

Investors haven't seen the end of the US tech giants' correction

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Hugh Selby-Smith is co-chief investment officer and head of research at Talaria Capital.

Do you see the potential for a correction in the major US tech names? Which stocks are overpriced?

Yes, we do. Companies such as Tesla, Airbnb and Zoom have [valuations that are hard to justify even based on very optimistic projections of future growth](#). Given sentiment, ownership and valuation of US tech stocks, any change in the prevailing market backdrop of easy financial conditions and benign inflation expectations has the potential to see the US tech stocks revalued lower.

Particularly vulnerable are companies that generate low or non-existent levels of free cash flow.



Equities in Europe and Japan will be beneficiaries of inflation, says Mr Selby-Smith.

How big of a threat is inflation to equities, and which stocks/regions are you invested in for protection?

[Inflation poses a significant threat to global equity indices](#) in the medium-term, given the market cap dominance of a select few growth stocks. These stocks have all benefited from low inflation and falling interest rates, and in their wake have left global indices with the lowest ever amount of diversification against rising inflation.

Indeed, the majority of the financial industry is at risk of being impacted by inflation. After 40 years of one-way traffic (falling inflation), there is a serious risk that investors are conditioned to expect a future that looks like the recent past – a recency bias. This doesn't stack up when we look at the past 200 years.

Many people are still unprepared for a regime change; one which if it were to pass, would require everyone, from advisers to fund managers to savers, to recognise and overcome this recency bias. That would be a hard thing for the industry and markets to do, while having the greatest impact on those savers looking to move into retirement.

Going forward, we expect income to be a greater component of total returns, which is the first way to mitigate against persistently high inflation.

Second, there are regions around the world, particularly Europe and Japan, that would be beneficiaries of inflation, given they have been priced for low, persistent deflation. Japanese industrial conglomerate Mitsubishi Electric is a good example of a company we own that is well-placed to benefit from higher inflation.

Which region, and stock, do you think is being overlooked by global investors and presents value?

[European equity markets are throwing up many opportunities](#) for investors, but they tend to be overlooked given Europe's long period of underperformance compared with US equity markets.

One company that presents good value is French-based pharmaceutical Sanofi. It is paying a strong and growing dividend and is highly cash generative. Furthermore, Sanofi continues to spend heavily on R&D to drive future growth, which investors are not being asked to pay for.

Which stock in the fund are you most bullish on?

North American pharmaceutical distributor McKesson. The company has a current price-to-earnings ratio of less than 12, an opportunity to grow its bottom line earnings 12 to 14 per cent for the next three to five years through a combination of leading market positions, demographics and disciplined capital allocation. Plus, it has a very strong balance sheet, while returning capital to investors through buybacks.

What are some positional changes you've made in the fund that reflect your view on the market?

The earlier stages of the COVID-19 pandemic gave us the opportunity to buy a range of global financials and industrials assets at highly attractive valuations. A few examples are Swiss Re, Intesa Sanpaolo and CF Industries. Given their strong performance and move towards our estimate of fair value, in the last quarter we commenced a process of slowly reducing exposure to these stocks, which have delivered strong unitholder returns.

What are your interests outside of work?

I love visiting remote places under the pretext of fly-fishing. I'm also a big reader and enjoy activities I can do with my wife and kids, such as watching live theatre and music.

Any good podcast or TV series you're enjoying, or have recently enjoyed?

As an avid reader, I find *The New York Times Book Review Podcast* to be always insightful. I haven't watched much TV lately but two films I recently enjoyed are *Only the Animals* and *The Mole Agent*.

Any recommendations for a good restaurant or pub in Melbourne? What's your go-to order?

I'm a big fan of Di Stasio Citta. The Frittura di Mare (fried morsels of the sea) and the Cotoletta are my go-to orders. I'm also rather partial to a Melbourne Bitter at the Rising Sun Hotel in South Melbourne.