

If Something Cannot Go on Forever, It Will Stop – Stein’s Law

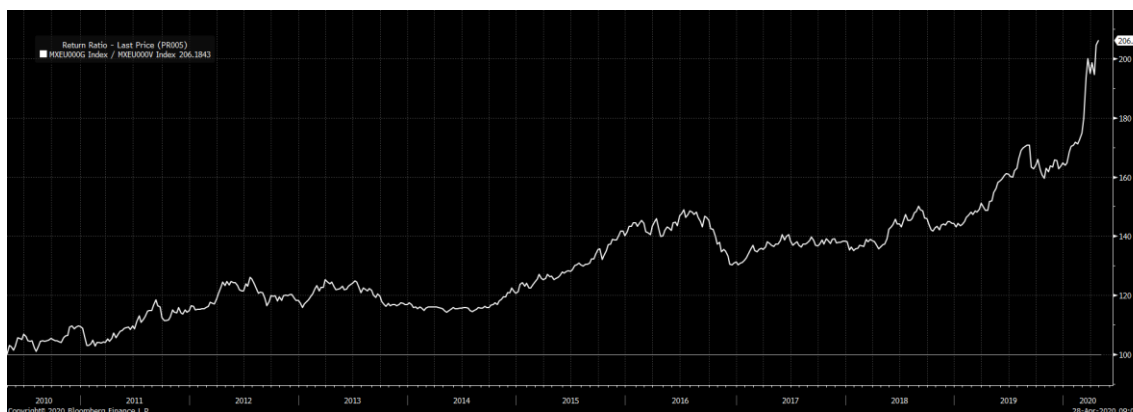
Growth, Momentum, Quality. If you have been invested in any or ideally all of these ‘styles’ you’ve had a pretty great decade, at least relatively, in stock markets globally. The corollary of course is that the opposing styles, collectively and loosely referred to as ‘value’, have had a truly torrid time. Indeed, the relative performance trend has accelerated sharply in the last couple of years and has shown no real signs of abating, either in the vicious market collapse in early 2020 or (yet) in the tentative rebound of the last month or so.

Today’s weekly update is (mercifully) light on text. We don’t think there’s a huge amount of merit in reviewing the drivers of the relative style performance differentials, what matters of course is where we go from here. In that context charts provide a useful summary of the current state of play and we have included several below from around the globe, the trends being essentially the same wherever you look:

S&P 500 Growth / Value – Last Decade



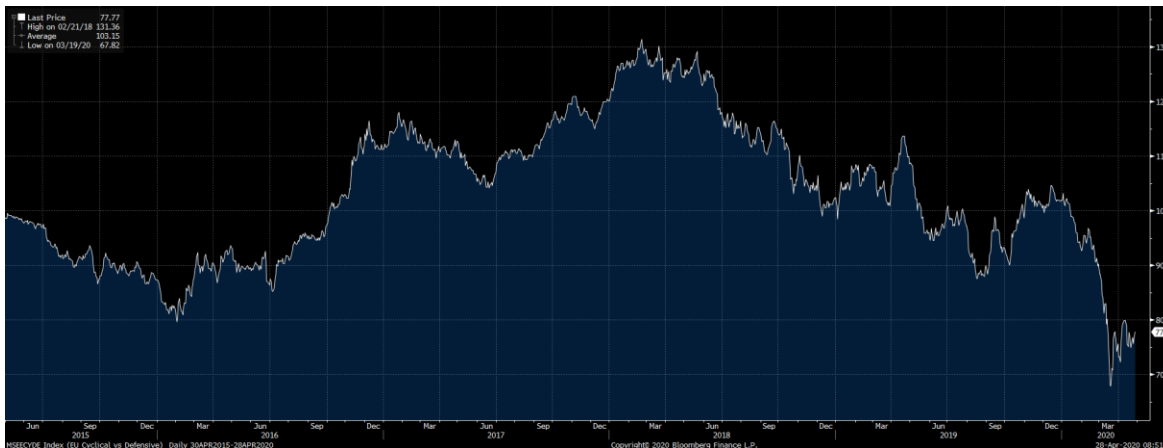
MSCI Europe Growth / Value – Last Decade



Europe Good / Bad Momentum Index – Last Decade



Europe Cyclical / Defensive Stocks – Cyclicals Underperforming Since Late 2017



MSCI US Growth (Green) and US Value (White) - Price/Sales Ratio... Growth looks 'expensive' now



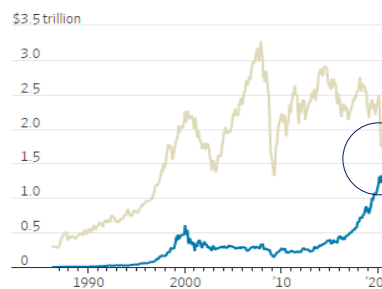
So, in the context of Stein's Law, can these trends continue forever? If not, presumably they will stop. We are well aware that calling an end to these, seemingly endless, trends has been a fool's errand for a long time and we certainly aren't brave enough to call the exact timing here either.

However, just as we don't believe in magic money trees, neither do we believe these trends in equity market styles will persist indefinitely. The catalyst for change? As always it will be 'obvious' with hindsight but most likely it will be ignored at the time.

As focussed stock pickers we try, always, to concentrate on the combination of fundamentals and valuation for every stock in our portfolio. In doing so we will buy growth/quality/momentum stocks if we think the valuation, at whatever level, hasn't yet fully reflected the stocks fundamental potential. Equally, we buy plenty of 'value' stocks, not simply because they look 'cheap' but because we believe they have a better future than is implied by the current share price. At the present time we are without doubt finding many more opportunities in this latter category.

Indeed, we think the chart below might just be making that case for the whole UK stock market. Microsoft is undoubtedly a fantastic company creating tremendous value over several decades. As its market capitalisation converges on that of the entire FTSE 100 the question naturally arises - will it really create more value, over the long term, than all of them combined? Entirely possible of course, but it is equally possible that, at current prices, UK equities are just really, really good value.

Microsoft vs. Britain
Market capitalization
■ Microsoft ■ FTSE 100



Source: Refinitiv

UK Equities represent
good value?

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 1st May 2020

Source for Data and Charts (Unless Otherwise Stated): Bloomberg

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