Appian
Asset Management

# Monthly Monitor

**May 2019**

# The Cycle: Endgame – are we there yet?

It seems Avengers Endgame will, based on ticket sales, break all previous cinematic records. Similarly, the length of the current US economic cycle will become the longest in its financial history (assuming it lasts to July). Amazingly, Australia (the "lucky country") hasn't had a recession in 27 years. The length of the cycle is not significant per se for investors, in fact it has become a common refrain that "cycles don't die of old age". However, it is important to be aware of the issues surrounding cycles and the impact they have on investment decisions with regards asset allocation and security selection.

Traditional economic and Investment textbooks would suggest that in a normal environment, a typical cycle (encompassing expansion, peak, recession, depression, trough and recovery) takes about four years. However, the credit crisis and subsequent exceptional measures taken by Central Banks have made a mockery of this timetable for this cycle. The reality is that there is no definitive theory as to why and when cycles start and finish. What economists can provide are a couple of general common concepts;

- It is widely acknowledged that cycles are often driven by consumer, corporate and investor confidence.
- In addition, monetary and fiscal policy can moderate or accentuate economic cycles.

Aside from its length, there are quite a few important differences between this cycle and previous incarnations;

- It began in the summer of 2009 post the credit crisis, a seismic event that draws comparison with the Great Depression and negatively impacted the global economy.
- The Federal Reserve has used a plethora of unconventional monetary tools for an extended period of time which have impacted asset values and created financial distortions.
- Levels of annualized GDP growth for this expansion (2.3%) have been a lot lower than previous expansions (1983 to 1990 was 4.4%)

In spite of massive monetary and fiscal stimulus a sense of euphoria, which is typical of the latter stages of a cycle has not materialised for consumers, investors and corporates. Regarding the consumer, the Household Savings Ratio is presently 6.5% (above the 5.9% average since 1999). Whilst Investors have benefited from impressive equity market returns another common refrain is that this is "the most hated bull market of all time". And corporates have been reluctant to enact capital expenditure programmes, with excess cash often being used to buyback shares. There are some notable existing asset bubbles (Corporate Debt and Technology shares) the bursting of which may ultimately be the catalyst for a recession. Should this scenario materialise we expect this future recession to be a lot less severe than the last one (2008/09).

Economic cycles are not extinct however, in the absence of overspending, overproduction, overleveraging (as sourced from the conventional Banking sector) and with the accompaniment of a dovish Federal Reserve it is feasible that this cycle could have a lot further to run - much like an Avengers movie with a post credits scene.

## Appian Conference Call

Appian will be hosting the next Market Update call on the 15th of May at 11am with Chief Investment Officer - Niall Dineen, Senior Relationship Manager - John Flavin and Senior Fund Manager - Pat Kilduff.

This will be a discussion on the impact this prolonged economic expansion has on investment decisions.

If you would like to submit a question for the team, please forward it by email to Anna Hadfield at: anna.hadfield@appianasset.ie

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# Appian Unit Fund Prices

*1 May 2018*

| | |
|---|---|
| Appian Value Fund | **151.58** |
| Appian Equity Fund | **202.41** |
| Appian SCOF | **187.56** |
| Appian Liquidity Fund | **104.59** |
| Appian Ethical Value Fund | **106.74** |
| Appian Burlington Property Fund | **124.04** |

For more detailed information on each of our funds click **here**

# Investment Team

Niall Dineen
*Chief Investment Officer*

John Mattimoe
*Senior Fund Manager*

Pat Kilduff
*Senior Fund Manager*

Derek Heffernan
*Senior Fund Manager*

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Click here for more information about our Investment Team

## Contact our Client Relationship Team

Kevin Menton
*Director*
Tel: (01) 662 3989 *direct*
*Click here to email Kevin*

John Flavin
*Senior Relationship Manager*
Tel: (01) 662 4053 *direct*
*Click here to email John*

Ian Naughton
*Client Relationship Manager*
Tel: (01) 662 3986
*Click here to email Ian*

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