

# Equity Markets; Nowhere else to hide?

There doesn't seem to be any stopping equity markets this year as they continue to climb higher and higher due to a genuine absence of anywhere else to go in order to sustain a reasonable return. As markets keep rising and valuations continue to stretch, although at this point it can still be argued not excessively, investors keep buying in and notching up gains. The scenario is starting to look like a self-fulfilling prophecy and it seems there is nowhere else to go to make a similar level of return.

What may be of concern is that this scenario has backed investors into a corner where the only option for 'decent' returns is to remain positive and keep owning equities even in the face of any uncertainty. There are fewer and fewer places to hide in other asset classes to provide even a solid nominal return.

Current data would lead us to believe that investors continue to be undeterred by the downside risk to equities and remain lured by the potential growth and higher yields available. In a world where the sources for real yield continue to narrow there are few alternatives - government debt, corporate debt, property, absolute return funds and cash are all pretty uninspiring. With bond yields so low their risk-reward profile becomes rather unattractive given that we have now begun the move into a rising interest

rate environment.

Markets, for now, have become seemingly de-sensitised to the geopolitical uncertainty which has dominated the scene this year, such as the saga in North Korea, drama coming out of Washington and chaos surrounding Brexit. The laissez faire reaction from investors continues to surprise us, with global equities marching (albeit struggling) to new all-time highs despite this ambiguous market environment.

**Overconfidence? Complacency? Or just plain recklessness?**

With this said, the valuations of safe-haven assets such as government bonds and bond proxies would indicate the opposite- investor caution, perhaps? This would go some way to explaining why the more defensive growth stocks have performed so strongly this year. So which is it? With the market's main gauge of risk, namely the VIX index, recently hitting new lows, one could definitely argue that yield hungry investors appear to be unfazed by the headlines and key policy risks present in equity markets.

Almost a decade since the Global Financial Crisis, markets have been in a world heavily propped up by the support of governments and central banks which has encouraged risk-taking. Global economic conditions have also remained positive for the recent past and, one suspects, the foreseeable future, with economic growth and inflation seemingly in a state of 'not too hot, not too cold'. As this financial support to markets is withdrawn, it will be a case of assessing where the market truly stands as it begins to wean itself off years of stimulus and learns to stand on its own two feet once again. In this environment, as always, there will be both winners and losers.

The question is: Who will come out on top and whose flaws will be exposed for all to see? If and when the bull market grinds to a close, will the stocks that climbed up the stairs ultimately come crashing down the elevator shaft?

**Why do we say there is nowhere else to hide?**

Simple - alternative asset classes to equities are providing very poor, or even the prospect of negative returns. Today, you simply cannot hide away from equities and make anywhere near equity like returns.

**So what are our thoughts?**

TAM maintain three beliefs; firstly that within our equity allocation truly active stock pickers will benefit from the disparity highlighted above and can, if selected wisely, offer significant benefits should broader market indices flat-line or even decline. Secondly, whilst our current view is to remain up-to and in many cases modestly overweight equities, it will be controlled and held as part of a diversified exposure to other less-correlated asset classes. We will certainly not allow weightings to creep above our internal limits and unknowing exposure our portfolios beyond their inherent risk profiles. Thirdly, our investment strategy of only investing with liquid and transparent funds, allows us to quickly and efficiently move

between a growth orientated focus and one of capital preservation should we need to. So whilst today we remain fully invested, we closely monitor both current conditions and our future expectations so that when the music stops, we will not be the ones without a chair.

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