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investing ON THE go

TRANSCRIPT: EPISODE 254

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[INTRODUCTION]

Staci West (SW): Welcome back to the Investing on the go podcast brought to you by FundCalibre. We have a special bonus episode today to mark four years of the 'Investing on the go' podcast. Darius McDermott and Juliet Schooling Latter join us to look back over the last four years of the podcast as well as looking ahead to what's possibly to come for markets in the next four years.

Sam Slator (SS): We started this podcast four years ago, literally interviewing fund managers at events and when we saw them, hence the name 'Investing on the go'. Our first interviews were with James Thomson, manager of Rathbone Global Opportunities fund, and Chisako Hardie, manager of AXA Framlington Japan, who talked about investing in Tinder, rice cakes, OAP care homes. We also talked to a bond fund manager who didn't even like bonds!

Then came along the pandemic and rather than investing on the go, it became investing on Zoom, but actually, that meant we got to talk to a lot of people that we wouldn't have had access to before. We're now on episode 254 and we've racked up some 75,000 listens.

So, it's been an interesting four years for investors; we've had a global pandemic, war, inflation, recession, a banking crisis… But what's interesting is that money could still have been made. I had a look back at what stock markets have done over those four years and globally they're up some 43%. Some of our Elite Rated managers are up even more; Guinness Global Innovators, for example, is up 61%, CT Global Focus up 55.8%, and T.Rowe Price Global Focus Growth Equity's, up 52.2%.

[INTERVIEW]

SS: So, let's have a chat about what's been going on and what our thoughts are going forward. So, what's your outlook for stock markets at the moment?

Juliet Schooling Latter (JSL): Well, start with an easy question! Markets are facing a lot of headwinds today, so fundamentally they don't like uncertainty. And we've got the ongoing war in Ukraine, which is continuing to impact energy and food supplies. We've got persistent inflation which is giving rise to the continued debate over when interest rates will peak. And quite an uncertain world with concerns over the

West's relationship with China and supply chain issues. But I fear that these issues are really here to stay, so we've got to learn to live with them.

On the plus side, sentiment is already quite negative. So, all markets need is a little bit more stability, and I think we could see stronger returns. I've always been a big believer in buying when things look gloomy and if even I'm gloomy, then that's quite a good indicator.

Darius McDermott (DM): Yeah, if we knew which way stock markets were going to go on a sort of 6-12 month view, then we'd all be millionaires, wouldn't we? I think Jules is right. There's a lot going on in markets. The big issue over the last 12 - 18 months has been inflation. First it was deemed to be transitory. The central banks - who have all the data - got it spectacularly wrong; they started raising interest rates too late. And that's why 2022 was such a difficult year for equities and bonds. And here we are in '23, sort of just sitting in Q2, and I think markets are conflicted. We had the mini financial banking crisis and markets reacted very badly. You know, [the] FTSE [100] lost a thousand [basis] points in fairly short order.

Yet markets appear to me to be obviously looking for some good news so they can break out this malaise and go up. But we have got the most telegraphed recession in history with the inverted yield curve and all the other US leading indicators all being negative, yet we don't seem to have had this recession yet. And markets do look forward when it comes to recession. I think there are areas like small companies, particularly UK smaller companies, which are down between 30 and 40% off their height. They look like they've had a recessionary type of environment, but I don't think markets have yet had a recessionary wobble. US was down 20% last year, but then US was expensive at the start of 2022.

So, I'm also trying not to be too gloomy. The one thing I've learned is, timing stock markets is impossible. If you are an investor/saver for the long-term, for your future pension and retirement needs, often when it feels bad, it is actually, as Jules says, when it's time to invest. So, I'm certainly quite balanced, I'm a bit cautious. I quite like having a little bit of cash to do what Jules suggested, which is, you know, when those dips come - buy them. But I certainly wouldn't be super bullish on the rest of 2023, which no doubt means it's going to go up 20%! So yes, we can all be the contrarian indicator when needed.

SS: And do you think there's a possibility that one particular style might do better than others? I mean, we've had growth doing really well for a number of years. Some of the things that managers have been saying recently is that they think dividends are going to have a much greater role to play in total returns going forward. Do you agree with that?

JSL: Well, so on the one hand, you could see value continue to outperform if inflation is sticky and interest rates remain high. On the other, if it looks like inflation is coming down and interest rates are

peaking, growth could take centre stage again. That's a sort of long-winded way of saying, I don't know! <laugh>.

So, the bottom line is diversifying is key. I mean, the recent sell-off in growth stocks has meant that many managers have been able to buy those stocks that they've had on their watch list that were previously too expensive. On the flip side, defensive stocks now look expensive and cyclical stocks are quite oversold. So, what actually is value? I think the best thing you can do is, is to have a balanced portfolio.

DM: Yeah, [it's] not often Juliet and I agree, but I think balance is absolutely the way forward. The decade post-financial crisis, where interest rates went to 0 / 0.5% and then stayed there for an unprecedented length of time, did see growth styles hugely dominate. But I remember the sort of previous decade, nobody really talked about value or growth. It just wasn't a thing. What we did talk about in that decade was the rise of mid-caps, the rise of China, the urbanisation, commodities super cycle … so, the last decade is I think often a good guide to what the next decade doesn't look like. So, I don't have the exact up to date stats, but one stat I've seen many, many times, it is over a hundred years, dividends actually make up around a third, sorry, two thirds, approximately 60 to 70% of all total returns in equity markets.

Now, it wouldn't have been the case in the last decade when all you really needed to own was US large cap tech, and you made a load of money and if you owned everything else, you muddled [along] fine. So, I do think dividends and equity income as sort of an ancient art of investing, may be interesting again, but we're not in that 'no interest rate' cycle. We're in a different cycle. There will be some inflation, even if inflation falls from - in the UK - 10% to say 4%, it's still a different environment than the last decade where inflation was zero, interest rates were zero, and, and all you needed was growth.

So yeah, I'd be minded to definitely have some more balance from style. And I totally agree that dividends - wherever you seek to get them from - are actually now, feel like a nice part of a total return going forward.

SS: Okay, so we've talked quite a lot about equities there and you've been mentioning diversification a lot in a balanced portfolio. So, perhaps let's look at some other assets. The big winners over the past four years, despite the sell-off last year, have been commodities, technology and the US. So, BlackRock World Mining Trust is up about 151%, I think, when I looked earlier this week. So, it's more than doubled your money as has Fidelity Global Technology, which is up over a hundred percent. And Ninety One Global Gold up 89%; you know, pretty big numbers. Do you think we're in a commodity super cycle again?

DM: So, the real driver of the commodity super cycle in the noughties ['00s] was China urbanisation. I mean, I've never been to China, but what they did with respect to building and urbanisation and

movement of people from the countryside to these massive cities was staggering. And, and those who know me know my DIY skills are zero, but I'm pretty sure, if you build anything you need copper and other commodities and this urbanisation program that happened in China was phenomenal. I mean, absolutely just humongous. And that really did drive the commodity super cycle in the noughties.

Where I think we are today, and if you've decided to pick on BlackRock, when I last spoke to them, they talk about the electric transformation and the movement, you know, this whole EV transformation. If you want electric vehicles, you need more copper, you need more cobalt, you need more lithium. The only way to get that is to mine. So, I do think there are strong supply/demand characteristics on commodities specifically, but super cycle to me is probably slightly overcooked - I think it might be a bit more cyclical.

But, yeah commodities; I think the supply and demand for commodities has always been the driver. So, if you need more copper and there's not enough mining going on, the price of copper goes up. If they open too many mines and there's a load of copper, prices tend to go down. So yeah, I think commodities are a good play at this stage, but on the back of this sort of electric transformation / energy transformation theme. But I think that's multi-decade rather than short super cycle-type thing.

JSL: Yeah, yeah, I mean I agree Darius, I think you need to be selective on commodities because as you say, I think that sort of boom in China, the building boom, is sort of over. So, it is the sort of commodities that go into EVs that are going to be in demand. And the other thing is that there hasn't been a lot of investment into new mines in recent years. So, it's not … you can't instantly provide the large amount of commodities that are needed for EVs. You can't instantly add a new mine, it takes a number of years to bring them into production. So, I think we could see strong growth from that. On the other hand, commodities are largely seen as a play on global growth. So, if recession looks likely and lower global growth, then you know, it could be an interesting time to add.

SS: Back to that bond manager that didn't like bonds. Most bond sectors are in negative territory or have only made a few percentage points returns over the last four years. So, he was right in hindsight. What do you think about bonds today?

JSL: I think bonds are a lot more interesting than they have been for a number of years. We didn't like bonds for quite some time because you weren't being paid for holding them. But now they look a lot more interesting, with yields that are much higher. And bonds could give very strong returns when interest rate rises stabilise. I think you only need them to stabilise, you don't need them to even go down.

Of course, on the other hand, if we're go into recession, some bonds in the high yield end of the market might be vulnerable. So, you need a good manager at the helm who can sort of navigate the bond market.

I saw the manager of Jupiter Strategic Bond yesterday and he says he's more excited than he’s been in a long time and hoping for double digit returns from here.

DM: Yeah, I mean bonds, it's all about yield, right? You know, the saying in [the] US election cycle [is] “it's all about the economy,” well, for me, bonds are all about yield. And now there is some. The previous decade there was very little yield; the only thing that supported bonds was the fact that central banks kept buying them throughout that decade under the quantitative easing sort of policies. Now, there is some yield, as Juliet says, hopefully we're nearing the end of the interest rate rising cycle, which is bad for bonds. So, if rates stabilise or maybe the runway for rates is actually going down, that's good for the capital values of bonds. And even if that doesn't happen, I'm getting paid a yield to hold them. So, much more positive on bonds than we have been, certainly than we were four years ago when we would've held no bonds at all.

SS: And property; that's another faller over the last four years. We've mentioned recession already. Is it too early to think fortunes there could be turning around?

DM: So, property … I always think of the state of the economy equals property. So if things are good - you know, we start more businesses, we open more offices, there's more demand for commercial property, you know, people shop more when times are good, which is good for retail. And that doesn't seem to be the case at all. What happened, particularly in the last half of 2022, as interest rate rises really ramped up, then we had the mini budget, which saw the gilt market go, you know, sort of yields went up and prices went down; that was very bad for property. Property is also a leveraged asset class. Even those of us who own houses, flats or you know, you borrow money to pay your mortgage. It's the same in commercial property. And interest rates have gone from 0.5 - 1% to 5%, so, if you want to borrow money, we're in a much more expensive era for borrowing money. That's also bad for property.

We, in the funds that we advise on the VT Chelsea Managed range, we look at the investment trust market and a lot of property funds are now trading on a 40 or 50% discount. So, that maybe suggests that the price has reacted to this pretty dismal outlook. And the realisation that the cost of financing is much higher. So, I think selectively - and I do mean selectively - property is starting to look interesting, where we can find these big discounts in the REIT market, on the stock exchange, in the investment trust world, but [it’s] hard to be super bullish on property given the inevitable slowdown that we're going through at the moment.

JSL: Yeah, I think, as Darius says, property's interesting because of the large discounts that we're seeing on some of the REITs. The other thing to bear in mind is that property is … I think people think … if you think of property, you often think of either your own house or you think of office space or retail, but it's quite a lot more than that. I think the sector's broader these days because you've got logistics, GP

surgeries, hotels, hospitals, care homes. So, it's quite an interesting sector. But it is, as Darius says, subject to uncertainty with interest rate rises.

SS: And then looking ahead over the next sort of four years - crystal ball time - where do you think long-term investors should be looking today?

JSL: So, as a contrarian, I always like to sort of hunt in the bargain bin for things that are on sale, which makes me think of UK smaller companies - I think I've said that here before! But the UK has been unloved since Brexit, it's currently trading on about a 20% discount to its pre-Covid average. And there's been particularly strong outflows from domestic-facing UK small caps, and small caps tend to outperform over the long-term. So, on average, the real return from UK smaller companies – [it's] quite a long time period - but if you look at it between 1955 and 2022, it was over 10% per year. So, on a five-year view, I think that might be quite interesting.

DM: And one of the debates we have actually at the moment is around technology, and you know, it's very easy to look back and say that technology dominated the last decade; the rise of the FAANGS, those 5, 8, 10 big stocks that really, really were just amazing - you know, the cash generation, the compounding effect of the growth. So, I'm not going to say technology, even though I think they are good businesses.

I've always been an investor and favoured - particularly for high risk and long-term - emerging markets, Asia. I still believe that today. I totally agree with Juliet, UK smaller companies is a hated asset class and very, very cheap. But I do believe in the rise of Asia and the Asian consumer. So, for me, I would probably buy an Asian fund that can, you know, try and navigate the ways between when China's cheap and India – and we, also as a team, we love India, - but India has been expensive: it's gone a little bit cheaper recently, whereas China's very cheap, even after a fairly substantial rally, it's still cheap vs long-term history. Some people don't like investing in China and that's entirely up to every individual to make those choices. But I would buy an Asian fund over a five-year view.

JSL: I also think, if you want a sort of more esoteric choice, I quite like funds that are focusing on environmental change and the race to net zero. On two sides really; concern about climate change, and obviously, this is an area that's only going to increase in size, I think, over the next decade or two. So, that could be an interesting area.

SS: And then finally, just looking back over the history of this podcast and the interviews that we've done, what's been your favourite and what did you like about it?

DM: One thing I like about our podcasts, I suppose, and our job, is we actually get to speak to genuine experts in their own asset classes. So, we get to, you know, we are very fortunate to get access to huge resource at huge companies.

One example I will give is we spoke to Giles Rothbarth, the manager of BlackRock European Dynamic. They've got a very, very big healthcare team. And I can't remember the exact date, but it was in the third quarter of 2020 as the where world was desperately waiting for a vaccine, he was very bullish on the fact that his healthcare team was very, very confident that the vaccine was coming and coming soon. And they were right.

['Investing on the go' Episode 104]

> ***Giles Rothbarth:*** *So, out of the hundred vaccines in development, we're really focused on five. And we're focused on those five because we are confident that, should they be successful, they'd have a meaningful volume rollout, and we're focused on those five because we're expecting all five to have Phase 3 readouts. So, in other words, the final stage before Christmas.*
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> *So, what have we got? We think that up first is likely to be Pfizer. It's an mRNA-based vector vaccine, which means that there could be infrastructure challenges, shall we say, in getting this to the population – you've got to move it around at minus 80 degrees and the vaccine is two doses taken one month apart. So, it's not without its challenges, but the Phase 2 data looks good.*
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> *The Moderna Phase 2 data we think might be next. That actually looks a little bit better to us than the Pfizer data. It's got a better response rate in the elderly, and as good a response rate in the elderly as it does in the 18-55 category.*
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> *The one that I suppose we are least positive, which is slightly unfortunate as we sit in the UK, is the AstraZeneca-Oxford vaccine data.*
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> *So, lots going on at the moment, incredibly relevant for, you know, market direction and the composition of that as we go into 2021.*

DM: So, you know, it's that sort of insight not just into finance, but into life that I do think we are very fortunate on.

And when I think of experts, and I touched on briefly the fact that we do invest in certain property REITs, but there is no better an expert in property sector than Marcus Phayre-Mudge who's now at Columbia Threadneedle as part of the old BMO and F&C team, Thames River. Yeah, he runs the TR Property [Trust] and he also has an open-ended pan-European fund. Nobody knows more about property than him. Whenever we get to talk to him, I walk away thinking, I don't know why I bother investing in property and just don't give him all my property money! You know, he just knows everything and everybody. So, that for me is the sort of the benefits of our job and that super insight that we get to talk to experts who really, you know, they live and breathe their asset classes. So, that's just a couple of examples.

JSL: Yes, Darius is right, we are very fortunate to get to have time talking to such a wide variety of managers with such a great deal of knowledge. I saw John Bennett again yesterday and was reminded of what good value he is as a speaker. And we've done a couple of podcasts with him, I think. He manages Janus Henderson European Selected Opportunities and Janus Henderson European Focus. And he's a very experienced and interesting manager. I think he talked to us about the 'control-alt-delete' recession of Covid.

['Investing on the go' Episode 68]

> ***John Bennett:*** *But of course, at the risk of saying 'this time is different', this time it really* **is** *different in terms of ... this is not a sort of waxing and waning of an economic cycle if you like, which you would get for a normal recession as a result of the natural ebb and flow of how economies and how the cycle tends to develop. Of course, we didn't have that for 10 years, as I said.*
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> *So, we're all on the lookout, I was on the lookout for a normal recession - this is not normal, of course. What we've got is an induced coma from the economy, an economy plunged into deep freeze globally, a 'control-alt-delete', call it what you will, you know, sleep mode, call it what you will, but you know we haven't experienced this before.*
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> *So, it is, of course, no ordinary recession, and I think whether you're a fund manager or any other walk of life, running a business, you're trying to gauge how this looks coming out the other side of it, but also the duration of it. We call it a huge gorge, or a huge valley - how deep and how wide it is, that is actually… - every conversation we have with companies right now, [with] CEOs, CFOs, that's exactly the narrative: so many of them say to us, 'Your guess is as good as mine' as to how it looks coming out of the other side, and here we are at this very moment, where governments around the world are trying to ease the lockdown and get us out of this, they are discovering - they probably knew it - but if they didn't, they know it now - getting the world economy and pushing it into lockdown, pushing into this induced deep freeze, is [a] hell of a lot easier than bringing it out. And that's exactly where we are just now. So, no, it's not something that excites me, for that reason, it's so unusual and is of course very deep in terms of the GDP collapses that we're seeing and the rocketing of unemployment that comes with that, so it's not usual, obviously.*

JSL: And more recently I think he was talking about who's winning the war on salmon versus red meat, which was amusing for a pescatarian like myself!

SS: That's great. Thank you very much, interesting as ever, and looking forward to the next four years!

SW: To catch up on any episodes you may have missed over the years or to find out more about our views, please go to FundCalibre.com and don't forget to subscribe to the Investing on the go podcast.