

## America's Decade

When it comes to predicting the economy, we believe that speculating when things will turn is an exercise in futility and a horrible waste of time; one which meanwhile distracts us all from the task at hand.

Factor moves (aka value, quality, momentum) have had violent swings this year. Sometimes, at least in the very short term, it seems like these are the only things that matter. We ourselves wonder if the dumb robots have anything to do with it (Passively Irrational<sup>1</sup>), but also believe that guessing the next move is a waste of time (Factor Timing, Should You Try?<sup>2</sup>).

And, as if there weren't enough to befuddle us already, there is heightened geopolitical risk, well, all over many geographies. In the US, there is severe political discord and uncertainty over foreign policy; although this hasn't prevented the S&P 500 from making new highs, almost on a monthly basis. This strength may be completely warranted, mind you. We aren't making a statement about that. Between a decade-long Ectasy drip of QE, interest rates and risk-appetite falling in synchronicity, a bevy of West Coast-headquartered global tech winners leading a global charge, and an ever-increasing appetite for strongly-performing defensive-growth-quality names, the price action in the US may be 100% warranted.



*Who wins the next decade?*

To be clear, we are big believers in mean reversion, generally, but we don't know that we are right; and even if we are, we certainly don't know when things will change.

And over here in Europe, we've had even more to worry about. It's been a mess for a decade. From Greek bailouts to potential Spanish defaults to budding Italian bank panics, there have been a lot of things for a lot of people to get nervous about over here (and from afar, sometimes more so). And despite the fact that many of these listed European businesses are multi-national in scope, and very similar to their US counterparts, these constant concerns have bred a great deal of macro-nervousness. To top it all off, as if Mr. Market's psyche wasn't damaged enough, we not only got a Brexit vote, we've subsequently been provided with a three-year Valium drip of negative Brexit headlines. And it still hasn't even happened. Could Mr. Market thus be a bit disoriented? Constipated? Double-vision? Maybe.

But is he at least suffering from localised ambiguity aversion? Well we don't know how he isn't.

And with that, I want to pull out something I find very interesting – and some of you will have seen this in our 2018 annual letter – from December 31, 1979 to December 31, 2009, the S&P 500 annualised at 11.5% per year.

And so did the MSCI Europe. It annualised at 11.5% per year too. Think about that.

This is the three-decade breakdown, and the cumulative returns across them.

	31-Dec-79	1-Jan-90	1-Jan-00	
	31-Dec-89	31-Dec-99	31-Dec-09	Cumulative
S&P 500	403.8%	431.3%	-9.1%	2524.3%
MSCI Europe	503.5%	319.4%	-4.4%	2515.1%
Standard & Poor's 500 Index, Total Annualised Return				11.5%
MSCI Europe Local Currency, Total Annualised Return				11.5%

That's right, for three decades, equity returns in Europe and the US were almost exactly the same.

<sup>1</sup> <https://www.albertbridgecapital.com/drew-views/2019/7/3/passively-irrational>

<sup>2</sup> <https://www.albertbridgecapital.com/drew-views/2018/10/1/factor-timing-should-you-try>

Yet in this last decade, which will be finished in less than two months, the picture has been very different.

	31-Dec-09
	31-Oct-19
S&P 500	233.8%
MSCI Europe	92.7%
S&P 500 Annualized	13.0%
MSCI Europe Annualized	6.9%

As stated above, we have no idea if or when any of this will change. We've wheeled out a similar table about the underperformance of Europe several times before. It was early then, and it may be early now. There may very well be a reason why the S&P 500, a market cap weighted index dominated by large multinational companies, should outperform a European index dominated by large multinational companies. Maybe we're too bank-heavy over here, or not tech-heavy enough?

That argument should have worked from 1979 to 2009, but maybe for some reason it doesn't anymore? Maybe the US more aggressively engaged in quantitative easing? Maybe government and regulatory policy has been more conducive to US-based companies than in Europe?

But when Accenture and Cap Gemini or Lockheed Martin and BAE Systems or Altria and BATS or GM and Volkswagen basically sell similar stuff to similar customers in similar countries around the world, then maybe the reason why ACN, LMT, MO, GM and the SPX outperformed their peers across the pond over these past few years isn't because the American companies are better, but because people are simply suffering from temporarily extreme ambiguity aversion to European-listed companies?

Again, we don't know, but at least it is something to think about.

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