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For Your Perusal

Highlighting Interesting Investment Research

Now What?

At the moment there is significant news flow around geopolitics, economics and equity markets. The quantum of news flow is dizzying and leads investors to perpetually question their investment strategy. Equity market indices are in a correction, or even a bear market like the technology dominated Nasdaq. After deliberating on events from the past few days / weeks / months we have concluded that **nothing has changed in terms of our long-term investment strategy**.

Global macro investing remains one of the most difficult investment strategies to be successful at. We don't have any edge when it comes to making global macro investment calls related to interest rates, inflation, GDP growth, currency movements and geopolitics. The variables and permutations are in persistent flux, and, for us, it is impossible to have a definitive investment view with this as a foundation. What macro events mean exactly for equity prices in the short to medium-term is difficult to determine. Investing reactively to short-term news flow and market gyrations has always been a poor investment strategy and leads to sub-optimal decision making. Our only observation on inflation, and many people are missing this point - **the spike in inflation has already happened**. US inflation is already at a forty-year high. At this point what matters most is the rate of change in the macroeconomic variables and many economic data points are already trending down. Demand destruction will also start taking its toll as consumers delay spending due to elevated prices. This indicates that from current levels, prices will remain high, but inflationary increases will moderate. This is important for equities because despite being a real asset, equity performance deteriorates when inflation is on the rise. **However, once inflation goes past its apex, the equity market rebounds.**

Our investment strategy is built on long-term, time tested, empirical evidence rather than any short-term and cyclical events. Core to our investment strategy are the following tenets:

- There is **no correlation between economic growth and equity markets returns**.
- It is **impossible to time the market**.
- **Equities have historically outperformed** all other asset classes.

With these principles to hand, it is easy to formulate our investment strategy. We want to always **invest in great businesses** that can **compound their earnings** and where we can acquire these businesses at **a reasonable price** and, most importantly, **remain invested in these companies for the long-term**. We accept that the price we pay for the higher returns from stocks is higher investment volatility.

As such we continue to maintain a stock bias notwithstanding the heightened political and economic news flow. Arguably most of the **bad news is already priced in** the broader stock market indices. The stock market is a discounting machine and is factoring in the poor second quarter financial results that many companies will experience on account of the covid lockdowns in China. Investors can expect volatility to remain high. However, **investor sentiment indicators are at a cyclical low point**, and this has historically been a good contrarian indicator. **US consumer balance sheets are very strong, and unemployment remains exceptionally low.** Furthermore, the trajectory for US interest rates is higher, but the **Fed is unlikely to increase interest rates to the detriment of the economy**. We also **anticipate a pick-up of growth in the second half of year** as the impact of war subsides and the Chinese lockdowns are loosened. The also recent sell-off has also meant is that it is **difficult to argue equities are still expensive**. The P/E ratio on the S&P500 is now trading marginally below its long-term average.

Equities offer investors the best opportunity to generate real long-term returns. Our global share portfolios are differentiated from global stock market indices, and in many cases, we have exposure to businesses with exceptionally low expectations embedded into their share prices. Meaning they have a high probability of performing well in the future. Our internal rate of return valuation models indicate that the aggregate business in our global stock portfolios will deliver a low teen return per annum over the next three years. This return is far higher than what we expect from the broader equity indices.

We remain excited about the prospects for the businesses we have invested in on behalf of clients.

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