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# MEDIA RELEASE

## Central banks challenged but opportunities emerging for equity investors

While near term market volatility is expected to continue in Australia and overseas, and the risk of recession looms, it is not all doom and gloom, says GSFM and its fund manager partners Munro Partners, Man Group and Tribeca Investment Partners.

GSFM investment strategist, Stephen Miller, says all developed country central banks were tardy in recognising just how great a challenge inflation would prove for monetary policy.

"By allowing inflation and inflation expectations to escape the realm of being within their ability to comfortably manage without a serious risk of a substantial growth dislocation, all central banks finds themselves in the realm of "least bad" approaches.

"While many central banks, including the Reserve Bank of Australia, have to learn the lessons from '70s style inflation - that any delay in a coherent and firm response to an inflation threat only heightens the risks of more substantial macroeconomic dislocation down the track - it is not an easy task charting a course between vanquishing inflation without tipping the economy into recession.

"History is not replete with central banks executing that task successfully. Given the attendant jolt to current market expectations regarding interest rates, a recession remains a key risk and volatility in markets takes on a more enduring character," Mr Miller says.

Munro Partners CIO of global equities manager, Nick Griffin, says globally there is likely to be more equity market volatility, but growth earnings resilience remains stronger than in cyclicals.

"The opportunities for growth managers are looking increasingly attractive. But although there are some great company valuations at the moment and it is very tempting to put cash back to work, it is important to be patient before buying back in.

"As a growth investor, there are three things we are looking for before starting to deploy cash back into the market. Firstly, and perhaps most important, we are looking for long term interest rates to peak. Rising interest rates are why the market has been de-rating, and this process looks largely done now.

"Secondly, we are looking for earnings estimates to come down. It is clear this will happen this quarter, and also next quarter. We believe it will be hard for the market to look through the challenging earnings estimates without having some comfort that inflation is under control.

"Thirdly, we need time. We know that being patient is important in investing. We are in the middle of a bear market and, looking at the lessons of previous bear markets, history suggests we could potentially be only half-way through this one, so it's important to remain prudent in how put capital back to work," Mr Griffin says.

In Asian equity markets, Man Group's Head of Asia (ex-Japan) Equities, Andrew Swan, says inflation and interest rates are much more controlled in Asian market compared to developed markets, and there are a number of reasons to be bullish on the region.

"In China, policymakers are increasingly responding to a very weak economy. While the Chinese Covid zero policy is likely stay in place, authorities have shown a willingness to ease lockdown restrictions where possible. This points to stabilisation, and in some sectors for earnings revisions to turn more positive.

"We have a positive view on long duration / highly visible earnings and policy support sectors. However, while the Chinese government's verbal support to the tech sector is encouraging, we are remaining cautious on headlines this month.

"Nevertheless, we are expecting a supportive policy pivot in China, which is supporting stability in the region. This structural change and associated policy continue to be a rich source of alpha.

"In Asia more generally, and relative to the situation in developed markets, there are minimal inflation pressures, which bodes well for markets.

"Equally, unlike the situation in developed markets, there is a lack of speculation in Asian asset prices that needs to be unwound.

"There is robust domestic demand in parts of Southeast Asia, notably in Indonesia and Thailand and this is also providing good opportunities for alpha generation.

"Finally, there is improving earnings revisions potential in parts of Asia into 2023, and this will provide good opportunity in markets."

Locally, Tribeca Investment Partners lead portfolio manager, Jun Bei Liu, notes for the first time in over a decade that the equity market is working against both rising interest rates and economic growth fears as central banks, including the RBA, seek to combat inflation at any cost.

"The narrative coming out of central banks is that they will do whatever it takes to ensure inflation expectations remain anchored. However, interest rates are a blunt tool and the risk that the RBA and other central banks go too hard and fast on rate hikes is increasing economic recession fears.

"On the positive side, the recent sell-off in equity markets has driven a meaningful multiple contraction. The ASX trades on a 12-month forward PE of 12.8x, considerably lower than the 18.3x it traded on at the end of 2021 but still above levels that would normally signal the bottom of the market during recessionary periods.

"We think the valuation bear market has largely run its course. But if recession eventuates the equity market is still not priced for this outcome given the downside risk to earnings.

"While earnings estimates will likely follow equity prices lower, they have been very resilient to date given the support provided by high commodity prices, resilient household balance sheets and a weaker currency. These factors should continue to provide support to varying degrees, but corporate profit margins are now under pressure from rising input costs, higher labour costs and now rising borrowing / debt servicing costs.

"It's likely that we are on the cusp of a broader downgrade cycle. We believe the August reporting period should provide a timely reminder that over the mid to long term, company fundamentals are more important to share prices than macro news flow," says Ms Liu.

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*GSFM was established in 2007 as a subsidiary of the Grant Samuel Group. In 2016, Canadian wealth manager CI Financial Corp (CI) purchased an 80 per cent stake in the business, acquiring the stake previously held by Grant Samuel.*

*GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors, and has formed partnerships with six specialist investment managers:*

- *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 is a boutique equities manager based in Sydney.*

*GSFM represents approximately $12.3 billion funds under management (as at 30 June 2022).*
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