

Robert White, CFA

While high growth/momentum stocks have performed well for some time, they have historically been susceptible to momentum crashes which have tended to coincide with bear market periods. As stock markets reach all-time highs and the US enters its tenth year of economic expansion, we think that having exposure to value stocks still makes good sense. We have long been of the view that having balanced factor exposure is the best way to achieve excess returns, and now does not seem the time to abandon this philosophy.

One of the most dominant trends playing out in markets at present, and for much of the past decade, is the preference for high growth/momentum stocks over highly unfashionable value stocks. It is not too difficult to imagine why exciting growth companies such as Amazon have a much more compelling narrative compared to bricks and mortar retailers like Bed Bath and Beyond, but the unusual extent of value underperformance has occurred almost irrespective of fundamentals.

The power of modern-day market narratives manifests itself most obviously on the rare occasions I find myself discussing investment-related subjects in a social setting. It will come as no surprise to readers that such conversations tend to be dominated by a few predictable topics, most of which include the word 'Bitcoin'. Thankfully, discussions with my professional colleagues are more varied and instructive (although whether or not they would make for entertaining dinner party conversation remains doubtful). While Bitcoin is perhaps an obvious example of the power of trends, us investment professionals can also be guilty of succumbing to the various fashions of the day.

In theory, the idea that companies have some 'intrinsic value' does not appear contentious; it seems almost self-evident that most of us would not want to pay any more than a company is worth for the pleasure of owning it. It is therefore puzzling that investors have been making substantial profits doing arguably just that. Of course, in practice it is extremely difficult to agree on a definition of 'intrinsic value', but by most objective measurements it is undeniable that value as a style has been having a torrid time. While market inefficiencies can explain this phenomenon over the short term, the length of the current trend requires active investors to challenge long-held convictions and answer the question, 'are things really different this time?'

To answer this question, we have undertaken a thorough review of the value factor which we will be publishing this week. In this document we broadly address the following questions: (1) Why should we be exposed to value? (2) Why has it underperformed? (3) How should we think about our exposure in the future? At the risk of spoiling the conclusion for our readers, we can reveal that we believe value investing still has an important role to play within diversified portfolios, particularly at this point in the cycle.

Several common arguments are made for the continuing lacklustre performance of value stocks. In our report, we focus on macro factors such as declining growth and the downward path of interest rates, as well as the success of large technology companies with apparently inaccessible barriers to entry due to scale. While there is some truth to these arguments, there are uncomfortable echoes of the 2000 technology bubble in this line of thinking. Ultimately, we believe that behavioural factors can provide a better explanation for some of the extremes we are seeing today, and these factors do not necessarily favour one style over another.

If you would be interested in reading the full document, please do get in touch with our distribution team. We would be happy to share our research and respond to any comments/questions you may have.

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Market Focus

- » US indices again moved to record highs
- » The UK released weak economic data in the past week
- » Brent crude fell 0.2% ending the week at \$64.9 a barrel
- » Gold fell 0.3% ending the week at \$1557.2 an ounce

US

- » Following the signing of a phase-one trade deal between the US and China, most of the major US indices reached record highs again.
- » China agreed to increase their imports from the US to an additional \$200 billion of US goods by the end of next year, whilst the US cut tariffs on some Chinese goods from 15% to 7.5%.
- » The main US equity index rose by 2.0% over the past week after the agreement of the phase-one trade deal and strong Q4 earnings reports.
- » US Treasuries returned flat, with their investment grade counterparts returning 0.2%.

Europe

- » German Chancellor Angela Merkel warned that Brexit was a wake-up call for the EU and that the union needs to adapt to become more “attractive” for its current members.
- » Germany’s year-on-year GDP growth was confirmed at 0.6% in 2019, in line with expectations.
- » Euro area industrial production rose 0.2% month-on-month in November, 10 basis points lower than expected.
- » The World Economic Forum (WEF) takes place in Davos, Switzerland, this week. It is expected that the event will place emphasis upon sustainability.

UK

- » Weak UK economic data and dovish comments by the Bank of England’s Monetary Policy Committee have led to speculation of a rate cut at the January 30th meeting.
- » UK inflation slowed to a three-year low of 1.3% (UK Consumer Price Index) in December, with core inflation slowing to 1.4%.
- » UK GDP grew by only 0.1% in the three-months to November.

Rest of the World/Asia

- » China’s main equity index eased prior to the signing of the phase one trade deal and failed to rebound.
- » Chinese economic growth printed 6.0% year-on-year for 2019.
- » Oil prices rallied this morning in Asian markets following Libya’s biggest oil field halting production as armed forces closed a pipeline.

Asset Class / Region	Currency	Cumulative returns			
		Week ending 17 January	Month to date	YTD 2019	12 months
Developed Markets Equities					
United States	USD	2.0%	3.1%	3.1%	28.1%
United Kingdom	GBP	1.3%	1.8%	1.8%	16.6%
Continental Europe	EUR	1.4%	2.5%	2.5%	25.5%
Japan	JPY	0.0%	0.8%	0.8%	15.3%
Asia Pacific (ex Japan)	USD	1.5%	3.6%	3.6%	19.1%
Australia	AUD	1.9%	5.7%	5.7%	25.9%
Global	USD	1.6%	2.5%	2.5%	24.7%
Emerging Markets Equities					
Emerging Europe	USD	0.8%	4.0%	4.0%	29.2%
Emerging Asia	USD	1.4%	3.6%	3.6%	19.7%
Emerging Latin America	USD	0.2%	0.3%	0.3%	6.6%
BRICs	USD	1.2%	3.9%	3.9%	21.3%
MENA countries	USD	1.9%	1.3%	1.3%	4.1%
South Africa	USD	0.0%	-1.3%	-1.3%	1.8%
India	USD	0.6%	1.7%	1.7%	14.8%
Global emerging markets	USD	1.2%	2.9%	2.9%	16.6%
Bonds					
US Treasuries	USD	0.0%	0.5%	0.5%	8.0%
US Treasuries (inflation protected)	USD	-0.1%	0.5%	0.5%	9.0%
US Corporate (investment grade)	USD	0.2%	0.7%	0.7%	14.8%
US High Yield	USD	0.3%	0.7%	0.7%	11.2%
UK Gilts	GBP	1.5%	2.2%	2.2%	10.0%
UK Corporate (investment grade)	GBP	1.2%	2.0%	2.0%	13.1%
Euro Government Bonds	EUR	-0.1%	0.3%	0.3%	6.8%
Euro Corporate (investment grade)	EUR	0.2%	0.3%	0.3%	6.4%
Euro High Yield	EUR	0.2%	0.5%	0.5%	10.4%
Japanese Government	JPY	-0.1%	-0.3%	-0.3%	1.6%
Australian Government	AUD	0.4%	1.5%	1.5%	9.4%
Global Government Bonds	USD	-0.1%	-0.4%	-0.4%	5.5%
Global Bonds	USD	0.0%	-0.1%	-0.1%	6.6%
Global Convertible Bonds	USD	1.0%	2.5%	2.5%	12.1%
Emerging Market Bonds	USD	0.5%	1.0%	1.0%	10.7%

Source: Bloomberg. Past performance is not indicative of future returns.

Asset Class / Region	Currency	Cumulative returns			
		Week ending 17 January	Month to date	YTD 2019	12 months
Property					
US Property Securities	USD	2.7%	2.0%	2.0%	19.4%
Australian Property Securities	AUD	2.7%	6.2%	6.2%	16.1%
Asia Property Securities	USD	1.1%	0.7%	0.7%	10.7%
Global Property Securities	USD	2.1%	1.5%	1.5%	18.7%
Currencies					
Euro	USD	-0.3%	-1.2%	-1.2%	-2.6%
UK Pound Sterling	USD	-0.3%	-1.8%	-1.8%	0.5%
Japanese Yen	USD	-0.6%	-1.4%	-1.4%	-1.1%
Australian Dollar	USD	-0.4%	-2.1%	-2.1%	-4.1%
South African Rand	USD	-0.9%	-3.3%	-3.3%	-4.9%
Swiss Franc	USD	0.5%	-0.2%	-0.2%	2.7%
Chinese Yuan	USD	0.8%	1.4%	1.4%	-1.3%
Commodities & Alternatives					
Commodities	USD	-0.4%	-0.7%	-0.7%	4.4%
Agricultural Commodities	USD	0.3%	0.7%	0.7%	-1.3%
Oil	USD	-0.2%	-1.7%	-1.7%	6.0%
Gold	USD	-0.3%	2.3%	2.3%	20.5%
Hedge funds	USD	0.4%	0.9%	0.9%	7.8%

Source: Bloomberg. Past performance is not indicative of future returns.

For more information, please contact:

Anastasiya Volodina
Distribution Services

E: distributionservices@momentum.co.uk

T: +44 (0)207 618 1806

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