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A Value Renaissance

by Mark Wright

The Renaissance marked the transition from Middle Ages to modernity in 15th and 16th century Europe. A fairly significant event! We now appear to be witnessing another renaissance – a Value Renaissance. Whilst probably not as significant in the history of world civilisation, similarities do exist in the origin of the two.

The European Renaissance began after the Crisis of the Last Middle Ages, a series of catastrophes that rocked Europe, including the Great Famine and infamous pandemic – the Black Death. Combined, these reportedly wiped out half of Europe's population[1]. Whilst still tragic for too many, thank goodness Covid-19 has not proved as deadly!

A little over 6 months ago on Monday 9th November, US pharmaceutical giant, Pfizer, and German based, BioNTech, announced successful results from a Phase 3 study of their vaccine with more than 90% efficacy against the Coronavirus.

This led to the biggest reversal in fortune for value versus growth in a long time. On the day of Pfizer and BioNTech's announcement, value outperformed growth by 4.4% on a global basis - a 10-sigma event[2]; or in other words, a level of outperformance not even expected to occur once every billion years[3] (the Earth was formed 4.5 billion years ago[4]). This, of course, assumes returns are normally distributed, which they are not, but I'll leave that for another day.

Aside from brief periods of modest outperformance as the global economy emerged from the fallout of the Global Financial Crisis and then again from the depths of the European Sovereign Debt Crisis, value has not trumped growth since the mid-noughties[5].

For the best part of a decade, growth has outperformed value, supported by a global experiment conducted by central banks in which many savers have been charged for depositing cash (negative interest rates) and government spending is supported by the money printing presses (quantitative easing). This outperformance of growth versus value accelerated in 2019 and 2020, leaving global growth stocks a staggering 134% ahead of global value stocks over the decade prior to the Pfizer/BioNTech vaccine news[5].

Why can we be so confident that it's values time to shine?

Firstly, just as the sacking of Tony Dye at Phillips & Drew Fund Management in March 2000 served as the canary in the coal mine for the collapse of the Dot Com boom, several high-profile value managers were fired, left the industry or chose to close shop last year. US based, value focussed AJO, announced it was shutting its operations on 31st December 2020, not that long after Mark Barnett lost the mandate to manage the Edinburgh Investment Trust and Keystone Investment Trust due to underperformance. Famously contrarian and value oriented, Alastair Munday, also threw in the towel and exited the industry to pursue a career in teaching.

Secondly, value had underperformed growth for so long, it quite simply had to end at some point – it could not have continued forever. Extreme moves in the prevailing direction of a trend usually precede a reversal of that trend and that is exactly what we witnessed last year – two thirds of the outperformance of growth came through in just 10 months of 2020 prior to the Pfizer/BioNTech vaccine announcement.

Thirdly, it has been observed that value as a factor typically performs strongly during periods when government bond yield curves are steepening i.e. when the yield on 10 year government debt minus the yield on 2 year government debt is increasing, and they have been doing just that for over a year now. Crucially, they are not yet as steep as they have been in past cycles, suggesting a supportive backdrop for value investors for some time to come.

Lastly, we are witnessing it first-hand in the funds we manage on your behalf. The direct UK equity portfolio in our UK domiciled funds has a value bias and has rallied over 50% post the positive vaccine news which compares to a mere 17% gain for the FTSE All Share[6]. Similarly, many of the value oriented third party equity managers that we invest in have sharply outperformed regional benchmark indices.

The value rally won't last forever, but whilst it does, we intend to enjoy the ride.

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[1] Crisis of the Late Middle Ages - Wikipedia

[2] Bloomberg – MSCI All Country World Value Index vs MSCI All Country World Growth Index 31/12/96-30/04/2021

[3] 68–95–99.7 rule - Wikipedia

[4] In Depth | Earth – NASA Solar System Exploration

[5] Bloomberg – MSCI All Country World Value Index vs MSCI All Country World Growth Index

[6] StatPro, COB 6th November 2020 to COB 31st March 2021

Market Focus

- Global equities rose +1.4% last week
- Copper soared to an all-time high, topping the previous record set in 2011
- Brent crude rose +1.5% to $68.3 a barrel
- Gold rose +3.5% to $1831.2 per ounce

US

- US equities rose +1.3%. Technology, consumer discretionary and utility stocks underperformed whilst value stocks fared best
- The unemployment rate rose slightly to +6.1% (versus +5.8% expected) from +6.0% in March
- Nonfarm payrolls missed expectations by a large margin, increasing by 266k versus 1 million expected. March's number was revised down to 770k (vs 916k previously)
- Weekly jobless claims came in at 498K the lowest level since the start of the pandemic
- The ISM gauge for April manufacturing activity came in at 60.1, the lowest level since January and below consensus estimates of 65
- A Ransomware attack has shut down the US's biggest gasoline pipeline for a third day

Rest of the World/Asia

- Global Emerging Markets ended the week up +0.1%
- Japanese equities rose +1.8% on the week
- The Chinese Caixin services PMI rose to 56.3 in April, the fastest growth rate this year
- The Biden administration is likely to maintain pressure on China by preserving limits on U.S. investments in certain Chinese companies imposed under former President Donald Trump

UK

- UK equities rose +2.5% last week
- The UK's composite PMI for April was revised up to 60.7 (vs. flash 60).
- The Bank of England raised its 2021 growth forecast for the UK to +7.25% vs. +5% previously and indicated it planned to slow its bond purchasing program
- PM Boris Johnson confirmed that the next stage of lockdown easing in England will go ahead on May 17 as planned, as the Covid-19 infection rate reaches its lowest level since September 2020
- France's junior minister for European affairs threatened the UK on financial services if Britain failed to grant licenses to French fishermen
- Britain will permit relatively free leisure travel to 12 nations and territories including Portugal as it seeks to reopen tourism

Europe

- European equities rose +1.8% last week
- Euro-area retail sales rose by a stronger-than-expected +2.7% in March (vs. +1.6% expected), and February's growth was also revised up by +1.2%
- German manufacturing orders rose +3.0% in March, beating a consensus estimate of +1.7% and accelerating from a +1.2% expansion in February
- European Commission President Ursula von der Leyen says she is open to discussing President Joe Biden's proposal to waive patents on Covid-19 vaccines, but also stressed that the U.S. needs to increase the number of shots it's currently exporting
- The European Commission announced plans to reopen the European Union's borders again to holidaymakers from outside the bloc by June

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Market Summary

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Asset Class / Region	Currency	Cumulative returns Week ending 07 May	Month to date	YTD 2021	12 months
Developed Markets Equities					
United States	USD	1.3%	1.3%	13.1%	48.6%
United Kingdom	GBP	2.5%	2.5%	12.2%	22.9%
Continental Europe	EUR	1.8%	1.8%	11.9%	36.3%
Japan	JPY	1.8%	1.8%	8.1%	38.3%
Asia Pacific (ex Japan)	USD	-0.2%	-0.2%	5.4%	52.5%
Australia	AUD	0.8%	0.8%	8.7%	35.6%
Global	USD	1.4%	1.4%	11.4%	49.3%
Emerging Markets Equities					
Emerging Europe	USD	5.4%	5.4%	7.9%	38.1%
Emerging Asia	USD	-0.9%	-0.9%	3.7%	52.9%
Emerging Latin America	USD	6.1%	6.1%	4.2%	65.9%
BRICs	USD	-0.2%	-0.2%	1.0%	44.1%
China	USD	-2.2%	-2.2%	-1.3%	36.6%
MENA countries	USD	-0.6%	-0.6%	15.3%	44.7%
South Africa	USD	5.1%	5.1%	17.6%	71.7%
India	USD	2.3%	2.3%	6.0%	68.1%
Global emerging markets	USD	0.1%	0.1%	4.9%	53.5%
Bonds					
US Treasuries	USD	0.3%	0.3%	-3.6%	-4.4%
US Treasuries (inflation protected)	USD	1.0%	1.0%	0.7%	7.0%
US Corporate (investment grade)	USD	0.5%	0.5%	-3.1%	5.9%
US High Yield	USD	0.3%	0.3%	2.2%	19.4%
UK Gilts	GBP	0.6%	0.6%	-6.3%	-7.7%
UK Corporate (investment grade)	GBP	0.5%	0.5%	-3.5%	4.7%
Euro Government Bonds	EUR	0.0%	0.0%	-3.5%	1.4%
Euro Corporate (investment grade)	EUR	0.1%	0.1%	-0.5%	5.5%
Euro High Yield	EUR	0.0%	0.0%	2.3%	16.6%
Japanese Government	JPY	0.1%	0.1%	-0.2%	-0.8%
Australian Government	AUD	0.4%	0.4%	-3.2%	-2.4%
Global Government Bonds	USD	0.7%	0.7%	-4.0%	2.0%
Global Bonds	USD	0.6%	0.6%	-3.0%	5.0%
Global Convertible Bonds	USD	-1.3%	-1.3%	0.1%	28.8%
Emerging Market Bonds	USD	0.9%	0.9%	-4.5%	10.1%

Source: Bloomberg. Past performance is not indicative of future returns.

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Market Summary

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Asset Class / Region	Currency	Cumulative returns: Week ending 07 May	Month to date	YTD 2021	12 months
Property					
US Property Securities	USD	-0.5%	-0.5%	16.6%	41.0%
Australian Property Securities	AUD	0.9%	0.9%	2.7%	31.5%
Asia Property Securities	USD	1.7%	1.7%	8.5%	19.2%
Global Property Securities	USD	0.6%	0.6%	11.6%	37.6%
Currencies					
Euro	USD	1.0%	1.0%	-0.6%	12.4%
UK Pound Sterling	USD	1.1%	1.1%	2.4%	13.2%
Japanese Yen	USD	0.6%	0.6%	-4.9%	-2.2%
Australian Dollar	USD	1.7%	1.7%	1.9%	20.8%
South African Rand	USD	2.8%	2.8%	4.1%	31.9%
Swiss Franc	USD	1.2%	1.2%	-1.9%	8.0%
Chinese Yuan	USD	0.6%	0.6%	1.5%	10.1%
Commodities & Alternatives					
Commodities	USD	3.8%	3.8%	25.8%	78.4%
Agricultural Commodities	USD	5.0%	5.0%	26.8%	71.0%
Oil	USD	1.5%	1.5%	31.8%	131.8%
Gold	USD	3.5%	3.5%	-3.3%	6.7%
Hedge funds	USD	-0.3%	-0.3%	2.8%	14.5%

Source: Bloomberg. Past performance is not indicative of future returns.

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