

1st October, 2024

Live Pulse Webinar

# Has the worm turned...?

Presented by:

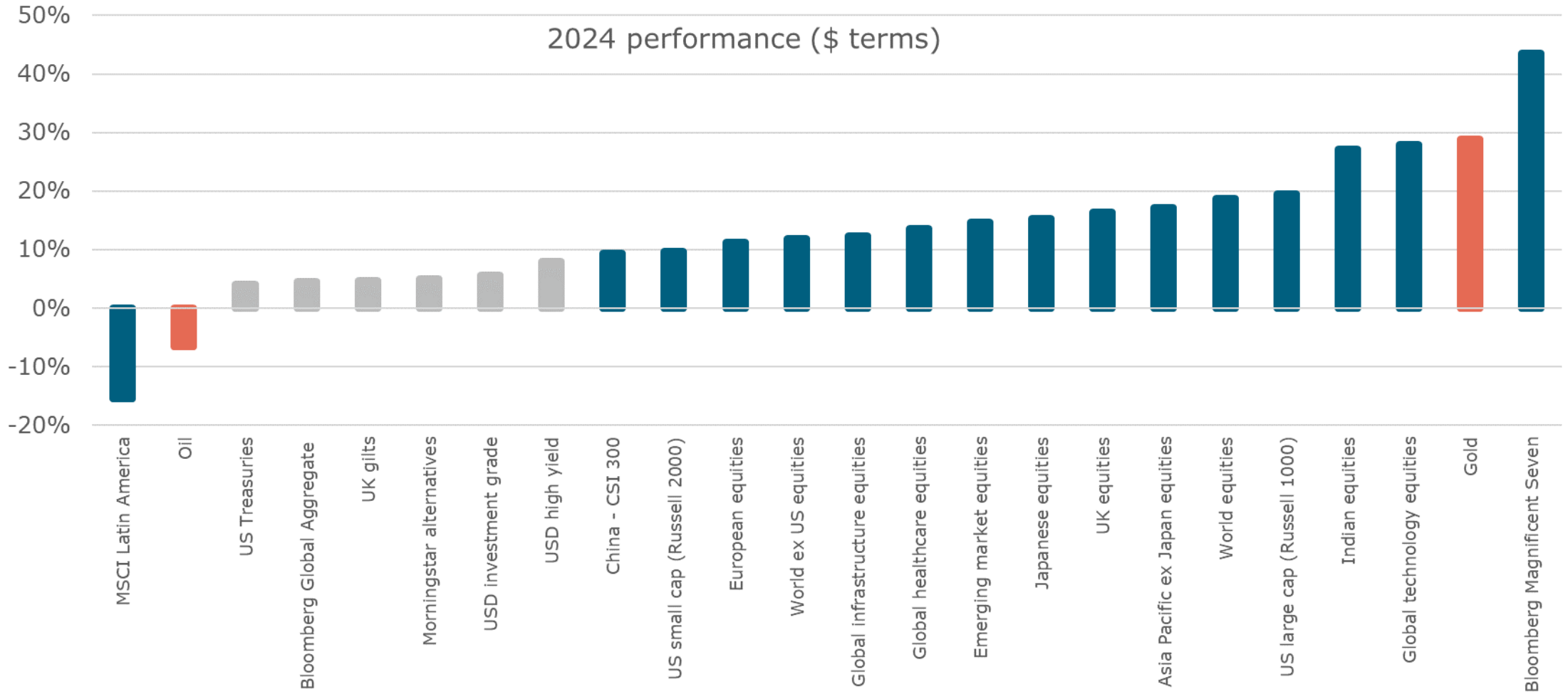
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# 2024 has been supportive

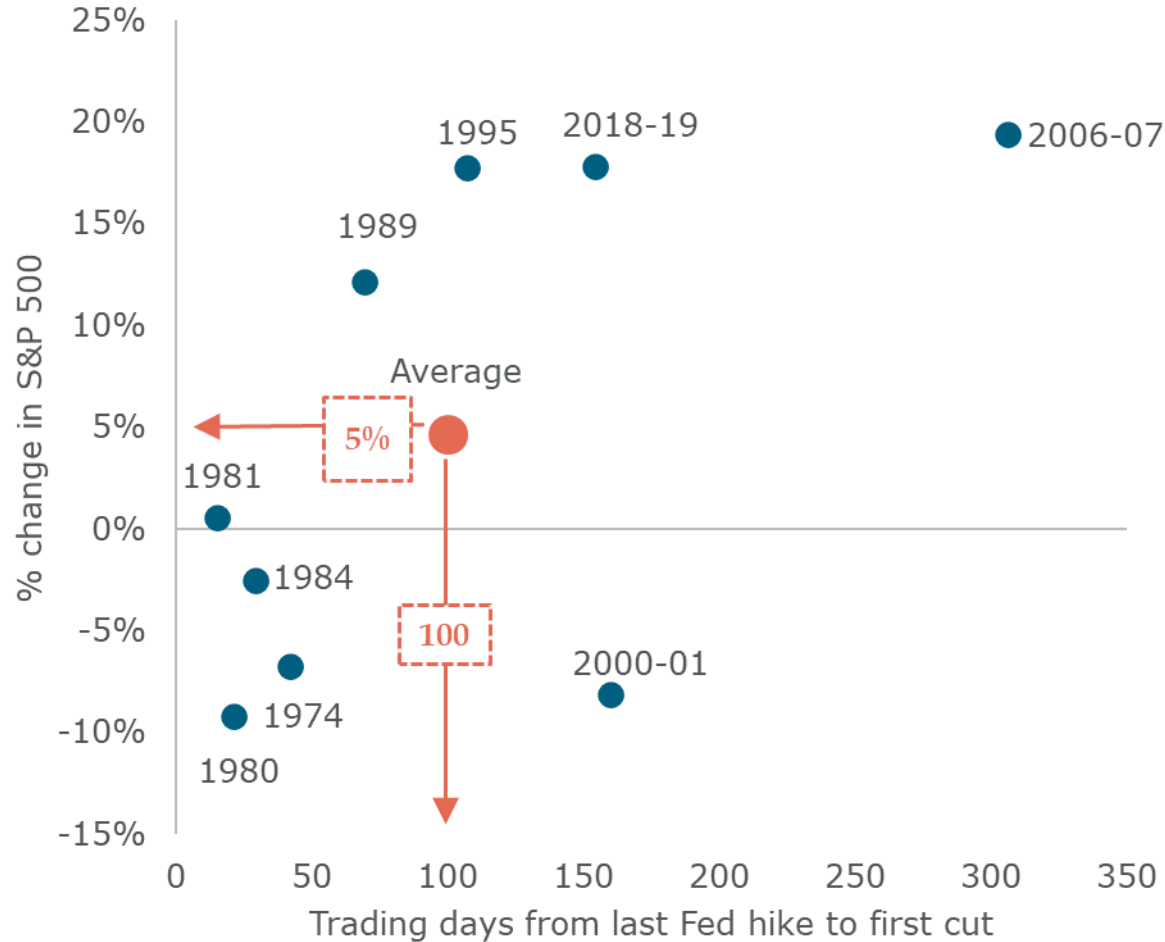
Despite recent volatility, technology is still at the forefront of market returns this year.



# Don't fear a US interest rate pause

The longer the pause, the better the return.

Rates on hold



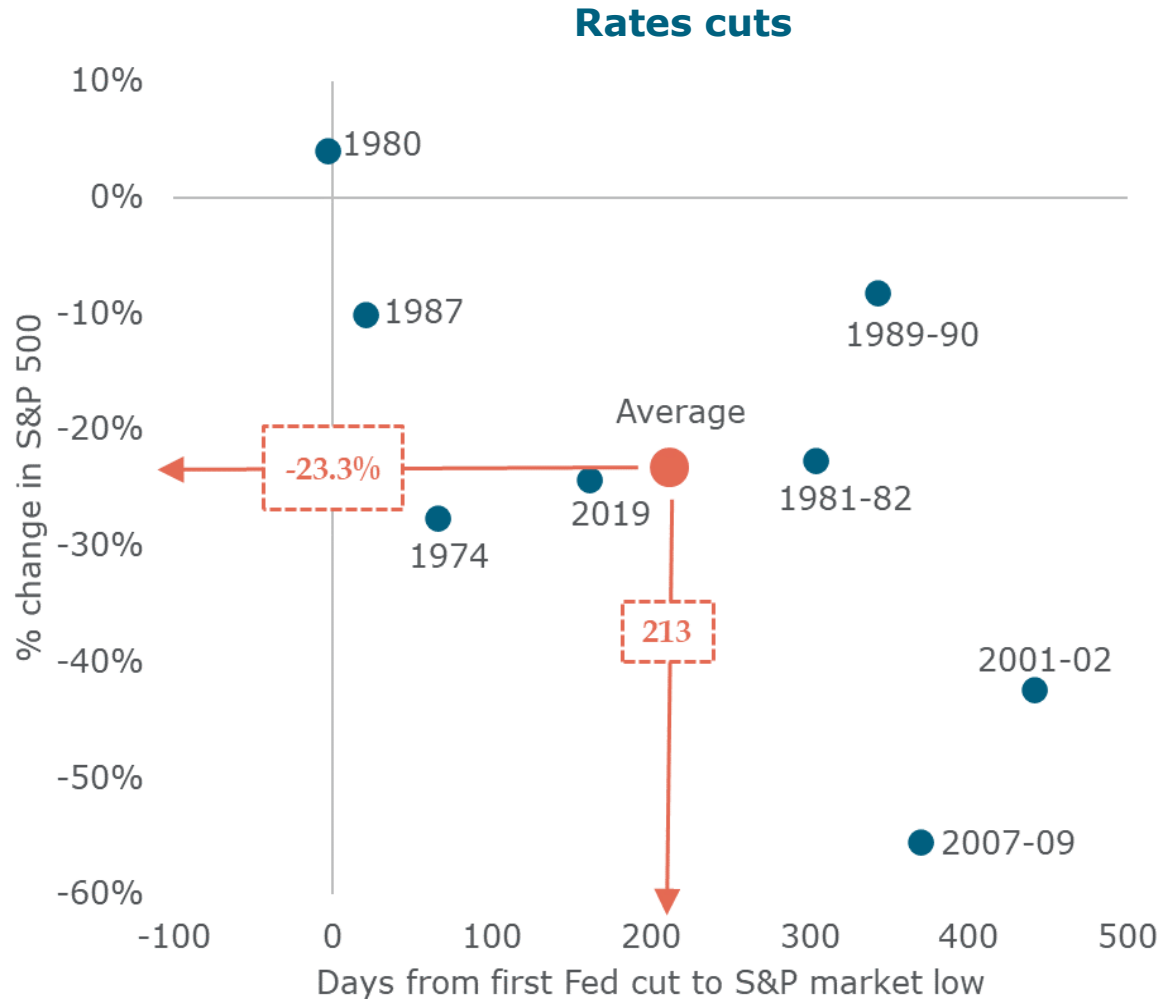
Source: Strategas.

Length of Fed pauses and S&P 500 performance

Last hike	First cut	Days	S&P performance
01/05/1974	01/07/1974	61	-6.1%
03/03/1980	01/04/1980	29	-8.7%
08/05/1981	01/06/1981	24	1.0%
21/08/1984	02/10/1984	42	-1.8%
24/02/1989	05/06/1989	101	13.3%
01/02/1995	06/07/1995	155	19.2%
16/05/2000	03/01/2001	232	-7.4%
29/06/2006	18/09/2007	446	22.1%
19/12/2018	01/08/2019	225	19.2%
26/07/2023	30/08/2024	401	25.7%
<b>Average</b>		<b>172</b>	<b>7.7%</b>

# Fear the rate cuts

The US stockmarket has historically been vulnerable following the first rate cut.

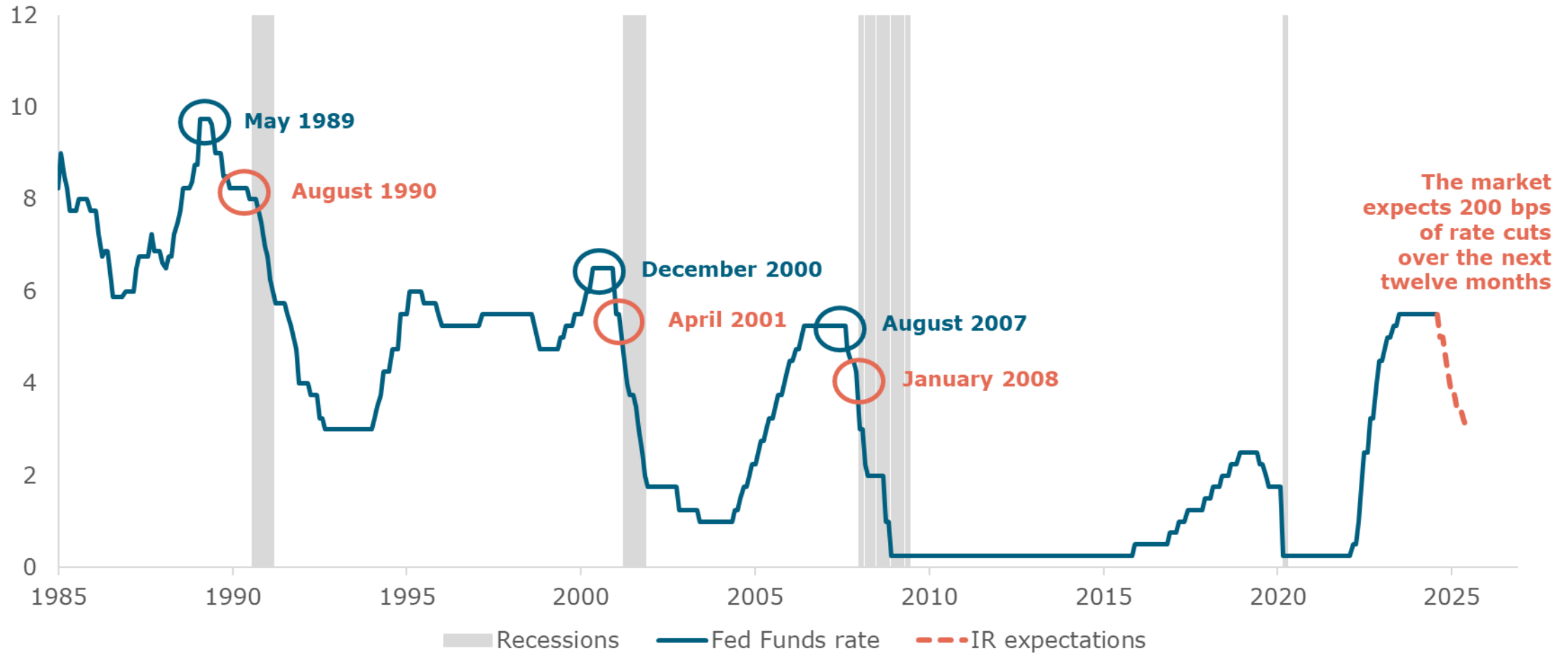


S&P 500 performance following first rate cut			
First cut	Market low	Duration	S&P performance
1974		66	-27.6%
1980		-3	4.0%
1981-1982		304	-22.6%
1987		21	-10.1%
1989-1990		343	-8.3%
2001-2002		441	-42.4%
2007-2009		370	-55.5%
2019		161	-24.2%
18/9/2024?	?	?	?
<b>Average</b>		<b>213</b>	<b>-23.3%</b>

Source: Strategas. 1995 is excluded as the market never made a low.

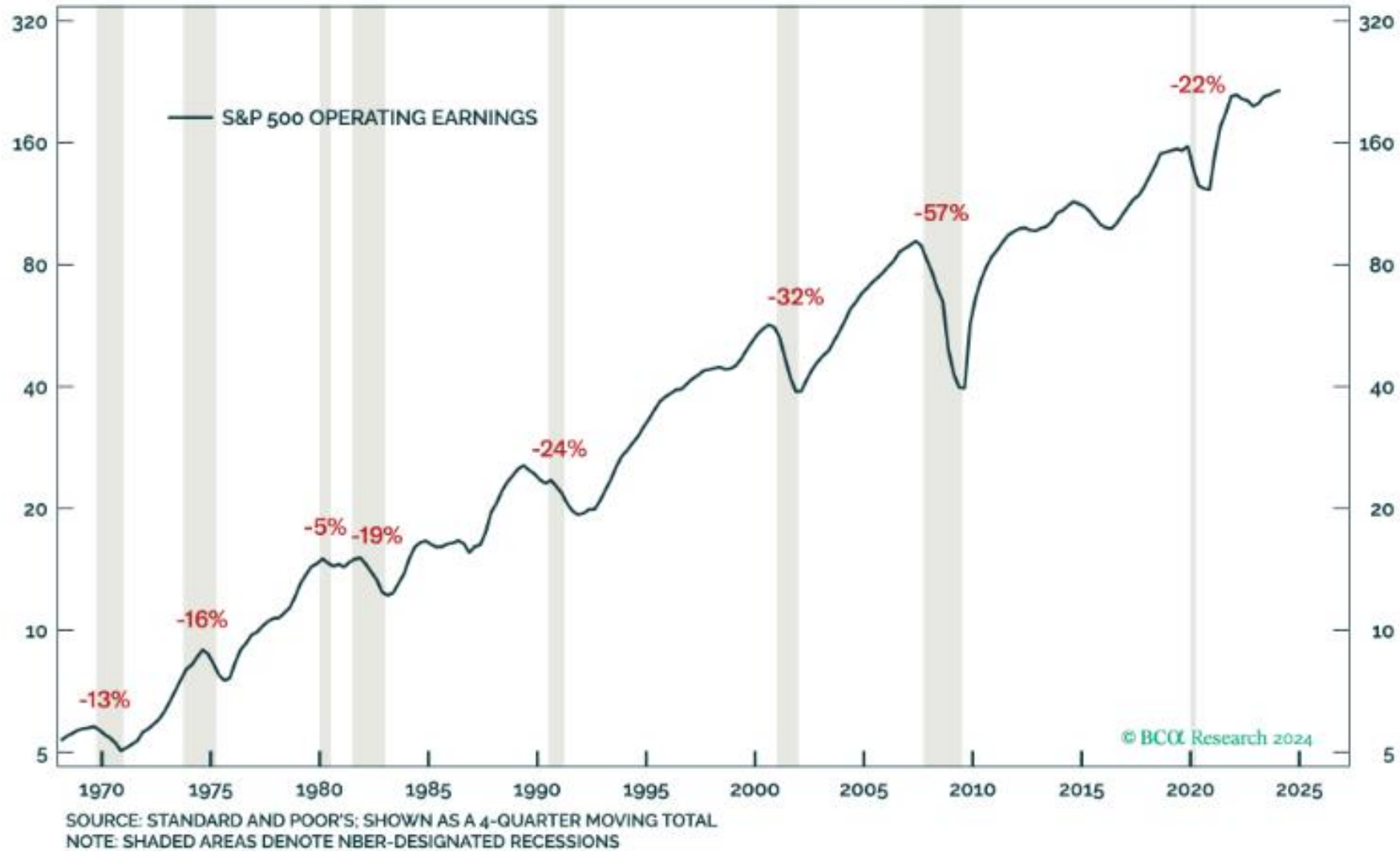
# Recessions

Often start not long after the Fed begins cutting rates



# Corporate earnings

Earnings decline in recessions.



# Recessions

In a recession, the S&P 500 could fall to 3800. The market was trading at 5626 on 13<sup>th</sup> September, implying a fall of 32.5%!

		Hypothetical Change In Forward Earnings Estimate From Current Levels (%)						
		-30	-20	-10	0	+10	+20	+30
Forward PE	10	1844	2107	2371	2634	2898	3161	3425
	11	2028	2318	2608	2898	3187	3477	3767
	12	2213	2529	2845	3161	3477	3793	4109
	13	2397	2740	3082	3425	3767	4109	4452
	14	2582	2950	3319	3688	4057	4426	4794
	15	2766	3161	3556	3951	4347	4742	5137
	16	2950	3372	3793	4215	4636	5058	5479
	17	3135	3583	4030	4478	4926	5374	5822
	18	3319	3793	4268	4742	5216	5690	6164
	19	3504	4004	4505	5005	5506	6006	6507
	20	3688	4215	4742	5269	5795	6322	6849

NOTE: AS OF AUGUST 22, 2024. SOURCE: REFINITIV / IBES.

Source: BCA.

# Investment ideas





# Index concentration

Many US indices suffer from a lack of diversification. 31% of the S&P 500 is represented by just seven companies.

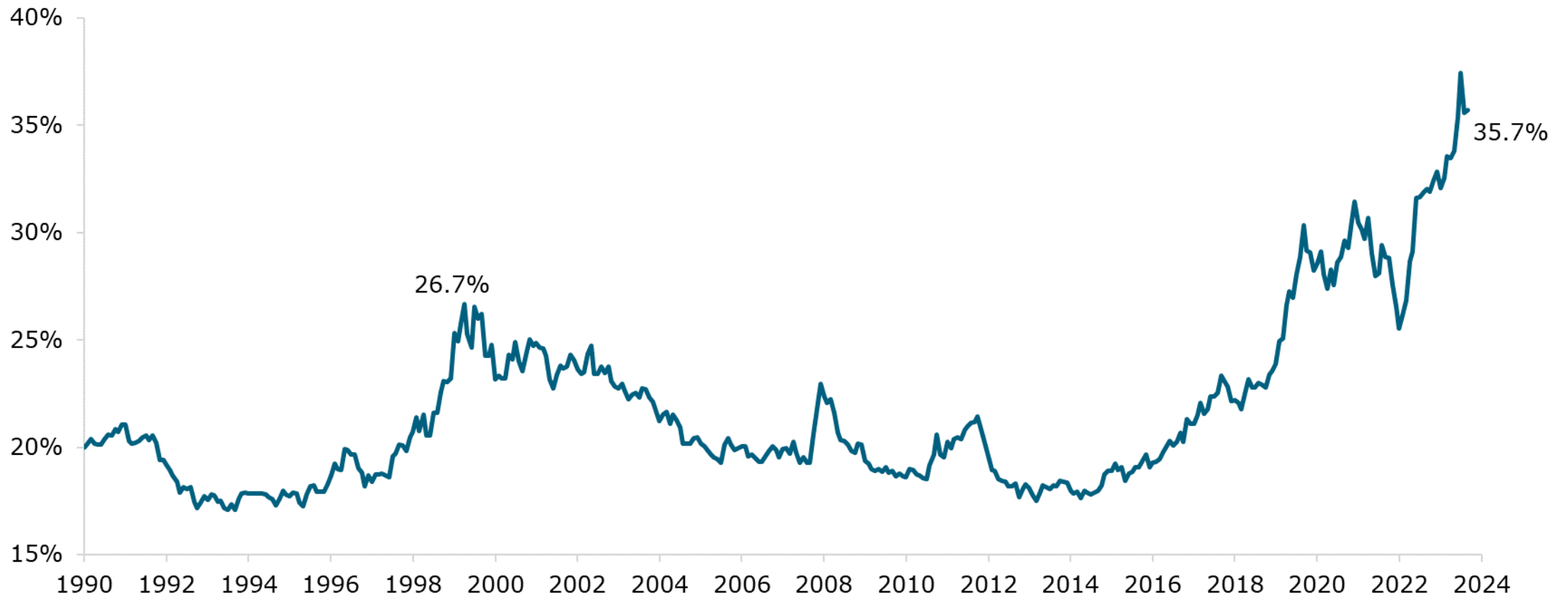
Share of the S&P 500 index by market capitalisation



# Top-10 stocks

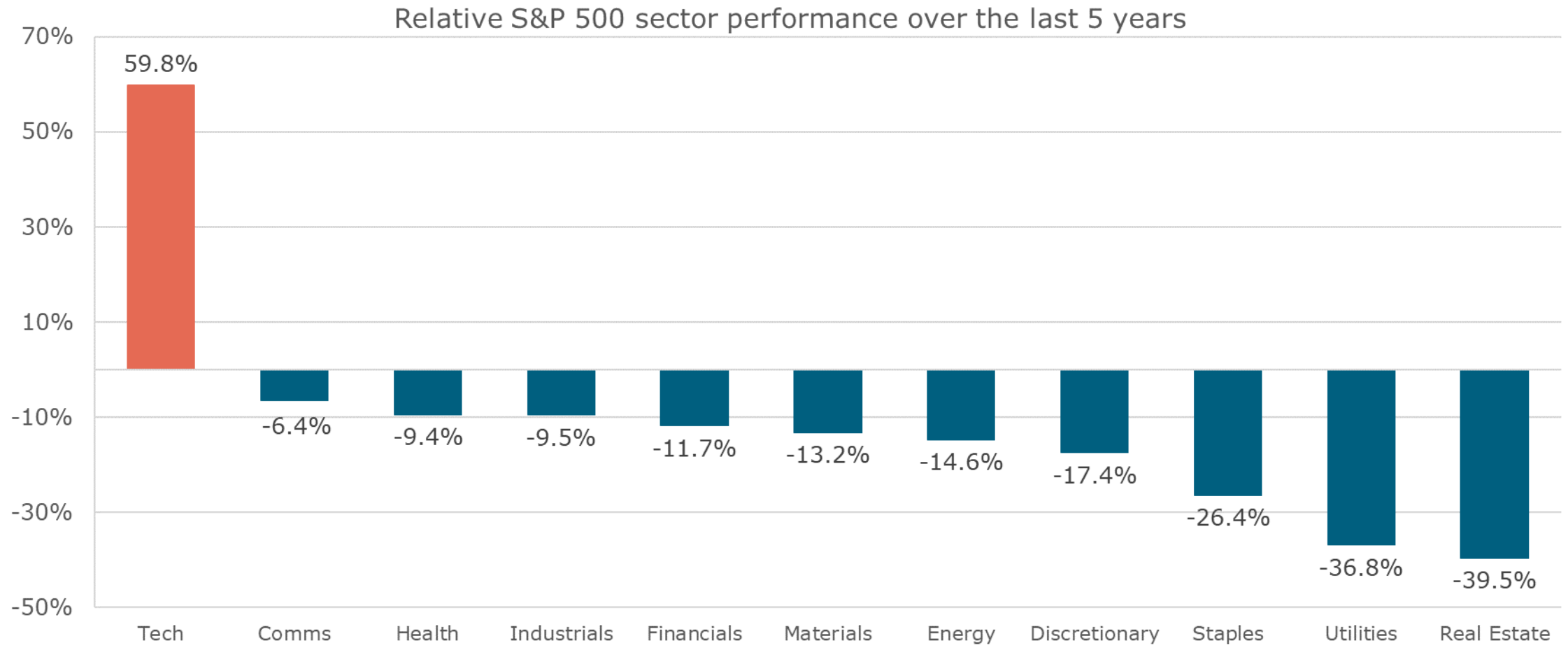
Unprecedented levels of concentration.

Top 10 largest stocks as a % weighting within S&P 500



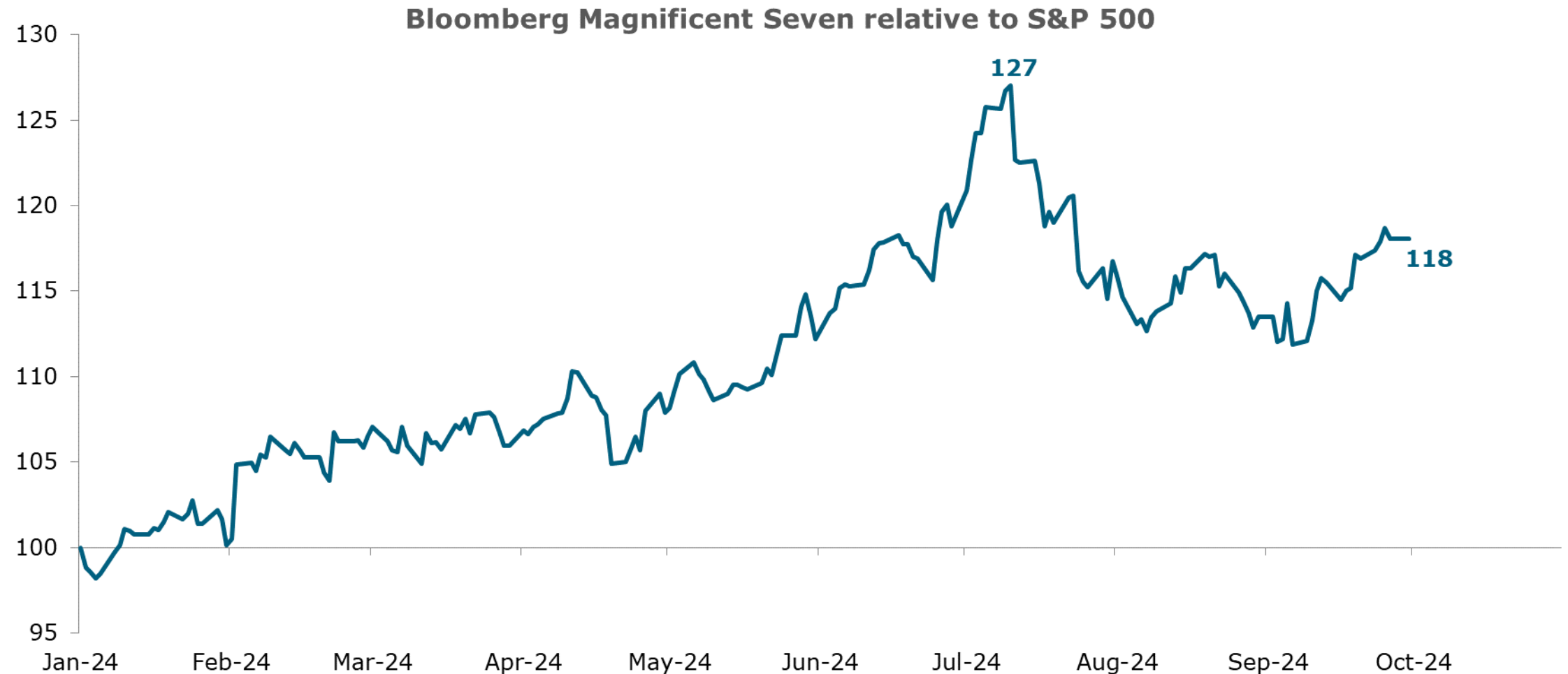
# Technology

Not easy outperforming if you own more than just technology stocks



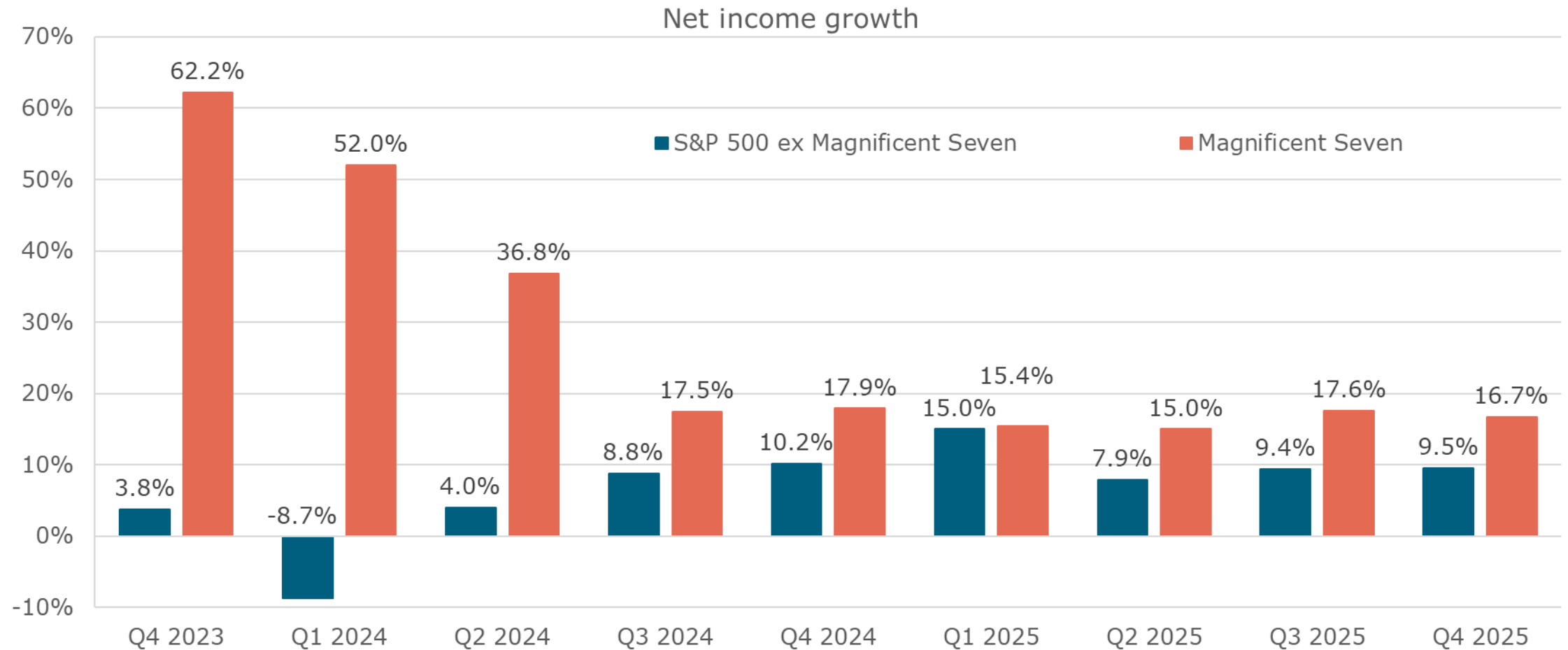
# The magnificent seven

The “Magnificent Seven” (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, Tesla) versus the S&P 500.



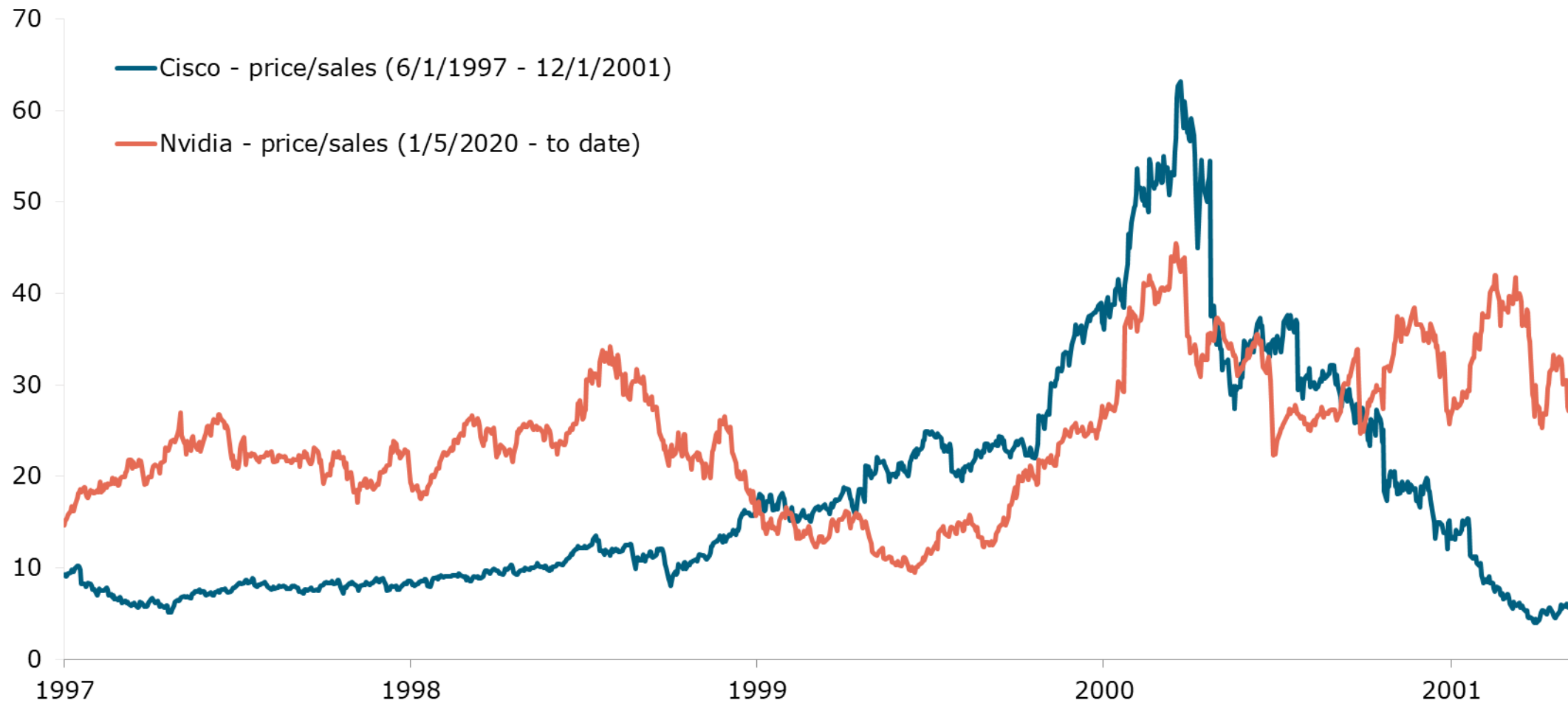
# Earnings growth

Earnings growth for the Magnificent Seven is expected to be greater than the rest of the index.



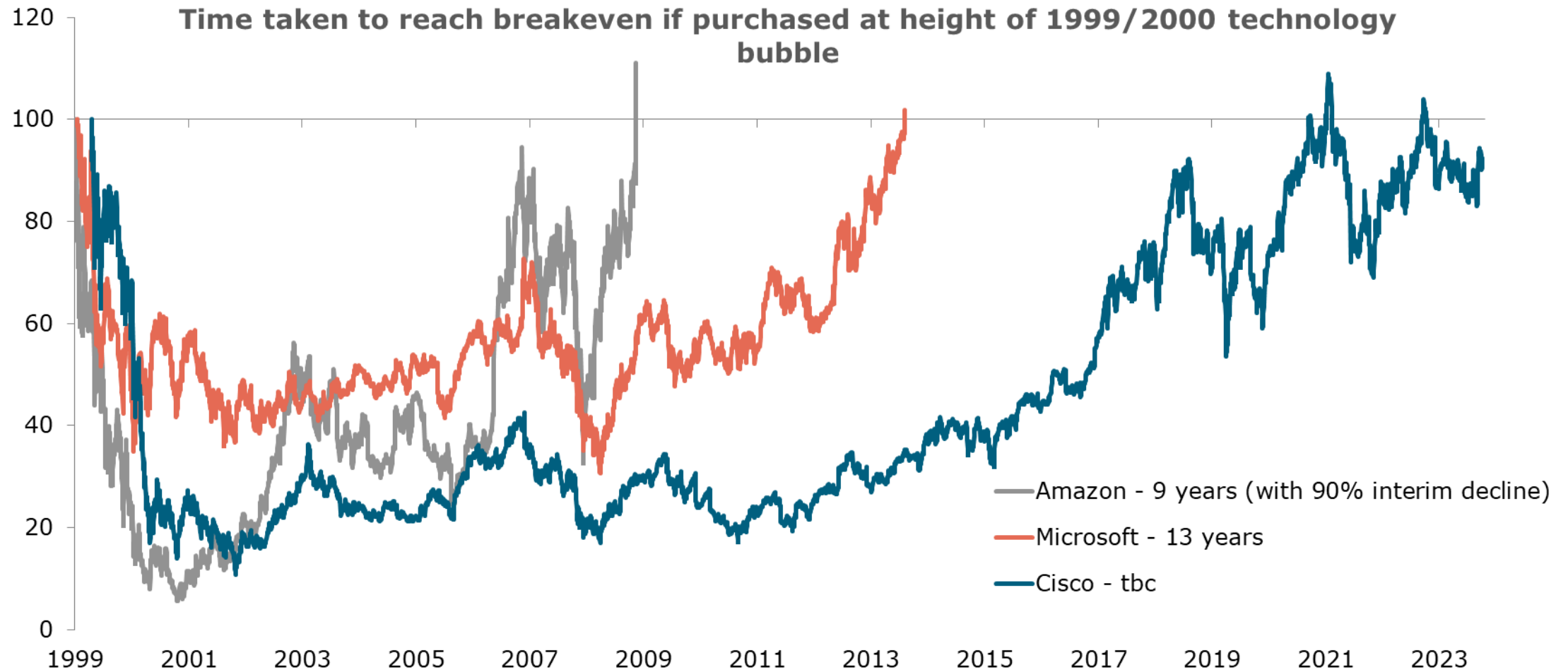
# Relative valuations

Looking back, of course Cisco was overvalued at 60 x sales. Is Nvidia cheap at c.27 x sales?



# Price matters

The price paid for something is the most important determinant of future returns.



# Winners change through time

While it may seem inconceivable now, the current Magnificent Seven may not dominate markets in 10 years' time. The world's top 10 largest companies by market capitalisation (ex Saudi Aramco).

## 1980: Peak Oil

-  IBM
-  AT&T
-  EXXON
-  Standard Oil
-  Schlumberger
-  Shell
-  Mobil
-  Atlantic Richfield
-  General Electric
-  Eastman Kodak

## 1990: Japanese dominance

-  NTT
-  Bank of Tokyo-Mitsubishi
-  Industrial Bank of Japan
-  Sumitomo Mitsui Banking
-  Toyota Motors
-  Fuji Bank
-  Dai Ichi Kangyo Bank
-  IBM
-  UFJ Bank
-  EXXON


## 2000: TMT bubble

-  Microsoft
-  General Electric
-  NTT Docomo
-  Cisco Systems
-  Walmart
-  Intel
-  NTT
-  EXXON Mobil
-  Lucent Technologies
-  Deutsche Telekom

## 2010: China & Commodities

-  EXXON Mobil
-  Petrochina
-  Apple
-  BHP Billiton
-  Microsoft
-  ICBC
-  Petrobras
-  China Construction Bank
-  Royal Dutch Shell
-  Nestle

## 2021: MegaCap-8 Dominance

-  Apple
-  Microsoft
-  Alphabet
-  Amazon
-  Facebook
-  Tesla
-  Berkshire Hathaway
-  TSMC
-  Tencent Holdings
-  NVIDIA



# US equity valuations

There is little room for further multiple expansion in the US.

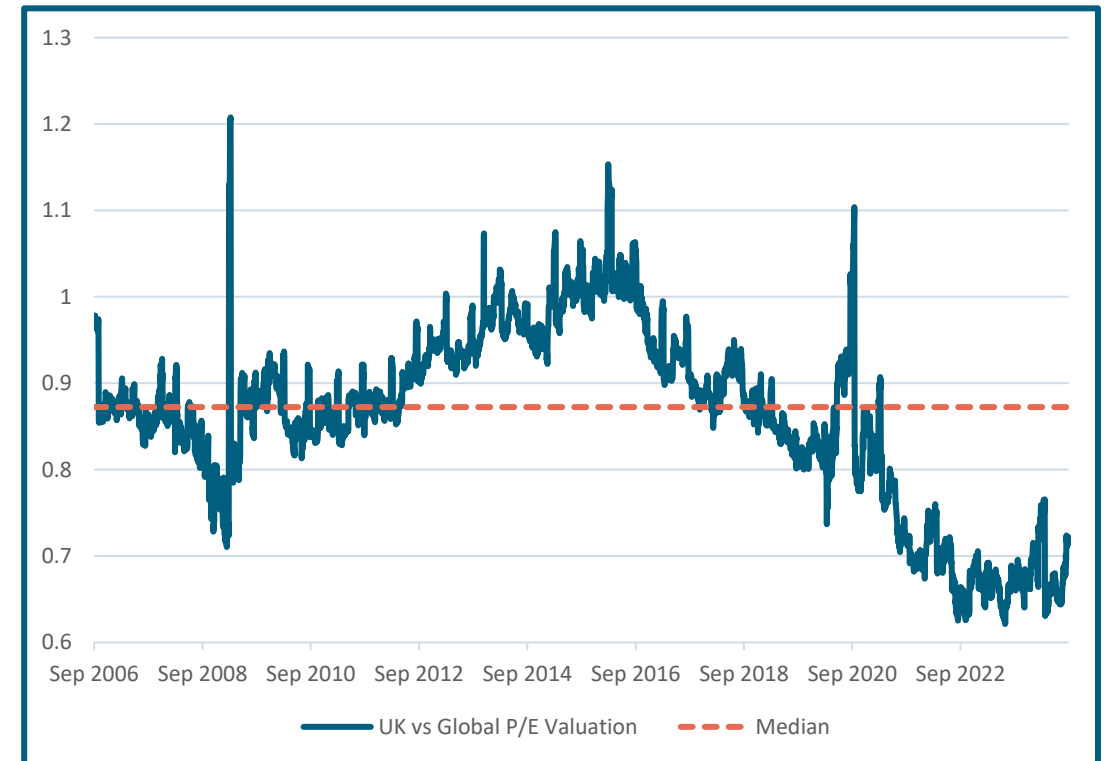


# Equity markets – value **opportunities** exist

**12-month forward P/E of major global markets vs. 2021 high and long run median**

Region	Current*	Current vs 2021 high	Current vs median
US	21.9	-9.7%	33.3%
Switzerland	18.3	-11.9%	8.3%
World	18.3	-15.6%	21.3%
Japan	14.7	-30.5%	-0.7%
France	14.4	-31.2%	4.2%
EM Ex-China	13.8	-16.6%	12.1%
Eurozone	13.7	-30.2%	5.1%
Germany	12.8	-31.3%	0.3%
UK	13.1	-27.8%	1.9%
Spain	10.1	-44.4%	-15.6%
China	9.9	-51.8%	-17.7%
Italy	9.2	-56.4%	-25.3%

**UK equities historically cheap: UK vs global 12-month forward P/E ratios**

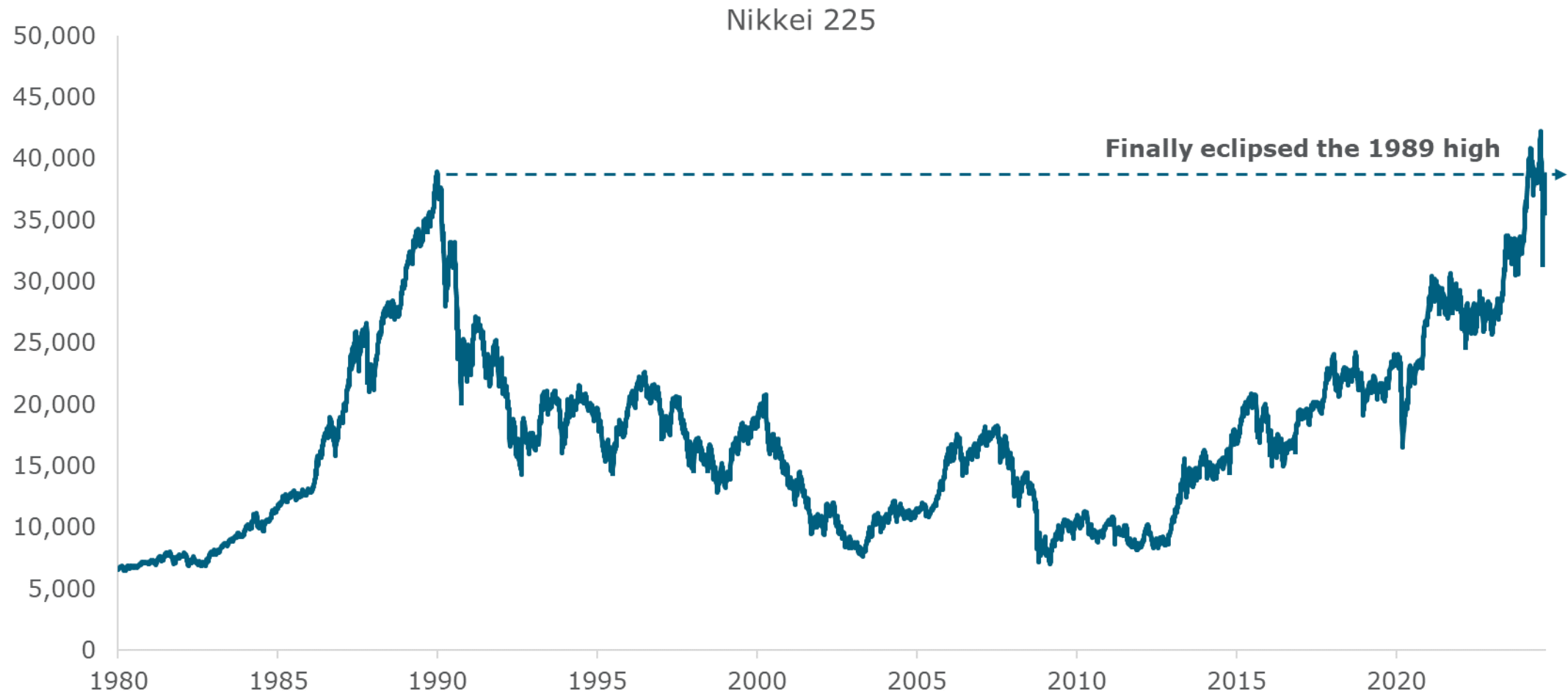


Japan



# Japan – a long road to recovery

The Japanese market had surpassed its previous peak of December 1989, but is below that level again.



# Japanese improvements

Japan is a notable overweight within our portfolios. Strong technical and fundamentals factors continue to support the market.



**Economic performance**



**Corporate governance**



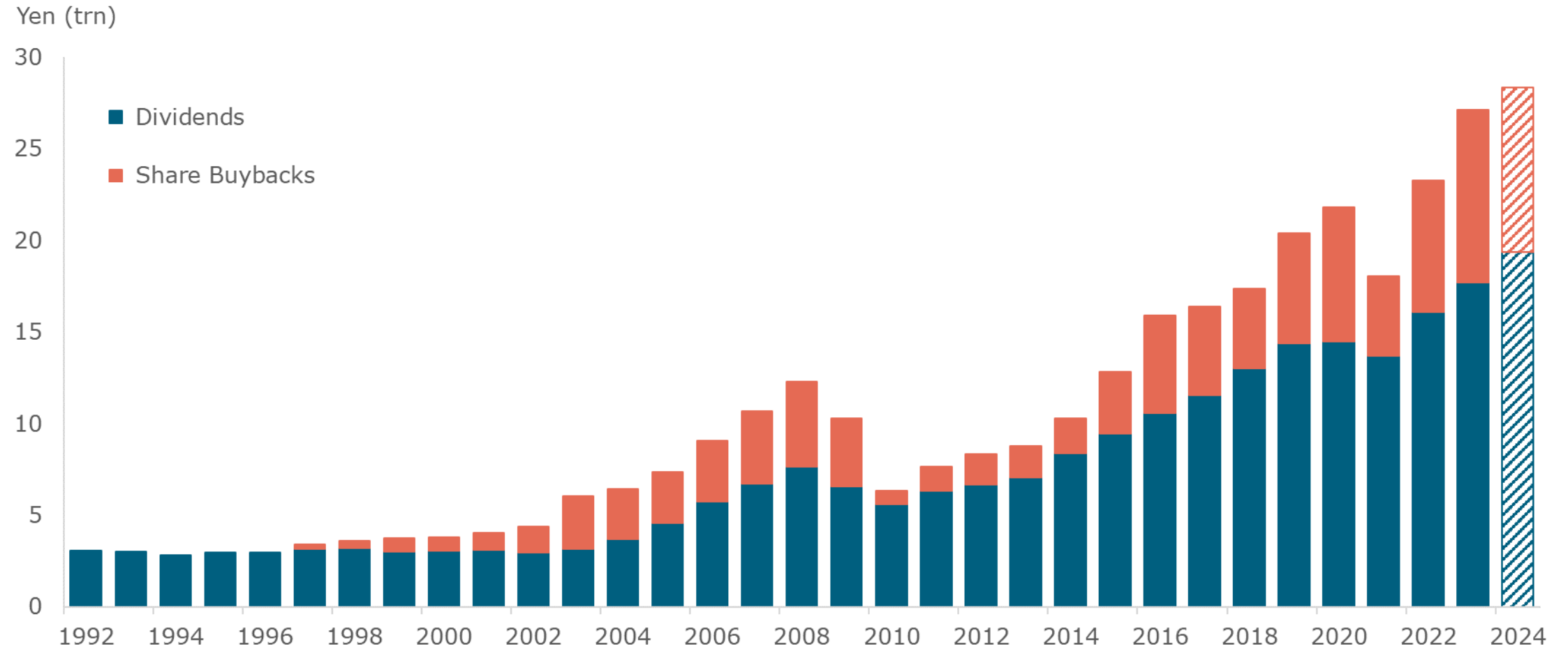
**Company earnings**



**Valuations**

# Japan

Corporate revolution – record returns to shareholders.

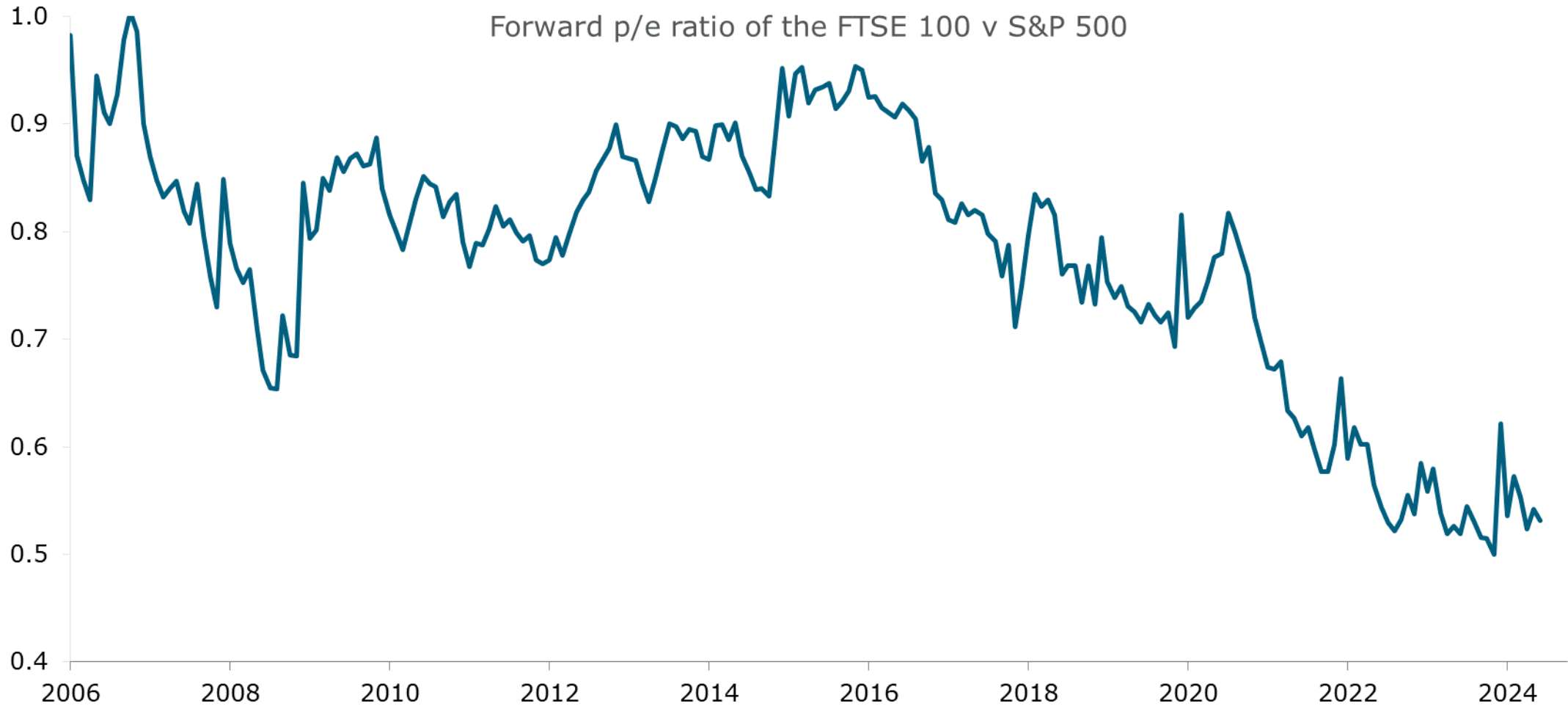


# The United Kingdom



# The United Kingdom – relatively cheap

Relative to the US, UK equities are trading at levels which, historically, have triggered inflows.

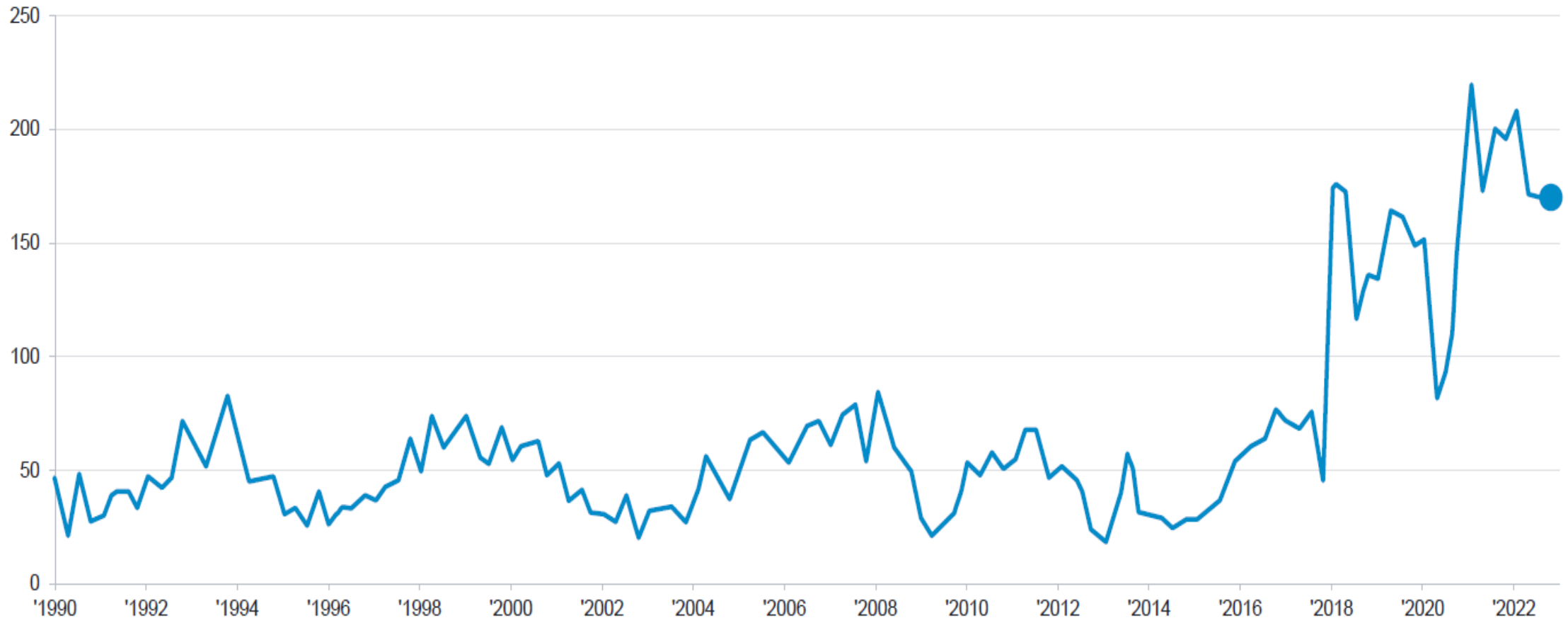




# The United Kingdom

An increase in merger and acquisition activity can reasonably be expected, thereby releasing shareholder value.

## Number of UK Inward Acquisitions



# Summary and key messages



# Key conclusions

1

Interest rate cuts in the US are coming. History suggests that **an increase in volatility is likely.**

2

The chances that the US enters recession in 2024/2025 are likely being understated. **Recessions can occur quickly.**

3

Interest rate cuts and **double-digit earnings growth** do not normally coincide.

4

**The US stockmarket is not cheap;** be careful about how much exposure to large cap technology stocks is maintained.

5

**Stockmarket opportunities are available;** the winners of the past may not be the winners of the future.

6

**Avoid reacting to market 'noise'.** Many news headlines quickly become irrelevant in the context of financial markets.

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