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# While you weren’t looking: US equities have ‘once in a lifetime run of $A returns

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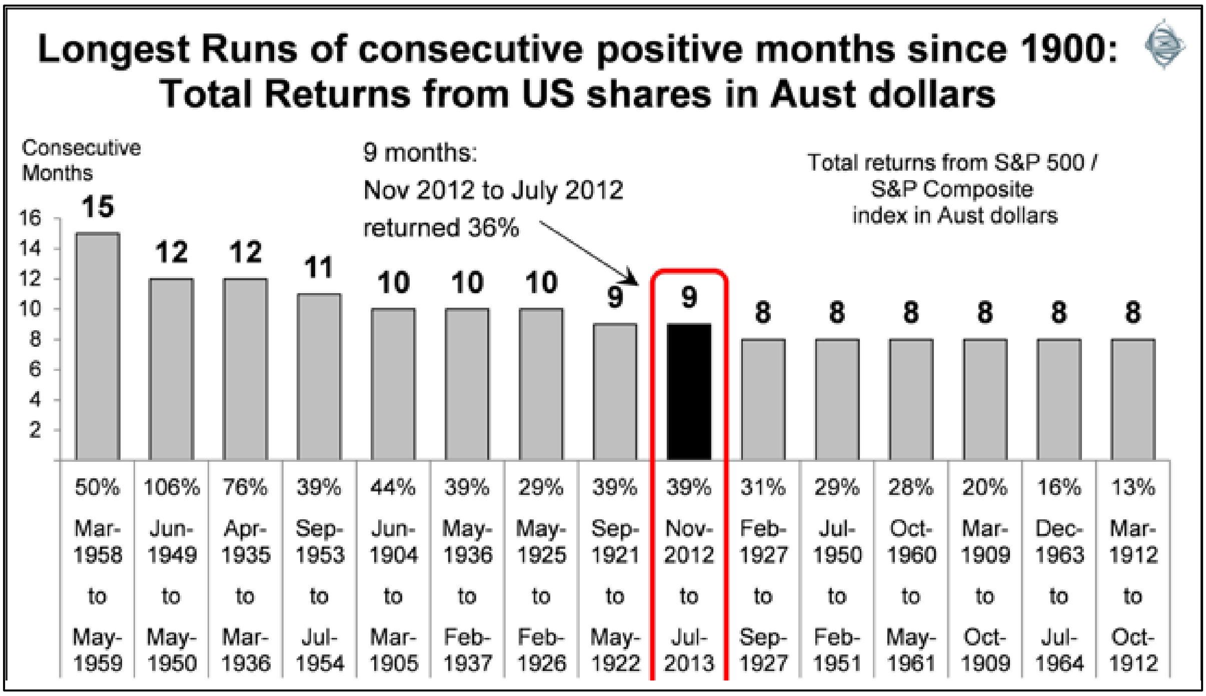


Once in a lifetime: US equities have just enjoyed their strongest run in $A terms for 55 years. **Source: Philo Capital**

The US stock market has enjoyed its longest run of positive performance in Australian dollar terms since 1958-59, with the S&P 500 returning 39 per cent since last November to unhedged Australian investors - trouble is, there weren’t many of them.

Investors here have been scared off global equities by “media hype about the supposed ‘new normal’ of high volatility and low returns”, says Ashley Owen, the joint chief executive of Philo Capital, which advises on $4 billion on behalf of Australian institutions and wealthy individuals.

The US market in particular was avoided because of negative publicity around the ‘fiscal cliff’ debate and the Federal Reserve chair Ben Bernanke ‘QE-taper’ scare of May-June, but

Owen says unhedged Australian investors were more than compensated for these dips in the S&P 500 by the even bigger fall of the Australian currency against the US dollar.

"The US market went down 10 per cent when Bernanke said he'd taper quantitative easing, but the A$ fell 15 per cent, so being unhedged has had a smoothing effect, like it always does when global sentiment falls."

ASX-traded funds tracking US indices are all unhedged, but the lack of any spike in inflows to them would indicate most Australian investors have missed the biggest US equities run-up in 55 years.

"People should ignore the media doom and gloom," is the lesson, according to Owen.

"The western world is in recession, it's true, but you don't invest in economies - you invest in bits of paper, stocks and bonds and currencies, so focus on those. Economies are basically irrelevant to the performance of investment markets."

In a separate post on the Cuffelinks website this morning, Owen says there is no implication that the stellar US-equities-in-$A run will continue.

However he pointed out to *BRW* that two-thirds of US companies were now reporting profits above expectations and enjoying strong bottom-line growth, even if top-line growth remained modest.

"They're doing better than expected and sitting on mountains of cash, and that's because they cut costs four years ago," he says.

"Too many Australian companies are lazy oligopolies and they're only now realising they have to cut staff and costs too. That's why we've got unemployment rising and a cash rate at 2.5 per cent - they missed the opportunity to restructure out of the GFC and we're paying for it."

Owen says Phil Capital has been overweight US equities and international equities generally, since early last year. Its exposures have been unhedged since then, too, and Owen has no plans to hedge while ever the Australian dollar remains above its "true value" somewhere between $US0.70 and $US0.80.