

## Stocking fillers for your portfolio

by Matt Connor, Investment Analyst

It's that time of year again where Mariah Carey and Michael Bublé are defrosted for their annual appearances, Coca-Cola's Christmas truck graces our cities, and sock sales men and women are awoken from their slumber. What a wonderful time of the year.

One would be forgiven for not celebrating this year's misery in markets with profit warnings aplenty due to rampant inflation, rising interest rates, and plunging consumer confidence. There is light at the end of the tunnel however, with growing belief that we have seen 'peak rates,' along with encouraging inflation data. With the future looking that little bit brighter, where should you look to spread Christmas cheer to your investment portfolio? These portfolio stocking fillers will hopefully bring you joy over the next few years.

UK equities are trading at a wide discount to their long run-average on a price-to-book(P/B)ratio basis, as well as trading at a similar level to the aftermath of the GFC on a cyclically adjusted price-to-earnings ratio. The valuation gap is more apparent in the mid-cap space, where the FTSE 250 is trading on a c.20% discount to its 5-year average P/B ratio despite boasting a higher forecast return on equity than it has typically earned and whilst yielding 4.3%. Momentum's own direct UK equity portfolio would probably be Santa's choice of exposure to this opportunity, as it has an even better Return on Equity than the FTSE 250 despite being on a lower P/B rating – all whilst yielding closer to 5%!

Another Great British stocking filler is the world of listed investment trusts. Despite enjoying a recent rally thanks to the drop in bond yields, listed real estate, infrastructure and private equity investment trusts are still trading on wide discounts to their Net Asset Value. Investment trust valuations are currently a "once in a generation" opportunity according to my colleague, Richard Parfect who detailed in his most recent blog Global Matters Weekly: Use it or lose it<sup>1</sup>.

Investment trusts have recently been the subject of tedious cost disclosure regulatory guidance, of which Richard and Momentum have been a leading force in the fight against such measures that unfairly punish those allocating towards investment trusts. With a solution getting nearer and the issue being debated in the House of Lords soon, the opportunity in investment trusts may be like the hot toy at Christmas, disappearing quicker than you think.

The final stocking filler is like that one distant relative you see at Christmas time, a bit boring. Although a discussion around government bonds usually requires something stronger than a Buck's Fizz to get through, there is a valid argument now we may be at 'peak rates' to increase the duration of a portfolio's fixed income exposure. Duration is an indicator of how sensitive a bond is to interest rates, and as interest rates fall, bond prices increase – offering a capital gain opportunity. Longer maturity bonds have a higher duration, which means these bonds will be most sensitive to a fall (or rise) in interest rates, which could provide an excellent opportunity if we really are at 'peak rates'.

Sources:

<sup>1</sup> <https://momentum.co.uk/media-centre/global-matters-weekly-use-it-or-lose-it>

All data is sourced Bloomberg Finance L.P., Momentum Global Investment Management



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For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Limited  
研富投資服務有限公司  
9th Floor, Centre Mark II  
305-313 Queen's Road Central  
Sheung Wan, Hong Kong

Tel +852 2827 1199  
Fax +852 2827 0270  
belvest@bis.hk  
[www.bis.hk](http://www.bis.hk)

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