

The logo for Momentum Investments, featuring the word "momentum" in a bold, sans-serif font. The letter "m" is red, and the remaining letters "omentum" are dark blue.

investments

# Global equities or bonds? Hobson's choice

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14 July 2020



# Our view on global equities and bonds



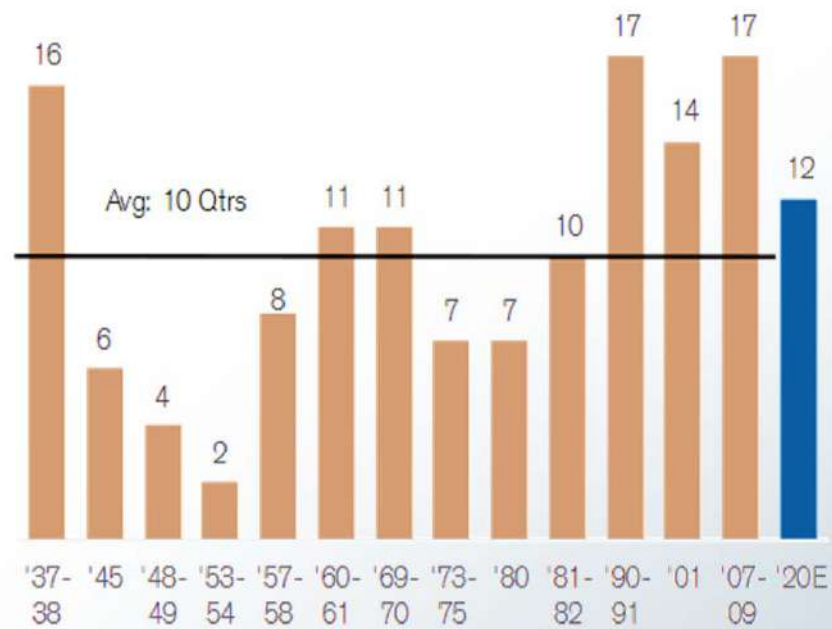
- There are downside risks to global equity markets
- But in relative value terms global bonds are much worse than equities →  
no margin of safety
- So we would rather hedge equities than prefer bonds



## US history warns against quick profits rebound view

Optimistic consensus could be in for a negative surprise

In recent recessions, it took three to four years to regain previous US profits peak



Source: Credit Suisse

Seems unlikely for 2019 profits to be reached by end of 2021 already as consensus projects



Source: Credit Suisse

## Fed's QE economic stimulus stymied by bank hoarding



On net basis > 60% of Fed stimulus negated by banks' credit tightening



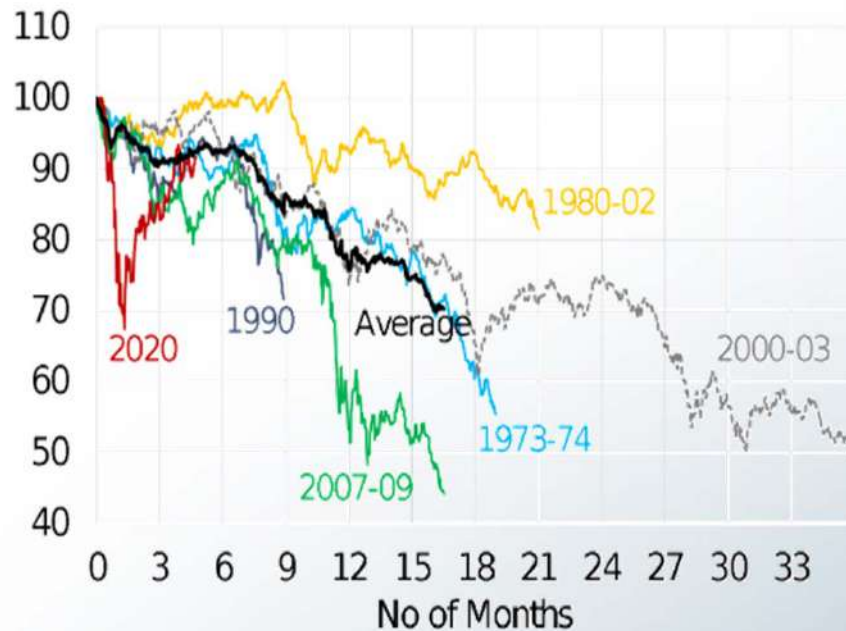
Source: St Louis Fed, Momentum Investments

## Too far, too fast?



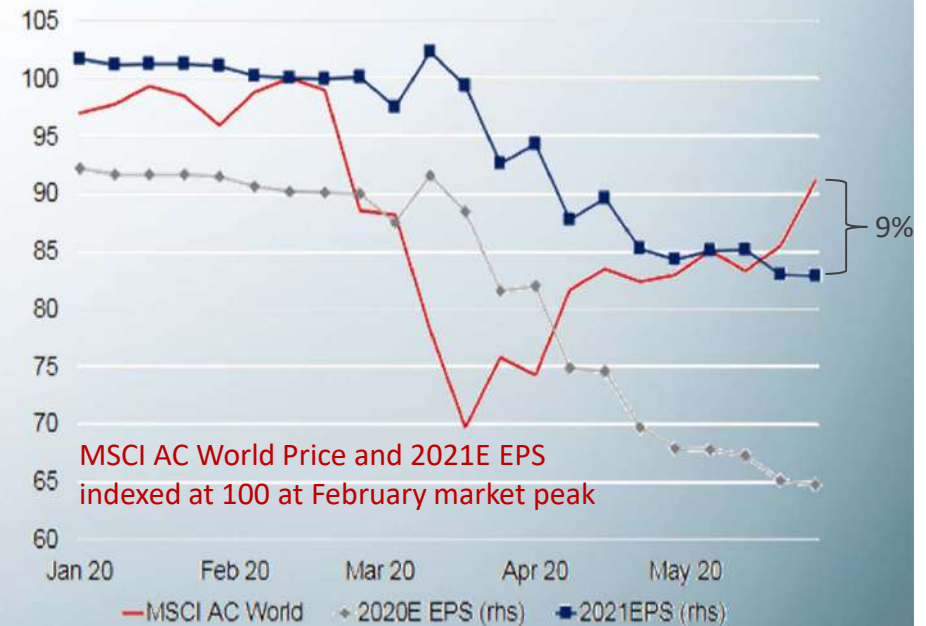
### Downside risk to global equities after the quick rebound

Recession history would point to further downside from current global equity market level



Source: Citi

Global equities have rallied past 2021 consensus earnings (which anyway look too high)

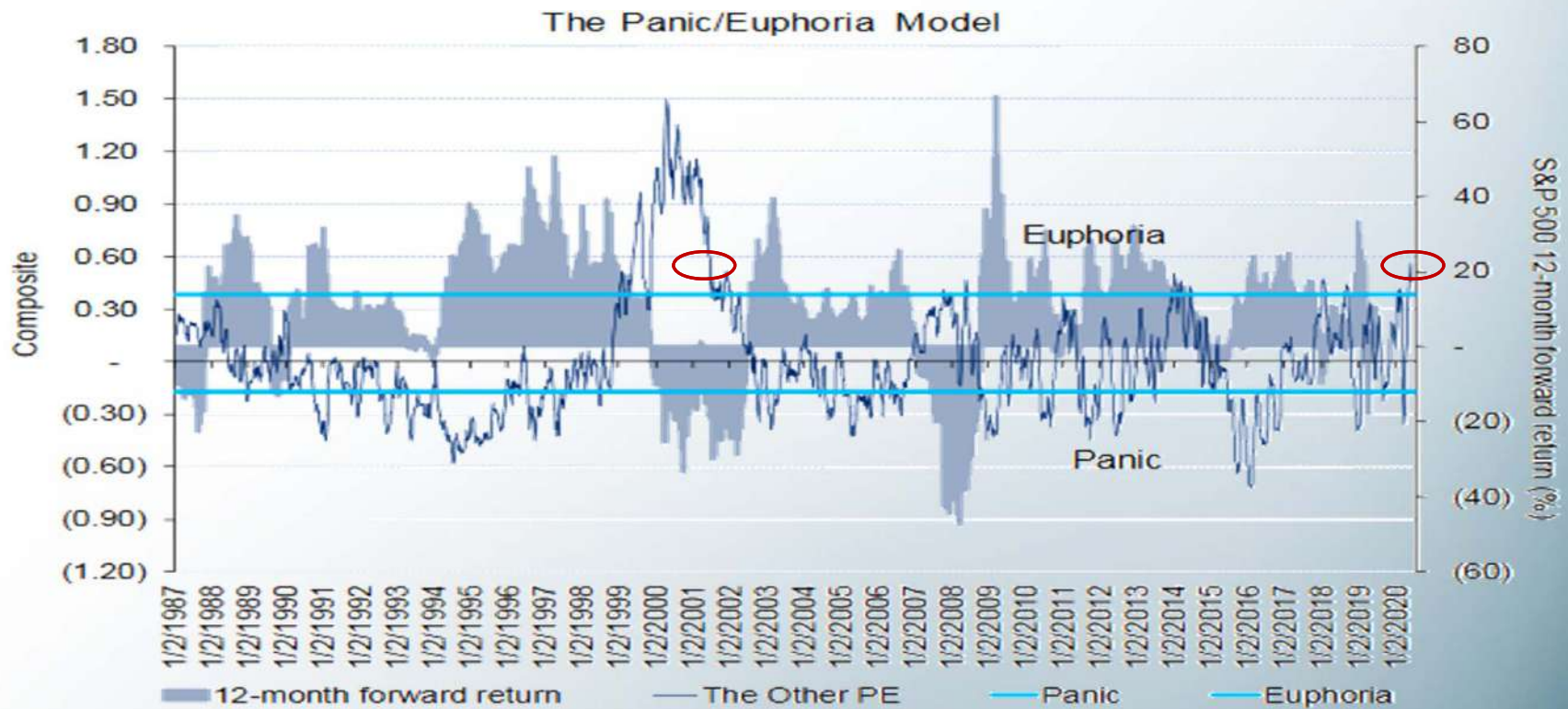


Source: Citi

## Euphoric equity market at odds with fundamentals



Sentiment last this euphoric in tech bubble → typically a risk for (negative) forward returns



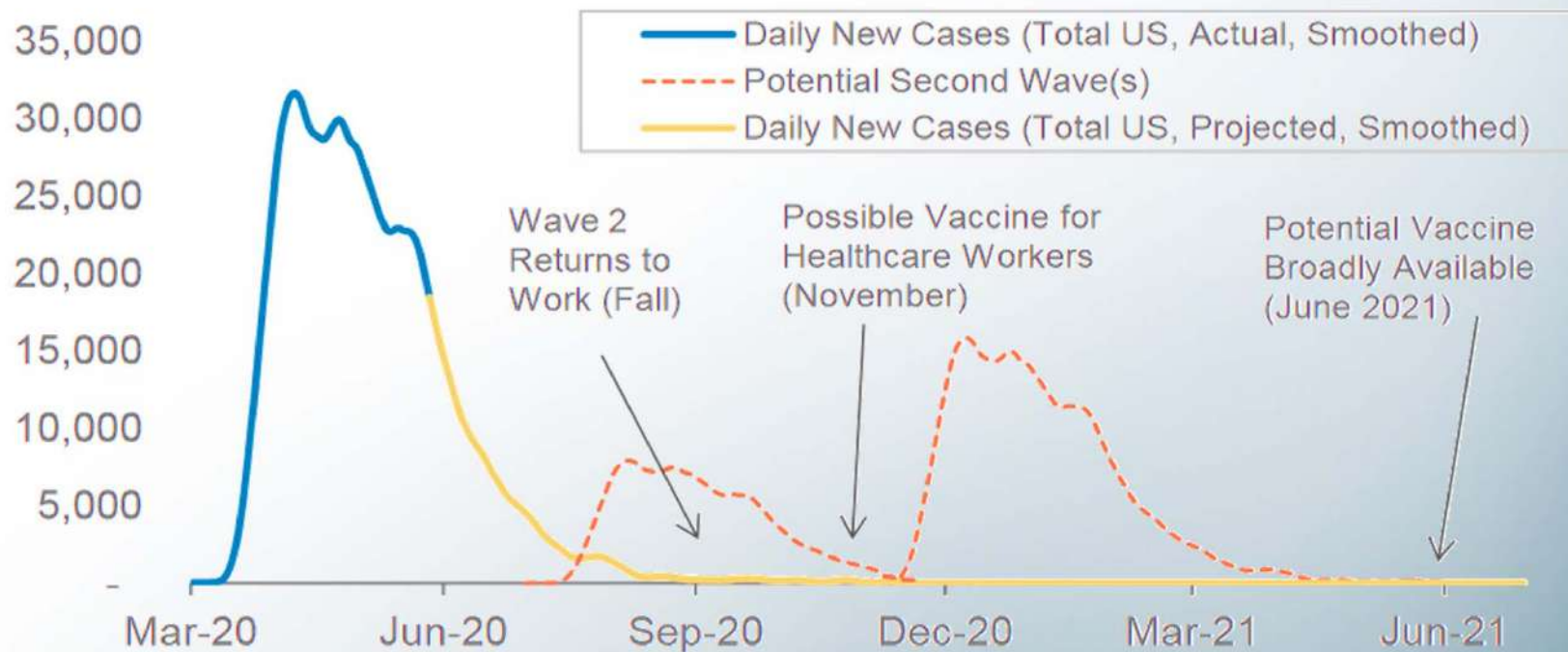
Source: Citi

## Risk: Further infection waves as economies open up



This could induce a W- or V-shaped economic and market trajectory

### Actual/Estimated New Case Count (US, Non-Cumulative)



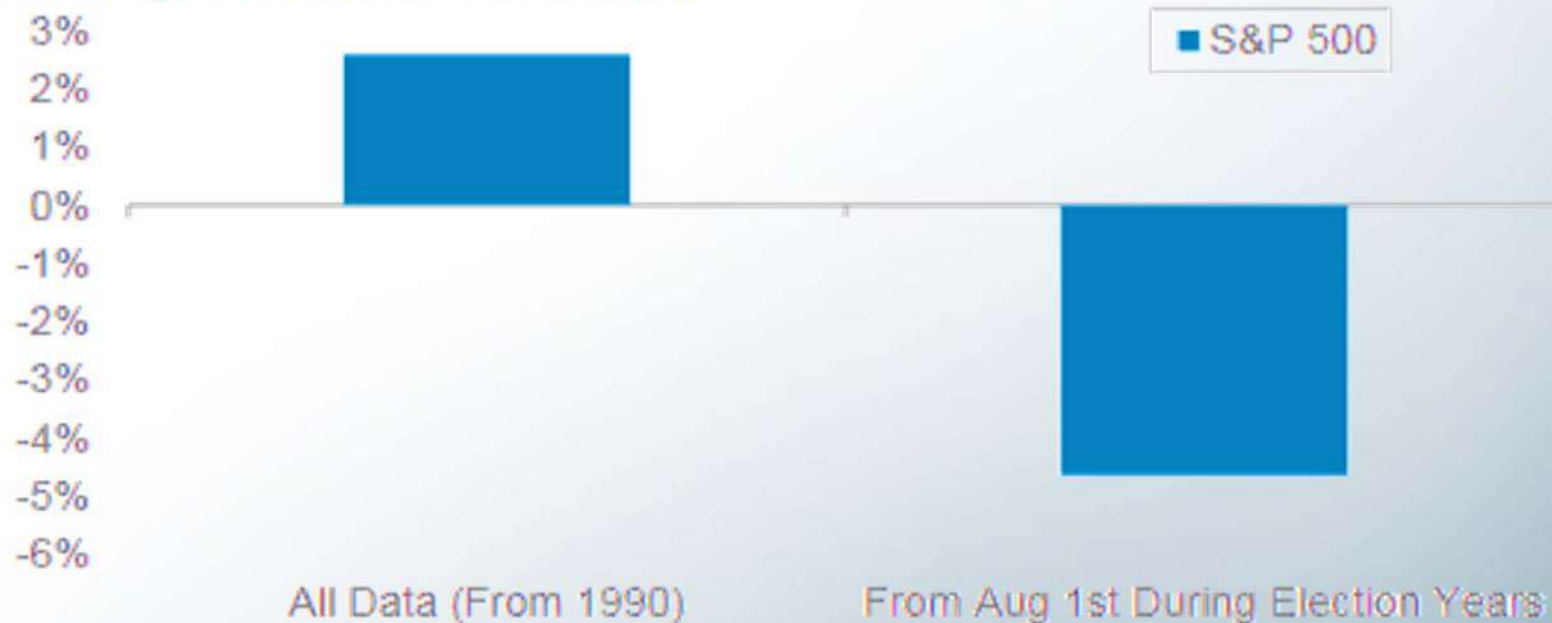
Source: Morgan Stanley

## Risk: US elections normally induce poorer equity returns



Both candidates could ratchet up trade tensions in coming months

### Average 3M Forward Return



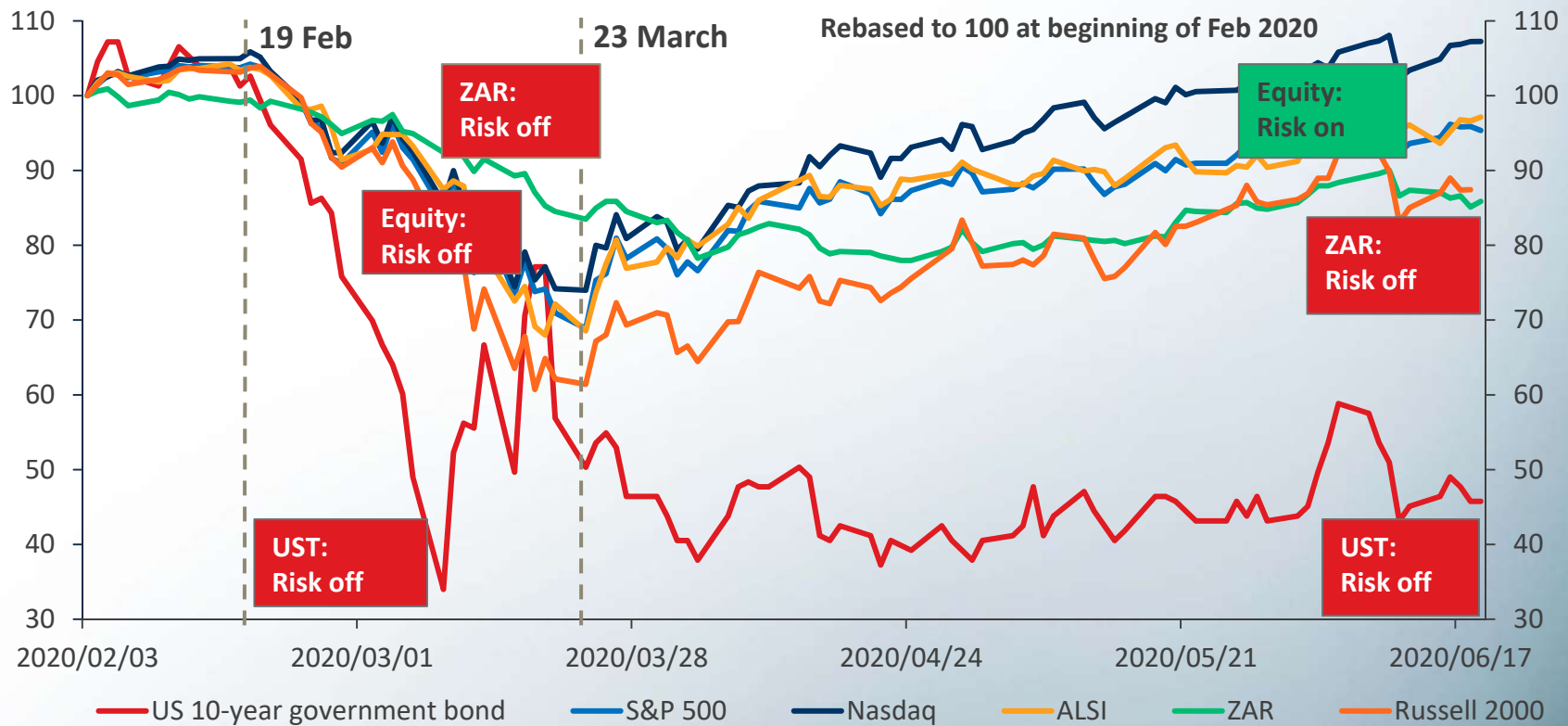
Source: Morgan Stanley



# Equities and other asset classes no longer agree about virus effect



## Bonds and the rand don't buy equity optimism



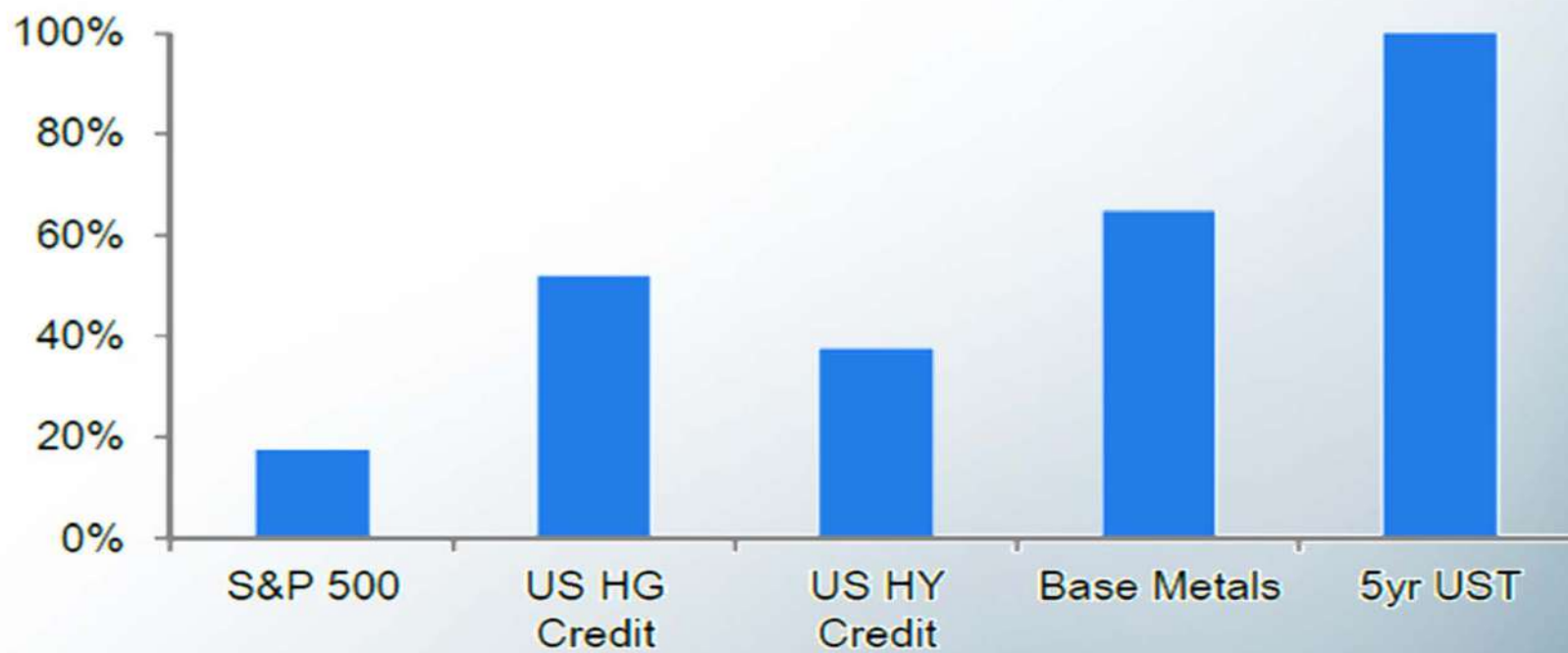
Source: Iress, Momentum Investment

## Disagreement between equities and bonds about recession



Equity returns not in line with typical recession behaviour

Recession probability, %



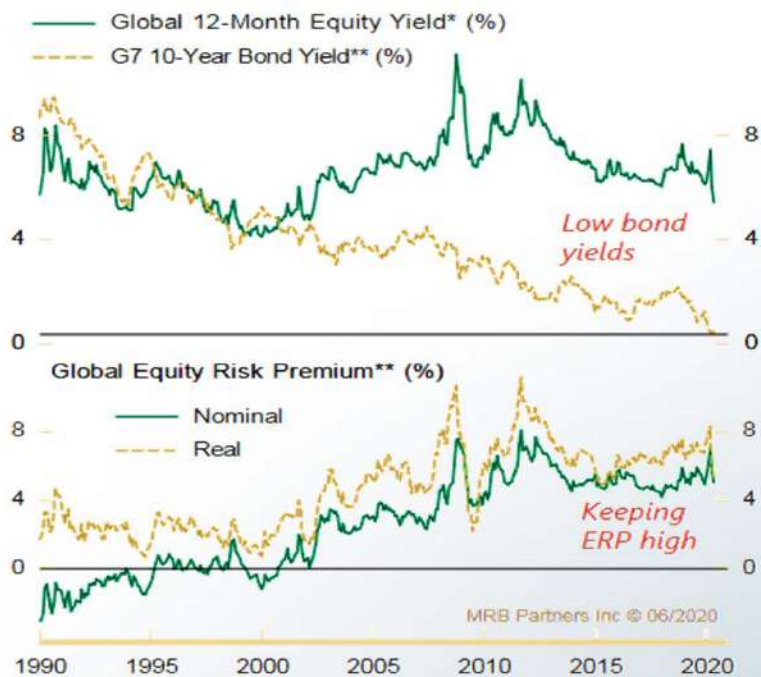
Source: JP Morgan

# The absolute and relative game: Equities compared to bonds



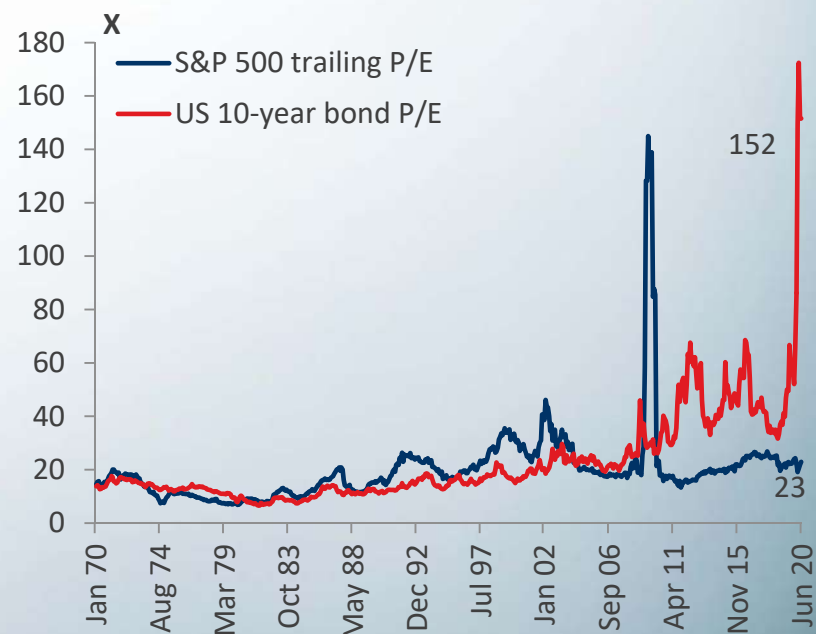
## TINA vs TINY

Absolute equity valuations not great...



Source: MRB

...but much more attractive than bond valuations



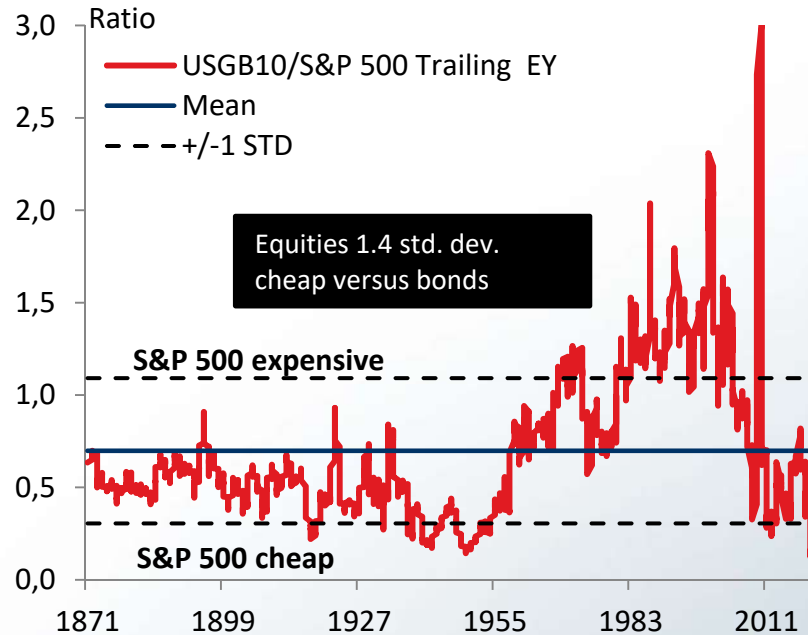
Source: Iress, Momentum Investments

## Global equities compared to bonds



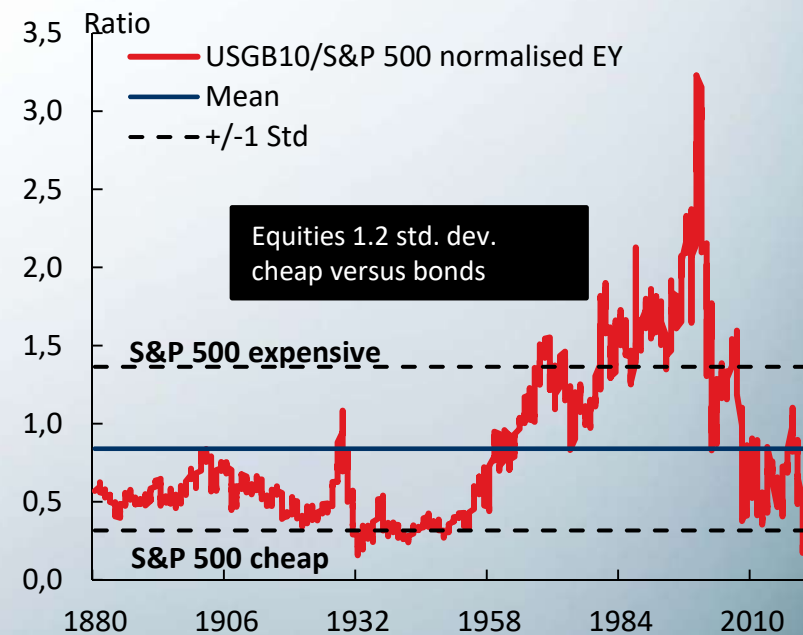
### Valuation of US equities to bonds at attractive extremes → WWII or Great Depression

With UST = 3.05% or equities 336% higher will equities be fair value compared to bonds



Source: Iress, Bloomberg, Momentum Investments  
\*Data up to June 2020

With UST = 2.68% or equities 283% higher will equities be fair value compared to bonds



Source: Iress, Bloomberg, Momentum Investments  
\*Data up to June 2020

**Thank you**

