

Keeping a cool head is the key this month

January is usually when we reflect on the year just passed and look at tactics for the year ahead after markets tick higher on New Year positivity. Well, 12 days into the year, US CPI has hit 7%, a number not seen since the 80s, and the volatility in markets is already eye watering.

It looks like markets have decided that the US Federal Reserve are actually a lot keener on raising rates than anyone knew. This is one of these scenarios we like to call a "known unknown" - people know it's there but don't know how to react to it. The positioning 12 days into 2022 is that growth investing is coming under serious pressure with investors pulling capital out of anything which doesn't have real earnings, under fears that inflation is going to remain a lot more permanent than we have given it credit for.

The core premise as to why growth investing is being sold off is earnings projected in 20 years (that's what a growth company's earnings look like) will be subject to inflation eroding those earnings, and with inflation at 7% YoY that's a whopping discount one needs to apply to growth earnings in 20 years. Also, rate hikes increase the yield on fixed income which is also a discount factor on future earnings so it's

double bubble time for growth shocks. Queue the Nasdaq index briefly touching what is technically called a "correction". Conversely, companies with earnings being generated right now don't have that 20 year discount applied to them and thus seem much more attractive. The compounder is these stocks and their real earnings have been neglected for over a decade so they are cheap as chips and investors know it.

It's safe to say that some of the best performing funds over the last 5 years are down double the market ytd and in some instances four or five times the global equity market. Are the growth stocks which these funds own now bad? Of course not, TAM invests into some of the best growth managers in the world with investment processes which have proven themselves time and again. Are we selling these quality managers regardless? Absolutely not, as they still form a core part of delivering long-term value for clients. But in the first 12 days of 2022 markets don't care about the quality, its baby out with the bath water time.

How to defend against this type of attack on the growth darlings of the last decade? Diversification is, as always, king. TAM is an experienced manager when it comes to diversification so yes, we have got some fantastic growth funds which are in pain right now and that's being reflected in headline performance but we have also got funds such as Pzena Global, a global value fund and one of the best in the business when it comes to value investing who are up over 70% against the global equity market. Having been at the bottom of the barrel for such a long time these funds are having their time in the sun and we are delighted our clients are sharing in their success. TAM's historic underweight to government debt is also proving a fantastic play in this market as government debt in the US and the UK has had one of the worst starts to a year in many years.

It is a frustrating start to the year, but our diversified approach to investing client capital is one of the reasons we have been able to outperform other competitors who have been more deeply embedded into the "growth" trade which has now stepped into the firing line. We are poised to rotate client investments into core value or growth but we maintain that the place to be this year is high quality, high quality companies with robust earnings, solid management in difficult sectors for competition to enter into and in some instances, companies paying that critical component of investing - dividends.

This is not a time to panic. This is a time to be realistic about small portfolio setbacks in a market like this one while remaining nimble and grabbing opportunities, but not selling what we know to be fantastic long-term investments for our clients.

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