

# STUART CARLYON

Financial advisers for your lifetime goals

## The investment landscape - a year on from the low of March 2020

One of the important dates on our professional calendar is the admittedly dry sounding Portfolio Construction Forum, held annually in Sydney. The event consistently provides us with a proven touchstone against which we evaluate the outlook and the competing commentaries that lie ahead.

This year the event was staged, thanks to Covid, by video link, and this underscored one of the big discussion points: the way Covid has reframed our lives and our expectations. Or not. The table below shows how since the dire 'lockdown lows' of March 2020, the markets – as represented by their indices - have rebounded with gusto. What a cavalcade of growth! It is just a reminder to hold on and not sell your assets even when we're in the gloom of a pandemic.

NZD returns to 31 March	2020	2021
Cash	0.5%	0.4%
NZ Shares	0.1%	28%
NZ Listed Property	-3%	28%
Australian Shares	-20%	45%
Emerging Markets	-5%	34%
US Shares	5%	30%
UK Shares	-15%	12%
International Shares	4%	31%

Backed by numbers such as these it is perhaps little wonder that most presenters at the forum (economists, analysts, researchers, academics), were upbeat about share markets. They believe that the fiscal stimuli by major Governments will both kickstart and support economic activity. This isn't just a standard recovery either. It is being directed towards new technologies and away from activities that orbit around fossil fuels. Trends include:

- Responsible investing being the future of financial markets
- Capital being diverted to deal with the impact of climate change – move towards lower carbon footprint
- Spending on infrastructure, and healthcare eg. vaccines

Says Chris Iggo, of AXA Investment Managers: "There will be new growth opportunities as many parts of the world economy have the potential to shift from being fossil fuel poor to renewables rich."

Covid will still haunt us, but once the virus is largely under control, and most people are vaccinated, then expect a huge spillway of spending to occur where consumers have been dammed up, and not had the mobility to shop, dine out or travel.

Jeff Schulze of New York based ClearBridge Investments addressed the concern that US shares have been in a bubble - the old fashioned kind - where the bubble is doomed to burst.

"The consensus view that US equities are in a bubble are overblown due to several dynamics: index composition; low interest rates; robust forward earnings expectations; and, economic cycle positioning. In fact, economic growth in the US this year is poised to be the best in almost four decades. Policymakers are suffering from recency bias by mistakenly treating this recovery like the Global Financial Crisis. However, the backdrops between the two could not be more different."

“ Policymakers are suffering from recency bias by mistakenly treating this recovery like the Global Financial Crisis. ”

An investment forum wouldn't be complete without a healthy dose of pessimism. With all the shot in the arm optimism came a warning from one respected presenter, Jonathan Pain, an economist and author of The Pain Report – an aptly titled bulletin for the cautious. His words summarise his stance:



"Be optimistic, but beware – big risks lie ahead. The bad news is that much stronger economic activity, driven by \$22 trillion of monetary and fiscal stimulus, will deliver higher inflation and higher bond yields. It's back to the drawing board - this Herculean tug of war between stronger economic growth and higher bond yields will be the defining battleground of 2021 and will be accompanied by violent and rapid-fire recalibrations of relative valuations."

## What of China-US tensions? The talk is of multi-polarity.

In a recent New Yorker magazine, an article appeared about the fractious and seemingly binary trading relationship between China and the USA. It explained how despite the strongman posturing at the highest political levels, relatively small companies in China are meanwhile reporting booming business with America – and with Europe. The picture is much less us and them than it used to be. In economics the word du jour is ‘multi-polarity.’

So, we were interested in hearing the opinions of Professor Ngaire Woods from Oxford University, who is an expert on US-China relations. She points out that three issues underscore the discussion between both reluctant trading partners. These issues are not so much about the bilateralism between the two super-powers, but more about the need for international cooperation.

- Vaccines
- Financing – The G20 has recently agreed to some financing of the IMF
- Climate stabilisation

Woods points out that cooperation with China shouldn't be regarded as appeasement. As she points out: what is the alternative? Coercion? Marginalisation? If we push back, then who is 'we' in this multi-polar world where in many cases China represents the good guys, while the USA, especially under Trump, became the unpredictable bad guy? Case in point: the Paris Climate Accord.

In truth, many infrastructure projects around the world need Chinese investment. These projects include expansion of one of Europe's busiest ports, Valencia Spain, not to mention the massive capital projects, funded by China in Africa and South East Asia. Likewise, she says, there is a need to give China a place at the table of trusted world organisations.

Woods' favoured recipe for dealing with China is a three-step affair.

- Co-operate with China first – build relationships
- Establish a dialogue with China about worries/concerns
- Begin conversations about divergent values with humility

Another speaker on the same subject was Marko Papic, Chief strategist at US-based Clocktower Group, a leading source of macro-economic investment strategies. Clocktower is bullish about doing business with China, but they, too, have stepped away from framing China trade as all about bilateral trade with America. Papic makes four salient points.

- It is no longer about bilateralism but about (here's that word again), a multi-polar system. It is harder to control allies when trade deals are being done all over. One example: China and Europe.

- The way we relate to China has investment implications:
  - China is relevant globally as an influencer on issues such as the environment, and as a market itself.
  - There are new technologies to invest in such as those that manufacture the machines that make the microchips.
- Democratisation of China is unlikely but of interest is the role of Taiwan as a centre, given its burgeoning semi-conductor industry.
- Globalisation is breaking down. A multi-polar world is, in the big scheme of things, less favourable to open trade.

## More age, less rage

Times change, don't they? The movie industry used to be criticised for having few characters aged over 30. Yet today's recent slew of hot movies includes *Supernova*, where a writer faces Alzheimer's. Or how about *The Father*? Here, Anthony Hopkins puts us through the emotional wringer with his stunning, and unsettling, portrayal of a man beset by dementia.

There's change in the air as we navigate Covid and the once energetic baby boomers face the two perils: the certainty of death and taxes. Take John Lydon, better known as Johnny Rotten of the notorious 1970s punk band the Sex Pistols. Far from preaching anarchy in the UK, and bringing down the system, he's now a US citizen, 64 years old, and a full-time carer of Nora, his wife of 41 years. She, too, has Alzheimer's.



*Sex Pistols group above: Sid Vicious, Steve Jones, Glen Matlock & Johnny Rotten*

According to a recent newspaper report, he's a kinder, gentler, Johnny Rotten worried about insurance and feeling the pinch of the costly burden of caring for his partner. "For me, the real person is still there. That person I love is still there every minute of the day, and that is my life. It's unfortunate that she forgets things, well, don't we all?" Johnny Rotten was once described as 'the biggest threat to our youth since Hitler', so there's something piquant about his story. A case of more age and less rage.

The story caught our eye because it is universal. While Johnny's wild mate Sid Vicious died in his early 20s, Johnny Rotten has proved to be a survivor, accepting of his lot, and even expressing a few regrets about his lack of a sound financial plan.