global Matters Weekly

28 June 2021

– Stephen Nguyen

Patience is essential to daily life and even more so if you are parents to young kids. When I was a child, I was often told to “be patient”, which meant staying calm in the face of delay, frustration or adversity. We all have many opportunities in life to practice this virtue; being stuck in traffic, the ups and down of parenthood, or indeed, managing one’s investments. By understanding the importance of having patience, we can maintain our focus on our long-term goals, and not let short term noise push us into taking unnecessary action. Time in the market is better than timing the market, as they say, as it allows investors to benefit from the power of compounding, which Albert Einstein once referred to as the 8th wonder of the world¹.

An investment portfolio needs to have a clearly defined goal and be built with relevant constraints in mind. One other aspect which is often overlooked is determining the appropriate time horizon, which we think of as the minimum timeframe investors should commit to in order to reduce their risk of experiencing a negative outcome.

There is no magic number on how long one should stay invested. All else being equal, the longer you stay invested the better your chances of achieving your goals. However, we acknowledge it is not always practical for investors to stay invested for 10 or 20 years, so instead we communicate a minimum recommended timeframe for each of our portfolios.

In determining the recommended minimum investment horizon for our funds, we balance considerations around both the funds’ objectives and risk profile. Lower risk portfolios should not be as sensitive to market movements and typically would suit investors with a shorter timeframe, while a portfolio with a higher allocation to risk assets and a higher target return are more prone to short term drawdowns and hence require a longer investment horizon.

So how do we arrive at the minimum recommended horizon for our funds? We start at the core of the investment process,

‘Time in the market is better than timing the market’

namely the strategic asset allocation (SAA). The SAA represents our optimised long-term asset class weightings which are constructed to deliver the highest probability of achieving the target outcome while balancing that against drawdown risks. This increases the chance of delivering a smoother journey for investors.

We analyse data from these SAAs over many years and study the range of returns over various timeframes along with the expected return to arrive at an appropriate minimum investment horizon. In our analysis, we observe that over shorter time periods of 1 to 3 years, the range of outcomes is very wide. Investors are more likely to experience a negative outcome should they not stay invested for at least the minimum recommended holding period. Particularly in any given 12-month period, the likelihood of a negative outcome is high given the inherent volatility of markets and the magnitude, can at times, be severe.

However, as the recommended holding period increases, the range of returns becomes narrower, and the probability of experiencing a negative outcome is greatly reduced after holding for around 5+ years for most risk balanced portfolios. The range of outcomes is at its narrowest from around 7 years onwards, meaning the likelihood of a negative outcome is further reduced and the variability around the objectives is minimised.

Being patient in the face of adversity is key to a happy life, and a healthy investment portfolio. The reality for investors is that extending your investment horizon will help you to achieve your financial goals. Good things truly do come to those who wait.

The Marketplace

- Global equities rose +2.4% last week
- Key equity markets and commodities both had a strong week
- Brent crude oil rose +3.6% to \$76.2 a barrel, another multi-year high
- Gold rose +1.0% last week to \$1781.4 per ounce

Market Focus

US

- US equities rose +2.8% last week reaching a new all-time high
- Progress was made on President Biden's proposed infrastructure package. If agreed, the bill will include ~\$579bn in new spending, bringing the total spend to \$1.2 trillion over the next 8 years
- The US 10yr treasury yield rose +8.6bps (+3.2bps on Friday) to +1.5%, driven by a +12.1bp increase in inflation expectations
- The flash U.S. Composite PMI posted 63.9 in June (vs. 68.7 in May). Services came in at 64.8 (versus May's record 70.4). Manufacturing read 62.6, (versus 62.1 in May)
- Durable goods orders were up +2.3% in May (vs. +2.8% expected)
- Weekly initial jobless claims for the week ending June 19th fell to 411k (vs. 380k expected)

Europe

- European equities rose +1.2% last week
- the Euro Area composite PMI for June came in at 59.2 (vs. 58.8 expected), the strongest pace of growth in 15 years. The services PMI came in at 58.0 as expected (from 55.2 last month), whilst the manufacturing PMI remained unchanged at 63.1
- In Germany, the IFO's business climate indicator rose to 101.8 in June (vs. 100.7 expected), the highest reading since November 2018
- European Central Bank Executive Board member Isabel Schnabel pledged that she and her colleagues will do everything needed to sustain the economic recovery, and warned governments not to undermine that by tightening fiscal policy too soon
- EU leaders have rejected the proposal from Germany and France to hold formal talks with Russian President Putin

UK

- UK equities rose +1.7% last week
- The Bank of England left the bank's interest rate unchanged at +0.1% and voted to maintain the existing programme of UK government bond purchases at £875bn. The Monetary Policy Committee "judges that UK inflation expectations remain well anchored" despite the recent above-target rise
- The flash UK Composite PMI registered at 61.7 in June, down slightly from May's record reading of 62.9, but still one of the strongest monthly improvements in 23 years
- The June GfK Consumer Confidence barometer was unchanged at -9 vs (-7 expected) A reading below zero indicates a pessimistic outlook
- Germany will attempt today to ban UK travellers from entering the EU regardless of their vaccine status
- Binance Markets was banned by the UK's financial watchdog from doing any regulated business in the country, one of the most significant moves to date by a regulator amid a global crackdown in the cryptocurrency industry

Asia/Rest of The World

- The benchmark Global Emerging Markets index fell -0.4% last week
- Japanese equities rose +0.8% on the week
- Chinese equities rose +2.4% last week
- The Japanese Flash Composite PMI fell to 47.8 in June from May's 48.8. The manufacturing PMI fell to 51.5, from 53.0 in May. The services PMI improved, rising to 47.2 from 46.5 in May
- Australia's manufacturing PMI came in at 58.4 (vs. 60.4 last in May). The Services PMI which came in at 56.0 (vs. 58.0 last month)

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| Asset Class/Region | Currency | Currency returns | | | |
|-------------------------------------|----------|--------------------------|---------------|----------|-----------|
| | | Week ending 25 June 2021 | Month to date | YTD 2021 | 12 months |
| Developed Market Equities | | | | | |
| United States | USD | 2.8% | 1.9% | 14.5% | 40.3% |
| United Kingdom | GBP | 1.7% | 1.8% | 12.9% | 19.4% |
| Continental Europe | EUR | 1.2% | 3.1% | 16.3% | 30.6% |
| Japan | JPY | 0.8% | 2.1% | 9.8% | 28.4% |
| Asia Pacific (ex Japan) | USD | 1.2% | 0.0% | 7.2% | 39.4% |
| Australia | AUD | -0.8% | 2.1% | 12.7% | 29.5% |
| Global | USD | 2.4% | 1.7% | 13.3% | 39.9% |
| Emerging markets equities | | | | | |
| Emerging Europe | USD | 2.0% | 3.3% | 16.3% | 31.3% |
| Emerging Asia | USD | 1.4% | 0.2% | 6.1% | 40.4% |
| Emerging Latin America | USD | 2.5% | 4.4% | 10.7% | 42.8% |
| BRICs | USD | 2.0% | 1.2% | 5.8% | 32.8% |
| China | USD | 2.6% | 0.3% | 2.0% | 26.1% |
| MENA countries | USD | -0.5% | 1.6% | 19.8% | 39.0% |
| South Africa | USD | 0.4% | -7.4% | 11.1% | 40.6% |
| India | USD | 1.1% | -0.3% | 12.5% | 59.0% |
| Global emerging markets | USD | 1.4% | 0.5% | 7.7% | 40.1% |
| Bonds | | | | | |
| US Treasuries | USD | -0.6% | 0.2% | -3.3% | -3.9% |
| US Treasuries (inflation protected) | USD | 0.1% | 0.2% | 1.0% | 5.9% |
| US Corporate (investment grade) | USD | -0.7% | 1.0% | -1.9% | 3.0% |
| US High Yield | USD | 0.4% | 1.1% | 3.3% | 14.2% |
| UK Gilts | GBP | -0.6% | 0.2% | -6.3% | -7.4% |
| UK Corporate (investment grade) | GBP | -0.2% | 0.5% | -3.2% | 2.1% |
| Euro Government Bonds | EUR | -0.5% | -0.1% | -3.6% | -0.7% |
| Euro Corporate (investment grade) | EUR | -0.2% | 0.2% | -0.6% | 3.3% |
| Euro High Yield | EUR | 0.0% | 0.6% | 3.1% | 11.2% |
| Japanese Government | JPY | 0.0% | 0.2% | -0.1% | -0.1% |
| Australian Government | AUD | 0.1% | 0.7% | -2.6% | -2.3% |
| Global Government Bonds | USD | -0.2% | -0.9% | -4.7% | -0.2% |
| Global Bonds | USD | -0.1% | -0.8% | -3.6% | 1.9% |
| Global Convertible Bonds | USD | 1.2% | 1.2% | 2.3% | 22.5% |
| Emerging Market Bonds | USD | -0.4% | 0.9% | -3.2% | 4.1% |

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|---------------------------------------|----------|--------------------------|---------------|----------|-----------|
| | | Week ending 25 June 2021 | Month to date | YTD 2021 | 12 months |
| Property | | | | | |
| US Property Securities | USD | 1.9% | 4.1% | 23.1% | 39.8% |
| Australian Property Securities | AUD | 1.3% | 6.1% | 9.8% | 28.6% |
| Asia Property Securities | USD | 0.3% | 1.6% | 9.1% | 17.4% |
| Global Property Securities | USD | 1.5% | 2.5% | 15.7% | 34.2% |
| Currencies | | | | | |
| Euro | USD | 0.5% | -2.4% | -2.4% | 6.3% |
| UK Pound Sterling | USD | 0.6% | -2.1% | 1.8% | 11.9% |
| Japanese Yen | USD | -0.5% | -1.2% | -6.8% | -3.3% |
| Australian Dollar | USD | 1.3% | -1.9% | -1.3% | 10.4% |
| South African Rand | USD | 1.3% | -2.7% | 3.8% | 21.9% |
| Swiss Franc | USD | 0.5% | -2.0% | -3.5% | 3.4% |
| Chinese Yuan | USD | 0.0% | -1.3% | 1.1% | 9.6% |
| Commodities & Alternatives | | | | | |
| Commodities | USD | 2.2% | 2.2% | 26.5% | 59.9% |
| Agricultural Commodities | USD | -1.0% | -3.5% | 14.8% | 52.8% |
| Oil | USD | 3.6% | 9.9% | 47.1% | 85.6% |
| Gold | USD | 1.0% | -6.6% | -6.0% | 1.0% |
| Hedge funds | USD | 0.2% | 0.4% | 3.9% | 11.9% |

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