

INTEREST

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2013 in thirty seconds

– Stephen Dowds

Many events shaped the investment background over the previous twelve months, so just in case you have already forgotten, 2013 was the year in which “tapering” became an activity to be feared and central bankers became concerned about unemployment. US politicians argued (twice) about the debt ceiling and in the meantime shut-down the government, reportedly leaving the US-Canada border to be patrolled by just one person.

Chinese growth fell significantly and interest rates in emerging markets such as Brazil, India and Turkey rose sharply. “Abenomics” entered the lexicon of Japanese economic terms and resulted in a 57% rise in the stockmarket, the best annual return since 1972.

Notable bankruptcies included those of Blockbuster UK, Jessops and the City of Detroit, while those in serious difficulty

included Cyprus, the Co-op Bank, Blackberry and JC Penney. The UK consumer discovered that horsemeat was something that they had tried for dinner, without necessarily having asked for it and financial regulators discovered that windfall profit taxes on banks could be replaced by a much more lucrative source of revenue – fines.

Politicians under pressure included Vladimir Putin (who responded by declaring more “amnesties” than Pontious Pilate), Francois Hollande (who didn’t respond much at all) and Toronto’s mayor, Rob Ford who confessed that while in office, he had taken crack cocaine but apparently added (presumably in mitigation) that it was probably during one of his “drunken stupors”.

There are many more, some of which we will cover elsewhere, but restrictions on space leave us with room only to wish you and yours a prosperous and happy 2014.

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Clouded vision

And the nominees are or perhaps should have been...



Hume performance summary

Hume funds recorded solid returns in 2013 across their range of bond, multi asset and equity products.

The Hume Bond fund returned 1.9% in the year

The Hume Dynamic Multi Asset fund returned 10.8% in the year

The Hume Global Opportunities equity fund returned 22.4% in the year

“A second consecutive year of positive returns highlights a clear turnaround for clients since the funds came under our stewardship. With our focused product range and skilled funds team we remain confident of building on this in 2014”.

– Sam Batcharj

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12 Themes to watch out for in 2014 - Stephen Watson

1 **The internet of things**

The internet of things is one of the buzz phrases currently, the idea being that a large variety of devices, from the domestic through to the industrial, can be improved through online connectivity. One of the most interesting is Google denting its \$57bn cash pile buying smart thermostat maker Nestlabs for a headline grabbing \$3.2bn and its largest acquisition since Motorola. The read across for companies like Toshiba, whose acquisition of global metering leader Landis and Gyr for \$2.3bn in 2011, plays into this theme, is apposite.



7 **How frenzied will the media bun fight become?**

The race to buy 'content' is very much on with Vodafone joining Malone's Liberty Media in snapping up assets like Kabel Deutschland and the market is licking its lips as to what will happen when they receive the money from Verizon. Italians like L'Espresso, have all been bid up in 2013 and deals and rumours of deals are likely to continue to swirl.

2 **A nickel or a dime?**

Indonesia's ban on exports is important for this base metal. China relies on Indonesia for 50% of supply and a world price of \$14,000 a tonne remains below the \$15,000 breakeven which makes it an appealing trade. Eramet is among the best ways of trading this along with the Nickel ETFs of course.



8 **Lifers**

Will rising bond yields finally lift real interest rates? The concomitant drop on liabilities will be of huge benefit to the life companies if so. Historically massive back books dwarf the earnings impact of annual premiums. Generally market capitalisation to embedded value is circa 1x for Generali and Ned Lloyd which are at the lower end of their historical ranges.

3 **China overtook America last year to become the world's largest player in traded goods for the first time with the total value of traded goods of \$US4.2trn.**

Chinese stock markets are under pressure but valuation is getting into interesting territory on sub 10x earnings. Chow Tai Fook over there and Burberry over here could do well as Chinese consumers continue to spend.



9 **The big political event in Asia will likely be the election in Delhi**

Expectations are rising that Narendra Modi's BJP will win a working majority in national elections in May. This is likely to be bullish for Indian assets as a Thatcherite type wave of reforms are enacted.

4 **Will it be a good year for European cyclicals?**

They tend to come into their own at this point in the cycle – typical examples are agricultural machinery manufacturers like Manitou, ceramics makers like Mersen, and transport stocks like Northgate and Stobart. Small cap should also continue to do well after a 25% rally in 2013. Valuation remains attractive for this asset class.



10 **Africa remains full of potential**

Angola and Tanzania are growing at 8% to 10% per annum. For the brave Brazilian and Russian big oil look outstandingly cheap. Gazprom is on 3x earnings while Ukrainian local bonds yielding 10% or above are for those with a strong constitution but it is possible the market may be overdoing the inflationary impact of the surely inevitable coming devaluation.

5 **Can the UK and US industrial revival continue?**

Peter Marsh in his book "The New Industrial Revolution" argues just how successful and competitive UK manufacturing has become and specialist engineers like Renold, and Trifast are going from strength to strength. The big boys like GKN, and Smiths also have solid business models.



11 **Convertible Bond Funds have appeal**

Many companies have issued convertible bonds in recent years and there are several funds out there that are experts at this – Polar Convertible Fund is one of our favourites.

6 **Will South China tensions boil over?**

While 2013 was a great year for civil, stocks like Airbus, Boeing and GKN all soaring between 50% and 100% there may be a quiet bull stirring in defence stocks as Asian countries ramp up spending. India for example will import about \$80bn of kit this year while Japan ups defence spend to deal with the threat from China. As well as the usual names like BAE and Qinetiq, for the bold the best may be to go to China and Japan direct as these two titans square up. We will investigate further but obvious names are Kawasaki Heavy in Japan and North Navigation Technology and Xi'an Aircraft in China.



12 **Emerging Market Bonds look oversold**

Emerging markets have had a torrid 2013 but many markets look oversold. Galloway EM Debt fund carries an 8% yield.

