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MEDIA RELEASE

Global and local market outlook positive but COVID-19 uncertainty remains

The first half of 2022 will continue to be an uncertain time for markets as the full impact of the Omicron variant makes its mark on the Australian economy – but there are still opportunities for investors, with certain sectors and thematics set to shine, according to GSFM and its fund manager partners Munro Partners, Tribeca Investment Partners and Redpoint investment Management.

Munro Investment Partners chief investment officer, Nick Griffin, says he remains positive on global equity markets in 2022, although he concedes the outlook is murkier than usual.

"Market outlook predictions have become increasingly problematic in the last few years, and 2022 looks to be no exception. However, despite the many unknowns, there are a couple of trends that are now reasonably clear.

"One is that growth will slow. Alas, the world can only re-open once and many businesses will begin the cycle by being assessed against the strong re-opening led numbers they produced in 2021. At the same time, government stimulus will begin to run off, most notably in the US.

"Regardless of economic outlook, our focus remains on identifying sustainable growth trends and the resulting winning stocks. And the trends of decarbonisation, eCommerce or cloud computing don't abate because the macro landscape evolves.

"The key areas where we see positive tailwinds for 2022 include climate - where the race to decarbonise the planet is likely to accelerate as corporates and countries alike start to implement plans to reach carbon net zero by 2050 - and high performance computing - as every major corporate seeks to harness the power of its own data and implements AI across their organisations. This will unleash a torrent of silicon demand that should lead to exponential growth for the key players in the semiconductor industry," Mr Griffin says.

Meanwhile GSFM investment strategist, Stephen Miller, says bond yields have started the year under pressure and that seems likely to continue.

"Notwithstanding the recent increase in yields, bond markets remain at close to historically low levels. More tellingly, the gap between the 10-year bond yield and annual core CPI inflation was close to 4 per cent in December, the highest gap since February 1975.

"Persistence in inflation and a rapid scaling back of central bank purchases could send bond yields significantly higher as bond markets price in that eventuality.

"At this point, inflation continues to surprise on the upside with December readings in the US, Europe, the UK and Canada all exceeding expectations and all close to multi-decade highs. This is not a comforting scenario for global equity markets. However, it must be acknowledged that a more benign scenario has central banks getting on top of inflation quickly and bond markets retaining confidence in central banks' ability to do so.

"The same challenges exist locally even if their magnitude may be slightly less. Of course, the Australian economy is different from other developed economies not least in its exposure to China, but not sufficiently so that the same laws of supply and demand and their effect on prices do not apply here," Mr Miller says.

Pointing to the local share market, Tribeca Investment Partners portfolio manager, David Aylward, says that uncertainty will be the order of the day – at least for the first quarter of 2022.

"Omicron may be a game changer, possibly washing the COVID-19 recession that Australia thought it had avoided up on our shores.

"With previous COVID-19 variants, the government response was to implement a lock-down where everyone stayed home, and when lock-downs were lifted they later came out and spent money. And the government's fiscal stimulus programs ensured there was money to spend.

"From an economic point of view this was a net positive. But it is different this time. With Omicron people either don't want to go out, or they can't go out because they are isolating – and this time there is no government stimulus to support their spending in the economy.

"This Omicron impact will be an important narrative in the upcoming Australian reporting season. It won't necessarily show up in the numbers as yet, but it will be interesting to hear company management remarks on how they have been trading recently, and how their supply chains have been impacted.

"But even with this uncertainty that there will always be opportunity in markets, on the long and on the short side. One such area of opportunity comes from the energy transition.

"The energy transition is going to be hugely inflationary. When you combine that with the likely stimulus program coming out of China over the next six months, we could be locking in a super cycle round two for commodities. This will have significant ramifications for markets.

"A lot of stocks in the mid cap sector will be exposed to benefit from that. And it will be quite a positive for small caps as well.

"Mid and small sized Australian companies can do well in 2022 but commodity-based stocks will need to do a lot of the heavy lifting. A rebound in services can contribute as we move past Omicron, but non-earners and consumer finance type stocks will likely find inflation and higher interest rates tough going," Mr Aylward says.

Redpoint Investment Management chief investment officer, Max Cappetta, says that while the upcoming reporting season is likely to provide a strong overall dividend harvest, investors need to ensure they look beyond high yielding names and look ahead to where dividends will be growing most in the future.

"We are expecting approximately 130 dividend announcements across the ASX200 in the months of February and March 2022 and it will be a mixed bag. It is important to look across the entire market - and capture income across all sectors and yields - because there will always be winners and losers within each of these groups.

"The mining sector was responsible for carrying the ASX200 to a record aggregate dividend payment year in 2021 and remains well placed to provide solid cashflows again in 2022 supported by more accommodative policy in China. However, there are many opportunities in the metals of tomorrow such as copper and lithium and Australia has some great companies with great assets already in production across the globe.

"Those companies benefitting from a domestic consumer unable to travel and move more freely, such as JB HIFI, consumer group GUD and auto retailer Eagers are also likely to deliver strong dividend yields in February.

"We also see the potential for revenue and profit growth in 2022 in the lower yielding healthcare sector from diagnostics services firms such as Healius and Sonic.

"We expect modest dividend growth from banks and financials even though dividends in this sector remain below pre-COVID highs. Investor should also note that the dividends of major banks are offset through the year with Commonwealth Bank being first up in mid-February. This provides a valuable insight into trading conditions for the sector," Mr Cappetta 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$146.6 billion (as of 30 September 2021). 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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- *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*
- *Toronto and Boston based Cambridge Global Asset Management*
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