Speaker 0: Hello and welcome to Asset T V's multi asset master class with me, Mark Colgate as we head for the fourth quarter of this year and look ahead to 2024. What are the outlook for the world's major asset classes, and what's the optimal way of blending them well, to discuss that I'm joined by four experts with me here in the studio. Let's meet them. They are David Coombs, head of multi asset funds at Rathbone. Tara Jameson, she's multi asset fund manager at Schroder. Lindsay Knight, multi asset investment specialist at Bailey Gifford,

Speaker 0: and Trevor Greetham, head of multi asset at Royal London Asset Management.

Speaker 0: David, let's start with you. Can you tell us a little bit about where you see value in the markets at the moment? And perhaps if you blend in a little bit as well just how you run the money as well as how those two things. So you know, we invest directly, uh, into, uh, underlying assets either fixed income or equities or or or derivatives, et cetera.

Speaker 0: And of course, value at the moment is really kind of linked to where you think inflation is going to be. Um, where you, um, think interest rates are going to be. And of course, uh, even today we've seen, uh, inflation coming down in the UK. So over the last couple of weeks, probably in complete contrast the previous 15 years, we found value in fixed income and infrastructure.

Speaker 0: Uh, and in fact, in even looking on the equity side, looking at more interest rate sensitive companies that have really struggled in the last few years as we've gone into this, you know, this incredibly rapid, um, increase in rates in the US Europe and the UK, you know, in most sort of developed economies.

Speaker 0: Now, that doesn't mean all companies have done badly under rising interest rates. You should rush into because some of those companies probably got a high cost of capital and going to do very badly. Nevertheless, there are some sectors that we think may have been thrown out with the bathwater to use old corny expression.

Speaker 0: So we've been buying duration in in, uh, in UK guilts, which I as I say first time since the funds launched in in 2009, we're at, uh, seven years, which is just a little bit under the index. So and that's because we think the the Bank of England overt, and we think interest rates will have to come down quite quickly at some stage. And therefore we think in sort of 15 30 year guilt. There's some value right now.

Speaker 0: On the other hand, in credit or corporate bonds, we're buying two year paper yielding sort of 6 7% plus because we think that's good value over the next two years. UH, versus where cash is today at the front end. So it's corporate bonds, short dated gilts and US Treasuries long dated in equities, starting to look at quality cyclicals into some recover, trying to anticipate some recovery,

Speaker 0: Um, and also some interest rate sensitive areas. Infrastructure, which could be towers, roads, bridges or, um, you know, government contracts. OK, Tara, how how about you? How how do you put the portfolios together at Schroders? Where do you see value? Yeah, so I run a range of multi asset portfolios which are called the Schroder Global Multi Asset Portfolios. And, um, there's five portfolios from low risk to high risk, so that the natural thing we do as a starting point is, is construct a strategic allocation.

Speaker 0: But around that, we then do dynamic as allocation and really our philosophy there is about,

um, valuations conditioned on the cycle. So definitely echo. This point of value depends on what's going on around you. And the cycle is obviously very interesting at the moment because global economies are trying to deal with varying mixes of, um, inflation trying to bring that under control whilst trying to do that, um, alongside keeping growth. OK, so trying to avoid a recession.

Speaker 0: And at the moment we kind of feel like we're in a bit of a holding pattern, and we're sort of waiting for further evidence as to whether we're going back into an expansion or entering a recession. Effectively. Can the central banks pull this off or not? And so, while we do that, we're looking at areas that we can generate carry. So, um, we're looking for yield, but we need to be quite careful about where we do that. This echo some of your points as well, thinking about, um, moving into credit assets, high quality credit, particularly in Europe, where we can

Speaker 0: an additional spread, and we're also staying slightly closer in on the curve because the inversion of the curve and government bond yields at the moment is pretty punitive. You know, you're looking at what cash is yielding. Long data bonds are yielding less, and the curve is actually sloping downwards. Which means that every day you hold that bond, you're losing money from the yield rising. So we're trying to kind of be smart about how we construct that and look for places where we can sit in that asset and earn a return while we wait for further evidence. Thank you,

Speaker 0: Lindsay. Where where are you seeing the value at? So, um, we have a range of multi asset strategies, um, one focused on sustainable, um, investing and the other two which are active, and growth they are. All three are active in growth, and we're investing for the long term.

Speaker 0: So the biggest part of our sort of the fundamental analysis that we are doing is looking out 10 years and beyond in terms of the value on offer from asset classes, looking at valuations today and trying to get a feel for what perspective returns are over the longer term.

Speaker 0: And actually, at the moment we are seeing lots and lots of exciting opportunities, Um, particularly in some of the alternatives that we can invest in. So David mentioned infrastructure. That's something that we hold in the portfolio. We see a lot of value in emerging market bonds at the moment, particularly in hard currency. So we've been moving in favour of holding um a a reasonable amount of allocation to that.

Speaker 0: Obviously, we have to tally up clearly that long term picture with what we think is happening in the shorter term. And and that's where we look at things like scenario analysis and and a number of the points that Tara and David are already mentioned in terms of what's happening in the next kind of 12 to 18 months. And very similarly, we have, um, duration in the portfolio. So we have long positions in US

Speaker 0: Treasuries. We have long positions in Australian government bonds, and we've added in Swedish government bonds long positions in there as well, and that's really just to try and tally up. You know, we want to make sure that we're aligned with the long term, um, investment, uh, themes that are going to play out over the next decade and beyond, but clearly in the in the position we're in just now, we want to make sure that we're balancing that within the port,

Speaker 0: and we're exposed to some of the current positions we think will make money for investors. Thank you, Trevor. What's what's your take of where we are in the, uh, the economic cycle at the moment and where the where the value is. Yeah. Um, so a lot to agree with on the panel here. So? So, in

our, um, governed portfolios and global multi asset portfolios, we went from underweight to overweight equities exactly a year ago. So during the mini budget, panic.

Speaker 0: Uh, initially, we thought that was a short term contrarian trade. But then the markets maintained their momentum into the year end. And since then, we've seen an improvement in business cycle information, particularly in the US, which has been very resilient. Uh, and of course, china reopened from its covid lockdowns, and we had the drop in energy prices, which helped europe. Um, so So we've stayed long equities.

Speaker 0: Um, this does feel at some point, these rate rate rises will have a significant effect, and we will see more significant recessions. Uh, and it's the the sort of wall of refinancing that's going to be doing a lot of the work for the central banks in that regard. Uh, but the timing is very difficult, and the most recent take on the US economy from the Atlanta Fed was that it's growing at a rate of more than 5% in real terms. So I'm wondering, actually, whether there's a re acceleration going on, led by the US,

Speaker 0: you know, business confidence and manufacturing is bombed out could easily start picking up. Um, and we can end up with a situation where central banks go back into tightening mode. We keep thinking we're nearly done, but we're not quite there yet, so we're still underweight. Government bonds. Uh, we've moved recently this year, back overweight commodities. Uh, we're overweight stocks and high yield, and we're nervous about the ultimate slowdown when it comes. But it could be six months or a year from now, after another big wave of tightening. If you're, um

Speaker 0: and I don't be simplistic, but if if you sort of take as if this was a party, you said, actually, we we could stick around for another half an hour or so, but at some point, we really should get home. Uh, what are the signals that it's time to start having a little bit less fun and getting your belongings together? Yeah. I mean, I think that you've always got to keep more than one scenario in your head as a fund manager, you know? And so you can't get too wedded to a particular, um, single outcome. Um and so I've been sort of talking quite a bearish story about the party is about to end. You know, well, being overweight equities

Speaker 0: for the last year because the the data we're looking at the real time data is certainly saying it's not happening yet. The main thing I look at is unemployment in America. It's starting to edge up. But the interesting thing and that's is that's because more people are coming into the labour force. If you start to see job losses in America, um, and it will happen in a very short space of time. Often these these recessions hit in six months worth of job losses, and it's done.

Speaker 0: You know, you'll know it when you see it So the sort of data we're looking at is more to do with labour market behaviour. Um, mainly in America elsewhere. We're all teetering on the edge of recession already, Really? But there is a possibility that America pulls off first off landing or a no landing because, um, wage inflation is coming down. Inflation is coming down.

Speaker 0: Um, the Fed could backpedal and offset that extra tightening that's currently built in through refinancing

Speaker 0: and and you could have a soft landing in America. But what I'd really emphasise is that if there's an American soft landing, it's great for Wall Street, and it's probably great for the dollar, but it doesn't get us all off the hook, because if you suddenly see AAA strong dollar and a weak sterling and weak euro, it's more inflationary over here. And we don't have those same labour market dynamics. So I

still think there's trouble coming, but maybe it's more desynchronization than we used to.

Speaker 0: Well, you you mentioned that the sort of the heart or the soft off landing Can I get your thoughts on that? What sort of the signals are particularly for the UK? Because it doesn't just have an impact on investment. I guess if you're an advisor that it's gonna have an impact on what your client's sentiments are. And feelings about risk and reward are, Yeah, definitely. And I'd echo a lot of the points that you just said, particularly about the US consumer and the labour market and desynchronization. So

Speaker 0: you know, to comment on what we look at completely agree. The labour market in the US and the consumer has basically been this growth engine. That's kind of kept the US going. One of the themes we're talking about at the moment is actually one of regional divergence. And that's where the kind of differences come in between the US and the UK and,

Speaker 0: you know, broadly speaking, most central banks around the world are dealing with. I mentioned earlier high inflation and trying to get that down whilst keeping growth going. And the UK specifically has probably got one of the most challenging paths that they need to tread there. They've got the highest inflation, really, and last month they had negative growth, so it looks pretty challenging and we think the Bank of England actually needs to do a bit more. We think that the Bank of England will probably get to around 6%

Speaker 0: it. It's starting to get on touchy territory and and, you know, that's why they've got probably the narrowest path that they need to tread of all the central banks around the world. But what I would say for our clients is that yes, it drives sentiment here in the UK. But actually, the portfolios we're running are global, and a large part of that comes down to the US. We have significant allocations there, too.

Speaker 0: Um and that's, you know, one of the reasons why, over the last couple of years, we've actually been moving to more of a global strategic allocation. So, um, at the start of 2022 we actually took UK guilts out of our strategic allocations, and we've moved to more of a global focus. So I think for our clients, it is important what's happening in the UK, but also what's happening around the world. Thank you,

Speaker 0: Trevor. You said earlier I don't wanna pick up your point about there's going to be a wall of refinancing, and I think that that plays into this issue about leads and lags of of interest rates. So

Speaker 0: when does that hit and again just thinking specifically about the UK economy? Well, everywhere you've got these leads and lags. But, um, basically been so few interest rate cycles in most investors careers that you know people aren't really used to it, and you've got to be looking at analysis to sort of try and figure it out. But I was always taught that, you know, monetary policy takes something like 12 to 18 months to take effect. So by the time you've done enough, you've done too much,

Speaker 0: because by the time the data is weakening, there's loads in the pipeline. And that's more so than usual because of the fact that now we have 90% of people on fixed rate mortgages in the UK and 2 to 5 years typically and so some some people have refinanced already and already in pain. Other people aren't yet and and the Bank of England can do this sort of table mountain profile where they keep rates roughly where they are, and it's effectively like they're still doing rate hikes because those people are still refinancing. Um, the revolving finance will already have hit,

Speaker 0: but Corporates basically got to get out of jail free card and covid. You know, when the Fed said they would earmark a trillion dollars to buy corporate bonds? Every you know, Treasury, Treasury? Um, uh, manager in a corporate just refinanced, and all the junk bond market is now refinanced out. They're not having to refinance their loans until 25 67. Mostly, um, and so it's very long lags and such an IMF report on this. We looked across different countries through time, and they found that the more

Speaker 0: developed a financial system was. I think they're thinking about fixed rates. The the longer the lags of monetary policy are. So I still think all that stuff is still to come. But you know the US strength if if the US can decouple a bit from what else is happening in the world and bear in mind. In America, mortgages are fixed for 30 years, so there's a lot of insulation from interest rate rises. More than half of the S and P 500 companies have an average term of their debt of a decade or more, so there's a lot of insulation actually

Speaker 0: um, you could end up with a very strong dollar, so it's been trying to make his mind up for a while. But if you get a very strong dollar, um, our favourite market at the moment is ja Japan on a currency hedge basis, and we think that could really continue to fly. So what you're seeing here is yes, The US is doing well. We're overweight at the US. Um, but Japan is benefiting from that continued yen weakness. They've got negative real interest rates still in Japan. And if you buy the Japanese stock market and as we can do, hedge out the currency exposure or even go the other way and be underweight at the yen,

Speaker 0: that's that's your sort of levered play, I think on America and the dollar. OK, thank you. One question. I do want to come up because I I if I'm talking to advisors, it comes up quite a lot is it's getting quite difficult to get clients, in some cases, out of out of cash and into markets, because you're getting a very good rate of return from certainly nominal from from cash. Um, Lindsay can can I come to you on that. First, are there periods where

Speaker 0: Actually, if you're getting a good risk free return from bank accounts, you'd be mad to put in the markets. You know, how much more return do you need to get

Speaker 0: for the risk that's out there? Geopolitical, inflation, interest rate, I mean, at the moment, given what we've had for the past decade or so, you can see why people are excited by suddenly getting some kind of return on cash. Um, it all comes down to time frames. There is nothing wrong with if you are particularly pessimistic, of course, in in, in benefiting from getting some return on cash. Um, because we are always thinking about that long term for us. We would hold cash

Speaker 0: strategically. Often, we do think of it as an asset class actually in in itself. Um, and that would be predominantly because we think there's more value to come in the market. So we would have that as dry powder, and we'd be able to deploy that, um, which is fine for us because we're looking to to invest for the long term. Then that's right, because we want to use it strategically. But as I say, I mean, I think it's It's down to everybody's time frames and and risk preferences, but you can understand why it's attractive option at the moment. Did you want

Speaker 0: Yeah. Yeah, I think the thing about cash is it seems like a safe asset in the short term, but it's probably the riskiest asset in the long term. So if you look back since the financial crisis in 2008, if you'd had money in a bank account earning base rates, which you'd be quite lucky to get, and you just kept accumulating it, you've lost a third of your wealth in real terms through the asset class, which is

shocking. It's worse in the 19 seventies. Uh, you think about the last year? You know, inflation up to 11. Base rates went up. They didn't go up to 11.

Speaker 0: Um, so I think they're very vulnerable in cash to further inflation shocks. The oil price is now rising again. Um, I think net zero is a is a real thing, and not every country will keep pushing out their commitments. Hopefully, um and what that means is that you will continue to see quite tight markets for commodities, and I think there's a lot of inflation still in the air. So over the long run, cash is dangerous because of the inflation risk. Uh, in the shorter run. You know it can be a good defensive asset class, obviously, if there's a big sell off.

Speaker 0: But I, I tend to think if there's a soft landing in America, you're better off in stocks. And if there's a hard landing, you're better off in David's David's guilts. So it's, you know, I can't you know, tactically, I can't get that excited by cash, even with the rates where they are. But they take that on, people might counter and say, Well, absolutely right what you said about, um, being in cash, uh, with inflation is higher than it. But inflation is higher than the returns you've been getting from quite a lot of markets of, of of, like, you look at inflation over three years.

Speaker 0: If if you could have invested in that, you'd have, you'd have felt quite chipper. Yeah, it's interesting, isn't it? Because I've taken my cash down to lowest levels, probably in a decade, and which sounds counterintuitive, but you asked The first question you asked me was, Are you seeing some value? And,

Speaker 0: you know, for for I don't know between like 2009 and 2019, equities was the only game in town, and I had a lot of cash because unless I went all in equities and blew out my risk budgets, it was really difficult. Then we had negative yields on bonds. If you remember for a little while, I think around the covid time. So when you think about assets competing for place in your strategy,

Speaker 0: no one was really pushing equities out of the portfolio. Now I'm finding there's lots of value in lots of different asset classes that weren't really open to me until the last couple of years. And so, of course, what happened is a lot of asset classes are already starting to reflect that higher cash rate, you know, mentioned short, short dated, high quality corporate bond funds. Funds bonds are yielding 6.5 7%. So why would you hold cash? You can lock in for two years, 6.5 to 7%.

Speaker 0: And so and then, as I say, if if If I'm right on the recession. Big if you're gonna make quite a lot of money on guilts over the next 12 months. Potentially. And it's then mainly as a hedge, because I think the growth will come from the US equity market. But nevertheless, you'll make a lot more money from the 30 year guilt and you will from cash if we go into recession, uh, over the next, um, few months, obviously, if the UK. Goes into stagflation

Speaker 0: different story altogether, So ironically, and I'm getting paid 5% of my cash in the fund at the moment. So you think we just sit and wait? But actually,

Speaker 0: you know, I'm seeing you know, a lot of infrastructure companies on big, big discounts. They've been hit really hard. Share price is down 2030 40% this year. And I've been waiting for a decade to look at some of these asset classes. So I'm I'm spending the money now, OK? And, uh, I mean, in terms of benchmarks, uh, what what do you use as a performance benchmark on the Schroder

Speaker 0: Range? Is that inflation or no? So our formal benchmarks are actually peer groups, so things

like the investment association, um, peer group sectors. Um, what we actually do when we're managing the money is we think about building up a strategic allocation, which is our kind of long term thinking where we think we need to be in order to deliver a given long term risk and a return objective for a given client.

Speaker 0: Then around that, as I mentioned, we do dynamic as allocation. But I think you know cash rates where they are does change our thinking a little bit when we're thinking about that dynamic as allocation and effectively, what it's done is created a higher hurdle for moving into other asset classes. Now, as David says, that doesn't mean that there aren't opportunities to go into other asset classes, and you want to look for the areas that have priced in that risk the most. And,

Speaker 0: you know, I mentioned earlier about the fact that the long end of the government curve is inverted. You're yielding less than cash, and therefore you probably want to be close to the front end, where those risk looks like look like they're better priced. So you know there are opportunities, but I think you just you want to stay flexible, you don't want to lock your cash up for a long period of time and then see opportunities come along and you sat in a in a particular cash rate and you can't move out of it into other asset classes, necessarily. So,

Speaker 0: um, you know, keeping options on the table and and remembering that cash rates are just spot rates, they're not actually an expected return over the long term. It's funny, actually, just coming back linking these two points together, Really? But we have a strategic asset allocation for our global multi asset portfolios. We don't manage to the peer group, and sometimes we're very different from the peer group, particularly with things like commodities and, you know, more inflation hedges. But, um, what was what's kind of interesting is on on on our most recent strategic change, we we actually cut cash quite a lot

Speaker 0: and added to bonds. And this is because, um, you know, two or three years ago when we had that those very low yields on bonds, they were return free risk as far as we saw it. And now you you know, we we expect on a five year rolling basis Gilts to be returning a negative annual return.

Speaker 0: Um, all came in one year. Um, now we're expecting guilts to return 5% or 6% which is decent. So the cash has gone down, the guilt and the duration has gone up in our strategic mix. So if if anything, we've reacted to the the rising of interest rates and actually reducing cash and increasing guilts because we get more negative correlation there more resilience. And we think if, um, interest rates are close to a peak when the interest rates come down, you'll make a lot of money because of the duration effect on the longer dated bonds. Um,

Speaker 0: Lindsey, I want to get you because you've alluded a couple of times to taking these long term views in the market. So, um, we we spent the first half of the programme thinking very much about the the next sort of 6 to 12 months and positioning. But what are some of the long term themes that you're looking at and want to get exposure to?

Speaker 0: Um, one of the biggest themes that we are seeing at the moment is clearly the drive to a more sustainable future. And by that specifically talking about, um, the electrification We've talked earlier a little bit about, um, Tesla's when we were before the programme. Um, so we think that there's a number of ways that we can get access to that long term theme. And we think that if we continue to see um, spend, um, that will be required on particularly infrastructure. In order to change the infrastructure

Speaker 0: set up from the existing fossil fuels, um, to to to renewable sources, for example, there will need to be a lot of spend to make sure that it's fit for purpose. Um, so for that reason, we do have, um, exposure to to power and utilities as well as the renewables themselves within infrastructure.

Speaker 0: Um, and another area that we are seeing, um, opportunities again in that particular theme is within commodities. Um in particular, some of the metals which are used within the electrification process, whether it's in battery technology or or others. So we're seeing, um, we recently added copper, for example, into the portfolio, which is relatively cheap, um, in terms of the the demand supply dynamics. So we thought,

Speaker 0: there's there's something to go for there, and we think that the demand will only continue to grow. So that's one big theme that that we're looking at. There are a number of other ones that we can express looking at, You know, the continued and deployment of things like artificial intelligence. What does that mean for efficiencies? Um, a lot of that will be expressed through the equity holdings that we have within our our active equity, um, funds that we hold within the the multi asset portfolios. So there's a few things there that we're thinking about on the sustainability one. How how do you

Speaker 0: look to size that as the best in the portfolio? And the reason I ask is I would say the last couple of years everyone was talking a lot about sustainability, and it's gone quite quiet on the back of it. Um, we were doing some filming recently ahead of cop, and I got a bit of a sense from my interviewee that

Speaker 0: perhaps there have been more promises made in Paris than had actually been delivered so so far that was going to be a theme of the fourth coming one and then behind it with sort of US China relations, you get a sense that people are bringing up industrial policies. There are some things that are going to be more important than economic return. There's just there's just a flavour of

Speaker 0: of that in the air. So how does that fit with with the with your, you know, the view that you've you've got the investment view and how How do you shape that, given those you know, those potential things on the horizon? I think a lot of it is about being alive to the ongoing conversation right here. And we've seen that the conversation around about sustainable, future and and ESG has been, um, evolving so quickly over the past five years. And even in the past couple of years, we've seen that, you know,

Speaker 0: conversation is changing all the time. So for us, the most important thing is just to be aware of all of the inputs into that and to make sure that we're not being too blindsided, um, in terms of having just an exposure that may have risks associated. And so that's where when we look at our scenario analysis, for example, we want to think about the opportunities. But we are thinking about the threats as well, to make sure that that we aren't exposed too much in a risk. Broadly, though, we don't think it's a trend that's going to reverse. I'd be I'd be surprised if it reversed who so

Speaker 0: within the portfolio, we still think that there are some of the asset class exposures that we have that are definitely, um, looking as if they will deliver good returns on the back of that and to you mentioned a couple of times strategic asset Just looking at multi asset universe in the round. I mean, a lot of these are products that were developed during this period of very low interest rates and inflation. Uh, you know, the strategy got set back then. How do you make sure that what you've got in place now fits with what feels a rather

Speaker 0: different world? And what's what's evolution and what's suddenly, you know, changing your style in reaction to events? Well, the the QE era was basically your perfect concoction for your sort of typical 60 40 portfolio, and it sort of meant that you could be pretty lazy to be honest, and you could just hold your equities and your bonds and you had negative correlation. You had a diversified portfolio, and that was perfect.

Speaker 0: I think what's really critical now is probably two things. One is that you need to be reviewing those strategic has allocations. They they do tend to be slow and moving, but they should respect structural changes. So, you know, for example, as demographics evolve as we've got, um, a global drive to decarbonisation, there are going to be specific economies that are more exposed to that.

Speaker 0: And, you know, if you think about the UK, it's becoming a much less favourable place to do business. We've had less companies listing here. We saw on the chip maker list in the US the other day rather than the UK. So perhaps that changes the opportunity set here in the UK.

Speaker 0: And despite the fact that you might be a UK investor, actually, perhaps it's more appropriate to have a global opportunity set. So we review our strategic allocation every year. We work very closely with our economist team to review their 30 year forecast and to kind of acknowledge those structural changes. And I do think that your strategic allocation needs to evolve with that,

Speaker 0: then the the second thing is then being dynamic day to day. You know, markets change the whole time and you can't expect your strategic asset allocation to be perfect day in, day out. It's got to be part of an ongoing process. And we're the same on that. Because for some people, strategic asset allocation is product design and it's fire and forget. You know, this is our 60 40 fund. It's always 60 40. It's passive Rebalances,

Speaker 0: Yeah, I think you've got to keep thinking about it, and it's like painting the fourth bridge and sometimes you know you're kicking the tyres and actually you don't need to do very much adjustment. But sometimes you get a year like 2022 when the entire foundation of interest rates changed and you have to react to it. Just just one quick thought to, I mean question. You were talking about the importance of going global, but we've had from the chance of the mansion house speech which has been basically saying to the asset management industry quite gently, but he puts more money in the UK

Speaker 0: and then I look at a lot of what asset management says, certainly on the pension side, and they say, Well, the pension we've got to pay everyone isn't just about the pound, shillings and pence we pay out. It's the quality of life that everybody has around them. That's quite fuzzy. Hard to put your finger on. Is there a chance that I actually down the line? People say, um, you need to invest more in the UK because part of it is gonna be the world that all of your investors are in and they're they're British, they're gonna be living in the UK. And if they're sat in

Speaker 0: something that feels more like Argentina than Singapore to to quote. But But they've got a lot of cash, it's not gonna help them very much. Well, our job as fund managers is to do best by our clients and the objectives that they they give us. So you know, we need to be focusing on generating a return for them and managing risk for them.

Speaker 0: I think the point that you're bringing up is kind of a broader framework of the environment that we that we construct in the UK and I think in order to, you know, encourage fund managers to, you know, come back to the UK and maybe focus on UK companies more. They they need to make it more

favourable to do business here. You know, we can't have large UK businesses choosing to list in the US rather than the UK. And still expect US fund managers to go and buy that the UK market is supposedly the best opportunity we have to do the best for our clients.

Speaker 0: Well, let's move. It's a bit a bit gloomy, so let's go to the States where everyone agrees. It's, uh, it's it's running hot and it's fabulous. Um, David, I want to pick up on that point because you you were talking about, you know, the the I mean you you've all we've all been talking about this sort of the economic growth and so forth. But is there a bit of a downside? Is there a danger? The US economy is just running too hot. Yes, of course. I mean, they do have some structural advantages in that they have the dollar and

Speaker 0: and the US treasury market just keeps on, you know, you can stick a keep issuing bonds to to facilitate the spending that the government is currently doing and going back to the sustainability point on. On the positive side. Clearly, what what Biden has been doing through the, uh, the Inflation Reduction Act is investing in sort of green technologies and subsidising them that in itself short term is, is, is is kind of great because it's it's providing the fuel to the fire you. But those subsidies could be taken away, and and

Speaker 0: in the UK, we're going the other way. At the moment, we're we're taxing people a bit more like, for example, and taking money out of the economy, whereas the US is putting money into the economy. So even within this kind of, um, move to net zero companies are companies, countries are decoupling, and that's a really important thing. And and when it comes to investing,

Speaker 0: you know, it's as Tara is saying. It's not our job to, uh, to invest in UK PLC. What the governments have to do is enable us to do so is to is to support those industries. But we have to have faith that you can have a consistent approach at the moment There's probably very little faith from investors

Speaker 0: that the UK has a coherent strategy on energy. For example, look at what happened with the wind fund. Uh, the wind, um, contracts. Recently, there were no bidders That tells you there's a huge lack of faith and credibility in UK policy at the moment, and it's going to take a big change. Uh, you know, we messed around with pensions policy constantly every budget, right? So

Speaker 0: I think what the government has to do if he wants to get the UK. Stock exchange and us excited about the UK to invest, then a little less of them right, and a little bit more of encouragement. And then maybe we might change our mind. But at the moment, why would you So so can I just jump in? We we actually do have a bit more than the UK than most of our competitors. We've had got an additional element of our equity exposure in the UK. It's about a quarter of it,

Speaker 0: um, and that's deliberate because we see the UK is having a lot more value. So if you look at, you know, cyclically adjusted price earnings ratios in America they're very, very high. They came down a lot in 2022 but they've gone right back up again. Um, so we think there's a bit of a value tilt there. It means we're a bit more diversified in terms of sectors we also have amongst our real asset portfolio UK commercial property, which in the long run has performed as well as UK all global equities.

Speaker 0: Um, in the last 12 months, not so much. It's down about 20% from its highs, but maybe it's one of the asset classes that is trying to price in a recession. So I think there is an element to which,

actually, the US is very hot. But it does feel to me a little bubbly as well that you know if if they end up having to tighten further than expected because their growth is just too strong for inflation to come down to 2% the oil price is now rising again.

Speaker 0: Um, I still worry that you'll get another 2022. You you mentioned a little earlier in the conversation, Trevor, that there's one reason that the unemployment rate looks like it's going up as more people coming into the workforce. Is that younger people coming in? Or are these some of the workers that took themselves out of the picture in Covid? Because we had a big story that, you know,

Speaker 0: wasn't their unemployment in the States? I think a lot of people just don't. I'm not totally up on this. But I think in the in the US it across the board, this this additional number of people coming in whereas the UK specifically was the over fifties that went and didn't come back. So the US didn't have quite that same effect. It was a different sort of demographic, and it's only really one or two months. So far. It's very tentative. This idea that, you know, people always want to look for that little chink of light where, you know, maybe we can avoid the the obvious thing of a recession.

Speaker 0: Um, and I'd like to see a lot more months of of an increase in labour supply to really believe that could give us a rising unemployment rate without any job losses. Sounds a bit counterintuitive, but if it were to happen, it brings inflation lower. One of the investment banks has referred to it as immaculate disinflation.

Speaker 0: You know, can you actually have disinflation without needing a recession? I'm still quite sceptical about that, and the market at the moment is very much priced for that no landing scenario. So I think, you know, we we're mostly favourable. I think we're all possibly favourable on US equities at the moment. But I think you do have to watch that labour market quite closely because of,

Speaker 0: you know, when it cracks, it can crack very quickly, Thank you. We've got about five or six minutes left and we spent a bit of time talking about the world's largest economy. So to get a little bit of sense from you, all of what's going on in the world's second largest economy, China and what consequences that might have for for us, as as investors. Lindsay, can I Can I get your sense on that? Because I know over the years Bailey Gifford has been was very early into China and saw the opportunity.

Speaker 0: I get a sense of the house has perhaps pulled back a little bit since then, but I think that everybody would probably agree that the coming out of Covid has been disappointing in terms of the economic, um, activity that we've seen, because we, you know, we had restrictions for a lot longer in China. I think everybody was poised for that to come, come come away. And then we would be back to the races. And clearly that has not manifested itself, as perhaps we might have expected.

Speaker 0: Um, so, yes, you're right. We probably have less exposure to China. Now, we do still have exposure to China. Um, even if growth is is a lot lower than it's been in the past, we still expect China to grow and to be part of that global growth picture. So I think it would be remiss if we didn't have any exposure at all. But we definitely have got less than we've had in the past. We're actually looking at,

Speaker 0: um, some of the other Asian economies, um, in that area. So we, for example, we have exposure to Asian high yield, which hasn't done well a large part of that to do with the Chinese exposure, particularly the property debacle that we've seen there.

Speaker 0: Um, but we also have exposure to the likes of Indonesia to Malaysia. Um to Thailand. So I think in the region there's lots to be excited about. But there's there's we've probably pulled back a bit on China. I think that's that's fair to say, David, I think China is more complex than ever. And you know, we spent a lot of time trying to unpick you know what? What is he trying to do with the economy?

Speaker 0: You know, the recent crackdown in in the health care sector, pharmaceutical and med medical technology sectors where they're trying to stop, you know, bribes and fraud and and fraudulent activity in, in, in in fulfilment of procurement. Sorry.

Speaker 0: Now it's hard to argue that's a negative policy stance. But clearly it's had a big negative impact on on investors sentiment towards China so that there's clear crackdown in certain sectors on bad activity. And we we ought to really welcome that. But short term that can be painful, and we saw in the educational, private sector a couple of years ago they just cut it down completely and those stocks went to zero. So

Speaker 0: you've got a very interventionist government, and that sounds obvious. But part of that is, I think one of the questions is not just is it. Is it an example of rooting out corruption? But is there a political game? Well, this is what we're trying to understand, correct? I mean, you know, reducing, um, screen time for Children, for example.

Speaker 0: We just hit 10 cents price, et cetera. So what we're really what we are seeing is a lot more intervention, some kind of social intervention. II. I don't mean socialist. I mean social interventions. And you can argue that it's good or bad. And some, perhaps some parents might agree with that stance, you know, But it what it's telling you is the country risk is higher

Speaker 0: than it was maybe five or 10 years ago, and it was. And and I think people got a little bit complacent on China and said, It's going to be a Western type economy, and we take the country risk factor away. Well, it's back. That's number one. And so you have to take that into account. When you think about valuations, I also think obviously, you know, there's a big problem in the property sector. You know how robust is the financial system around that? Will we ever know so As always, information transparency is low.

Speaker 0: Um, so I think China is a really difficult place to invest in in any great enthusiasm. Right now, we own a couple of stocks in In in Hong Kong that exposed China. We're also nervous actually about, you know, Western or sort of, um, developed countries companies, the estate Lauder, the McDonald's, the young brands. You know, Nike's who is, You know, where China is seen as a growth area. You know, we've recently seen the Huawei Apple story, for example. So

Speaker 0: you know that is to me in some ways is even more worrying if because when you meet a lot of CEO S of of companies in the in Europe and the US and and and and Asia et cetera, you know China is this big growth market isn't it's been big where a lot of, um, consumer staples or big growth coming Well, what if it isn't? And I think we just need to really

Speaker 0: sit back and look at China in a very different way to how we and all the all the domestic people that we speak to domestic strategists that we speak to that are allowed to say what they think are unremittingly gloomy at the moment, and it does feel like China is the new Japan. You had the 1990 bubble in Japan. You had the early two thousands bubble in China. There was a year when the stock market trebled. And then,

Speaker 0: you know, when the GFC hit, they did this massive splurge and they overbuilt the capital stock. And they're just suffering that pain of an overbuilt capital stock now. So you know, Japan's our favourite market. Asia, Asia and emerging markets are our big underweight at the moment. We just don't see a big positive surprise coming out of China. And so what are your thoughts around, particularly if there are

Speaker 0: and there are. But if there are, I mean because David's alluded, it's such a large area, it's it's much tougher to take a view than you know, a nation of 65 million people. But if there are problems in China, is is the West sort of hermetically sealed from those that they're just problems going to happen in a sealed room? Or are there some negative consequences you can see flowing out to to, uh,

Speaker 0: to Western markets and investors. Yeah, so China is in a bit of a sticky situation, to be honest, because they've got two objectives GDP growth and financial stability. And unfortunately, given the nature of their growth, which is very credit dependent, it's pretty hard for them to achieve the two at the same time.

Speaker 0: What they're trying to do is sort of move from an economy that's driven by exports to a more consumer driven economy, which is obviously a lot more domestically focused, and they have been starting to make that shift. So I think that's what's gonna drive kind of the impact of China and the rest of the world that clearly they're still a massive economy, so they will have an impact. But I would say at the margin

Speaker 0: their impact on global growth and inflation or deflation is probably lower than it was previously. It's not going to be like a 2015 style Chinese stimulus that drives global growth and the global trade cycle. I just don't think that that's gonna happen today, right? Thank you. Now we're almost out of time, so just want to get a final thought from each of you. It's covered a lot of ground, but there's a lot more we could chat about. So there's one key thing to leave viewers and investors with today.

Speaker 0: What would it be? Um, can I start with you? Trevor? I'll work my way up the line. Well, I'd say there's no such thing as passive in multi asset. You might think you're being passive with fixed weights and equities and bonds, but that's an investment decision. So you got to have a broad range of asset classes. Um, inflation is back in the system. Interest rates are back in the system, and that means short business cycles. So be be tactical as well. Thank you.

Speaker 0: Not not dissimilar. I think that, you know, we are seeing lots of exciting opportunities out there. Whilst we've been quite gloomy about the the the sort of near to medium term, we think over the long term that that that we're seeing some great value in asset classes. So I agree it concur. Broad opportunity sets quite important and not taking asset classes at um surface level. So actually the active element is really important. So going beneath that and finding the individual opportunities available

Speaker 0: than asset classes, too. Thank you. I would say we have to remember that in an inflationary environment, the correlation between asset class is gonna is gonna change the whole time. We're not in the QE era anymore. We can't expect the correlation between equities and bonds to be reliably negative. So we need to think more creatively. And we need to look to things like commodities, which have been mentioned a few times today, which actually can have some good diversifying properties to equities when inflation is high.

Speaker 0: David? Yeah, II. I was chatting to somebody the other day who said that, Um, you know,

when we when we get back to normal with, you know, interest rates back below 2% And, um, how old was younger than me, which doesn't actually narrow it down very much. But, um, look, having been in 40 years, I know it looks impossible, but it is. And, um, this is the normal We I think we are back into a world of economic where

Speaker 0: I don't think we'll have this uniform. I think globalisation has kind of peaked and we're seeing more protectionist policies, which we didn't really talk about today. But so this is the new normal. We are going to see more volatility in interest rates. We're going to see more volatility in asset classes.

Speaker 0: But actually that really excites me. And and that sounds cheesy, but actually from doing this job from just being beyond only able to invest in equities. All of a sudden, we've got lots of asset classes open to us, and I think this is going to be probably a really good opportunity for active managers to finally push passive to one side.

Speaker 0: We'll leave it there on that note. Thank you so much for watching Do stay with us. We've got some information coming up in just a second on how you could potentially use this as part of your structured CPD just reminds me to thank our fantastic panellists today. David Coombs, Tara Jameson, Lindsay Knight and Trevor Graham from all of us here. Goodbye for now,