

Out of Uncertainty Comes Opportunity

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The past year has been difficult for investors as asset values have been buffeted by increasing interest rates in the US and political tensions, be they trade wars between the US and China, Brexit or the populist election win in Italy.

For us, although the political environment is important, our focus remains on assets prices today in the context of the future cashflows that they can generate. When these prices fall today, we are in a position to buy future cashflows at cheaper prices.

It is important to remember that major economic downturns as we experienced in 2008 are rare and unlikely to repeat themselves as the financial system and its participants have altered structure and behaviours post such an event. Much more normal is a period where economic growth ebbs and flows around its long term average with policy makers adding fuel when it weakens and hitting the brakes when it accelerates. Synchronised growth in the major global economies is a relatively recent phenomenon driven by globalisation and a reduction in tariff barriers. In future, it is highly probable that this growth is less synchronised. This in itself is no bad thing for investors, in fact, it should be quite the opposite.

The past two years have highlighted this fact to investors and we see this as a positive for clients going forward. It throws up investment opportunities that would not be available otherwise at the valuations we now see in areas such as the developing markets and the UK.

It is for this reason that we have materially repositioned our strategies following the market volatility of 2018. The valuation anomalies in certain areas have become extreme and the fact the the US Federal Reserve has reeled back on its raising of interest rates is a clear indicator to us of the increased importance of regional disparities when investing looking forward.

Our job is always to manage risks BUT it is also our job to ensure that our clients meet their medium term return objectives. It is with the latter in mind that we have turned more positive on certain equity markets.

The dividend yields and cash flows available are compelling when compared to the risk free rates in these markets. It may be a bumpy ride (this we cannot forecast) however the underlying cashflows should lead to strong real returns in the medium term from here and we believe the margin of safety is now large enough to be selectively buying.

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