

J. STERN & CO.

The Value of Long-Term Investing

Market Commentary

THANK YOU FOR EVERYTHING

The death of Queen Elizabeth II marked the end of a long and prosperous era and the beginning of a new one. She was a part of our lives almost all over the world, and she was our neighbour in our offices in Carlton Gardens. Paddington Bear's lovely and moving tribute, "Thank you, Ma'am, for everything" is a reminder that he first appeared in 1958. Their tea at Buckingham Palace may have been very much CGI for her Platinum Jubilee earlier this year, but she would likely have read his books to her own children over tea and biscuits, and an occasional marmalade sandwich, as they were published.

Historical moments like these are opportunities to reflect on events and how they have shaped our lives. The Queen's reign coincided with the post-World War II era of unprecedented progress and prosperity for humanity. War, reconstruction, conflict, poverty, economic depression, inequality, discrimination and intolerance all featured prominently throughout the period and yet peoples, governments, economies and markets found ways to be resilient and to deliver for the common good. We have innumerable facts and statistics to prove what this has meant in terms of life expectancy, income and quality of life, but also the preservation and increase in the value of assets and returns from investing in companies and markets.

There is no reason to believe that the new era we are in will be less promising, peaceful and prosperous than the era that has just closed. The longer the time horizon, the clearer the perspective, the less the focus on short-term volatility and the greater the ability to have confidence and see opportunities where others are fearful and see only risks.

We would do well to consider that perspective in thinking about the opportunities and risks we face today. The Covid-19 pandemic has been a defining event, and although it may appear as if it is in the distant past, its impact is still pervasive. Governments and central banks were able to avoid a global collapse through fiscal and monetary policy that will take time to unwind. The geopolitical situation is fraught as the dreadful Russia/Ukraine conflict has entered a new phase which has increased risks but has also caused China and India, global powers that have their own politics and incentives, to issue statements that indicate that they too are concerned with global peace and prosperity.

There are significant global bottlenecks in labour, resources and supply chains that are causing high rates of inflation. Some should ease as supply responds but others will be more persistent because of a need for longer-cycle investment or because of other structural reasons. Central banks were hawkish in August as they have been this month and US interest rates and inflation expectations are approaching levels that are consistent with a strongly growing economy, and with history.

The companies we invest in have strong underlying demand, both in terms of the results they reported earlier this quarter and in their updates this month. Some are impacted by shortages in different ways, and some are seeing consumption or orders impacted by short-term concerns. Markets have continued their volatility this month and investors have reacted strongly to real and perceived disappointments from companies and their announcements.

We will of course follow them closely but will keep our long-term perspective to invest in companies that have great quality for the long-term and to buy them at the great prices they

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are trading at because of the market volatility. Last month we were able to buy Disney as we discuss below and we are looking at other opportunities we hope to take advantage of.

Our Investment Insight this month is about the Emerging Market Debt Stars Fund, which builds on the Emerging Market bond strategy that we have managed for many years. We think there are quality companies that are mispriced because of the credit rating of the countries they are based in and because of other reasons, and that offer an attractive opportunity for investors. Our UCITS fund makes our strategy more widely accessible and you can read our Investment Insight by following the link [here](#) or clicking on the attachment.

World Stars Global Equity

Our World Stars Global Equities strategy closed August down -6.4% in US dollar terms reflecting another difficult month for the markets amidst lingering concerns about the resilience of the global economy against ongoing inflationary pressures and rising interest rates.

Our stocks echoed that volatility. On the positive side during the month, medical devices manufacturer *Becton Dickinson* was up 3%, reflecting an acceleration in its organic growth profile following the company's recent repositioning of the business towards higher growth rates and the spin-off of the lower-growth Embecta business. Our holdings in the broader consumer products industry also remained resilient, with both our spirits holdings, *Diageo* and *Pernod Ricard*, reporting strong earnings benefiting from the recovery in on-trade activity, still buoyant at-home consumption and consumers continuing to spend on premium spirits products. Our holdings in the luxury and travel industry continued to outperform a nervous market, benefitting from robust demand.

On the negative side during the month, *Nvidia*, the graphics chip manufacturer, sold off -17% as the company guided for lower short-term revenues out of its gaming business. The company noted slower consumer demand in recent months within that segment aggravated by its efforts to clear legacy inventory ahead of the launch of its next-generation graphics card. It is important to note however that the company's data centre business remains robust and that ultimately the long term-structural drivers, including artificial intelligence, edge and cloud computing and autonomous vehicles, remain intact despite the short-term headwinds. Similarly, enterprise software provider *Salesforce* closed the month -15% pointing to softening trends within its retail, telecommunications and media end markets and noting that clients are taking longer to make purchasing decisions amidst the current macroeconomic backdrop. Like with Nvidia, the underlying structural trends for the company's end markets remain unaffected. Ultimately businesses need to engage with their customers at a deep level across sales channels and Salesforce's products and solutions enable them to achieve just that.

During the month we took advantage of the market volatility to introduce a new position, *The Walt Disney Company*. Disney has a portfolio of iconic characters and content ranging from the legacy Disney library to Star Wars, Pixar, Marvel and 20th Century Fox. We believe the recent sell-off presents a particularly good moment to invest with two strong catalysts to support the stock going forward. First, the theme parks and resorts business continues to recover strongly given significant pent-up demand post the pandemic. Second, Disney's media business is enjoying strong momentum following the pivot to streaming with Disney+. The company's portfolio of channels has grown to over 220 million subscribers since its launch, exceeding Netflix. We created capital to purchase Disney by exiting our position in *Visa*. The stock performed well during the pandemic with the switch to cashless payments

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and has been able to sustain its momentum after the pandemic with increased spending on travel and leisure. Given its strong performance this year and our exposure to payments through other multiple holdings we believe buying Disney and selling Visa allowed us to buy a global leader at a very attractive valuation while diversifying our exposure and taking advantage of the relative performance of the two companies' shares this year.

Multi-Asset Income

As expected, volatility increased across asset classes during August driven by macro news flows. Investor focus switched from the reasonable results reported for the second quarter to economic data and expectations for central bank policy. The US Federal Reserve clarified its message regarding its determination to tame inflation as a priority. US yields, which had benefitted the prior month from expectations of slower global economic growth, rose again towards the June peak, putting pressure on all risk assets.

In this context the income portfolio gave some ground, closing down -1.5% from the previous month in US Dollar terms (now down -16% since the start of the year). Equities were the most volatile asset class last month and our equity portfolio showed a negative return of -6.9% (-26.6% for the year). By contrast, our fixed income portfolio showed strong resilience with a positive return of 3.1% (down -9.4% for the year). The non-correlated funds were mostly flat last month, with a negative performance year to date -7.4%.

With most of the earning releases behind us, the equity portfolio was mostly driven by general profit taking and other issues. The fixed income portfolio benefitted from widespread bargain hunting and some specific idiosyncratic issues (YPF +13% and Kelbourne +12.4%). Also, Grupo Posadas recovered from the selling pressure the previous month as fundamentals are recovering on the ground.

Markets are likely to remain driven by macro flows until investors get more visibility on third-quarter results and how they are affected by the challenging economic environment. Significant dislocations could open opportunities for investments that can generate returns for the next three to five years thanks to our focus on quality, value and income generation. The latter remains firmly our priority in the short term.

Emerging Market Bonds

Our Emerging Market Bonds strategy was up 2.5% for the month in US dollar terms amid recovering risk sentiment on the back of solid second-quarter earnings season and attractive valuations. The rally in bond prices faded towards the end of the month as the market focused on Jackson Hole where Chair Powell insisted the Fed will do what is necessary to bring inflation back towards their 2% target, which led to a material 70 basis point increase in the 10-year US Treasury yield to 3.3%.

Drivers of performance were diversified across geography and sector. YPF (Argentina, energy) was up 13% with results confirming higher production and realized oil prices led to a ninth consecutive quarter of positive free cash flow and further deleveraging of the balance sheet. Argentine corporates were also supported by the election of Sergio Massa as minister of the economy, considered a more moderate member of the governing coalition and likely to strengthen relations with the IMF. Meanwhile, Wom (Chile, communications) was up 13% on completion of a tower infrastructure sale with the proceeds being used in part to reduce gross debt and ease previous concerns about elevated leverage.

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Also noteworthy were our Turkish corporates, which were up between 4% and 6% despite the central bank shocking the market by cutting the benchmark policy rate to 13% in the face of inflation near 80%. Earnings from Turkish blue-chip corporates highlighted the strength of their business models and proven resilience to operate in such an inflationary environment.

Meanwhile, we took advantage of the interest rate volatility impacting higher quality corporates to add a new position to the strategy. Based in India, *UPL* is one of the largest agrochemical businesses globally focused primarily on the crop protection market which has attractive industry dynamics with food security in the spotlight.

Performance will continue to be driven by macro conditions and volatility is likely to stay around, with the market continuing to shift its attention between concerns about the persistence of inflation and deep recession. This environment will continue to create attractive value opportunities for long-term investors focused on strong underlying corporate fundamentals. Today, our Emerging Market Bond strategy offers a 11% yield to worst (in US dollar terms) with a relatively short duration of four years. The portfolio has an 8% current yield and the average bond price is 84 cents on the dollar, which provides room for capital uplift.

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