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weekly
momentum investments

'Time in the market is better than timing the market'

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Patience is a Virtue

by Stephen Nguyen, CFA

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 world[1].

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, 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.

Source: [1] High Returns from Low Risk – a remarkable stock market paradox. Pim Van Vliet and Jan De Koning

Market Focus

- 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

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)

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

Rest of the World/Asia

- The benchmark Global Emerging Markets index returned 0.1% last week
- Japanese equities fell -0.3% last week
- Chinese equities fell -0.6%
- Japan's May Producer Price Index reading came in at +4.9% year-on-year (vs. +4.5%expected), the highest reading since 2008
- Japan's Q1 GDP contracted by less than initially estimated. The economy contracted by an annualized -3.9% from the final quarter of 2020, compared with a preliminary reading of -5.1%
- China's PPI reading came in at +9% year-on-year. The People's Bank of China Governor Yi Gang said that he expects Chinese CPI to be below 2% yoy this year, lower than the government's target of 3%

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

Past performance is not indicative of future returns. Source: Bloomberg Finance L.P., returns in local currency unless otherwise stated.

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Market Summary

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		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 25 June**	**Month to date**	**YTD 2021**	**12 months**
Developed Markets 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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Asset Class / Region	**Currency**	**Week ending 25 June**	**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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