THE AUSTRALIAN

Investors Mutual portfolio manager Daniel Moore cautious on markets


Investors Mutual portfolio manager Daniel Moore Picture: Ryan Osland

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JANUARY 27, 2020

Investors piling into the local sharemarket have pushed it to record highs and a gain of 6 per cent this month. But the widespread optimism isn't shared by Investors Mutual portfolio manager Daniel Moore.

"Unlike most, we're quite cautious given where we are in the cycle. It's already been a long, extended bull market and we think it's not a time to be overly optimistic," Mr Moore warned. "Looking at the major economies, they've had significant stimulus, whether it's lower rates, or budget deficits, particularly in the US, and growth is slowing. If there is a hiccup, there's not too many bullets left to fire. So rather than seeing blue skies, we are concerned that most economies are vulnerable to any external shock."

The S&P/ASX 200 surged 21 per cent in 2019 and hit a record high of 7132.7 on January 22. Cash is being yanked out of term deposits and funnelled into the sharemarket as investors desperately search for yield. But cash is underrated in today's market, Mr Moore said. "Cash provides you with optionality. Now is actually a good time to have a bit of cash, so you can take advantage if asset prices do pull back. If you're fully invested today, when sharemarkets are at all time highs and property prices are all-time highs, you're a bit vulnerable."

Political risks are among those on his radar for the year ahead, with the US election posing potential challenges. The anti-corporate rhetoric coming from the Democrats would be a negative for sharemarkets if the party wins the November election, he warned. But it's not just major global events that concern him. "I worry in general," he said.

"We're in this Goldilocks period where interest rates are close to zero and the economy is still growing. If the economy improves, then interest rates will go up, and that in turn challenges high valuations. On the other hand, if the economy falters, then demand falls. But interest rates are already very low. So where to from here? We either get higher rates or lower demand."

Mr Moore manages Investors Mutual's Australian Share Fund, which returned 17.3 per cent in 2019 versus its benchmark, the ASX 300, which returned 23.8 per cent.

He thinks Australia is relatively well placed if global growth slows, because it has fiscal spending firepower. Likewise, he thinks Britain may outperform this year following a higher level of certainty surrounding Brexit negotiations. The US deficit, meanwhile, limits its options if growth falters, he said.

CSL was the fund's best performer in 2019, Mr Moore said. The biotech's share price surged 50 per cent last year and is already up 12 per cent this month.

"The valuation is challenging and we're slowly reducing our position. But the demand for their key products, particularly, immune globulin looks very strong. And their competitors are supply constrained. So the outlook over the next one, two years, looks very favourable given that backdrop," he said. Stocks that he likes right now include Tabcorp, due to its lotteries business, which he thinks is undervalued, and News Corp, which also has undervalued assets, such as REA, he noted.

On the negative side, REITs are in a lose-lose situation because they are priced for very low interest rates, he cautioned.

"If the economy remains healthy rates have to go up, which will be bad for valuations. On the flip side, if the economy declines then rates are already close to zero so there won't be a valuation benefit. You'll see demand from tenants fall and you'll see most likely rents fall, particularly in the office sector, but also the retail sector as well," he said.