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MEDIA RELEASE

Bumper 2019 precipitates more benign year ahead

The unexpected equity market returns of last year are unlikely to continue over the coming 12 months and, against the backdrop of protracted geopolitical concerns, a more benign, muted environment should be expected, according to GSFM and its fund manager partners, Munro Partners and Tribeca Investment Partners.

GSFM adviser, Stephen Miller, says the extent of the strong returns from global equities last year (as well as in Australia) came as somewhat of a surprise, and investors should recalibrate performance expectations to be around the mid-single digit mark for 2020.

He says such a forecast implies a reasonably benign global and domestic growth outlook; however, risks to the downside abound.

“Monetary policy is almost exhausted, and ongoing global tensions, such as the US/ China trade negotiations, US and European politics, Hong Kong and more recently Iran, mean that risks may be asymmetrically weighted to the downside.

“2019 surprised us by how bloody good it was and when it’s good, markets can become complacent. When something goes wrong, the correction might be shorter, but it can also be deeper and investors need to be alert to that potential.

“There’s a lot of uncertainty out there and while some of the geopolitical issues existed 12 months ago, they didn’t manifest themselves in any serious drop in market confidence. However, it only takes one or two of these to flare up at once and markets take flight,” he says.

Of concern is that authorities are limited on levers to stem the consequences of such a drop, with central banks globally running out of policy ammunition.

“We may well see the cash rate at 25 basis points in Australia, but I’m not convinced of the potential for meaningful quantitative easing (QE) in a local context, and that may make things difficult.

“At some stage in 2020 the Federal Government might have to give up on the surplus. But if you want to mitigate a severe downturn, you need a mechanism that delivers it quickly, not slowly, and fiscal policy is not always adept at delivering stimulus quickly,” Mr Miller says.

Munro Partners’ chief investment officer, Nick Griffin, agrees, and says the outlook is infinitely more benign than the past year, with the lesson being that the level of interest rates matter.

“Despite numerous headwinds, markets were strong in 2019 as central banks moved to lower rates in the face of weakening growth. For 2020 we’re expecting rates to remain historically very low for the first half of this year at least, as central banks have openly flagged that they want inflation to go over the targets for a period before hiking rates.

“For the standard investor, this means they’re going to be forced to take on more risk to earn an adequate return and this should support equity markets,” he says.

That said, Mr Griffin notes that this is the longest US expansion in history, and so investors need to be cognisant of late cycle behavior.

“Markets need cycles to adjust risk-taking, and we haven’t had a sustained downturn for a while. Central banks have been adept at sustaining this cycle for longer than most predicted by keeping money cheap, but they need to be careful that the reverse doesn’t occur and risk-taking begins to get out of hand,” he says.

As a global equities-focused growth manager, Munro Partners will continue to search for sustainable growth trends that are underappreciated and mispriced by the market. Alibaba and Amazon are two of its core holdings which lagged in 2019 and should do better in 2020 as their core growth rates have continued.

“We like stocks that can grow at a sustainable rate. Most of our core holdings won’t change, and we’ll have an increased focus on high performance computing (including artificial intelligence and globally connected devices) and companies engaged in tackling climate change and the decarbonising of the planet,” Mr Griffin says.

Given the domestic growth forecast, Jun Bei Liu, lead portfolio manager of the Tribeca Alpha Plus Fund, says she will continue to overweight quality businesses that have exposure to the growth globally, particularly on the back of growth forecasts from the US and China.

The portfolio will incorporate both defensive and cyclical sectors, and Ms Liu cites the healthcare sector as one that is continuing to deliver growth independent of the geopolitical uncertainties.

“These are defensive stocks, and we see good earnings momentum heading into the February reporting season. We are also seeing opportunities in cyclical names whose earnings have been impacted by trade uncertainties and weakening growth in the past 12 months. These sectors represent good value with cyclical low earnings, any positive outlook commentary should drive good return at results season.

“For 2020, we need to be mindful of the tail risks as events can escalate quickly. As investors, we were able to mitigate the geopolitical risks of 2019 and push global equities markets to all-time highs.

“However, many of those tensions are still simmering and it only takes one piece to fall, potentially leading to a domino effect. It is therefore important to keep a well-balanced portfolio with high quality businesses that can withstand exogenous shocks,” she said.

Ms Liu said the Australian economy has been going through a “tough patch” however the Reserve Bank of Australia as well as the government has been stimulating the economy in hope of smooth the slow down.

“Despite an improvement in the housing market, so far there has been little discernible pick up in both consumer and business spending, which will likely lead to another rate cut this year.

“Wage growth isn’t coming through, and the rate cuts haven’t resulted in more consumption; credit growth has been weak and isn’t expected to pick up meaningfully in the next 12 months.

“2020 will most certainly look and feel different to last year and when compared to the bumper year 2019, investment returns will be lower year-on-year. However, a well-structured, diversified portfolio that has exposure to high quality companies that will deliver earnings growth will have investors on a sound footing,” Ms Liu says.

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GSFM was established in July 2007 as a subsidiary of the Grant Samuel Group. In November 2016 CI Financial Corp (CI) purchased an 80 per cent stake in the business. CI is a diversified wealth management firm with fee-earning assets of CAD$181.9 billion (as of 31 December 2019). GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors.

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- *New York based Epoch Investment Partners, Inc.*
- *Tribeca Investment Partners, a successful Australian boutique manager*
- *Payden & Rygel, a Los Angeles based independent investment management firm*
- *Triple Three Partners Pty Ltd (Triple3) a boutique research and investment management firm*
- *Munro Partners, an independent global equity manager*
- *London-based Man Group plc*
- *Toronto and Boston based Cambridge Global Asset Management*
- *Redpoint Investment Management, a boutique equities manager based in Sydney*

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