21 July 2021

MEDIA RELEASE

Pockets of opportunity provide good prospects for global bonds and equities

The COVID-19 pandemic recovery remains non-linear across developed and emerging economies leading to a patchy outlook for bond and equity markets, but pockets of opportunity remain, according to GSFM and its fund manager partners Payden & Rygel, Munro Investment Partners and Redpoint Investment Management.

Payden & Rygel director, Eric Souders, says the next phase in the COVID-19 economic recovery will be in developing parts of the world.

"We expect this phase to begin during the latter part of this year, with encouraging data points already occurring and a continued belief that we will continue to see vaccine diplomacy expand to smaller, poorer countries.

"From a bond market perspective some attractive opportunity remains in securitised credit. In addition, an opportunity also lies within emerging market debt - which we are preparing for now - as we believe the market will begin to price in this opportunity before year-end.

"Notably, we have identified high-quality parts of the below investment grade sovereign universe as an opportunity. Valuations here, relative to corporate credit, are at 10 year highs and fundamental tailwinds are already in place, such as rising commodity prices, a benign US dollar, and a strong recovery in China.

"With all that said, fundamental research is paramount and security selection critical given broad market valuations are not cheap and volatility remains very subdued. In this environment absolute and unconstrained bond strategies – which eschew benchmarks and focus on returns over time – will become more prominent in the marketplace," Mr Souders says.

Munro Investment Partners chief investment officer, Nick Griffin, says the emerging global economic recovery is allowing for him to invest in a broader set of investment ideas.

He is seeing opportunity in a number of focused areas of interest, including digital enterprise, the emerging consumer, semiconductors, climate and innovative health, and says the pace of the global economic recovery will provide greater scope for the team to scout out investment opportunities.

"Last year markets were very bifurcated, but now that we are poised for economic recovery as vaccine rollouts are implemented around the world, there are a number of compelling opportunities that we can start looking at again.

"For instance, emerging consumer stocks – such as aerospace and luxury goods - are areas that have been in the fund in the past, and the recovery has provided the opportunity for us to invest in them again. Airbus and Italian luxury good manufacturer Moncler have returned to the fund in 2021.

“Other areas - like semiconductors – are ones that we have liked for a long time. They did well during lockdown and they will also do well in an economic recovery. Semiconductor investments have been very good for our portfolio over the long term, both through the recent recovery and also through lockdown. Nvidia and Dutch lithography equipment manufacturer ASML are key investments here.

“Another important focus is climate change. Climate is hugely leveraged to stimulus spending, and it will also do well during an economic recovery. As companies refurbish or rebuild or spend for the future they will obviously do this in a greener way, and there are a number opportunities in this area. HVAC equipment manufacturer Trane Technologies and wind turbine OEM Vestas are good example here.”

Mr Griffin says the team doesn’t focus on trying to target particular countries or economies when it invests, but rather looks for companies within its areas of focus with good prospects.

“Earnings growth will drive stock prices and provided you don’t pay too much for them it will all work out in the long term,” he says.

Locally, GSFM investment strategist Stephen Miller says investors can expect the maintenance of the historically high accommodatory tack from the Reserve Bank of Australia (RBA) to continue for the foreseeable future.

“The RBA is happy in the current circumstance to lag the normalisation of policy rates, particularly compared to other commodity-intensive developed economies such as Canada, Norway and New Zealand where rate increases are foreshadowed within a year. The point of difference between the RBA and the others is underscored by the RBA’s expectation that that the condition for any increase in the policy rate “will not be met before 2024.”

“As part of the quest to generate tight labour markets and attendant wage and price inflation, the RBA remains motivated to avoid an unwelcome upward movement in the Australian dollar (AUD). Any move up in the AUD could well frustrate the task of getting unemployment down and wage growth and inflation up.

“As the RBA has achieved its stated objective in pursuing yield curve control and quantitative easing of keeping the AUD low, it is unlikely to risk the unwinding of those achievements by prematurely foreshadowing a more significant retreat from the currently historically high levels of monetary accommodation.

“That will likely remain the case until there is some clarity around the US Federal Reserve’s roadmap to tapering.

“In emphasising outcomes, the RBA may feel that while inflationary pressures in the US are clear - and there is debate about its persistence - those pressures are less visible in Australia.

“The RBA also appears largely unconcerned by market expectations of inflation rebounding perhaps reflecting the fact that current market-based expectations of inflation are toward the bottom end of the RBA’s 2-3 per cent target range,” Mr Miller said.

Redpoint Investment Management CEO and lead portfolio manager for Australian equities, Max Cappetta, says local economic conditions have made it challenging for those investing for income.

"However it is clear that dividends are returning for equity investors, after the largest contraction in payments in living history.

"The growth in dividends from resources is of particular note, as a result of all-time highs in the price of iron ore. This is being driven by strong global demand as well as production issues in Brazil tightening supply. Our key picks here are Fortescue, Rio Tinto and Mineral Resources.

"Bank dividends too, are on the way back. Government and RBA support has meant that earnings and debt provisions have not been as bad as expected, but new lockdowns are cause for concern. We do not expect them to return to pre-COVID levels until calendar 2023.

"There are also a range of dividend winners over the past year that are growing dividends or looking at returning capital to investors via buybacks. Key examples are in retail - such as JB Hi-Fi which grew dividends in 2020, Metcash which recently announced an off-market buyback and Woolworths which has indicated that capital management may also be on its radar," he says.

With dividends returning, Mr Cappetta adds it is important for investors to look beyond simply choosing high yield stocks.

"There is a cyclicality to dividends over the calendar year, and it is important to align stock selection with dividend capture," he says.

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For more information please contact:

Leeanne Bland
Phone: 0407 470 421
leeanne@pbcommunications.com.au

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$135 billion (as of 31 December 2020). GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors.

Since 2007, GSFM has formed alliances with following investment managers to distribute investment products to Australian and New Zealand clients:

- *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*
- *Munro Partners, an independent global equity manager*
- *London-based Man Group plc*
- *Redpoint Investment Management, a boutique equities manager based in Sydney*

GSFM represents approximately $15.9 billion funds under management (as at 30 June 2021). For more information about GSFM please visit the website: www.gsfm.com.au