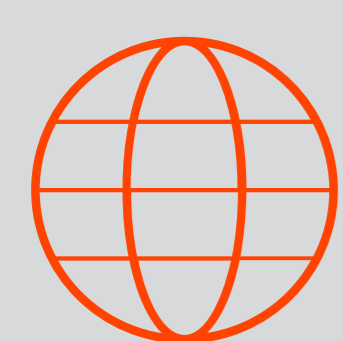


Rising defences?

US\$2.1 trillion



World's military spend in 2021



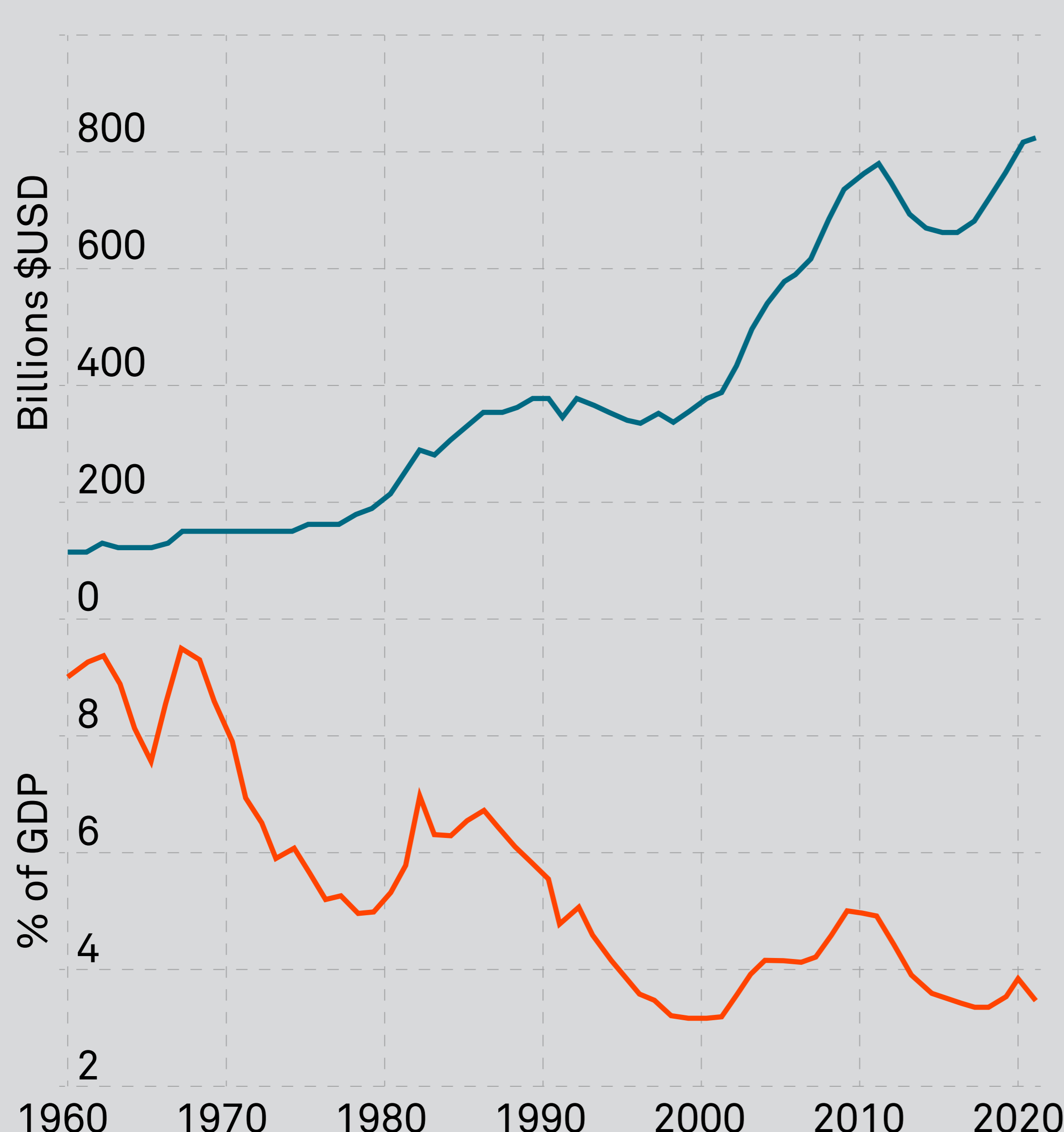
7th year in a row of increased global spend

Source: Virtual Capitalist. Ranked: Top 10 countries by military spending, August 2022.

CLICK BELOW TO PLAY VIDEO

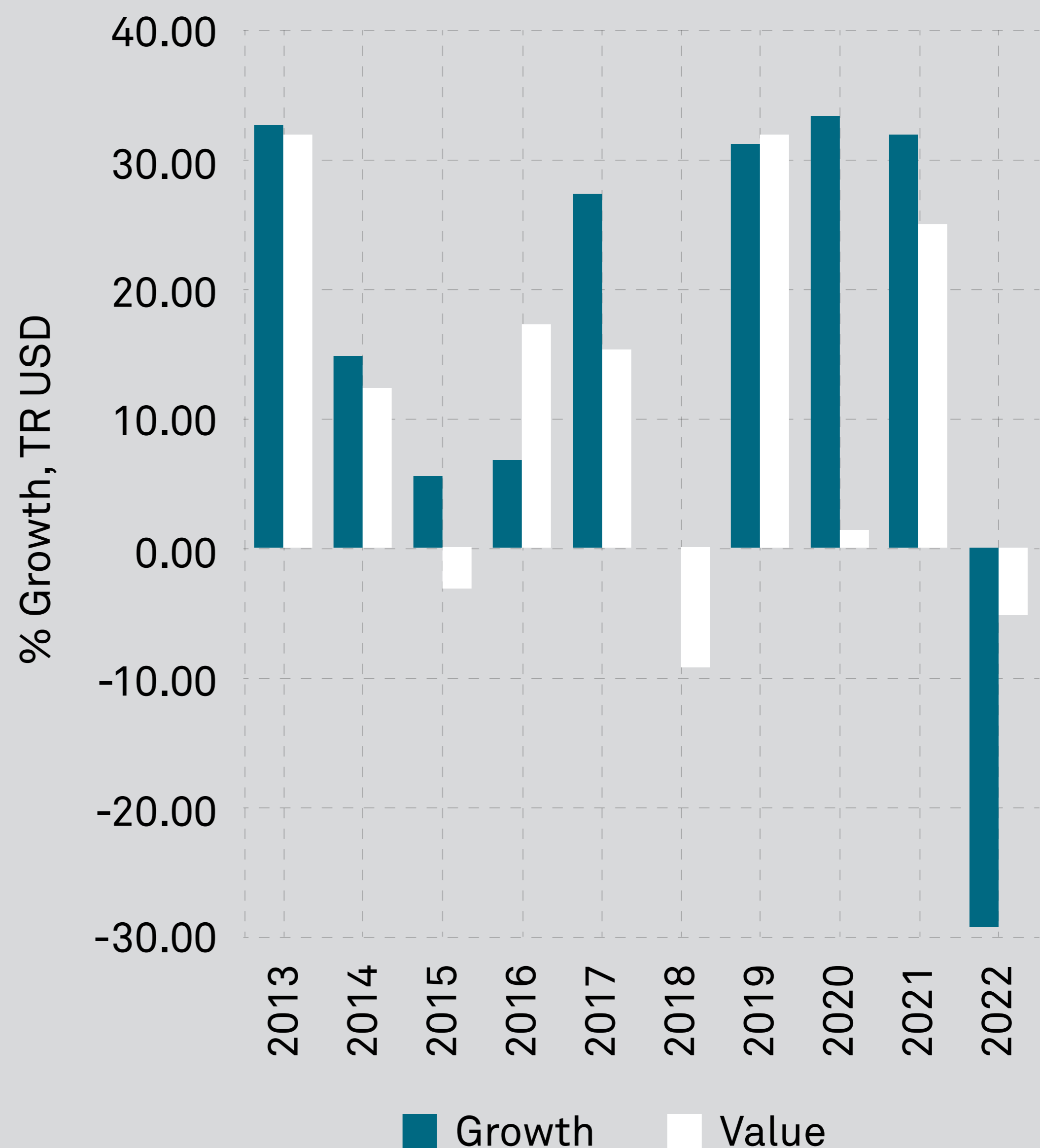


US MILITARY SPENDING SINCE 1960



Source: macrotrends.net. Accessed February 2023.

S&P 500 VALUE VS GROWTH: 2013-2022



Source: Lipper IM (total returns reflect dividend reinvestment). Data as of January 2023.

Out with the new, in with the old. It's not quite as catchy that way round but it provides a pretty succinct summary of today's investment landscape. The post-Global Financial Crisis era of "free" money is over and there is seen to be a return to the old normal – higher rates and higher inflation, and a re-focus on good old-fashioned fundamentals.

The past decade saw companies being rewarded for revenue growth – the faster a company grew, the higher its valuation tended to go – but not anymore. Fundamentals are back in fashion; the focus has shifted to cashflows, strong balance sheets and pricing power.

In this environment we like cyclical businesses whose expectations already reflect the looming recessionary environment as well as areas of the market relatively "immune" to the prevailing economic conditions, such as the defence sector.

Financials, is another area we believe may do well in this higher rate environment. High quality US banks are often well-capitalised businesses that have already provisioned for much of the recessionary pain to come. We think property and casualty insurers are also set to do well in a market driven by factors such as climate change, which is leading to strong pricing power.

John Bailer, portfolio manager, Newton Investment Management.

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