

# Russell Investments – live webinar series

June 2020

## The time is different, right?

**Alister van der Maas, CFA,**  
Managing Director NZ,  
Russell Investments

**Pete Gunning, CFA,**  
Global Chief Investment Officer,  
Russell Investments

**The webinar will begin shortly**



# Historic headlines



## INTERNATIONAL MONETARY FUND

The Great Lockdown:  
Worst Economic Downturn  
Since the Great Depression

## Forbes

Oil Prices Plummet And May  
Futures Turn Negative As  
American Storage Tanks Fill Up



## NBCNews.com

U.S. jobless claims reach  
26 million since coronavirus  
hit, wiping out all gains  
since 2008 recession


## The Guardian

New Zealand launches massive  
spending package to combat  
Covid-19



## The New Zealand Herald

Unemployment rate rises to  
4.2%, worst still to come



“If you aren’t willing to own a stock for ten years, don’t even think about owning it for ten minutes.”

- *Warren Buffet*

# What is your time horizon?

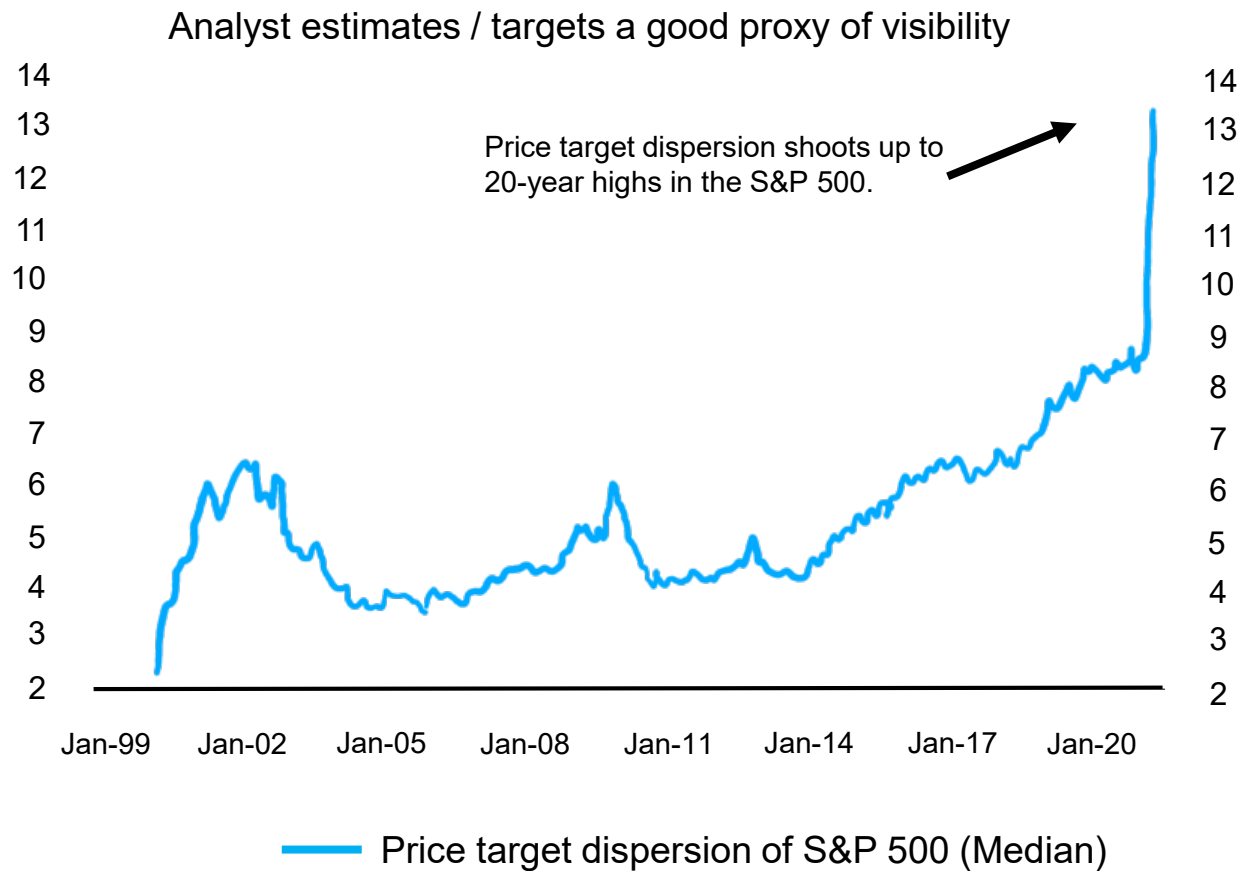
2 years or 30 years?

Value relative to Growth: rolling 10 year annualised return



Source: Fame/French Dartmouth/Tuck series, Russell Indices (Reuters Datastream), Bloomberg

# Sell side uncertainty has never been higher – huge opportunities for skilled stock pickers



Source: Trahan

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## Where to now? Opportunities for long-term investors

**Andrew Pease**, Global Head of Investment  
Strategy, Russell Investments

and

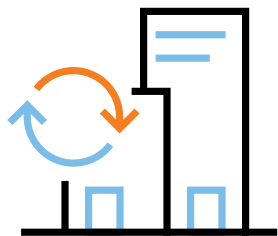
**Erik Ristuben**, Chief Investment Strategist,  
Russell Investments

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# Dynamic asset allocation

Proprietary views adapt to constantly changing markets



## Cycle

Identifies changes in the macroeconomic environment that influence asset class behaviour

### Inputs

- Central bank policies
- Government fiscal actions
- Political and geopolitical events
- Corporate earnings

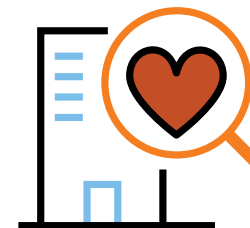


## Valuation

Measures return potential across asset classes, but is the smallest weight in the tactical framework

### Inputs

- Historical context
- Risk premiums
- Consensus expectations



## Sentiment

Looks at price momentum versus contrarian indicators that signal overbought/oversold condition

### Inputs

- Fund flows and popular positions
- Short term technical
- Investor behaviour and risk appetite
- Economic surprise indices
- Investor sentiment surveys

Source: Russell Investments. For illustrative purposes only.

# Three building blocks and three time horizons

- › **Strategic** > 5 years
  - > Valuation and mean reversion dominate
- › **Dynamic** 1 to 5 years
  - > Value, Cycle and Sentiment all matter
  - > Investment clock an important guide
- › **Tactical** < 1 year
  - > Sentiment (technical analysis, momentum, fund flow etc) is important
  - > Business cycle helps with turning points
  - > Value helps gauge risk



# Longer-term implication of COVID-19

## Five themes

### 1. Low interest rates for longer

- > Central banks will be cautious, lots of spare capacity = low inflation

### 2. Less globalisation

- > Supply chains unwound, food security, medical supply security

### 3. More government debt & more government

- > Government support of industry, rising inequality, higher taxes

### 4. Higher inflation, eventually

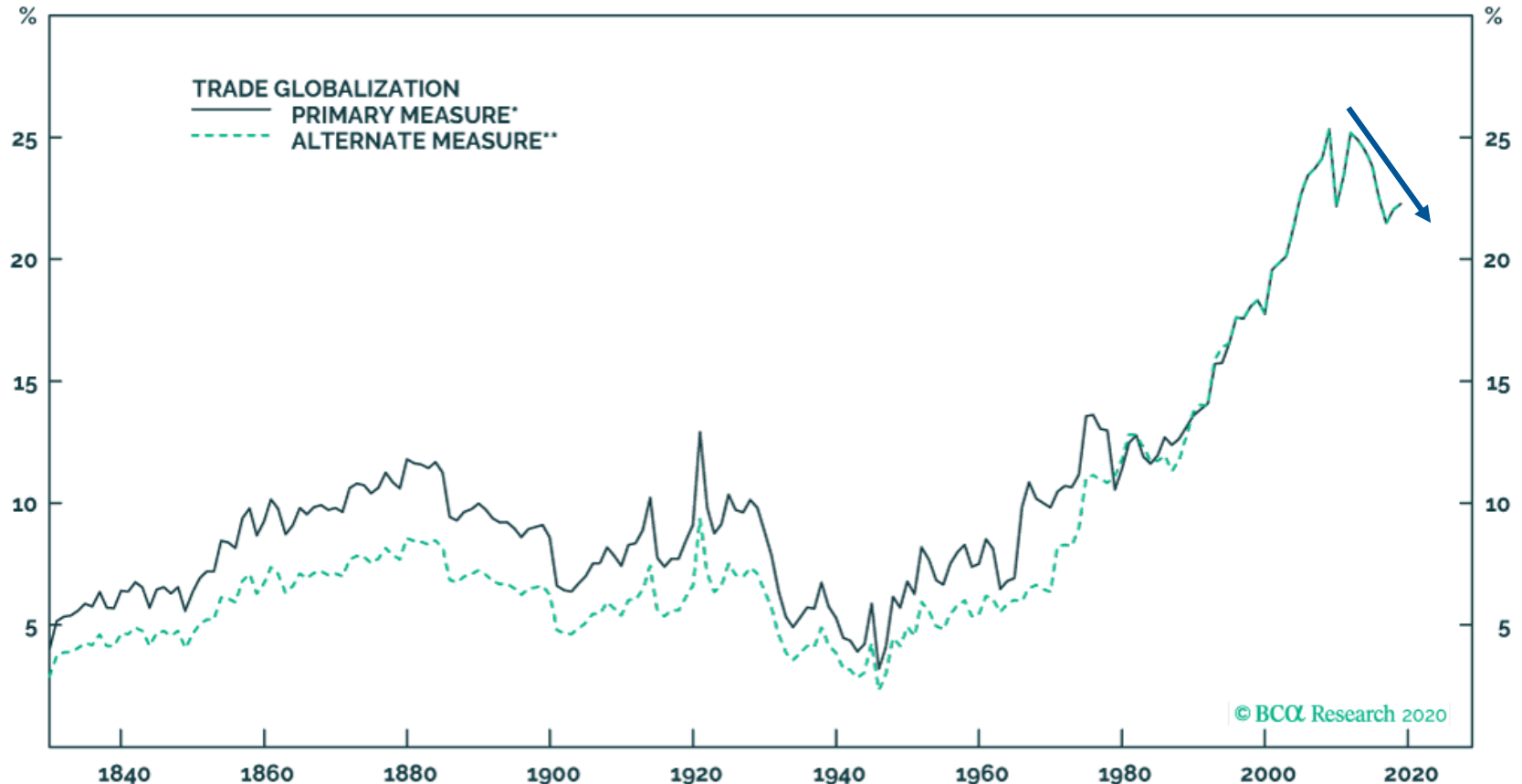
- > Globalisation was disinflationary, its reversal will be inflationary

### 5. Pressure on profit margins

- > Slower trend growth, just-in-case replaces just-in-time, higher taxes

*Investment implications: Developed over emerging, domestic over global*

# COVID has sped-up anti-globalisation



\* MEASURED BY IMPORTS AS A PERCENT OF GDP WEIGHTED BY POPULATION. BCA CALCULATION FROM 1994.

\*\* BCA CALCULATION FROM 1960.

NOTE: NUMBER OF COUNTRIES VARIES BASED ON DATA AVAILABILITY.

SOURCE: BCA CALCULATIONS AND CHASE-DUNN C., KAWANO Y., AND BREWER B., "TRADE GLOBALIZATION SINCE 1795: WAVES OF INTEGRATION IN THE WORLD SYSTEM," AMERICAN SOCIOLOGICAL REVIEW 65 1, 2000.

# The big opportunity in Equities?

