Jupiter Merlin Portfolios

JUPITER INDEPENDENT FUNDS TEAM

- **Bullish markets reminiscent of 2000?**
- **US GDP defying gravity**
- **Keep an open and inquisitive mind**

The UK's FTSE 100 Index testing 8,000; the US Dow Jones Index within sight of 40,000; Bitcoin breaching $70,000 before sliding 10%; Trump's newly floated media company being initially capitalised at $10 billion despite revenues of barely $4.1 million (since the IPO shortly before Easter, the share price has fallen 20% as the company announced a bigger loss than expected of $58 million). Some are drawing comparisons with the pie-in-the-sky euphoria of the 'Dot Com' boom of the turn of the Millennium.

Some of today's investments are difficult to fathom and rationalise. Bitcoin pays no rate of interest; it has neither a discernible exchange rate nor any easily accessible means to pay for goods or services with it; there is no greater certainty than that no more than 21m Bitcoins can be 'mined'. Its extreme volatility (it has appreciated nearly three-fold in 6 months) is symptomatic of the seeming inability to value the cryptocurrency by any means other than the Law of the Greater Fool: there will be no more Bitcoin created so you need somebody to pay even more for yours for no better reason than you paid a high price in the first place. Trump's 'Truth' business has many of the hallmarks of a Dot Com bubble company: insignificant turnover, loss-making, burning through cash and yet an almost infinite valuation.

But in comparison with 25 years ago, when so many of the companies being introduced were little more than concepts, most of those driving up the US index today are 'proper' businesses: household names such as Amazon, Apple, Alphabet/Google and Meta/Facebook. They have well-established and repeatable revenue streams, are innovative, profitable and growing and some including Microsoft and Nvidia even pay dividends. Whether they are appropriately valued or not is a matter of opinion, but at least a given valuation can be argued based on fundamentals.

In the macro economy, as expected, the world's principal central banks held interest rates at their plateau levels while continuing to tease about when they might come down. May or June remains favourite for the first cut. But while western European economies continue to flat-line with growth rates either side of zero, growth in the US continues to canter along at a remarkably resilient clip. If at the end of December last year the US Federal Reserve(Fed) expected US growth to moderate to 1.4% in 2024 from 2.5% in 2023, already in March it has had to discard that projection and hike the estimated growth rate up to 2.1%.

If the US economy hardly missed a beat while interest rates were rising quickly from zero to 5.5%, taking an implied two points off again by the end of 2026 and still with stable growth of over 2% implies that the US economy is now almost entirely insensitive to changes in interest rates, either up or down, or that the sensitivity is so lowly-geared as to be almost imperceptible.

It begs fundamental questions: 1) is that implication correct? 2) if yes, what has changed to the structure and composition of the economy that now makes it much less sensitive, or insensitive? 3) if it is insensitive, is the Fed effectively redundant? If it is redundant, presumably we no longer need to hang on its every quantum of solace for what happens next. 4) if the traditional monetary policy bullets of interest rates and buying/selling bonds are increasingly ineffective, what replaces them (i.e. does the Fed need to find new tricks or does the onus shift to government fiscal measures such as taxation to do the heavy lifting to change consumer behaviour)? 4) if the insensitivity thesis is wrong, is the Fed wise to be wanting to stimulate an economy that is already growing exactly half as fast again as it thought it was only three months ago, while traditional assumptions suggest it should not be growing at all in the first place? So many questions!

Essentially what the Fed is grappling with at this looming inflection point in interest rates is whether the American consumer's glass is half full or half empty: whether consumers see a change in policy as a green light to spend, spend, spend, risking a resumption of inflationary pressures, or whether they perceive gradually falling interest rates as merely a little less repressive. Time will tell.

In such times in which circumstances are new and there are no hard and fast answers, we think it important to keep an open and flexible mind when it comes to investments. And as we have said many times before, "when the facts change, we reserve the right to change our minds."

The Jupiter Merlin Portfolios are long-term investments; they are certainly not immune from market volatility, but they are expected to be less volatile over time, commensurate with the risk tolerance of each. With liquidity uppermost in our mind, we seek to invest in funds run by experienced managers with a blend of styles but who share our core philosophy of trying to capture good performance in buoyant markets while minimising as far as possible the risk of losses in more challenging conditions.

Risks

The NURS Key Investor Information Document, Supplementary Information Document and Scheme Particulars are available from Jupiter on request. Market and exchange rate movements can cause the value of an investment to fall as well as rise, and you may get back less than originally invested.