

# Six minute strategy What's keeping me up at night

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11 September 2023



# Risk 1: US equity concentration risk

Like the Nifty Fifty of the early 1960-70s stocks were profitable & fast growing - but expensive...

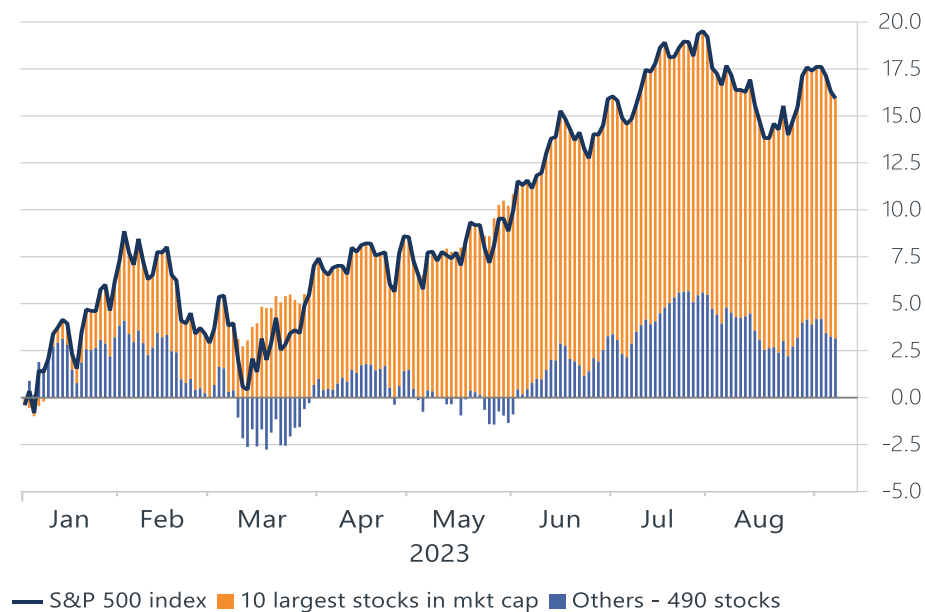


Today's concentrated leadership is extreme



US equity volatility remains low despite surge in bond vol.

## Largest stocks are still driving the S&P500 rally



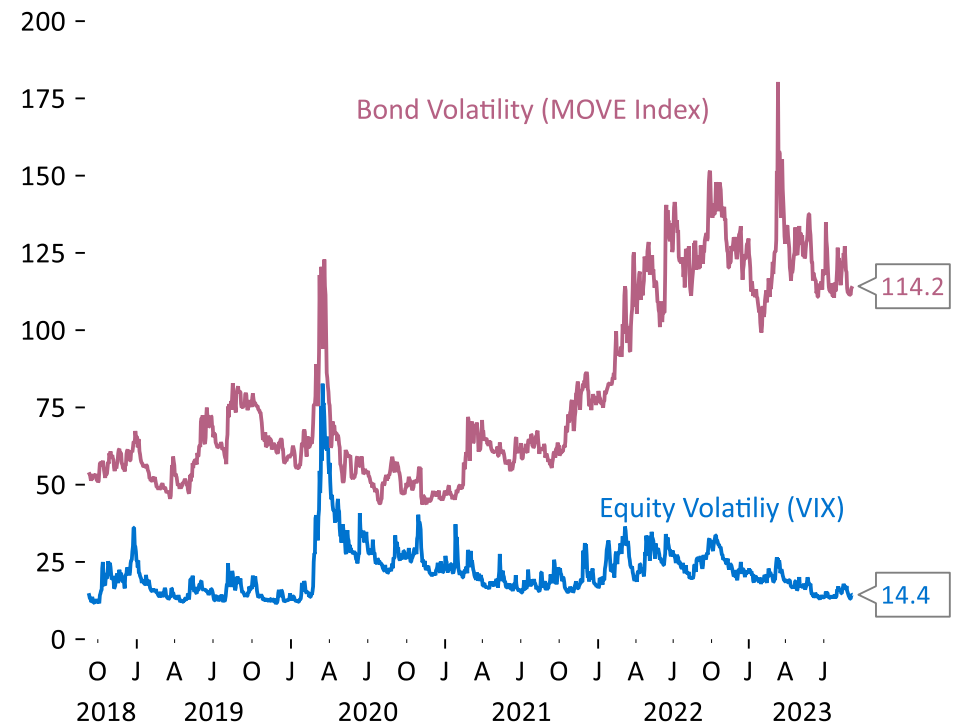
08.09.23 MACROBOND

Apple, MSFT, Tesla, Nvidia, Alphabet, Amazon, Meta,  
+ United Health, Berkshire Hathaway, Exxon.

**"The Magnificent Seven"**

**Nifty Fifty 1972 top 10:** IBM, Kodak, GE, Sears Roebuck, Xerox, 3M,  
Procter & Gamble, Coca-Cola, Avon Products, Johnson and Johnson –  
"One decision stocks – PE of 43 in 1972' – Bridgeway 2023

## S&P500 (VIX) Equity Market Volatility



Source: Macrobond, 08.09.23

# Diversify where valuations are lower – for example Japan

Thematic opportunities in robotics, connectivity, ageing, smart buildings & autos/electrification.

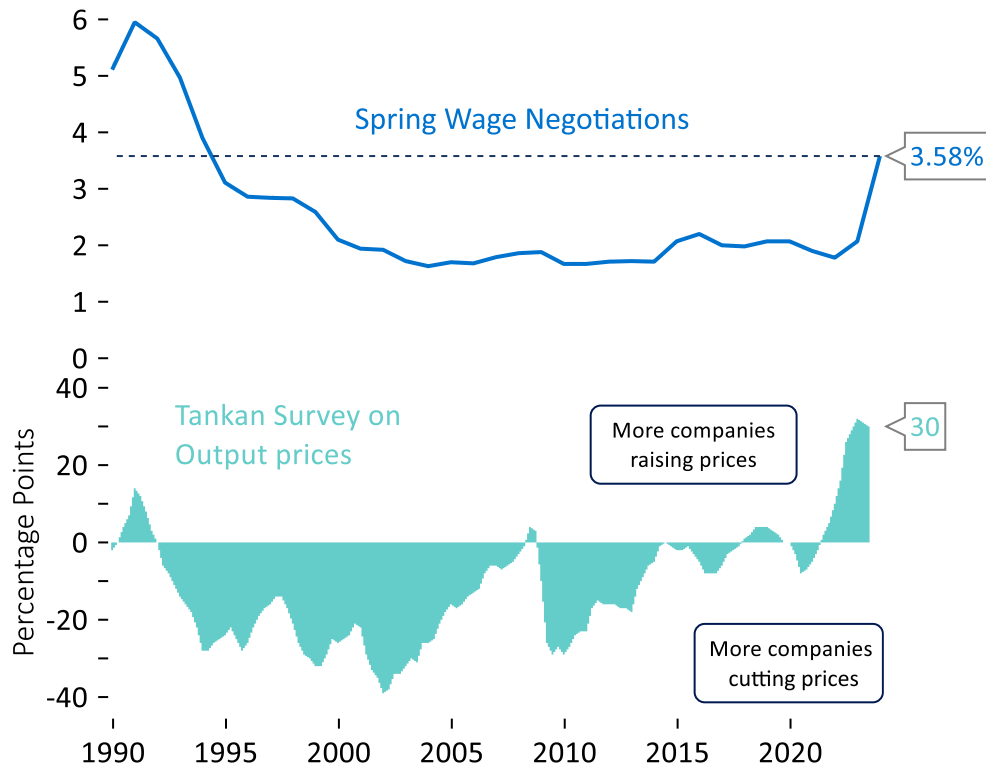


Japan wages & output prices climbing the most in 30 years



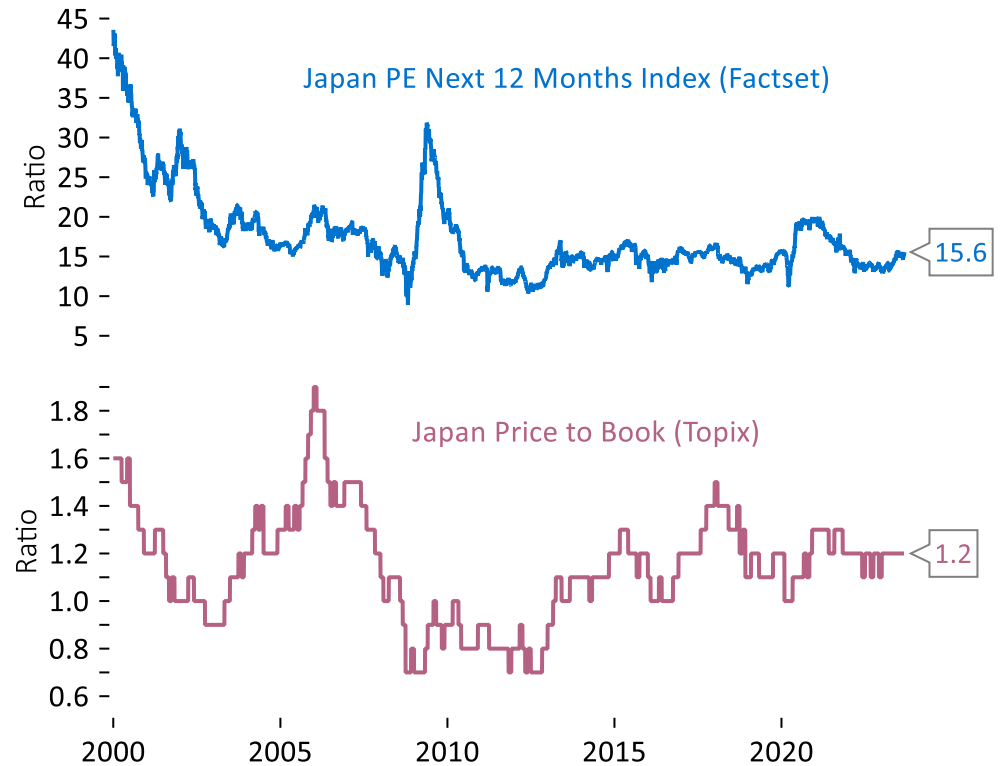
Japanese equity market valuations attractive

## Japan Wages and Corporate Pricing Power



Source: Macrobond, 08.09.23 and Japan Trade Union Conference

## Japan Equity Valuations



Source: Macrobond, 07.09.23

189 companies in the TOPIX 500 trade below book compared to 17 in the S&P500 (Reuters)

# Risk 2: Tightening liquidity conditions globally

Pressure on debt sensitive investments esp. real estate & highly leveraged business models

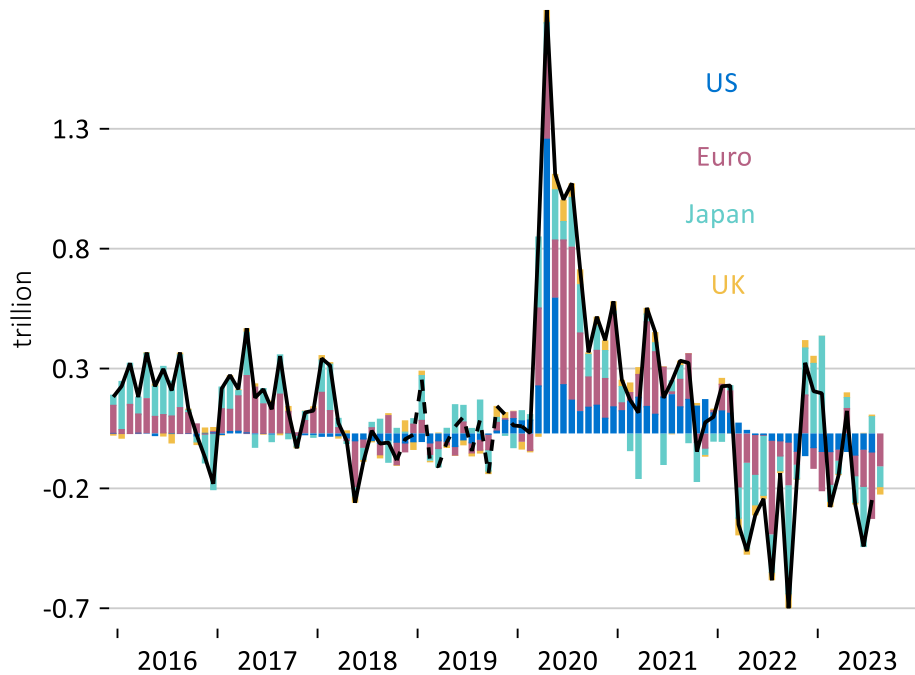


Central bank assets contract again after BoJ intervention



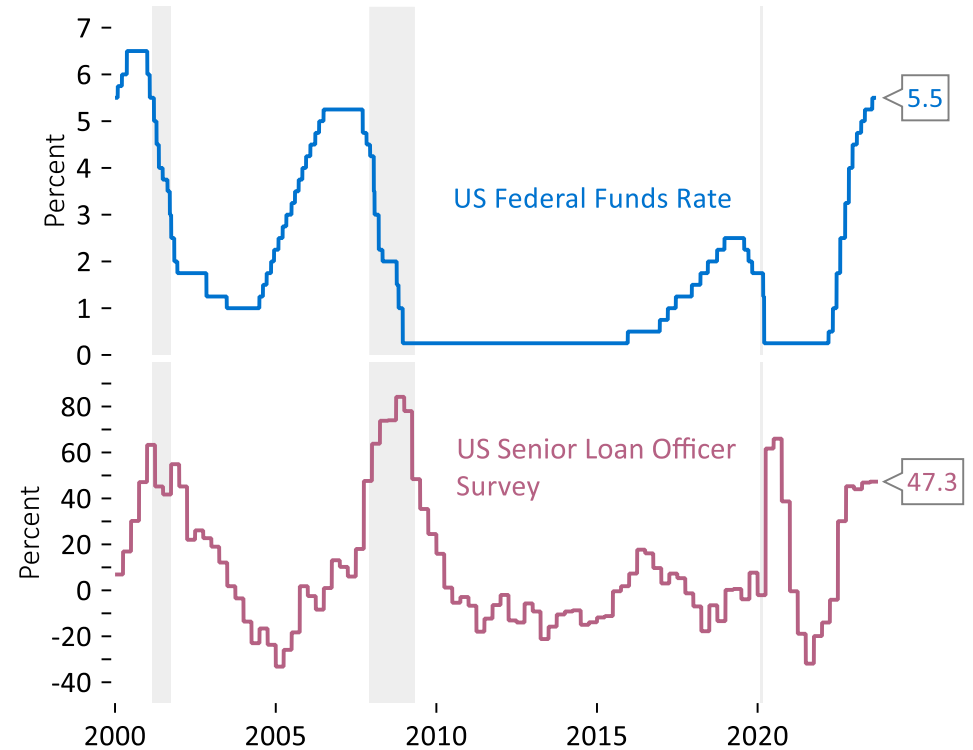
Today's rate rises are historically very aggressive

1 month change in Central Bank Assets  
USD trillion



Source: Macrobond, 07.09.23

US Rate and Bank Lending Conditions



Source: Macrobond, 07.09.23

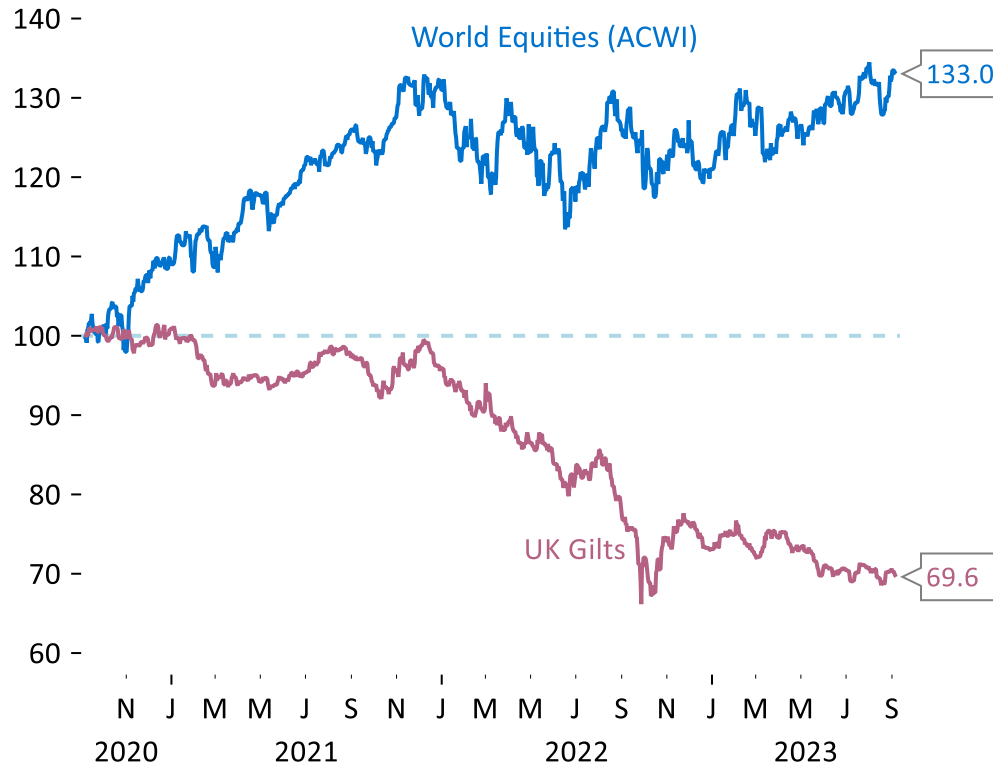
# Corporate bonds becoming attractive - at last

Recent rise in UK bond yields offers opportunities despite inflation risk



Underperformance of bonds-equities now extreme

## Asset class performance last 3 years

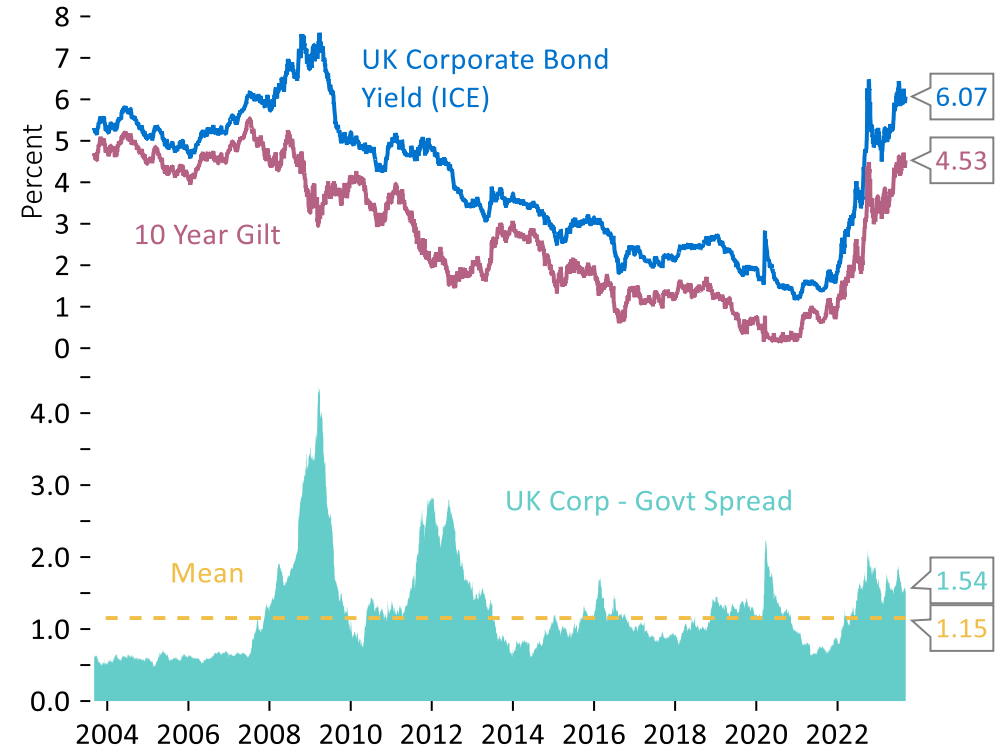


Source: Macrobond, 07.09.23



UK corporate bonds attractive as inflation normalises

## UK Bond Yields



Source: Macrobond, 07.09.23

# Risk 3. Walled Gardens – Country’s trade policies turn inward

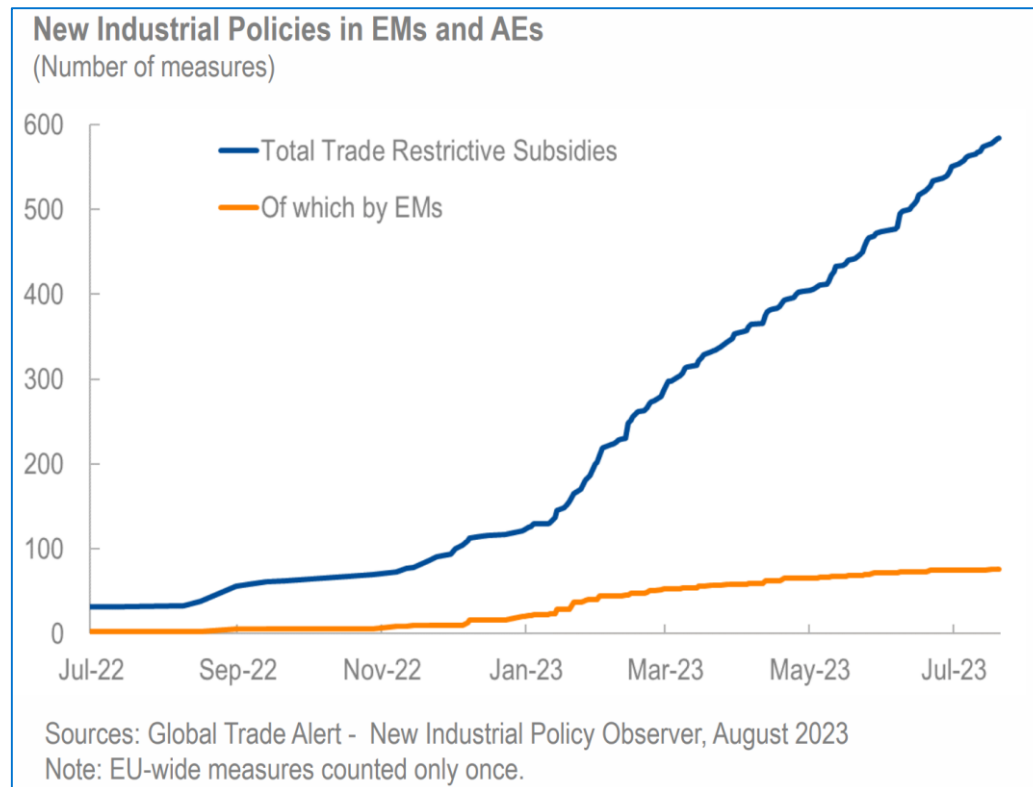
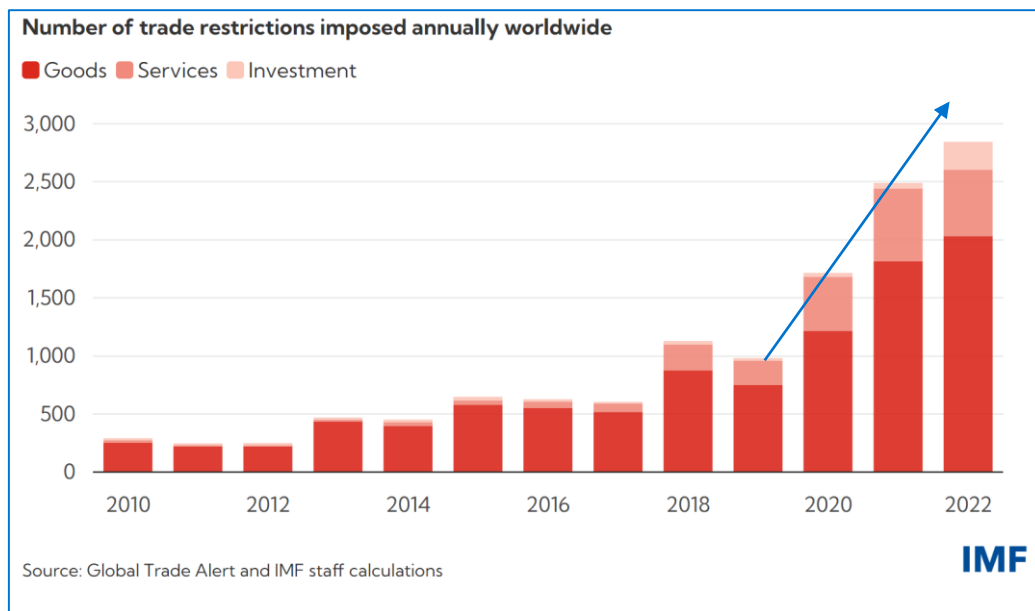
IMF estimates of global fragmentation costs could be as much as 7% of global output



New global trade barriers have nearly tripled since 2019



Large scale industrial policies focus on domestic subsidies



“ Foreign direct investment is increasingly driven by geopolitics not geography - Gita Gopinath South African Reserve Bank Conference Aug 2023

US CHIPS & Science Act, Inflation Reduction Act, EU Green Deal & China general local champions are all examples of Restrictive Subsidies.

Source: IMF August 2023 – Gita Gopinath

Source: IMF August 2023 – Gita Gopinath Deputy managing Director IMF

# Invest where policy commitment is robust - Climate

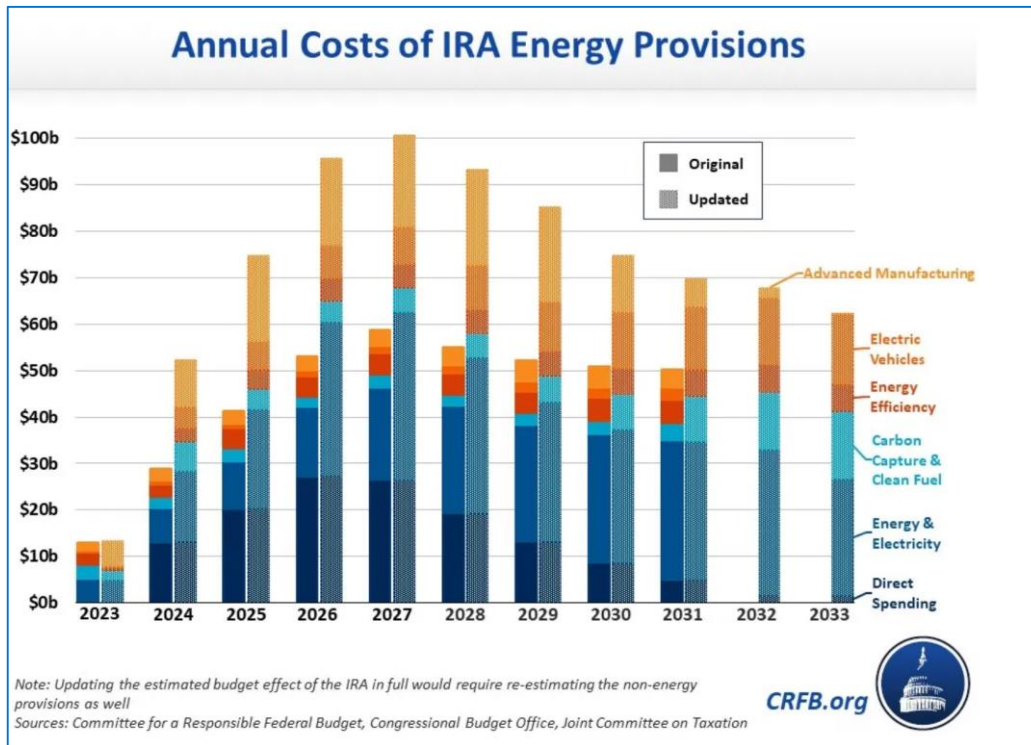
Renewables production rapidly accelerates – surge in capex to meet 2030 goals



Energy provisions in the US Inflation Reduction Act surge

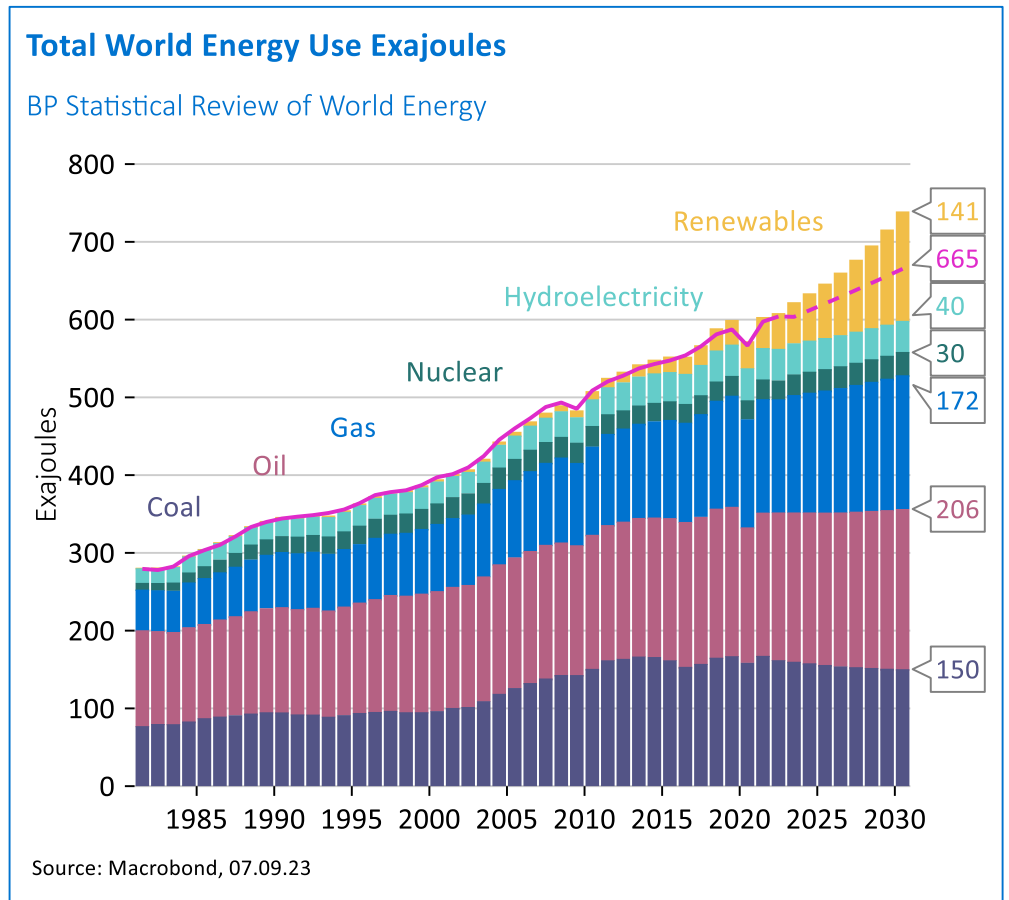


Growth in renewables leads to energy surplus



‘The uncapped incentives of the Inflation Reduction Act mean spending sparked by the historic US climate law could triple initial estimates and push past \$1 trillion.’ Bloomberg Aug 2023

Largest piece of climate legislation ever passed...most tax credits uncapped and will depend on the extent households & companies use them – Brookings 8<sup>th</sup> September 2023



Favour climate leaders in low carbon transport, smart buildings, electrification, high carbon transition & food/farming

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