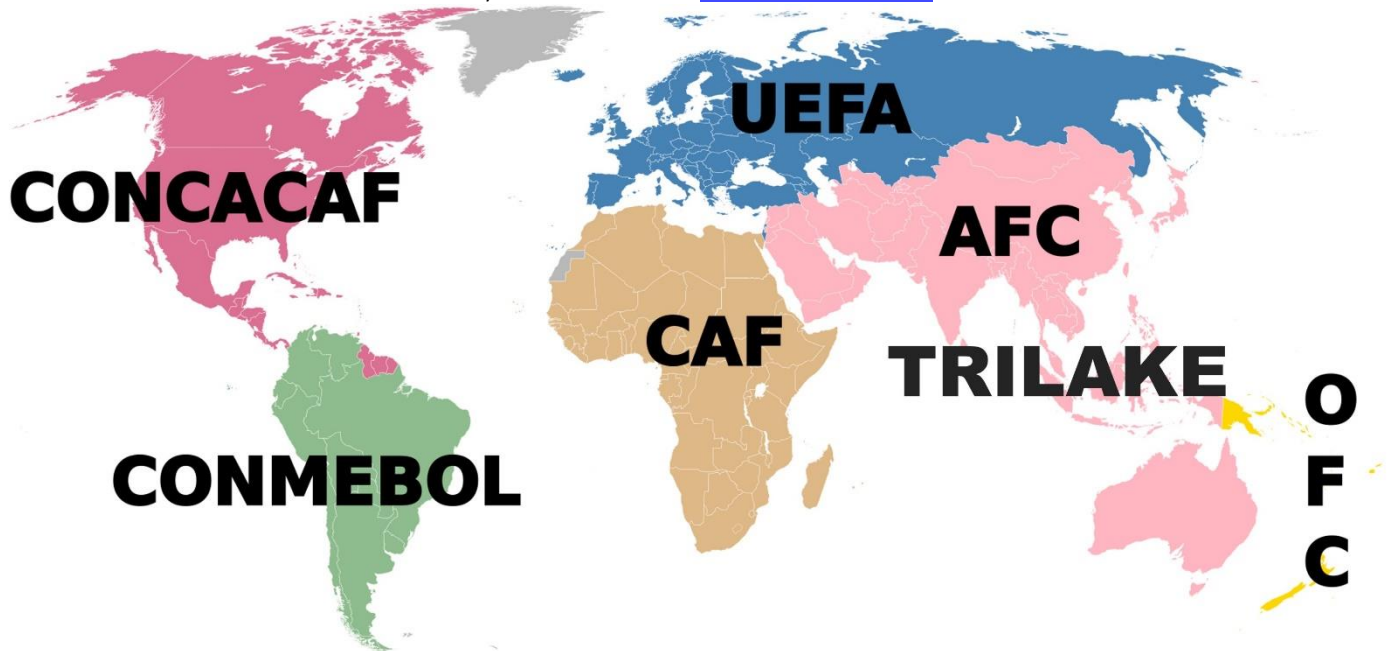


June 2018

Adding Insult to Injury Time

by TriLake Partners' [office pool manager](#)



Reporting from Singapore, we have been witness to the titanic clash of strong-willed nations, dynasties and nasties, each player supremely confident in his skills. We are of course talking about the World Cup in Russia.

The New York Times [Dealbook](#) reports on how some big banks have applied their prodigious analytical skills, quantitative tools and lots of spare time to determine who will win the World Cup this year. UBS's model using Monte Carlo simulation gives Germany a 24% chance of winning. Goldman Sachs' Artificial Intelligence algorithms have Brazil beating Germany 1.70 to 1.41 in the final. (I'm guessing they award decimal points for style and whining.) ING looked at the players' market value and predicts Spain will get its money's worth. Nomura's portfolio optimisation techniques point to a France v Spain final.

I don't think I can improve on those efforts beyond using a nicer font on the Excel spreadsheet. So instead, TriLake Partners will apply their skills, tools, tea leaves and FactSet terminals to predict

which country's stock market will win based on our thoughts on their expected performance from now until the next World Cup in Qatar. Four years isn't a long time unless you're a football fan in Italy, the Netherlands and the USA (soccer) but in capital markets, it's not even close to one business cycle. Nevertheless, we set our sights past the Trump referendum in November, the end of the ECB's QE programme and that market correction (insert Theme from "Jaws" here) and onto 2022. Who will be the stock market winners in the years between the World Cups?

Group A



Russia and Saudi Arabia are the economic favourites in the group and both have troublesome dependencies on oil and gas. Russian stocks have one of the highest historical average annualized returns and this of course comes with one of the highest volatilities as well. **Saudi Arabia** will constitute around 2% of the MSCI Global Emerging

Markets now that it has joined the index but that would more than double if/when Saudi ARAMCO goes public. It's early days but the Saudi crown prince's anti-corruption and reform initiatives are encouraging. Can't say the same about Russia.

Group B



The most intriguing group pits the most competitive North African economy versus an energy superpower with vast natural resources versus the Iberians. Political and governance issues restrict Iran's great wealth and potential. Moroccan agriculture employs almost half of the population but produces 14% of GDP. Portugal should regain the investment-grade stamp from Moody's this year as domestic demand continues to improve. Spain has politics in mind these days but continues to recover nicely from its GFC depths. As the European Central Bank withdraws stimuli, **Spain's** banking industry consolidation should serve it well to win the day.

Group C



Nowhere in the world has high taxes worked for society as well as in Denmark. It's such a great place to live, the ticker symbol for the ETF is EDEN. But who cares about equality or happiness or health or education? We can't afford them; we're not Danes. Many analysts have tied **Australia's** fortunes (albeit unfairly) with China and that's not a bad thing. France has the EU issues to deal with on top of all the reforms Macron is trying to achieve with his remaining political capital. Peru is exciting and has recovered nicely over the last 30 months but I'll bet on the bigger and more diversified Australian economy.

Group D



Nigeria's inability to crank it up even after oil bounced back to the \$70 gives us pause. Argentina leads the world in the crucial Lionel Messi per capita measure (0.000000023 versus zero for everyone else) and is working with the IMF—again!—and will be out of favour throughout the year but I'd bet on the **Argentina's** Merval to narrowly beat Croatia's Crobex between now and the Qatar World Cup.

Group E



Whilst we can all admire the rich, stable and politically irrelevant (that's high praise!) Switzerland, I'm so encouraged by the judicial victories in Brazil and the expectations for better governance in one of the largest emerging markets. Base effects might favour Serbia but **Brazil** with better governance is a compelling investment.

Group F



Killer group. Germany and **South Korea** are relatively cheaper than their regional peers, trading at 12x and 9x earnings respectively. Analysts think Mexico has even higher upside than the first two but its upcoming election may result in a more confrontational approach to Trump. Sweden? I thought they were going to rename the capital ShortH&MStockholm. I'll pick up the South Korean bargain in this group.

Group G



Outside of Zimbabwe, Tunisia had the highest return over the last 12 months amongst frontier markets but Bourse de Tunis feels like a roulette chip on Double Zero. Let's instead put that chip on Red. **England**, that is. By the time they play in the European Championships, we should have some clarity on the longer-term prospects of the UK four years from now after we've emerged from this post-Brexit haze covering us. Shame on you for thinking that haze was Bank of England Governor Mark Carney enjoying some newly legalized herbs back home.

Group H



Japan disappointed us with weak wage hikes over the spring. Do they think they can replace *everyone* with robots? Maybe Abenomics, women in the workforce and yes, robotic productivity, can diffuse that demographic time bomb that's been hanging over their ageing heads over the last three decades. Or delay the timer at least. Will **Japan** do enough to

beat Poland—the next populist hotspot—over the next four years? Hai.

Some interesting pairings in the Round of 16...

- 1) Australia v Croatia: Tourists win!
- 2) Saudi Arabia v Portugal: Saudis increase exports to Portugal due to shortage caused by Ronaldo's hair.
- 3) Spain v Russia: Bad news over fake news.
- 4) Argentina v France: Le Merval est merveilleux!
- 5) England v Japan: I propose a reality show where these two countries swap royal families.
- 6) Brazil v Germany: Too many cultural stereotypes to play with here.
- 7) Poland v Belgium: In 3 seconds, name a famous Belgian. Okay, 10 seconds.
- 8) Korea v Serbia: Would you believe there's a Wikipedia page on "Serbia–South Korea relations"? Neither did I.

... but after all the teeth-gnashing and garment-rending, we are left with a final clash of emerging markets **Brazil** and **South Korea**. I think the sun will shine brightly on these two markets over the next four years. Here's my wishful thinking: MSCI will reclassify South Korea as a developed market as others have done years ago and the military standoff with the North will slowly evolve to more economic cooperation. Brazil's political clean-up will have its hiccups but will continue to reduce inefficiencies to benefit businesses and consumers. No, the rentier class will not submit to euthanasia as John Maynard Keynes predicted in 1936 but the new burst of productivity and efficiency fueled by new applications of technology will create greater opportunity for most of the 48 nations gathered in Russia as well as the rest of us watching all over the world.





Market Update






Annualised percentage return for periods ending: 26/6/2018						
Asia Indices	Last	YTD (non-annualised)	1 Year	3 Years	5 Years	
Nikkei225 (Japan)	22342.00	-1.02	13.01	4.50	13.72	
KOSPI Comp* (Korea)	2350.92	-4.72	-1.58	4.00	5.68	
S&P/ASX200 (Australia)	6197.60	4.13	13.10	8.42	10.28	
Hang Seng* (Hong Kong)	28881.40	-3.47	11.63	2.70	7.27	
Shanghai Comp*	2844.51	-13.99	-10.70	-12.13	7.83	
TWSE Taiwan	10742.17	1.83	6.38	8.77	10.68	
STI Singapore	3260.84	-1.89	5.80	3.26	4.64	
MSCI Malaysia	1194.62	-5.77	-2.41	2.90	2.13	
MSCI Indonesia	2111.98	-12.06	-5.59	4.37	4.60	
MSCI Thailand	2009.11	-6.40	7.02	5.84	6.11	
MSCI Philippines	1618.44	-17.81	-12.01	-2.27	3.74	
MSCI Vietnam	828.89	0.21	48.00	14.49	11.56	
Sensex India	35490.04	4.83	15.40	9.91	15.46	

*Price return only. All unmarked indices show gross total returns.

Annualised percentage return for periods ending: 26/6/2018						
Global Indices	Last	YTD (non-annualised)	1 Year	3 Years	5 Years	
DJIA (US)	24283.11	-0.68	16.04	13.39	12.97	
S&P500 (US)	2723.06	2.81	13.85	11.31	13.50	
Nasdaq100 (US)	7068.20	11.08	23.65	17.77	21.03	
VIX (US Volatility)	15.92	--	--	--	--	
MSCI Latin America	1212.92	-4.37	10.49	8.48	7.59	
EuroStoxx50	3368.72	-1.76	-2.90	0.28	8.15	
SMI* (Switzerland)	8477.98	-9.63	-7.05	-2.00	2.34	
DAX (Germany)	12234.34	-5.29	-4.20	2.11	9.03	
FTSE100 (UK)	7537.92	0.28	5.34	7.91	8.11	
CAC40 (France)	5281.29	2.15	3.00	4.95	10.86	

*Price return only. All unmarked indices show gross total returns.

Percentage return for periods ending: 26/6/2018						
Commodities	Last	1 Month	6 Months	1 Year	1Yr Trend	
Gold	1260.30	-3.31	-0.34	1.21		
Silver	16.23	-2.67	0.31	-1.85		
Brent Crude Oil	76.34	-0.34	18.16	73.15		
WTI Crude Oil	70.49	3.78	18.37	63.02		

26/6/2018						
10-Year Benchmark Yield	Last	1 Month Ago	6 Months Ago	1 Year Ago	1Yr Trend	
USA	2.8760	2.9277	2.4830	2.1442		
UK	1.3040	1.3110	1.2648	1.0359		
Switzerland	0.0014	0.0243	#N/A	-0.1433		
Euro	0.3460	0.3930	0.4193	0.2591		
Japan	0.0287	0.0394	0.0348	0.0463		

Source: FactSet financial data and analytics.

www.factset.com

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