

# weekly digest

momentum

Week ending 19 November 2017

global investment management

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## Pop goes the easel

One frosty morning a few weeks ago I was fortunate to have found myself in St. James's in London and had the opportunity to view *'Salvator Mundi'* on its whistle stop world tour ahead of its auction in New York last week. Tempting as it was, I decided not to bid, but such auction viewings provide the public a rare sighting of priceless works of art. Indeed, I doubt that this recently rediscovered 500 year old Leonardo da Vinci painting will gaze down on the public again anytime soon. After a gasp-inducing final incremental bid of \$30m, the gavel fell at an all-in hammer price of over \$450m. Remarkable!

High prices are not unique to the art world, however, and what drives asset prices higher can be attributed to many differing factors. In the case of this particular painting it is its rarity that lifts it to such lofty heights (and a commendable marketing campaign to elevate its cachet within the billionaires club). It should not be that surprising to us though that this painting set a new world auction record. Asset prices across the world have risen consistently in recent years as the tide of cheap money has lifted all boats. We think of quantitative easing as a tool that is somewhat confined to the listed financial markets but the truth is its reach goes far beyond stocks, shares and houses, and those with the most money have been some of the largest beneficiaries of this wealth effect. Not everyone likes the same art though which also befits the world of stocks and shares. What is attractive to one investor may not be to another. People assign value in different ways. This is what makes any marketplace work. It brings buyers and sellers together. Indeed, there was much difference of opinion on the desk as to the aesthetic beauty of *Salvator Mundi*. Some assets are valued for their income, some for their safety, some for their future potential and some for their beauty. This painting was also prized for its rarity, being one of perhaps 20 paintings known to be by da Vinci's hand. Dmitry Rybolovlev must be pleased with his return; the Russian fertiliser salesman reportedly bought the painting for \$127m in 2013.

Whilst \$323m might seem an absurdly high profit in just the last four years (~\$273m less his fees), the ~35% annualised return is almost identical to what an investor would have earned investing in Facebook or Amazon over the same period. Leonardo could teach Mark Zuckerberg or Jeff Bezos a thing or two about staying power. People might say it's a meaningless comparison though and too short a timeframe. Perhaps. So let's go back to 1958 when the painting was sold for a seemingly paltry £45, or \$126 at the rate of 2.8 dollars to the pound prevailing at the time. Discount last week's \$450m price tag back to its price in 1958 and the painting has annualised a return of 29%, such is the power of compounding. Warren Buffett's 21% pales next to Leonardo. But it's *only* twice what an S&P tracker would have given you over the last 5 years, a return perhaps not as unattainable as most people might at first think (though doing it consistently for Buffett's 50+ years is commendable).

Time is an important consideration for any portfolio. The longer the investment horizon, the more tolerant an investor should be of adverse price movements and illiquidity premia. Consequently, an investor with a longer term outcome should be able to take on more risk in their portfolio, and is able to compound that extra return for their long term gain, thus increasing the likelihood of attaining their financial goals. At Momentum this is what we strive to achieve; helping our clients on life's financial journey. Now let's be clear, we don't invest in fine art - it is not a liquid asset class - but we do incorporate alternative sources of return into our portfolios to create more diversified multi asset solutions. The figure of Christ in *Salvator Mundi* balances the world in one hand whilst crossing his fingers with the other, in a sign we typically associate with good luck. That approach might work for some, as it did for the prior owner of this painting, but building truly diversified solutions that stand the test of time is as much about science as fine art.

## The Marketplace

- US House of Representatives passes tax reform bill
- German coalition government talks break down
- Zimbabwean military forces seize power from Mugabe
- US CPI inflation surprises on the upside at 1.8% YoY
- UK unemployment remains at 42 year low of 4.3%

## Market Focus

### US

- President Trump has made further progress to implementing major tax reforms after the House voted 227 to 205 to pass its proposed tax reform bill.
- Measured by the VIX index, US equity volatility spiked during the week with an intraday three month high of 14.51 on Wednesday.
- US Core CPI Inflation was higher than expected, rising 1.8% year on year versus a 1.7% consensus. This follows six of the last seven CPI inflation readings missing expectations.
- During the week, US equities fell 0.1% while Treasuries rose 0.3%.

### UK

- Unemployment remained at 4.3% with the number of unemployed falling by 59,000.
- CPI inflation in October remained at 3.0% year on year, a five year high. On a month on month basis inflation missed expectations at 0.1% versus a 0.2% consensus.
- Average weekly earnings in September beat expectations at 2.2% year on year versus 2.1% expected. Despite this, real weekly earnings growth remains negative with September CPI inflation at 3.0%.
- Bank of England Governor Mark Carney noted that interest rates will likely rise 'a couple of times' over the next few years if the economy progressed in line with the Bank's forecasts.
- UK equities fell 0.6% during the week, while Gilts rose 0.5%.

### Europe

- Late on Sunday evening, negotiations to form the next coalition German government failed with the FDP leaving talks, citing major differences with the Green party.
- The final reading for Eurozone October CPI inflation was unrevised at 0.1% month on month with the year on year reading at 1.4%.
- Eurozone September trade surplus increased to EUR 26.4 billion, the highest Eurozone surplus on record for a September month.
- The IMF upgraded its economic growth outlook for the Eurozone, with 2017 GDP growth expected to be 2.1%, up from a 1.7% forecast in April.
- European equities ended the week down 1.1%, partly due to disappointing corporate earnings and the Euro strengthening 1.1% versus the US Dollar.

### Rest of the world

- In Zimbabwe, military forces seized control from President Mugabe, who was confined to his home. The military has also taken control of state owned media and cornered off the parliament and central bank offices.



Asset class/region	Currency	Currency returns			
		Week ending 17 November	Month to date	YTD 2017	12 months
<b>Developed markets equities</b>					
United States	USD	-0.1%	0.3%	16.6%	19.6%
United Kingdom	GBP	-0.6%	-1.3%	6.9%	12.6%
Continental Europe	EUR	-1.1%	-2.8%	11.1%	18.4%
Japan	JPY	-2.0%	-0.1%	18.4%	26.5%
Asia Pacific (ex Japan)	USD	-0.1%	1.6%	34.2%	35.0%
Australia	AUD	-0.8%	1.4%	9.6%	16.5%
Global	USD	-0.3%	-0.1%	18.1%	21.4%
<b>Emerging markets equities</b>					
Emerging Europe	USD	-1.3%	-0.1%	14.4%	27.7%
Emerging Asia	USD	0.5%	1.9%	41.5%	42.2%
Emerging Latin America	USD	0.8%	-1.1%	20.9%	25.0%
BRICs	USD	0.3%	2.2%	40.0%	42.1%
MENA countries	USD	-0.4%	-1.6%	-3.0%	3.3%
South Africa	USD	5.3%	5.5%	21.1%	27.9%
India	USD	-0.8%	-1.9%	31.7%	33.4%
Global emerging markets	USD	0.7%	1.6%	34.3%	37.2%
<b>Bonds</b>					
US Treasuries	USD	0.3%	0.2%	2.4%	1.9%
US Treasuries (inflation protected)	USD	0.3%	0.5%	2.5%	2.4%
US Corporate (investment grade)	USD	0.3%	-0.2%	5.4%	5.7%
US High Yield	USD	0.0%	-0.8%	6.6%	9.3%
UK Gilts	GBP	0.5%	0.4%	0.6%	2.4%
UK Corporate (investment grade)	GBP	0.1%	-0.1%	3.1%	5.4%
Euro Government Bonds	EUR	0.3%	0.0%	0.7%	1.6%
Euro Corporate (investment grade)	EUR	0.0%	-0.2%	2.7%	3.3%
Euro High Yield	EUR	-0.3%	-0.7%	6.6%	8.9%
Japanese Government	JPY	0.0%	0.3%	0.1%	-0.7%
Australian Government	AUD	0.2%	0.6%	3.9%	2.8%
Global Government Bonds	USD	0.7%	0.7%	6.0%	4.1%
Global Bonds	USD	0.6%	0.5%	6.5%	5.2%
Global Convertible Bonds	USD	-0.7%	-0.8%	9.1%	9.4%
Emerging Market Bonds	USD	0.8%	-1.1%	7.4%	8.1%

Source: Bloomberg. Past performance is not indicative of future returns



Asset class/region	Currency	Currency returns			
		Week ending 17 November	Month to date	YTD 2017	12 months
<b>Property</b>					
US Property Securities	USD	-0.3%	2.9%	4.5%	11.6%
Australian Property Securities	AUD	-1.9%	2.5%	-0.7%	9.2%
Asia Property Securities	USD	-1.6%	0.4%	23.9%	21.3%
Global Property Securities	USD	-0.3%	1.6%	13.4%	17.9%
<b>Currencies</b>					
Euro	USD	1.1%	1.2%	12.1%	11.0%
UK Pound Sterling	USD	0.2%	-0.4%	6.9%	6.4%
Japanese Yen	USD	1.2%	1.4%	4.4%	-1.8%
Australian Dollar	USD	-1.2%	-1.3%	5.1%	2.1%
South African Rand	USD	2.8%	1.1%	-2.2%	3.1%
Swiss Franc	USD	0.7%	0.8%	3.1%	1.9%
Chinese Yuan	USD	0.3%	0.1%	4.9%	4.1%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	-0.6%	1.7%	2.4%	9.2%
Agricultural Commodities	USD	-0.5%	0.2%	-3.3%	-3.1%
Oil	USD	-1.3%	2.2%	10.4%	34.9%
Gold	USD	1.4%	1.9%	12.3%	6.4%
Hedge funds	USD	-0.6%	-0.9%	4.2%	5.5%

Source: Bloomberg. Past performance is not indicative of future returns

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