IT'S TIME TO LISTEN TO A ROMAN SLAVE

MAY 2019

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At the time of writing, most equities markets are up over 10% in 2019, and we are not even half way through the year. Extraordinary. Following the volatile but unrewarding 2018, culminating in the falls of the fourth quarter, investors are likely to be feeling pretty proud of their portfolios at the moment. Perhaps too proud – to the extent that it may be time to make use of one of history's oldest tricks to avoid getting carried away: a whispering Roman slave.

Not just any Roman slave, of course, but an Auriga slave. An Auriga, whose main role was to transport Roman generals around in the pre-Uber days, played an important part in an obscure Roman tradition that today's investors, sitting on their sizeable YTD returns, could do well to follow. During every Roman parade following a military victory, an Auriga would stand behind the victorious general as he rode in his Chariot. Holding aloft a crown above the general's head, the Auriga would whisper over and over again the same phrase into the ears of the general: "Respice post te. Hominem te memento...Respice post te. Hominem te memento..."

Translating roughly as, "Look towards your death, you are only a mortal", this tradition was designed to help the general fight those great twin enemies of future victories: hubris and complacency. The Romans' view was that wars are won by preparations today, not confidence tomorrow.

What would your very own Auriga slave be whispering into your ear today?

Given the purpose of the whisper, probably the most appropriate would be, "It's not you – after the Fed paused, equity markets have rallied in expectation that real rates have peaked". I'm not sure this would translate nicely into Latin, but the message – that your portfolio's strong performance this year probably has more to do with the Fed's hiking cycle than your own skill – is an important one to bear in mind. Just as we cannot expect portfolios to generate strong performance if asset classes are all negative, we should not congratulate ourselves for strong returns when markets are up so much.

How to avoid hubris and complacency in your portfolios? One way would be to use this rally to pause and reflect on what has done well, what has done too well, and what has not kept up. For instance, although equity markets are up across the board, emerging market (EM) equities have substantially lagged those in developed markets since the credit crisis. However, with US real rates likely to be at or close to their peak, the risks around future funding and a strong dollar are declining, while any resolution to the China-US trade war would of course be beneficial to emerging markets as a whole, not just China.

This does not mean that you should allocate your entire portfolio to emerging markets. However, EM (on a PE of around 13) do look relatively attractive compared to developed markets (on a PE of 17) given the strong returns we have seen so far this year.

The rally in EM equities over the past two years has been largely concentrated in a select group of 'new economy' stocks, mainly within technology/internet and healthcare, but we believe there is a real opportunity to look more closely at some of the forgotten 'old economy' stocks that have fallen out of favour but have catalysts that could drive their valuations higher. These include state-owned enterprises, which in our view offer good value, and financial and construction companies, which we believe are unjustifiably unloved at the moment.

Just some ideas to consider. If asked where you heard them, just say your Auriga slave told you…

201905-834026