

Opt Out

Global Matters Weekly

29 November 2021

– Richard Stutley, CFA

It is hard to know what is going to happen. While people like to hear a single view about the outlook for the global economy, with plenty of point forecasts for key variables like growth and inflation, the future is in fact best expressed as a range of possible outcomes; see my colleague Lorenzo La Posta's blog from two week's ago ("Embracing Uncertainty") for a good explanation of what this looks like in practice.

If something is hard, most of us would like to opt out. One way to do this is by investing in secular growth stories: no matter which way the wind is blowing for the wider economy, these businesses continue to do well as they take market share from other areas and come to account for a growing proportion of spending.

Of course there are no free lunches, so typically you will have to pay up to access these growth opportunities. Our focus is on finding areas where this is not necessarily the case, due to a failure by market participants en masse to price the opportunity correctly. We are not thematic investors, by which I mean we do not pursue a potential growth opportunity at any price, but only after a detailed assessment of fair value. We may think the growth outlook for a company or sector is higher than average, but we'll only buy it if the price is right.

We think we've found two such areas in the case of energy storage and digital infrastructure. We have been scrutinising the ability of our holdings to pass on inflation, but secular growth themes are less sensitive to this key variable for the reasons discussed above. Both energy storage and digital

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infrastructure are well placed to benefit from rapid increases in demand brought about by shifts in consumer behaviour: the urgent need to decarbonise the global economy puts a greater emphasis on green energy, and battery storage technology is a key enabler of this transition. Meanwhile we are seeing ever greater consumption of data, to assist us and the technology we use to become smarter and quicker (soon much of this technology will literally drive itself).

We access these areas through listed, closed-end investment companies. These monoline companies have straightforward balance sheets and publish a Net Asset Value (NAV), which helps to anchor the share price. As relatively small companies, they are inaccessible to larger investors and therefore end up being under-researched and underappreciated in our experience. We benefit from the smaller size of these companies, and this is often compounded by the underlying management teams focusing on small and mid-sized projects, which they can either acquire or develop at a discount to larger projects.

We can't invest exclusively in secular growth themes any more than we can invest exclusively in one country or sector: at all times it depends on what's in the price. However we are delighted on those occasions that we are able to opt out and focus on these kind of micro themes.

The Marketplace

- Global equities fell by -2.7% last week
- Risk markets rocked by the identification of a new covid-19 strain by scientists in South Africa
- Gold fell to -2.3% to \$1802.6 per ounce
- Brent crude oil plunged by -7.3% to \$72.72 a barrel on global demand impact of new Covid variant.

Market Focus

US

- US equities fell -2.2% last week, their largest drop since October 2020
- 10-year treasuries returned +0.4% as investors sought safe havens, yields declined
- President Joe Biden said that he plans to renominate Jerome Powell as Federal Reserve chair
- Weekly initial jobless claims for the week ending November 20th fell to 199k (vs. 260k expected), their lowest level since 1969
- The Q3 GDP estimate in the US was revised up a tenth to show an annualised growth rate of +2.1%
- Personal income and spending data came in above expectations in October, with personal income up +0.5%, and personal spending up +1.3%
- Long-term inflation expectations increased slightly to 3.0%, the joint highest reading since 2013.

Europe

- European equities fell by -4.8% last week amidst concerns of tighter coronavirus restrictions hampering economic recovery
- ECB Executive Board member Fabio Panetta says there's no need to tighten monetary policy at this time to control inflation that's being driven by temporary factors
- Core eurozone bond yields ended roughly flat after the coronavirus news dragged them off the week's highs
- In Germany, the centre-left SPD, the Greens and the liberal FDP agreed a full coalition deal with the SPD's Olaf Scholz to succeed Angel Merkel as the new Chancellor
- German GDP growth in Q3 was revised down to show a +1.7% expansion (vs. +1.8% previous estimate).

UK

- UK equities fell by -2.3% last week
- Gilts increased by +0.4% in nominal terms leading yields to decline the most since March 2020
- UK October PMI for composite, manufacturing, and services of 57.7, 58.2 and 58.6 came in better than forecast 54.1, 56.3 and 54.6 respectively
- UK authorities have temporarily banned flights from six African countries and recent travellers will be placed into quarantine over worries about the new Omicron Covid-19 variant recently identified there. All travellers coming into (or back to) the UK will now have to self-isolate until they get a negative PCR test.

Asia/Rest of The World

- The benchmark Global Emerging Markets index fell by -3.6% last week
- Japanese equities fell by -2.9% last week
- Chinese equities fell by -3.6% last week amid continuing tensions with the US
- The Bank of Korea raised rates for a second time since August, taking the policy rate to 1.0%
- Flash data showed the Japan Composite PMI rose to 52.5 in November from 50.7 in October, a 37-month high
- Iran wants complete and guaranteed removal of sanctions when talks on its nuclear program resume today, according to the country's chief negotiator

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Asset Class/Region	Currency	Currency returns			
		Week ending 26 Nov. 2021	Month to date	YTD 2021	12 months
Developed Market Equities					
United States	USD	-2.2%	-0.1%	23.4%	27.9%
United Kingdom	GBP	-2.3%	-2.3%	13.7%	15.4%
Continental Europe	EUR	-4.8%	-2.1%	18.5%	20.7%
Japan	JPY	-2.9%	-0.8%	12.1%	14.0%
Asia Pacific (ex Japan)	USD	-3.2%	-2.9%	-3.4%	1.0%
Australia	AUD	-1.6%	-0.2%	14.5%	13.8%
Global	USD	-2.7%	-1.3%	17.9%	22.6%
Emerging markets equities					
Emerging Europe	USD	-7.0%	-13.4%	10.7%	19.8%
Emerging Asia	USD	-3.4%	-2.4%	-5.3%	-0.6%
Emerging Latin America	USD	-2.3%	-2.9%	-13.1%	-4.9%
BRICs	USD	-3.9%	-4.4%	-9.5%	-6.7%
China	USD	-3.6%	-4.5%	-17.9%	-17.5%
MENA countries	USD	-2.6%	-1.4%	29.3%	30.5%
South Africa	USD	-8.3%	-9.5%	-5.9%	-1.2%
India	USD	-5.1%	-3.6%	20.1%	30.6%
Global emerging markets	USD	-3.6%	-3.2%	-3.5%	1.5%
Bonds					
US Treasuries	USD	0.4%	0.6%	-2.2%	-2.2%
US Treasuries (inflation protected)	USD	-0.3%	1.1%	5.8%	7.5%
US Corporate (investment grade)	USD	-0.1%	-0.2%	-1.2%	-0.2%
US High Yield	USD	-1.2%	-1.2%	3.1%	5.2%
UK Gilts	GBP	1.3%	2.7%	-3.0%	-1.8%
UK Corporate (investment grade)	GBP	0.2%	1.2%	-2.1%	-0.4%
Euro Government Bonds	EUR	-0.3%	1.6%	-2.1%	-2.1%
Euro Corporate (investment grade)	EUR	-0.6%	0.1%	-0.9%	-0.8%
Euro High Yield	EUR	-0.9%	-0.5%	2.6%	3.5%
Japanese Government	JPY	0.0%	0.1%	-0.1%	-0.2%
Australian Government	AUD	0.5%	1.7%	-3.7%	-4.0%
Global Government Bonds	USD	0.2%	0.1%	-5.8%	-4.5%
Global Bonds	USD	0.0%	-0.3%	-5.1%	-3.7%
Global Convertible Bonds	USD	-2.0%	-2.7%	-2.5%	2.3%
Emerging Market Bonds	USD	-2.2%	-2.2%	-6.5%	-4.6%

Asset Class/Region	Currency	Currency returns			
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Property					
US Property Securities	USD	-1.6%	0.3%	31.9%	33.2%
Australian Property Securities	AUD	0.8%	5.1%	17.9%	16.6%
Asia Property Securities	USD	-1.7%	-2.5%	-0.5%	-2.4%
Global Property Securities	USD	0.5%	1.9%	20.5%	22.9%
Currencies					
Euro	USD	0.1%	-2.0%	-7.5%	-5.1%
UK Pound Sterling	USD	-0.9%	-2.5%	-2.3%	-0.1%
Japanese Yen	USD	0.8%	0.9%	-8.7%	-7.8%
Australian Dollar	USD	-1.6%	-5.1%	-7.4%	-3.2%
South African Rand	USD	-3.1%	-5.9%	-9.8%	-6.3%
Swiss Franc	USD	0.6%	-0.7%	-4.1%	-1.8%
Chinese Yuan	USD	-0.1%	0.2%	2.1%	2.8%
Commodities & Alternatives					
Commodities	USD	-3.5%	-4.7%	36.8%	43.9%
Agricultural Commodities	USD	0.0%	3.0%	33.0%	42.7%
Oil	USD	-7.8%	-13.8%	40.4%	52.1%
Gold	USD	-2.3%	1.1%	-4.8%	-0.4%
Hedge funds	USD	-0.2%	-0.2%	4.5%	6.9%

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