Global Equity Income

Valuations in some parts of the global market may appear a little stretched. But Jacob de Tusch-Lec believes that a changing global economy and a new geopolitical landscape should continue to reward investors who can harness the power of curiosity in 2025.

Jacob de Tusch-Lec
Fund Manager
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What lessons should investors keep in mind heading into 2025?

This year's lesson has been to **be curious and not dismissive**. There's been a lot going on in the global economy. There's been a lot going on in markets. And **it's not all been about tech** or the US. We made money in gold stocks this year, we made money in defence stocks globally and we made money in European banks. **There's a lot of rotation going on in markets** and this year has not been a straight line. So being nimble and having the ability to tap into some of the longer-term themes that are emerging from a changing global economy and a changing geopolitical landscape has actually been quite lucrative for us this year.

What are the uncomfortable realities for investors?

The uncomfortable reality is that we have to think about pretty **stretched valuations** and interest rates that probably won't be as loose as they have been for the past decade. We're also in an environment where **risk premia could be going up**.

What 'big picture' views of the world does your portfolio reflect?

Very broadly, our portfolio reflects a reality that is going to be quite different than the one we were used to in the decade leading up to Covid. **Our portfolio is geared to a world of deglobalization and probably more conflict**. So we have exposure to defence stocks and to steel. We have exposure to a world that is more desynchronized – where there is not one global business cycle or one global rate cycle – and also to a world where different sectors perform well than what we've been used to over the last 10 or 15 years.

Some investors feel uneasy about equity valuations in the US. Do you? And are there any sectors or regions of the global market that you think are underappreciated?

The US equity market has never been a bigger part of the global equity market than it is today. It's also rarely been more expensive than it is today. And that reflects the fact that the US economy is doing very well, **US companies are the best companies in the world and you pay for quality**. So, when you look at equities globally as a global manager, you very quickly get to a position where half of the market is very expensive and the other half is quite cheap. Of course, it's easy to say that the rest of the world outside of the US is 'underappreciated' and 'cheap', but we have to be aware that that comes with the caveat that those companies aren't growing that quickly and often are not as high quality as American companies. So it's hard to give a single answer. There are definitely **pockets of value in Europe and emerging markets** and we're trying to tap into those. But I also think one has to be a bit careful not to invest purely on the back of 'value', because there are big differences in risk premia and also in the quality of the companies that you can buy across countries.

In the **Artemis Global Income Fund**, we're very much driven by **free cashflow** and **dividends**. If a company pays a dividend and has a high free cashflow, there's a cushion of safety. Picking stocks for the portfolio using that guiding light means we can **avoid buying into very expensive valuations**. The portfolio still grows in line with the overall market but at a much lower valuation. So we feel quite comfortable with valuations. But I must say, looking around the global equity space, valuations have been creeping up recently. And, if we were to go into an environment where the economy slows down, the starting point – valuation-wise – is not great.

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