# deVere Client Webinar with dVAM Fund Managers - Notes

# Speakers

**Steven Bell, Columbia Threadneedle Investments**

Steven is a Managing Director, responsible for providing macro strategy input to a broad range of multi asset portfolios

**Ian Mortimer, Guinness Global Investors**

Ian joined Guinness Global Investors in 2006 and is Portfolio Manager for the dVAM Global Equity Income PCP Fund.

**Matt Roberts, Fulcrum Alternative Solutions**

Matt is Head of Fulcrum Alternative Solutions. He joined Fulcrum Asset Management in 2018 having previously worked at WTW as a Portfolio Manager for the Towers Watson Partners Fund (2014-2017), before that he worked within WTW's Manager Researcher Team (2005-2013).

**Julius Bendikas, Mercer**

Julius serves as the European Head of Macro and Dynamic Asset Allocation at Mercer. He is part of the team who are responsible for Mercer's dynamic asset allocation decision-making process and the development of Mercer's house view on markets and economies.

**Will Bartleet, Pacific Asset Management**

Will is the Chief Investment Officer and Portfolio Manager of Pacific's range of multi-asset funds. Prior to joining Pacific, he worked at HSBC Asset management for 17 years.

# Topics discussed

- Where do we think interest rates are going?
- Have Central Banks peaked?
- Hard landing/soft landing?
- Company balance sheets; including dividend covers
- Why not just hold cash - what opportunities are our speakers excited about

# Introduction

Navigating these turbulent market conditions presents challenges, but within challenges lie opportunities. Inflation is soaring, prompting central banks to hike interest rates. The big question: have central banks reached their peak? Are we heading for a gentle descent or a steep drop? The trajectory of interest rates will drive a number of factors in terms of where markets head in the coming months and even years.

# Where do we think interest rates are going?

Interest rates have been exerting significant influence on the markets, largely due to Central Banks' responses to inflation shocks. We are currently witnessing one of the most aggressive interest rate hike cycles since the 1980s.

Economists, Investment Managers and Research Specialists agree that interest rates have likely peaked and are expected to remain elevated for longer, to try and squeeze out the remaining inflation that's still in the system. The BOE have referred to this as 'table mountain' indicating that interest rates are expected to remain high for an extended period, according to our speakers.

## Have Central Banks peaked?

Central Banks are close to peak interest rates and want to bring down inflation without causing a recession. Steven Bell from Columbia Threadneedle expects inflation to fall in the UK and Europe over the next six months and a small rise in unemployment which will lead Central Banks to cut rates significantly in 2024 .

# Hard landing/soft landing?

There is much debate and no consensus on whether the economy will experience a soft landing, a hard landing, or something else entirely. Matt Roberts from Fulcrum argues that we need to consider a fourth scenario: no landing. This is similar to the "table mountain" scenario, where the economy experiences a period of stagnant growth and high inflation.

Roberts points out that historical data suggests such periods have been relatively short-lived in the past. However, he acknowledges that living through them can create a sense of prolonged uncertainty. He asserts that we are presently in a state of "no man's land," implying that it will require considerable time and effort to navigate our way out of this situation. However, he also believes that this period of uncertainty presents some great investment opportunities.

# Company balance sheets; including dividend covers.

In the current market environment companies with stronger balance sheets are outperforming peers with weaker balance sheets. This is because companies with strong balance sheets are better able to manage their debt and refinance at lower rates. This gives them a competitive advantage over companies with weak balance sheets, which may have to pay higher interest rates on their debt. Furthermore, companies with a lot of cash on their balance sheets are thriving in this environment, as they can benefit from higher interest rates by investing their cash in short-term securities. For example, Apple Inc. holds more cash than long-term debt, positioning it well to manage its debt and benefit from higher interest rates.

# Why not just hold cash – what opportunities are our speakers excited about?

Compelling investment opportunities have emerged, offering the potential to generate high returns in excess of cash.

The key question is whether investment managers can find companies that can grow. This is important because capital growth is the key to generating high returns. Cash is an investment today, but thinking longer term across a cycle, Investment managers need to find companies that can grow their asset base, reinvest their cash flows, and pay higher dividends in the future.

Capital growth is especially important if inflation stays high. This is because inflation will erode the value of your cash savings over time. It is important to think beyond the short term when investing. Market sentiment can change significantly, as we have seen over the course of this year. Instead of simply buying large-cap US technology stocks, investors should look to carefully select stocks that have the potential to grow in the future.

On a regional basis, Will Bartleet CIO from PAM, argues that Japan is a particularly attractive market at the moment. The yen is trading at a 33% discount to the US dollar, making it arguably one of the cheapest currencies in the world. Steven Bell from Columbia Threadneedle shares the same view adding that Japanese equities also have a higher dividend yield than US equities, which is quite a big change.

**Mercer's central case for next year is that China is an excellent spot as far as cycle is concerned, they have both a huge capacity to grow and stimulate which Mercer believe will lift Chinese equities and the broader EM equities as a result over the next year.**

**Tactically over the next year EM will also be interesting due to the China effect. Mercer appreciate the long-term issues and geopolitical concerns that everyone has, however near term it is an oversold market which has been negatively covered by the media, resulting in the sentiment being too negative, which creates an opportunity.**

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