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Nick Mustoe – Global markets: Where are we and what's next?

- In the early years after the financial crisis, it was all about finding yield. That's created distortion
- Companies also changed their behaviour to become focused on cash. It's all been about buybacks, particularly for US companies and they have cut back on investment spending
- It has distorted equity valuations. There are companies changing the world, on high valuations, but they have never made a profit
- Financial assets have done well, but the real world hasn't. Wall Street has beaten Main Street. Inequalities have grown and this is putting pressure on politics
- The US market has led the way. The country reformed very quickly and sorted out its banks while Europe lagged
- We have seen the decline of inflation and the phenomenon of negative-yielding bonds
- There has been considerable outperformance of growth investing compared to value. This is unusual. Looking over 100 years, value has outperformed growth. In the search for safety and low volatility, valuations are now at extremes
- The number of stocks trading at over 10x revenue is now above the level in 2000. It is now over 250. 80% of companies coming to market at IPO have no profits. The unifying characteristic is that they're changing the world. But will they make money?
- The average market rating doesn't really exist. There are two fat tails. A lot of stocks are trading cheaply, and a lot are trading very expensively. This is an opportunity
- In 2017 - everything went up. 2018 was bad in terms of the breadth of underperformance with no place to hide. Trying to find a balance over those two years has been difficult
- What's going to change this? The divergence between financial markets and the real world. That is why we are seeing a rise in populism
- What could happen next? The economic cycle can continue much longer, although it will be modest
- The US market is so expensive and so well-loved, it's not going to be the best returning asset
- There are huge valuation disparities. If there is even a modest change, there will be a huge change in terms of what works and what doesn't. We only need a modest change to the consensus for returns to look very different

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