DOWGATE CURIOUS INVESTOR

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Past Performance

Over the last four years, the England men's rugby union team has dramatically fallen down the world rankings after losing to South Africa in the 2019 final. They face Argentina in their opening game this Saturday as underdogs, with odds of 16-1 being offered for England to lift the Webb Ellis Trophy next month. It is pertinent to ask whether past performance provides a guide to future performance. England fans will live the next few weeks in hope rather than rational expectation that recoveries, sometimes miraculous ones, can and do happen. (Although not investment advice, Argentina, at 28-1, looks like a more rational proposition).

08/09/2023	Value	YTD (%)
FTSE 100	7447.61	-0.06
FTSE 250	15730.07	-1.31
S&P 500	4451.14	16.53
Gold $/lb	1948.05	5.81
Brent Oil $/bl	89.69	5.57
Copper $/lb	3.74	0.79
UK 10 yr yld	4.58%	4.09
US 10 yr yld	4.23%	9.02

As investors, we are sometimes guilty of overplaying the role of research, due diligence and investment process when delivering outperformance while all too readily blaming external, exogenous, uncontrollable events (bad luck) when things don't turn out as hoped. While we might hang on after things have gone wrong, hoping for our fortunes to change, there is no doubt that a winning strategy will succeed if it is well thought out, bought into by the team and properly executed. (Watch South Africa, New Zealand, France and Ireland over the coming weeks for good examples). We frequently quote Napoleon that he/we would rather have lucky generals than good ones, but even he eventually ran out of luck and met his Waterloo.

From a macroeconomic perspective, the UK has been regularly portrayed as the sick man of Europe since its self-inflicted flirtation with economic suicide, otherwise known as Brexit, seven years ago. Although the immediate post-referendum economic decline didn't materialise, the more recent above-average GDP decline and slower recovery from the lockdown was put squarely at the feet of our Brexit catastrophe. Many Brexit supporters conceded that the UK had mishandled the post-Brexit period and openly questioned if we still had it within us to be an independent nation-state. After all, the UK was the only G7 country with a smaller economy today than in 2019. Or was it?

According to the UK's Office for National Statistics (ONS), the UK economy actually surpassed this pre-COVID marker nearly two years ago. It admitted last week it had made errors in calculating the UK's GDP, and the UK is not the economic slouch of popular narrative. (Well, it may be a slouch, but not so much as previously thought on an absolute or relative measure).

But does any of this matter? We know that the market is not the economy, and the economy is not the market. So what if the economy is 1.7% bigger (about £40bn, or the size of the 12th largest FTSE100 company) than we first thought? It doesn't change anything. Or does it?

Well, there is little direct impact. It doesn't mean the Exchequer gets more tax revenue than previously thought, and it doesn't mean that companies we invest in have to increase guidance for revenues and profits. But the UK's higher GDP number will feed through into quantitative screening models of global asset allocators. And with large passive flows increasingly driven by such allocators, this is significant.

None other than Warren Buffet looks at a country's market capitalisation to GDP as a parameter for taking geographical risk. With an MSCI developed markets index weighting of just 4% (down from 10% in 2000), the UK remains a top-six global economy. The MSCI-developed market index captures 85% of the world's equity capitalisation, implying a pool of capital worth $68tn. So, a 1% increase in global allocations to the UK is worth $680bn (£535bn) or about 20% of the UK's total current market cap, equivalent to the top four FTSE 100 companies, Astrazeneca, Shell, HSBC and Unilever combined.

Unlike macroeconomics, rugby has regular objective endpoints when games are won and lost, and teams advance or decline. The equity investing equivalent is company reporting, and this week marked the first results for Dowgate's Onward Opportunities Ltd. While not competing in the big leagues, Onward was born out of a determined team effort to launch a permanent capital vehicle focused on smaller UK companies in the teeth of a US regional banking crisis and its ensuing market volatility of March this year.

Six months on, **Onward** has begun to show the promise of a winning team with a winning formula reporting a top decile investment performance (NAV growth) since inception, placing it 3rd out of 26 peers in the AIC UK smaller companies' sector by the end of June.

By the end of August, Onward was c.50% invested into equities, and the NAV was up by 3.6% compared to the AIM market performance of -7.9%. Its rigorous investment process and ability to identify undervalued companies in the microcap segment are critical to Onward's success. To this end, it has revealed four core investments, all making an initial positive contribution: Angling Direct, React Specialist Cleaning plc, Comptoir Libanais plc and Transense Technologies plc.

As global investors re-allocate capital towards the UK after its GDP upgrade, the tide will rise in the pool where Onward is currently bottom fishing. By taking the trouble to sift out the best prospects in this forgotten segment of the UK market, Onward's niche will expand along with its capital base. Come the time the England rugby team is competing for honours in the 2027 Rugby World Cup in Sydney (home of its greatest-ever victory), Onward Opportunities could well be in the big league of UK investment trusts.

[PS My apologies to all readers who are not England rugby supporters. I wish you and your team every success in France over the coming weeks].

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Jackson's Chart – Brent Oil Weekly (An Analysis by Jackson Wray)

The Saudi led supply restraints have proven effective in increasing prices over recent weeks. But how will the oil price-play out over the coming months?

Jackson frames some levels to watch:

Since printing a double top in March 22, Brent Oil formed a descending channel, leading to the 2021 support in the $72 region. Respecting multiple support and resistance levels in the form of retests until a slowdown in March this year, it has printed sideways price action, resulting in a rounding bottom formation. After being rangebound ($72 - $87) for the best part of a year, Brent printed its first weekly candle closure above the critical level of $87.50, which is also the location of the previous lower high. The next resistance will be found at the blue trend line (as a retest of the last breakout) and the key zone at $95. Will global decisions on supply give oil the momentum it needs to confirm this breakout and change of trend, or will it experience a fake-out and re-enter the recent range?

Further Reading & Listening

- Impact of Blue Book 2023 changes on gross domestic product
- UK economy bigger than before the pandemic, ONS admits
- How the UK's radical data revisions shattered its economic narrative
- Onward Opportunities Limited issues encouraging first set of interim results
- Julian Brigden: Market Pain will Create the Perfect Conditions for Gold