global matters weekly

momentum

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Who cares wins

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Nobody could have missed the global awakening to the debate on climate change over the past year. The greater frequency of extreme events – fires, storms, flooding – as well as the increased visibility of movements like Extinction Rebellion have been key driving forces behind this, although the heightened attention is long overdue. Within the investments industry this has translated into a marked increase in demand for strategies that focus on sustainability; an inexorable trend that the whole industry needs to adjust for.

> *"As well as the ethical imperative, there has been greater recognition of the financial imperative of a sustainable investment approach"*

The investment jargon is confusing, with lines often blurring between SRI (Socially Responsible Investing) and ESG (Environment, Social, Governance) funds, although all have a focus on investing in "good" companies, supporting "good" causes. However, scrutiny from investors and regulators is leading to improved clarity and transparency around the underlying definitions and processes. In order to use a more standardised ESG compass many investment managers have adopted the Principles for Responsible Investment (UNPRI) guidelines, which were developed in 2004 through a joint initiative led by the United Nations[1] and formally launched in 2006. Today the UNPRI has over 1,000 signatories representing over $70 trillion of assets under management. Estimates of total assets invested in dedicated ESG strategies vary but we know it is a relatively small share of total AUM at present which we can be certain will continue to grow.

As well as the ethical imperative, there has been greater recognition of the financial imperative of a sustainable investment approach. For instance, research by BofA Merrill Lynch recently estimated that buying stocks that rank well on ESG metrics outperformed the market by 3% per year and could have helped avoid 90% of recent bankruptcies in the US[2]. Ultimately, these "better" companies should be rewarded with lower costs of capital and their investors should benefit from reduced risks in their portfolio.

> *"the question for 2020 is not 'if', or 'when', but rather 'how'?"*

So, the question for 2020 is not 'if', or 'when', but rather 'how'?

It is recognised that ESG considerations go well beyond just carbon emissions, to encapsulate a plethora of other controversial activities – from deforestation or use of plastics, through employment practices including child labour and gender inequality, to independence of board members and proxy voting – all factors that represent real risks for businesses that must be better incorporated into investment decisions. In order to do so investment managers should adopt an integrated approach, with ESG issues assessed across every aspect of the process. The explosion in data availability around all these factors will generally help to facilitate this, but given the complexity and inter relatedness of many of these issues, the qualitative human element that comes with actively managed strategies will arguably have an edge over rules based, passively managed strategies here.

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Excluding investments in businesses that operate in controversial sectors can also help, but only to an extent. Selling one's shares in a business simply passes ownership and voting responsibility on to the next holder, who may be less attuned to sustainability issues and less inclined to help drive change in these companies and sectors. Instead, engaging and holding on to investments in businesses that are willing to change their practices for the better with an intent to transition to a more sustainable approach may be the more effective strategy. Second derivative exposures must also be considered – rather than just excluding investments in thermal coal producers for example, one must consider the secondary industries feeding their sales – energy companies and national grids, power plants and the like. Furthermore, consideration must be given to the communities that depend on such industries for their economic livelihood, which speaks to the 'S' of ESG. Hence, what is deemed a "good" or a "bad" company or even sector from an ESG perspective is not always absolute, and needs careful consideration.

> *"we plan to launch a Sustainability focused multi-asset solution later this year, designed to meet the needs of those investors who wish to raise the sustainability bar for their investments further"*

At Momentum, our business was among the first to sign the UN-PRI back in 2006. We acknowledge that we are in a privileged position to act as fiduciary to our clients and stakeholders and we do take these responsibilities seriously. Whilst at a micro level, many of our solutions may not yet be explicitly measured in terms of ESG credentials, at a macro level ESG considerations are high on our agenda and integrated into our investment processes - we will continue to strive for best practice around managing the related challenges. Looking forward, we plan to launch a Sustainability focused multi-asset solution later this year, designed to meet the needs of those investors who wish to raise the sustainability bar for their investments further.

1 'Who Cares Wins. Connecting Financial Markets to a Changing World' – United Nations Global Compact, June 2004.

2 '10 Reasons You Should Care About ESG' – Bank of America Merrill Lynch, September 2019.

Market Focus

- Most equity bourses ended the week in positive territory
- Coronavirus concerns dominated sentiment again, but containment confidence grew
- Brent crude rose 5.2% ending the week at $57.2 a barrel
- Gold rose 0.9% ending the week at $1583.7 an ounce

US

- US equity indices reached record highs on confidence of containment of the coronavirus. Technology stocks continued their strong run with the main technology index gaining 2.4%
- Investors are currently pricing in an 82% chance of an interest rate cut in 2020 and a 46% chance of two or more cuts
- Job openings fell to two-year lows during December though jobless claim are still at near record lows. CPI rose to 2.5% (versus 2.4% expected)
- The 30-year US Treasury yield fell to a record low of 2.061% at last Thursday's auction. The 10-year yield remained broadly unchanged

Europe

- Eurozone economic growth grew by just 0.1% in Q4
- Germany's GDP reading for Q4 showed a stagnating economy with a quarter on quarter growth rate of 0.0%
- Continental European equities rose 1.4% last week

UK

- The UK Chancellor resigned last week before delivering a single budget. He has been replaced by ex-Goldman Sachs employee Rishi Sunak who is expected to green-light a spending boost
- Mark Carney, the outgoing Bank of England governor has indicated that interest rates are to remain low for the foreseeable future (currently standing at 0.75%) to mitigate against low economic growth
- UK equities fell -0.6% last week

Rest of the World/Asia

- The Japanese economy shrank by approx. 4% in Q4 of 2019 largely due to the consumption tax hike last October
- Japanese equites fell -1.7% last week
- Despite the continuing focus on the coronavirus (COVID-19) Chinese equities performed well last week. The large cap index gained 2.4% and the composite index 1.4%.These were buoyed by positive global sentiment that their containment efforts would work
- The number of reported cases of the coronavirus now stands at over 60,000 with around 1700 deaths

Past performance is not indicative of future returns.
Source: Bloomberg, returns in local currency unless otherwise stated.

		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 14 February**	**Month to date**	**YTD 2019**	**12 months**
Developed Markets Equities					
United States	USD	1.6%	4.9%	4.8%	24.8%
United Kingdom	GBP	-0.6%	1.7%	-1.7%	6.6%
Continental Europe	EUR	1.4%	5.4%	4.5%	23.7%
Japan	JPY	-1.7%	1.1%	-1.1%	9.8%
Asia Pacific (ex Japan)	USD	1.6%	4.5%	0.6%	10.8%
Australia	AUD	1.6%	1.6%	6.7%	22.4%
Global	USD	1.2%	3.9%	3.2%	21.0%
Emerging Markets Equities					
Emerging Europe	USD	0.4%	0.4%	-3.2%	21.1%
Emerging Asia	USD	1.6%	5.3%	0.6%	11.2%
Emerging Latin America	USD	1.0%	1.2%	-4.4%	0.6%
BRICs	USD	1.6%	4.6%	0.0%	11.9%
MENA countries	USD	-2.2%	-3.9%	-4.6%	-2.2%
South Africa	USD	3.1%	5.6%	-3.7%	3.4%
India	USD	0.1%	1.3%	-0.9%	13.3%
Global emerging markets	USD	1.4%	4.2%	-0.7%	9.2%
Bonds					
US Treasuries	USD	0.0%	-0.3%	2.3%	9.1%
US Treasuries (inflation protected)	USD	0.1%	-0.3%	2.0%	9.5%
US Corporate (investment grade)	USD	0.1%	0.2%	2.5%	14.5%
US High Yield	USD	0.5%	1.1%	1.1%	9.8%
UK Gilts	GBP	-0.3%	-0.9%	3.0%	8.5%
UK Corporate (investment grade)	GBP	-0.2%	-0.5%	2.5%	10.9%
Euro Government Bonds	EUR	0.2%	-0.2%	2.4%	8.4%
Euro Corporate (investment grade)	EUR	0.2%	0.0%	1.2%	5.7%
Euro High Yield	EUR	0.4%	0.9%	1.1%	9.5%
Japanese Government	JPY	-0.1%	-0.3%	0.2%	1.6%
Australian Government	AUD	-0.3%	-0.8%	2.3%	9.0%
Global Government Bonds	USD	-0.2%	-1.2%	0.5%	6.3%
Global Bonds	USD	-0.2%	-0.9%	0.5%	6.8%
Global Convertible Bonds	USD	0.5%	1.8%	3.3%	10.4%
Emerging Market Bonds	USD	0.5%	0.8%	3.0%	10.7%

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

		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 14 February**	**Month to date**	**YTD 2019**	**12 months**
Property					
US Property Securities	USD	3.3%	5.0%	6.2%	16.6%
Australian Property Securities	AUD	1.6%	2.3%	8.8%	14.8%
Asia Property Securities	USD	1.0%	3.3%	-0.9%	4.5%
Global Property Securities	USD	2.4%	3.6%	3.2%	15.3%
Currencies					
Euro	USD	-0.9%	-2.2%	-3.4%	-4.0%
UK Pound Sterling	USD	1.1%	-1.2%	-1.7%	1.8%
Japanese Yen	USD	0.1%	-1.2%	-1.0%	0.8%
Australian Dollar	USD	0.6%	0.3%	-4.4%	-5.5%
South African Rand	USD	1.3%	0.5%	-6.2%	-4.8%
Swiss Franc	USD	-0.4%	-1.8%	-1.5%	2.4%
Chinese Yuan	USD	0.2%	-1.1%	-0.3%	-3.1%
Commodities & Alternatives					
Commodities	USD	1.3%	0.6%	-6.8%	-2.5%
Agricultural Commodities	USD	-0.3%	0.2%	-2.9%	-3.4%
Oil	USD	5.2%	-1.4%	-13.2%	-11.2%
Gold	USD	0.9%	-0.3%	4.0%	20.5%
Hedge funds	USD	0.4%	1.0%	1.4%	7.6%

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

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