

Global Strategy

Thematic Report

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How We Think About Markets

Our strategy work has always tried to integrate three different time windows.

- 1) **Secular Trends** in asset prices driven mostly by structural change in the world economy and the long term valuation cycle. Timeframe: years to decades.
- 2) **The Global Cycle** in production and trade, which drives intermediate trends in equities, bonds and investor risk appetite. Timeframe: 36-40 months from trough to trough.
- 3) **The Short-Rub:** dominated by news flow and positioning, economic data, policy shifts, elections, positioning - which re-shapes market expectations. Timeframe: days to weeks.

We call this process *Cycling Down the Secular Path*: secular swings in asset prices tend to be surprisingly persistent and often surprisingly linear, but the global production cycle usually produces large fluctuations around the secular trend – as well as overshooting of investor risk appetite at cyclical peaks and troughs. In our view, shorter-term data surprises and policy events usually affect the path more than the ultimate destination of the medium and longer-term cycle. And that can be true even for giant shocks like the COVID pandemic.

In our experience the great investors typically think across all three time frames at once. And while no one can forecast the future with any precision, this multi-time frame approach can help make the future less surprising.

The underlying methodology can be described as follows:

- Understand the Past
- Imagine Possible Futures
- Identify Key Drivers and Events
- Choose and Quantify Most Likely Outcomes
- Update or Amend (based on incoming evidence)

Philosophically it's very similar to the approach described by Philip Tetlock in his book *Super Forecasters*. By definition it's always a work in progress, and can never be "finished". But three aspects are especially important when thinking about markets. First, it is better to be broadly right than precisely wrong, especially at key turning points. Lots of detail is psychologically comforting but often a barrier to effective decision making. Second, markets are forward looking which puts a premium on the ability to make good judgements in real time, based on incomplete information. There is no substitute for experience in doing that. And third, there are usually only a few moments or themes in any year which make a big difference to investment outcomes. The never ending challenge is to keep some mind space free to recognise them a little in advance.

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