Investment Perspectives

Spring 2021

In this issue:

Welcome

Welcome to our 2021 Spring edition of Investment Perspectives

Spring has sprung and green shoots are already visible across most of the globe as economic activity begins to pick-up following successful vaccine programmes. We commented last quarter on the divergence between asset prices and the real economy. This has narrowed somewhat over recent months, with market activity now showing all the signs of a new start to the business cycle. While the impact of the pandemic is still observable, vaccines have been a paradigm shift in developed markets and consequently economic growth is expected to flourish over the summer months.

In this edition of Investment Perspectives, Chris Arcari provides commentary and data on the quarter's market activity in our latest capital markets update.

- Dave Morton provides an overview of the benefits of carrying out a cost transparency exercise, outlining our work in this area and the services we can provide to clients to help them understand the full nature of their costs.
- Caoimhe Bain illuminates the growing emergence of alternative indices and outlines why they can be a good first step for clients on the responsible investment journey.
- Finally, Oriana Mezini discusses the value style of equity investing and whether it still deserves a place in an equity portfolio over the long-term. This will be the first in a two-part article series on the topic, so watch this space!

David Walker
Chief Investment Officer
david.walker@hymans.co.uk
0141 566 7733

Capital markets update

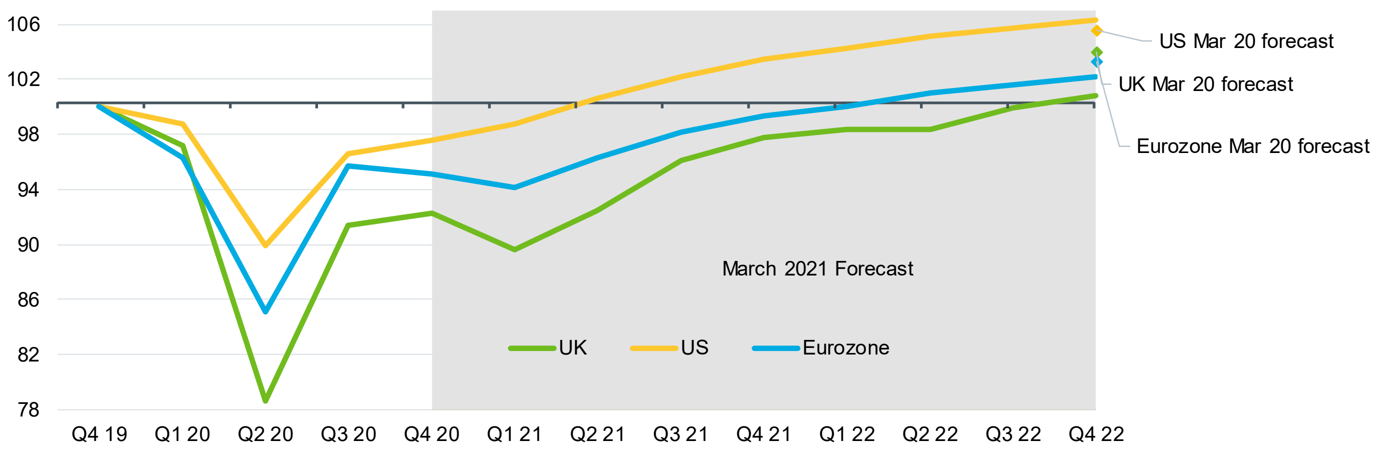
Released: April 2021

Yields in the major sovereign bond markets rose sharply to the highest levels for a year in the first quarter as the medium-term growth and inflation outlook was boosted by vaccine rollouts and the announcement of further US fiscal stimulus.

Near-term economic weakness is expected in Q1 given ongoing COVID-19 restrictions in many parts of the world.

However, composite PMIs for March were strong across the US, UK and Eurozone. The services-led jump in the UK was particularly notable, while the surveys imply activity ticked up in the euro area and remained at levels consistent with expansion in the US. Business expectations of future output are very healthy across the board and the employment component has risen to a level consistent with expansion for both manufacturing and services in each of the three regions.

Chart 1: GDP output level, Q4 2019 = 100

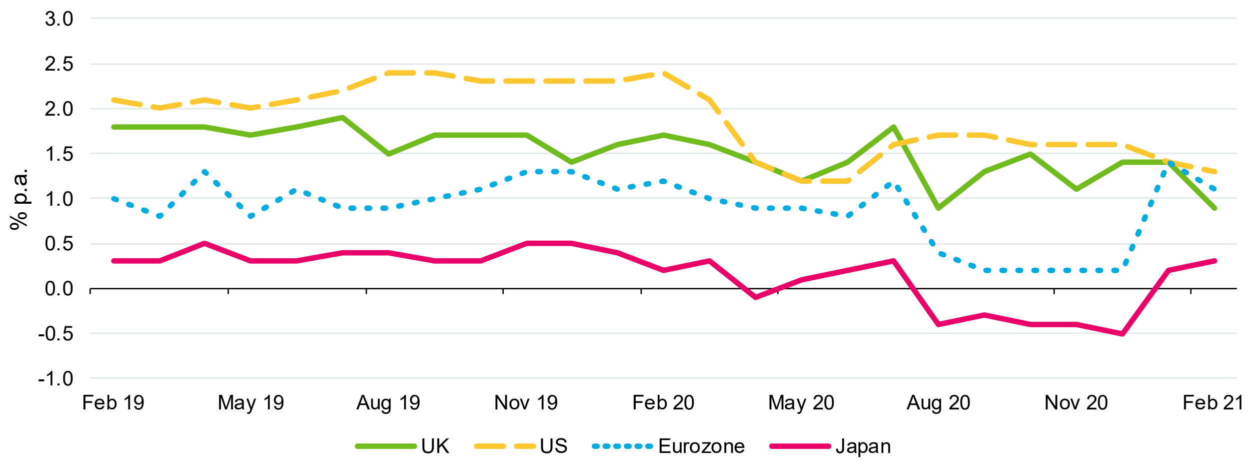


Source: DataStream

The $1.9tn US fiscal stimulus is expected to create a mini boom in the US, with output expected to regain its pre-pandemic path by the end of 2021 (Chart 1). Accumulating evidence of the effectiveness of vaccines also provides cause for optimism. Against this backdrop, a marked acceleration in global GDP growth is expected from Q2 as restrictions begin to ease. As a result, consensus forecasts for global growth in 2021 have risen to 5.3% in 2021, following a 3.7% contraction in 2020. While the improved consensus seems reasonable, a recent pick-up in global COVID-19 cases, which had plunged in January and February, highlights the potential risk of disappointment with regards to the pace of re-opening and subsequent economic recovery.

Higher input prices also had a positive effect on manufacturing PMIs – partly driven by a recovery in oil prices, but also more general supply chain pressures, which may not clear up immediately as activity picks up. Consumer price inflation remains subdued (Chart 2), but it is likely that these supply constraints will be compounded by a wave of deferred consumption as restrictions ease, leading to higher inflation in the short term. However, most forecasts do not expect these pressures to be sustained and central banks are likely to look through any near-term rise in inflation. While markets do not expect a sustained rise in inflation either, investors do not appear to think central banks will need to be as accommodative as they suggest; futures prices imply US interest rates will rise earlier and to a greater extent than members of Federal Open Markets Committee currently expect.

Chart 2: Core CPI inflation



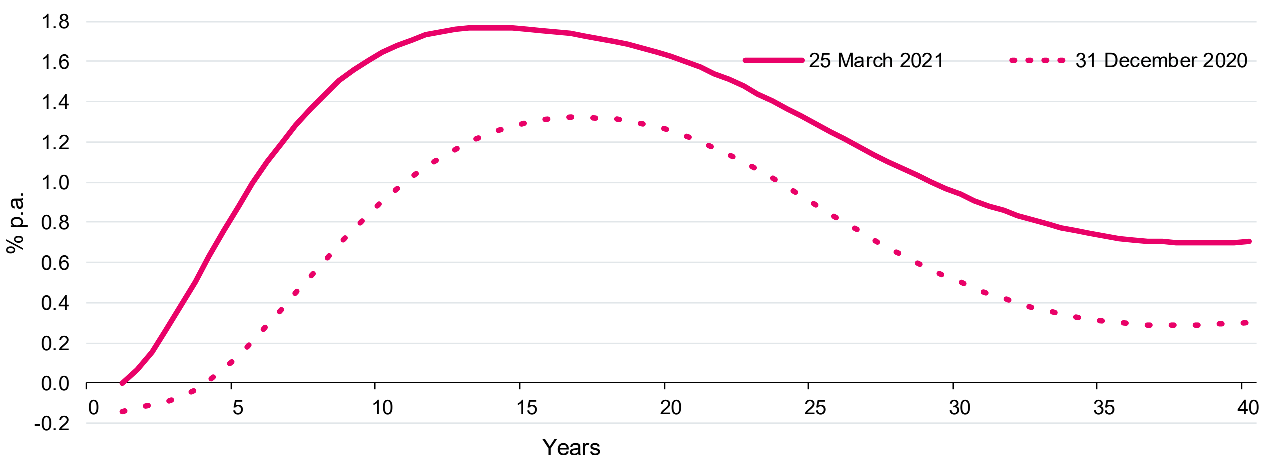
Source: Datastream

Government bonds

The recovery in growth and inflation expected over the rest of 2021 has seen global sovereign bond yields rise substantially in the first quarter. The UK may have suffered a permanent loss of output during the pandemic but, on the back of a rapid vaccine rollout and an imminent substantial easing of restrictions, a strong bounce back is expected in Q2. An environment of strong growth and rising inflation is perhaps still a less supportive backdrop for gilt markets.

With expectations of negative interest rates having evaporated, front-end nominal yields are beginning to look more fairly valued. The path of cash rates currently implied by the market (Chart 3), rising towards 2% p.a. over the next 10 to 15 years, does not look unreasonable. It is less easy to argue longer-term forward nominal yields represent reasonable value. Real yields also rose in the first quarter, but by less than nominal yields - implied inflation now looks very expensive at terms up to around 25 years, and only slightly less so thereafter.

Chart 3: Instantaneous forward nominal gilt yields



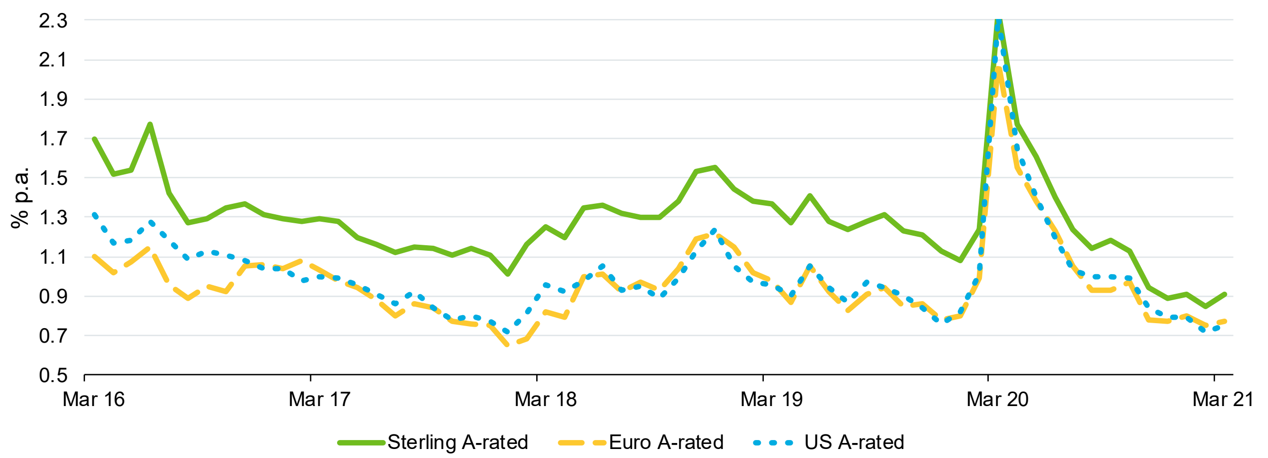
Source: Bank of England

Credit

Though investment-grade spreads were little changed and speculative-grade spreads continued to grind tighter in the first quarter, rising sovereign bond yields have weighed on total returns in fixed interest credit markets, which are negative year-to-date for investment-grade markets. Within speculative-grade credit markets, it is perhaps unsurprising that floating-rate loans have outperformed high yield bonds.

Corporate finances look stretched - leverage remains elevated and interest coverage is low, but the earnings recovery forecast should ease the strain. Indeed, recent data suggests defaults have already passed their peak and are on a declining trend – Moody's US high yield 12-month trailing default rate declined to 7.9% in February, from 8.3% in January, and is expected to average 4.7% in the fourth quarter of 2021. However, a robust recovery is already reflected in very thin credit spreads (Chart 4) which remain well below longer-term median levels and provide little upside exposure to the economic recovery.

Chart 4: Global investment-grade corporate credit spreads



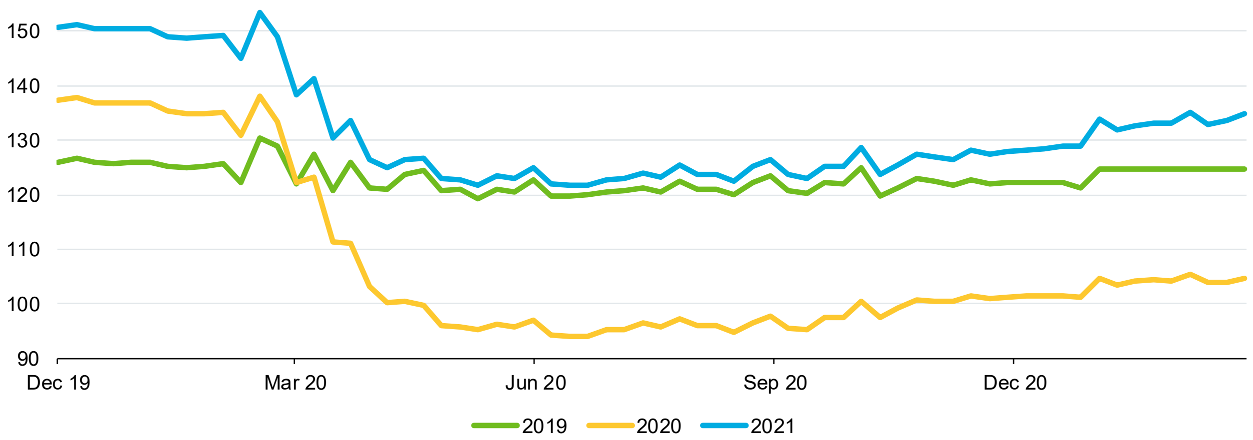
Source: ICE Index Platform

Equities

The improved outlook for the global economy supported global equities in the first quarter and is expected to provide further support over the rest of the year. The consensus forecast is for global earnings per share growth of 28% in 2021, which would leave full-year earnings around 7% above end-2019 levels (Chart 5). While global equity valuations remain elevated in absolute terms versus history, they look less demanding in the context of very low real yields: the spread of the MSCI World's cyclically adjusted earnings yield over the US 10-year real yield remains above longer-term averages. This valuation cushion, together with robust earnings growth, may provide some support to equity prices against downwards pressure from a further rise in real yields.

Although equities shrugged off the first-quarter rise in sovereign bond yields, the impact was seen in sector performance: oil & gas, financials, basic materials, and industrials were, in that order, the top performing sectors. Not only are last year's laggards delivering the most positive earnings surprises and stand to gain the most from a recovery in economic activity, their valuations are less reliant on strong future earnings growth than 2020's winners and therefore more insulated from the impact rising sovereign bond yields can have on valuations.

Chart 5: MSCI World full-year earnings per share



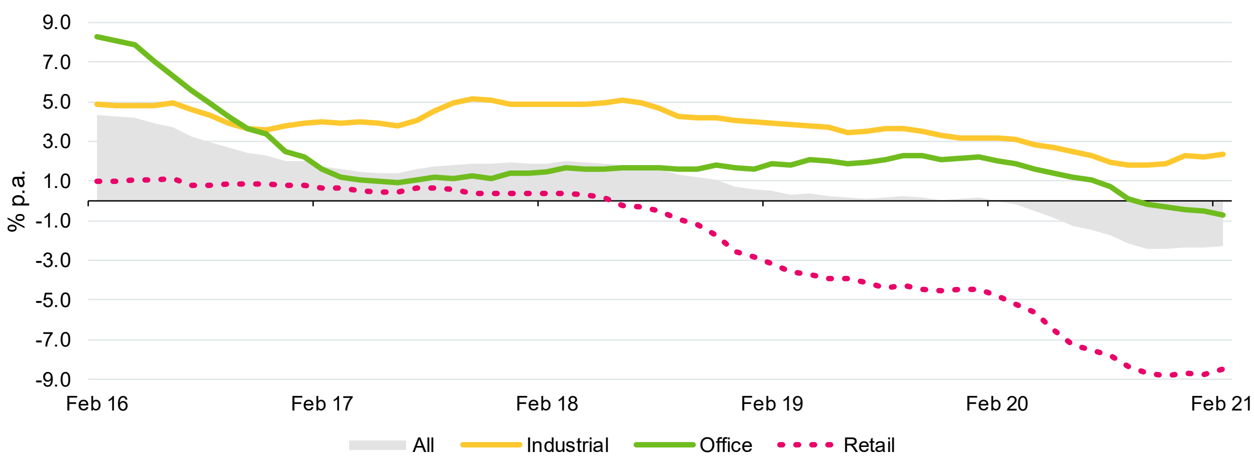
Source: Datastream

Property

The rolling 12-month total return on the MSCI UK Monthly Property index was -0.5% to end February, as income was offset by declining capital values. The retail sector has experienced the steepest declines, but office capital values have also fallen, with sharper falls experienced over recent months. An accelerated shift to online retail and employers committing to more online flexible working arrangements suggest retail and office capital values may remain subject to considerable uncertainty, even once restrictions are eased. In contrast, industrial capital values had recovered modest declines in the wake of initial lock-downs by the fourth quarter of 2020 and are now more than 5% above pre-pandemic levels.

Real rental growth has steadied over recent months after a sharp decline since the onset of the pandemic (Chart 6), although vacancy rates are rising. In aggregate, rents are lower than they were a year ago, with industrials being the only sector to deliver positive rental growth. However, monthly rental growth has improved across all sectors over recent months, while both rent expectations and occupier demand have also improved over the last quarter, albeit from very low levels.

Chart 6: UK commercial property real rental growth



Source: MSCI UK Monthly Property Index

Conclusion

Expectations of strong growth seem well-founded amid significant progress in vaccine rollouts, fiscal support on a massive scale in the US and potential deferred consumption once restrictions are eased. However, the balance of risks may be slightly to the downside. A rise in inflation is likely to be temporary, but there is a risk it persists. Following the rise in bond yields in the first quarter, the market-implied path of interest rates over the next few years looks reasonable because central banks are expected to be very cautious about tightening. However, longer-term nominal yields provide inadequate compensation for inflation risk and real yields still look very low.

Though the forecast recovery in earnings should prove supportive of corporate debt fundamentals, very thin credit spreads provide little upside exposure to the economic recovery. Equity markets are more directly exposed to the benefits of economic recovery and, while valuations remain high, they seem less stretched than those in credit markets against a backdrop of low real yields. The outlook for UK commercial property fundamentals has improved slightly, as the pace of rental declines has eased, but yields remain low versus history and the retail and office sectors remain subject to significant uncertainty, even assuming a smooth re-opening.

Chris Arcari
Senior Investment Research Consultant
chris.arcari@hymans.co.uk
0141 566 7986

Cost transparency initiative

Released: February 2021

"Poor decisions on costs or investments can have negative consequences for scheme members. Value for money is not solely about costs, but costs inevitably form an important part of the equation"
Extracts from a Work and Pensions Committee report dated July 2019

What is it and why do it?

Carrying out a cost transparency exercise lets asset owners see what costs are being incurred in practice at a much deeper and more granular level than they ever have before, and provides a more complete understanding of the type and level of costs that are being incurred as part of the ongoing management of a pension scheme's assets. This includes the managers' annual management charge, but also other costs such as administration, custody, and transaction costs, which can be material but go largely unreported.

Having this information available helps to inform decision-making by allowing a like-for-like comparison to be carried out between managers. It also helps with assessing value for money in light of past performance and the mandate's ongoing role in a scheme's investment strategy.

The cost transparency exercises that we have carried out for our clients so far have resulted in a range of actions being taken to improve future value for money, including:

- **Managers being challenged on the extent to which they are minimising costs,** particularly in relation to transaction costs, which can be relatively high for some active mandates. In a small number of cases, refunds have been sought where (performance-related) fees have been applied incorrectly;

- **Fee and cost benchmarking against appropriate ranges for the asset class and size of mandate.** This has led to the renegotiation of fees, or reviews of mandates, where costs are out of line or not reflective of past performance. Managers have come under pressure in recent years to reduce fees in order to win new appointments, and a review of mandates which have been in place for many years can be especially beneficial; and

- **Consideration of alternative fund structures to reduce costs.** More modern fund structures such as Authorised Contractual Schemes "ACSs" or in some cases segregated mandates, can have some benefits over more traditional structures.

How a manager responds to a request for information on costs can also reveal a great deal about the quality of their governance processes and record-keeping; a slow or incomplete response could suggest that understanding and minimising costs for the benefit of investors is not a sufficiently high priority for the manager.

"... poor decisions on costs or investments may in some cases lead to an underfunded scheme, which can have negative consequences for scheme members. There is no reason for there to be a lower level of scrutiny by trustees of defined benefit schemes than there is for defined contribution schemes.

We have received worrying evidence that some trustees are making investment decisions without a clear understanding of how much those decisions cost. ... Complexity and layers of intermediaries mean that many trustees do not have access to suitable information to make judgements about the costs of managing their schemes."

Work and Pensions Committee

To help put this into context, a recent article in the Financial Times noted that some pension schemes who had successfully obtained data as part of a cost transparency exercise had found that their costs were twice as high as they had previously believed. The same article also named 29 fund managers, including some very well-known ones, who had failed the 'fee disclosure' test following requests from pension scheme investors for information on costs.

Why is it important now?

The Pensions Regulator, and other industry bodies, have been increasingly focused on reducing costs and ensuring value-for-money, and this topic has been gradually moving up most trustees' agendas.

The most recent changes to SIP and related reporting requirements which came into effect in October 2020 require trustees to set out their policy on the following (or explain why they haven't):

- How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in-line with the trustees' investment policies; and
- How the trustees monitor "portfolio turnover costs" incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.

The CTI (see below) is actively encouraging trustees and advisers to engage with their managers about obtaining information.

TPR's guidance states:

"... understanding what you are paying, and the range of charges for a cost type, is the first step to considering how to ensure you are getting value for money.... You may find it helpful to compare what you pay to run your own scheme against the typical cost for schemes in your size band, although cost alone does not indicate whether the scheme is getting value for money."

What is the Cost Transparency Initiative?

The Cost Transparency Initiative "CTI" is a partnership between the Pensions and Lifetime Savings Association "PLSA", the Investment Association "IA", and the Local Government Pension Scheme "LGPS" Advisory Board. Following a report from the Institutional Disclosure Working Group in November 2018, the CTI has produced a suite of voluntary templates and guidance designed to help asset owners understand and compare the costs of their investment services by using a standardised reporting format. This is rapidly becoming the industry standard.

How does the CTI framework interact with the LGPS Code of Transparency?

The CTI are encouraging existing code signatories to make use of the new templates as soon as possible but anticipate a transition period of up to 12 months to ensure they can adapt systems without interrupting the current flows of data. New signatories, including those property and private markets managers who can take advantage of the new templates are expected to use them immediately.

How can I collect the cost data for my scheme?

There are various ways in which you can collect cost data for your scheme. The data can be requested directly from managers using the templates available from the CTI's website. Alternatively, there are various third-party providers who can collect the data from managers on your behalf.

Hymans Robertson offers such cost transparency analysis, which is provided in conjunction with ClearGlass, an industry leader in this area of the market.

Please speak to your Hymans Robertson consultant or contact David Morton (David.Morton@hymans.co.uk) to find out more.

David Morton

Partner
david.morton@hymans.co.uk
020 7082 6347

Alternative indices as a first step on the RI journey

Released: March 2021

Alternative indices offer a simple and cost-effective mechanism for many trustees to more directly integrate ESG and climate considerations within their overall strategy design. This might be, for example, from adopting an alternative index as a benchmark or investing in an alternative index tracking product.

These indices typically tilt conventional market cap indices to take into account data on carbon emissions, fossil fuel reserves and other ESG metrics. This article looks at how alternative index offerings have developed, along with key challenges and considerations for investors in selecting a suitable approach.

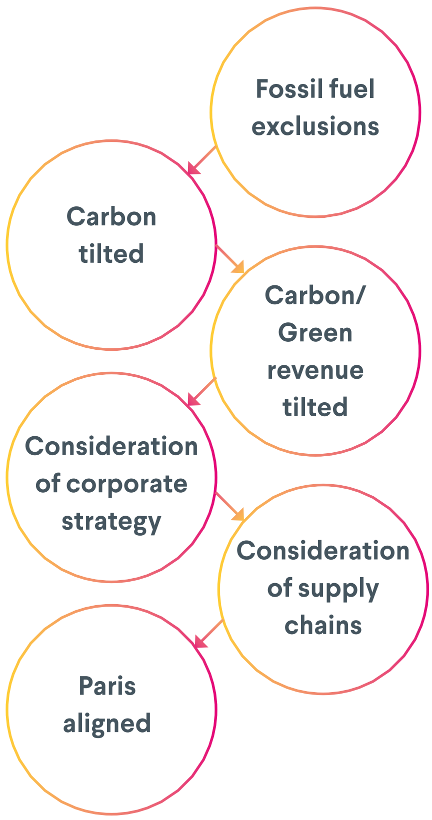
Evolving solutions

Initial RI-tilted approaches applied basic exclusions, removing exposure to certain companies with operations in what may be considered controversial business lines, or applied tilts to reduce exposure away from carbon intensive stocks.

Tilted approaches have become more complex, looking to exploit opportunities associated with a decarbonising economy and the approach being taken by corporate management in that process.

While this evolution has brought about a progressive shift from the use of much improved backward-looking data based on ESG scoring to integrate forward-looking projections of corporate behaviour, there are several key considerations to bear in mind before investing. Is it preferable to specifically manage climate risk (focusing on the 'E' only) or should solutions focus more broadly on Environmental, Social and Governance "ESG" risks? Are forward looking approaches favoured over backward-looking approaches? These key considerations revolve around a broader question of data quality and availability and are discussed below.

Figure 1: Evolution of solutions



The quality and availability of data

When considering the spectrum of solutions, we observe that they fall broadly into two categories – those that are managing ESG risks more broadly and those focused only on the risks and opportunities arising from climate change. The long-term trend that is expected to emerge, particularly when supported by the policy goals of a low carbon transition, will inevitably result in winners and losers.

ESG vs climate risk

Investors are demanding better quality data, particularly in relation to climate risk, in order to understand where risks lie within portfolios. While data quality is improving, climate metrics are currently not yet at a stage where they are being consistently reported across all industries, which raises the question of whether climate risk is being fully priced into market valuations.

In comparison, ESG data is even less standardised and significantly more subjective, leading to discrepancies in how different companies measure and report on ESG factors. It is not uncommon to find a low correlation between different ratings providers' ESG scoring for the same stock, due to varying methodologies and priorities being applied to different underlying factors. In addition, scores can be biased towards larger companies, not always because they are better at managing ESG risk but because they have greater resources available to report on ESG activity.

Sectoral context is also an important consideration. Some indices may favour higher scoring stocks within carbon intensive sectors such as oil and gas over medium or low scoring stocks in more sustainable sectors.

Both data sets present challenges. However, increasing demand for better climate data, and its more objective nature, makes it more robust than ESG metrics and therefore a more favourable starting point for alternative index construction.

Backward vs forward looking data

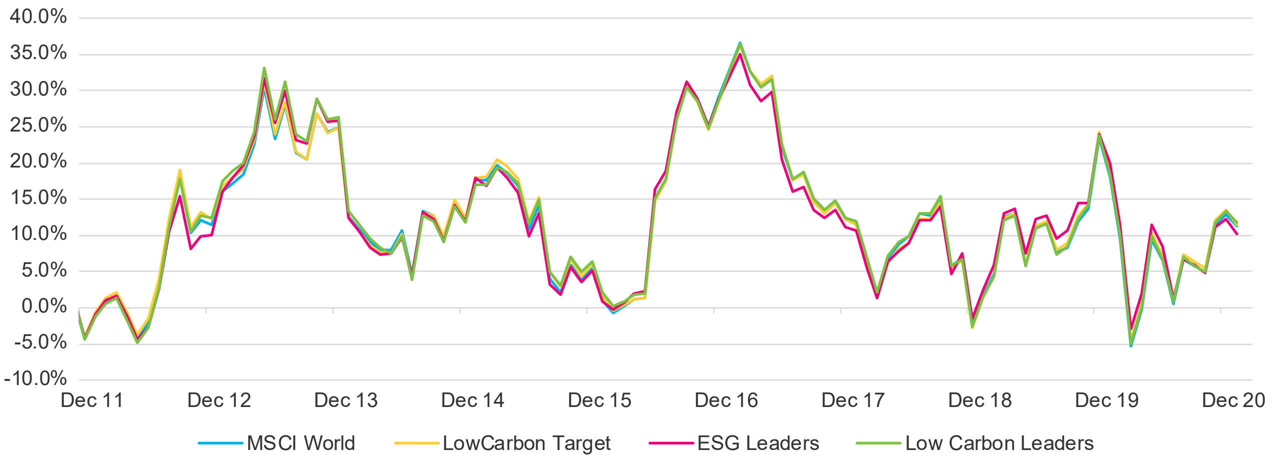
When considering whether a forward-looking or backward-looking approach is preferable, once again, data quality is a key factor. Backward-looking methods use ESG scores and climate metrics to construct tilts based on a company's ability to manage past risks. This type of data has the advantage of being concrete and readily available, however it is a relatively blunt construction tool with the potential to reduce exposure to companies prepared to adapt business models to better manage future risk.

On the other hand, forward-looking approaches will consider how corporate behavioural change may be implemented, what company targets are in place and how likely it is those targets will be met. Subjectivity plays a part in these forward-looking approaches with judgement being applied on how ESG or climate risk may impact a company's future valuation and the expected trajectory of corporate action relative to pre-agreed targets. This perhaps poses the question as to whether investors would be better reverting to active management where such considerations are directly integrated into investment processes.

Performance and fiduciary duty

While the track records are mostly short, some indices do have a long enough history to draw a reasonable comparison. Historic performance demonstrates that both ESG and climate risk approaches have not left investors worse off from an outcomes perspective.

Chart 7: Rolling 12 month returns



Source: DataStream

Table 1: Sterling returns and volatility to December 2020

	MSCI Low Carbon Target	MSCI W Low Carbon Leaders	MSCI ESG Leaders	MSCI World
1 year	13.5%	13.3%	12.3%	12.9%
3 year (p.a)	11.1%	11.0%	11.1%	10.8%
5 year (p.a)	14.6%	14.6%	14.4%	14.5%
5 year volatility (p.a)	12.6%	12.6%	12.2%	12.6%

Source: DataStream

One of the key objectives of such approaches has to be to reduce exposure to left tail risk (for example, the lack of pricing of carbon emissions which policy change may correct). Well-positioned companies should benefit and there needs to be some scope within the construction of indices for performance to vary. Strategies that “hug” the performance of a parent index may not offer this scope.

Engagement considerations

A key benefit of forward-looking approaches is that these indices can be used as an effective tool for engagement with companies, meaning investors and their managers can more effectively drive change. If a stock is excluded from an index, companies may be more incentivised to improve behaviours over a future time horizon to become an index constituent, or to maintain a certain standard to remain within the index.

Implementation considerations

Over the last year, more pension schemes have looked to explicitly allow for responsible investment within equity benchmarks. The proliferation of products creates a challenge for investors and, to navigate this, they need to be clear on their responsible investment goals.

Selecting a suitable solution, we set out below some principles which can be applied:

1. We believe the case for tilting to manage climate risk specifically is stronger, given the clearly emerging policy ambitions around the world. ESG data and associated solutions are improving but are heavily subjective.
2. While most ESG and climate data reflect point estimates or historic practice, particularly when considering climate tilts, we think there is a need to consider plans to change in the future. Forward-looking approaches aim to incorporate these.
3. While divestment reduces exposure, it does not create change. We prefer strategies that tilt away from less desirable exposures and permit ongoing engagement, but which retain the flexibility to divest where engagement fails over time.
4. The use of limited red lines covering areas such as controversial weapons, thermal coal and persistent breaches of the UN Global Compact is becoming normalised, often reflecting financial concerns. Investors can select funds that apply exclusions without needing to formally adopt those exclusions as their own policy.
5. Stewardship (engaging with underlying companies and the exercising of voting rights where they exist) remains a significant tool for capital value preservation and influencing corporate risk management practices which address climate and/or ESG.
6. Some caution should be applied when investing in less transparent products as the asset manager will have the discretion to go beyond what an index may do, for example, through further application of exclusions.

Summary

The approach that is most appropriate for an investor will depend on their Responsible Investment beliefs and policies, which will in turn inform which risks an investor is most concerned with. Underlying data quality used within the construction of solutions, and the methodology itself, must also be properly understood.

Overall, alternative index investing will reduce climate and/or ESG risk to a varying extent, and some methods will go further than others. We believe these types of solutions act as an initial step towards gaining familiarity with the implementation of a responsible investment strategy, and potentially set-up for further management of climate and/or ESG risks in the future.

Caoimhe Bain
Responsible Investment Consultant
caoimhe.bain@hymans.co.uk
020 7082 6028

Can value underperformance continue? – Part 1

Released: April 2021

After a decade of lagging the broader market, does the value style factor still deserve a place in an investor's equity portfolio over the long-term? This article, the first in a two-part series, will consider some of the key reasons for value's underperformance along with examining the conditions where it traditionally performs well and the catalysts for it to rebound.

What is value investing?

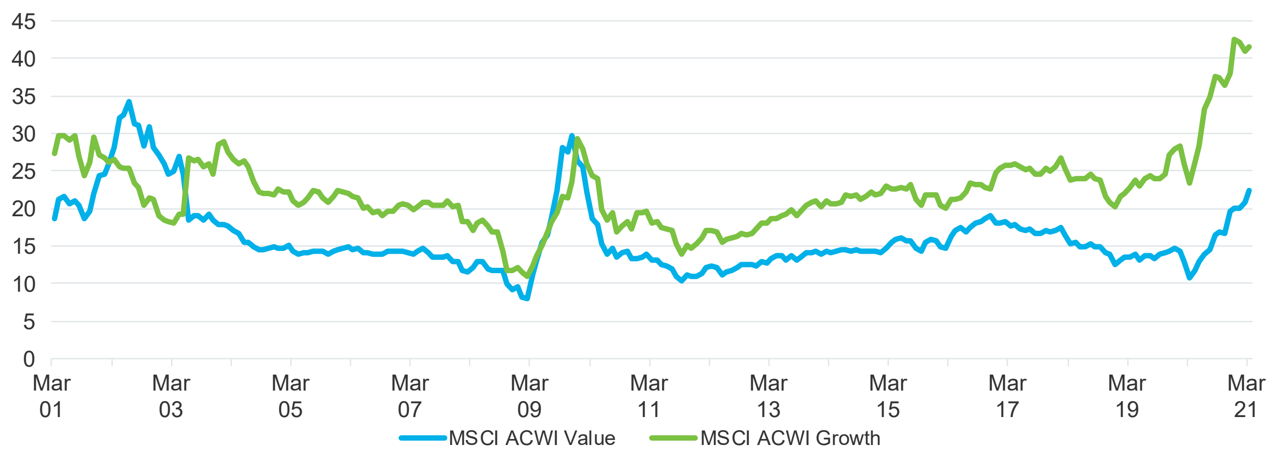
Value investing is a simple concept in principle: buying securities at a discount to their intrinsic value and waiting for the market to correct that mispricing. It was first applied to mainstream equity investing after Benjamin Graham and David Dodd released their 1934 book Securities Analysis. Some of the common characteristics of value stocks include high dividend yields, low price/book ("P/B") ratios and low price/earnings ("P/E") ratios.

What has caused the under-performance of the value premium?

Over the long-term, the value factor has been a source of market outperformance. However, since 2008 with growth dominating, value has lagged the market.

The recent valuation dispersion between growth and value has become more pronounced and prolonged than in the past and this was exacerbated even more during the COVID crisis, as can be seen in Chart 8. A large part of the sustained underperformance of value relative to growth since 2008 can be attributed to declining interest rates, subdued economic growth and structural factors driven by technological disruption. This has created new industry leaders which has led to significant index concentration, especially in the United States where many of these companies reside.

Chart 8: MSCI ACWI valuation spread between Value and Growth style indices (based on P/E ratios)



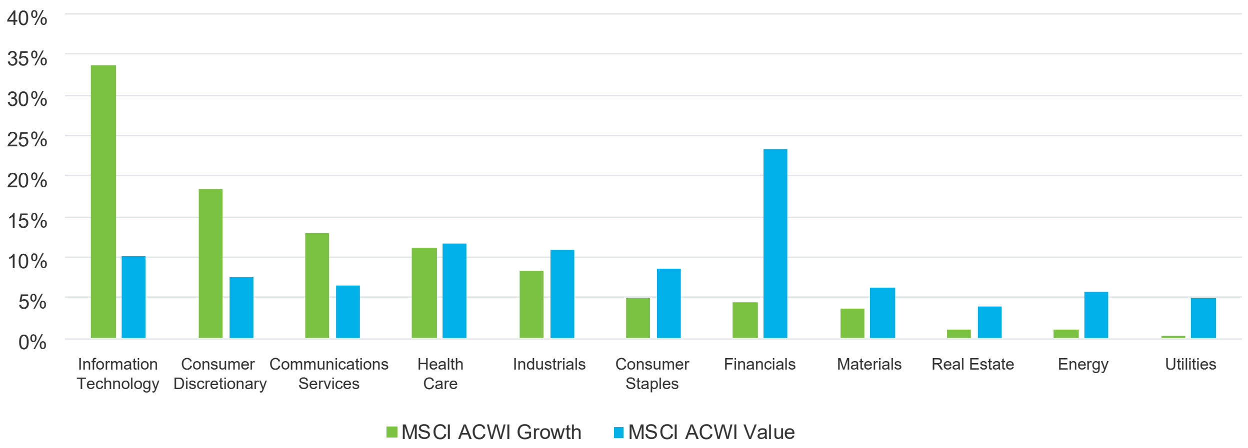
Source: Bloomberg. P/E represents index price / earnings-weighted average of index constituents

Since the Global Financial Crisis ("GFC"), the liquidity injected into the system by central banks has been significant and further support was again provided during the COVID crisis, where the amount of quantitative easing doubled. In addition, economic growth has slowed since 2008, leading to fewer companies being able to sustain high levels of growth. Those that can are often found in disruptive sectors, such as technology and communication services, with investors prepared to pay a premium for this scarcity of growth. This, coupled with low interest rates, has benefited such long duration assets because valuations for companies that can sustain higher-than-average growth rates have tended to increase as interest rates have fallen.

As investors have continued to pay a premium for this scarcity of growth, stock concentration (i.e. the top 10 stocks' share of an index) in the major indices has increased significantly. Companies like Facebook, Amazon, Apple, Netflix and Google, known collectively as the "FAANGs", now represent c.10% of the MSCI All Country World Index ("MSCI ACWI"). These trends accelerated in 2020 as many of these companies benefited from strong performance through the onset of the pandemic driven in part by the 'stay-at-home' movement and investors' continued preference for these larger, more profitable companies.

Another contributing factor to consider for the dispersion in performance between growth and value is the construction of style indices: the MSCI ACWI Value Index has a value-orientated weighting methodology whereas the MSCI ACWI Growth Index has a growth-orientated weighting methodology. These indices use P/B ratios as the primary measure of valuation to classify stocks as either value or growth. A company's book value measures its total assets minus its total liabilities but does not account for intangible assets (i.e. patents, licencing agreements, brand value and network effects) which currently comprise a large part of the company's assets, especially in the technology sector. The use of P/B ratios as the main valuation metric has led to significant sector biases in these indices. The MSCI ACWI Growth Index has a large exposure to technology stocks (see Chart 9) which have benefited from secular tailwinds while the MSCI ACWI Value Index has a larger exposure to financials which have faced headwinds such as regulation and low interest rates that have negatively affected performance.

Chart 9: MSCI ACWI Growth Index and MSCI ACWI Value Index sector allocations (%)



Source: MSCI, as at February 2021

Market environments when value performs well

The style indices outlined above date back to the early 2000s and an analysis of the historical data shows that the value cycle tends to peak at, or near, inflection points of an economic cycle as the economic cycle picks up and increases the earnings of more cyclically-exposed businesses such as materials,energy and financial stocks. In contrast, value struggles during momentum-driven and/or growth-driven markets.

Conditions for value to rebound and main risks that it won't deliver

We believe that the following factors could result in a sustained rebound in value's fortunes:

- Valuation dispersion – The extreme valuation dispersion between growth and value stocks, although one could argue this was already pronounced even before the pandemic (as shown in Chart 8 earlier).
- Low interest rates – Limited scope for interest rates to fall further, leading to reduced tailwinds for growth stocks.
- Inflation – An unexpected increase in inflation expectations, which may force central banks to raise interest rates.
- Momentum trade reversing – A potential unwinding of the growth momentum trade due to concerns over the sustainability of the current high level of growth rates, particularly in technology stocks.

Regarding the last point, some of the fastest growing companies are currently trading at valuations which reflect expectations that a high level of growth will be sustained for a very long time and if these companies' earnings normalize or slow in the future this could be a risk to investors. This could result for example from an acceleration of the deglobalisation trend, increased industry regulation or questions about the sustainability of growth levels. These concerns could result in investors refocusing their attention on companies trading at lower valuations and/or in sectors outside of technology and communication services.

One of the main risks of value not delivering is due to long-term disruptive structural changes. Some of the businesses that have emerged as winners over the last decade have strong pricing power and are less cyclical due to their exposure to long-term structural growth areas (examples include cloud computing, e-commerce, digital payments and artificial intelligence). The earnings of these businesses are less sensitive to changes in interest rates and/or commodity prices and can continue to do well as technology is adopted across other industries. Another consideration is ESG and sustainable investing which is being embraced at a faster pace by the investment industry and has implications on companies across sectors.

This will be discussed in more detail in the follow-up paper.

Summary

Value stocks have had a prolonged period of underperformance since 2008 and the main reasons for this are:

- Structural, due to technological disruption.
- Low economic growth, which has led many investors to pay a premium for the scarcity of growth.
- Low interest rate environment which has benefitted the higher growth companies in the technology and communication services sectors.

In addition, the simplicity of mainly using P/Bs as the key metric for constructing style indices has led to significant sector biases in the growth and value benchmarks. As discussed, the P/B valuation does not account for other intangible assets which comprise a large part of the assets in high growth companies.

We will consider intangible assets and how long-term value investors have adapted over time in our follow up article.

Oriana Mezini
Investment Research Consultant
oriana.mezini@hymans.co.uk
020 7082 6039

Market returns to 31 March 2021

	Yield % p.a.		Returns to 31 March 2021 (sterling, % p.a.)		
	31-Dec	31-Mar	1 year	3 years	5 years
EQUITIES					
Global	1.9	1.8	39.6	13.2	14.7
UK	3.4	2.9	26.7	3.2	6.3
Developed markets ex UK	1.8	1.7	40.4	14.5	15.5
Emerging markets	2.2	2.0	40.8	7.7	13.0
BONDS					
Conventional gilts	0.5	1.2	-5.5	2.5	2.9
Index-linked gilts	-2.4	-2.1	2.3	3.3	5.8
Sterling corporate bonds	1.6	2.2	10.1	4.6	5.2
High-yield (US) *	5.0	4.9	23.3	6.5	7.9
Emerging market debt*+	4.2	5.0	16.0	4.0	5.1
UK PROPERTY	-	-	2.6	2.7	4.6
HEDGE FUNDS *	-	-	20.2	4.8	5.1
COMMODITIES *	-	-	40.4	5.3	7.9

* Return in $ +Hard currency

Source Datastream:

FTSE All Share
FTSE World Developed ex UK
FTSE All World

FTA Govt All Stocks
FTA Govt Index Linked All Stocks
iBoxx Corporate All Maturities

BofA ML US High Yield Master II
JPM GBI-EM Diversified Composite
UK IPD Monthly

Credit Suisse Hedge Fund
S&P GSCI Light Energy

If you would like to find out more about any of the topics discussed in this publication, please contact your usual Hymans Robertson consultant or:

David Walker
david.walker@hymans.co.uk
0141 566 7733

Mark Baker
mark.baker@hymans.co.uk
0207 082 6340

Andy Green
andy.green@hymans.co.uk
0131 656 5151

London | Birmingham | Glasgow | Edinburgh T 020 7082 6000 | www.hymans.co.uk | www.clubvita.co.uk