August 2015 Market Decline

AUGUST 2015

Key Takeaways

1. Most major global indices have declined approximately 10% or more over the past 3 months, and most (other than Japan) are also down YTD and over the trailing 12 months.
2. Brandes' long-term focus and patience to wait for more significant margins of safety, which had caused its cash levels to rise in many strategies, has contributed positively in the recent sell-off.
3. With a long-term focus, environments like this can create opportunities for us to deploy our cash into attractive long-term investments that Brandes believes offer a significant margin of safety.

Recent Market Declines

The recent strong declines across global markets, driven in part by concerns around Chinese growth and struggling government measures to prevent the A share market from declining, have now led to many markets entering "correction" territory. Most major global indices are down greater than 10% over the last 3 months. The most significant decline has been in Emerging Markets which are down nearly 25% in the last 3 months. In addition, on a YTD and 1 year basis, nearly all major indices (with the exception of Japan) are in negative territory.

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While market declines can be concerning, Brandes often finds that they can present opportunities.

Impact on Brandes Strategies and Opportunities

Historically, during periods of market declines, value investing strategies and especially Brandes strategies often hold up well. During this current decline and over the past year, however, global value indices have largely underperformed global growth indices. One of the major drivers of value's underperformance has been its higher weighting to energy stocks, which have declined more than the market over the past year due to the decline in oil prices during that time.

Nonetheless, during the recent market decline, the majority of Brandes strategies have held up better than the market and have outperformed their respective benchmarks. One of the reasons for this has been our high cash weighting across a variety of our strategies. As we have mentioned many times over the past year, it was becoming more challenging to find attractive value opportunities in many markets, and therefore our cash balances had increased. We believed it was better to wait for significant margins of safety before deploying cash. Despite being news-worthy moves, declines of 5–0% don't necessarily create vastly different opportunities, and may not lead us to make significant structural shifts in portfolio weights, but we are starting to see more attractive investment opportunities present themselves. There have been many names on the Investment Committees' monitoring lists across a variety of sectors (Industrials, Technology, and Consumer) that are now nearing or reaching the significant margins of safety that we demand before making an investment.

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In addition, Brandes has been concerned about China and its massive investment spending, resource consumption, and government intervention in the markets. As a result, we have been underweight China in the majority of our strategies. In addition, we have been concerned about the follow-on effects of a slowdown in China arising from its dominant share of global demand for commodities. A China slowdown could have a significant effect on commodities and commodity companies, as well as countries with significant commodity exports like Australia and Canada. Consequently, we have largely been underweight Australia and commodities across a variety of our strategies.

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