

Samir Mehta, JOHCM Asia ex Japan Fund



A VIEW FROM ASIA

SEPTEMBER 2020

Zeitgeist – the defining spirit or mood of a particular period of history as shown by the ideas and beliefs of the time

What is the zeitgeist of today? I'd like to refrain from commenting on politics and philosophical beliefs. Instead, let us focus on economics and markets. You might counter that in today's world everything is dependent on the philosophies and belief systems that define society. Are we heading towards a utopian or an Orwellian world? To that, all I can say is nothing we witness or experience is new. The storylines have appeared before; only the audience (us) is different. One of my favourite quotes attributed to the science fiction author Robert Heinlein is "Each generation thinks they invented sex; each generation is totally mistaken."

Take the case of the spurt in trading by retail investors in stock markets across the world. Are you bewildered as to how Tesla's market capitalisation increased five-fold between April and August 2020? Or that its market cap is now higher than the market cap of all large, listed, auto companies combined when Tesla barely made a profit. Press reports suggest millennial traders using Robinhood (an online trading app) are primarily responsible for much of that vertiginous rise.

If you have read *The Money Game* by Adam Smith (not the Adam Smith but a pseudonym for, some suggest, George Goodman), this paragraph might ring a bell:

"Our trouble is that we are too old for this market. The best players in this kind of a market have not passed their twenty-ninth birthdays"... "you can't make any money with questions like that" said the Great Winfield. "They show you are middle aged, they show your generation. The really old generation"... "But life belongs to the swingers today. You can tell the swinger stocks because they frighten all the other generations. Tell him, Johnny. Johnny the Kid is in the Science stuff". "Sir!" Johnny the Kid said, snapping to. "My stocks are Kalvar, Mohawk Data, Recognition Equipment, Alphanumeric and Eberline Instrument".... "The strength of my kids is that they are too young to remember anything bad and they are making so much money they feel invincible", said the Great Winfield.

The Great Winfield, a character in *The Money Game*, captures the zeitgeist. This was a reference to equity markets in the late 1960s, a period also marked by a technology bubble. Like this revealing example, most of what passes for a discussion on the merits or otherwise of particular generations is little more than a repetition of unchanging formulas: the laziness and immorality of the young; the monotony of the middle-aged; and the rigidity of the old.

Society's lip service to small government and market-determined outcomes is also eroding at the edges. There was a time when the government was omnipotent in the economy. It was the Thatcher-Reagan revolution and the attendant reduction in regulations and increased privatisation of government assets that changed perceptions and the nature of the global economy. The rise in global wealth and prosperity is nothing but a patina that conceals the monsters of uncontrolled debt and entrenched inequality.

The German government has a social insurance programme whereby employers reduce working hours instead of laying them off – **Kurzarbeit**. The government provides an income replacement rate of 60% of the worker's pay for the hours not worked. A 30% reduction in hours, therefore, theoretically leads to just a 10% loss in income. This scheme has now been extended to 21 months; no doubt it will pressurise the Chancellor in the UK to extend his scheme (which is set to end in October). Several governments will try doing something similar. In a prior era, in Asia, these schemes were called the iron rice bowls or guaranteed employment. In today's zeitgeist, it has morphed into a fancier term: modern monetary policy.

There is genuine debate on the future trajectory and performance of stock markets. With the impact of Covid-19 so starkly visible in its toll on the health, employment, income and finances of households, corporations and governments, the contrast in the behaviour of stock markets is glaring.

As I outlined recently, I am in the camp that thinks this disconnect is rational. At the cost of repeating myself, the big are getting bigger, those companies that have adapted to the technological disruptions are clearly taking a profitable lead, while forced savings for a large part of the consumer class leaves ample room for a rebound in specific categories of expenditure.

I cannot give you a cogent argument on valuations. Suffice to say, in general, lower rates in a low growth disinflationary environment keep valuations for growth equities high. What will change is anyone's guess, and I certainly have no ability to predict that outcome. When I speak with companies and observe how management have adapted, I am amazed at the quality of businesses and organisations and what they are achieving under such challenging conditions.



In the past 15-18 months, after reflecting on the mistakes made in 2018, I am glad that I tightened my risk management process and refocused efforts on finding well-managed companies to own. We feel the result of that exercise is visible in our performance this year.

Thank you to all our clients who stuck with us through that challenging period.

JOHCM Asia Ex Japan Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	31.08.20	31.08.19	31.08.18	31.08.17	31.08.16
A USD Class	27.57	0.12	-12.24	17.79	10.89
Benchmark	23.33	-6.26	2.65	24.78	12.96
Relative return	3.44	6.81	-14.50	-5.60	-1.84

Past performance is no guarantee of future performance.

Source: JOHCM/MSCI Barra/Bloomberg, NAV of Share Class A in USD, net income reinvested, net of fees as at 31 August 2020. The A USD Class was launched on 30 September 2011. Benchmark: MSCI AC Asia ex Japan NR (12pm adjusted). Performance of other share classes may vary and is available on request.

Past performance is no guarantee of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Investing in companies in emerging markets involves higher risk than investing in established economies or securities markets. Emerging Markets may have less stable legal and political systems, which could affect the safe-keeping or value of assets. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation. Issued and approved in the UK by J O Hambro Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority. JOHCM® is a registered trademark of J O Hambro Capital Management Ltd. J O Hambro® is a registered trademark of Barnham Broom Ltd. Registered in England and Wales under No: 2176004. Registered address: Level 3, 1 St James's Market, London SW1Y 4AH, United Kingdom.

