

# Multi Asset World Cup 2018: The knock out round



With only 16 teams remaining out of the 32 group-stage contenders, the next matches will whittle the competition down to just four semi-finalists; see who is economically excellent and who flunks at the final financial whistle.

## THE JOURNEY SO FAR

This is the second of our three articles on the Multi-Asset World Cup, an international tournament with just as much excitement as the FIFA contest and perhaps even more controversy. Read our first piece, in which we explain the rules and play out the group stage [here](#).

In terms of footballing prowess, it was a surprise to see Brazil and Argentina drop out of our competition at the group stage, but given the economic misery endured by the former, especially over the past few years, the results didn't shock our more fiscally focused pundits. Less surprising on both the footballing and economic side was John Roe's Iranian team finishing last in group B. Roe is the oil expert within the Asset Allocation team and, therefore, Iran seemed like a perfect match, alas; it wasn't to be.

Mexico are worth a special mention. They came into the tournament with a lot of promise with highly regarded German native and manager, [Lars Kreckel](#). The equity market represents value relative to the rest of emerging markets, in his view; the economy is recovering; and much of the-market unfriendly rhetoric from AMLO, the country's far-left

presidential candidate<sup>1</sup>, is priced in – yet they couldn't win one game in the group stages. Kreckel was in contention for the German national role but turned down the position due to the lure of the Mexican team. You feel this year's World Cup simply came too early for the Mexico and in four years they might be much stronger. The good news is that the experienced Kreckel intends to stay in the role. "As long as Mexico want me, I want Mexico," he proclaimed profusely (puzzlingly in German) to the local Mexican radio station.

A number of countries progressed with three victories out of three in the early matches, with Nordic trio Denmark, Sweden, Iceland yet to concede a goal. But as new economic and financial criteria are drawn, will the same teams find favour or will the tide turn to favour those from warmer climes?

## MOVING THE GOAL POSTS

The Round of 16 and Quarter Finals will be contested on three data points, each worth a goal in each match. The country with the better assessment on each measure gets a goal. The criteria are:

- **Dividend yield**

Simple, but effective, this measure

takes the total annual dividends paid by companies that make up the country's stock market, and divided by the total market value of those companies' shares. This should favour countries with stock markets dominated by established industries like utilities, energy and financials... like the UK! The Multi-Asset team uses this measure when making allocations in income-focused funds, in particular.

- **Dependency Ratio**

The dependency ratio compares a country's working age population against the non-working, or dependant age population. It sums those aged between 0-14 and those over 64, and divides by the size of the population aged between 15 and 64. Typically high numbers are associated with an aging demographic, and indicate a more significant burden on the working population to support the welfare of the wider population. While this measure has some shortcomings (especially as more people work beyond the age of 64) it still makes for an easy way to compare various economies when we consider one of LGIM's longer term trends of demographics and the structural problems aging populations may cause.

1. He also goes by Andres Manuel Lopez Obrador

**Real Effective Exchange Rate (REER)**

The REER is the average weighted valuation of a currency against a wide range of other currencies, compared to the twenty-year average. It is called 'real' because is adjusted for inflation differentials between countries. It is just one measure that our currency strategist Willem Klijnstra uses when assessing if a currency

looks cheap or expensive. It's unlikely to give a significant short-term signal but works better over a longer period. Other measures include something we all have when England face a penalty shootout in football – FEER (fundamental equilibrium exchange rate); and another which is more of a fan favourite – BEER (behavioural equilibrium exchange rate).

**LET THE GAMES BEGIN**

Ahead of the last 16, the pick of the games includes Portugal (under the stewardship of [Hetal Mehta](#), thanks to her understanding of Portuguese fiscal tactics) versus Uruguay, and a tussle between LGIM's Multi Asset Fund Managers as [Andrzej Pioch's](#) Poland take on [Chris Teschmacher's](#) Belgium. Meanwhile [Onuekwusi's](#) England play Japan in a battle of the red and white flags.

**ROUND of 16**

RUS	2	}
ESP	1	
DEN	1	}
CRO	2	
SER	1	}
GER	2	
BEL	1	}
POL	2	
POR	3	}
URU	0	
ICE	1	}
FRA	2	
SWE	2	}
SWI	1	
JPN	1	}
ENG	2	

**QUARTER FINALS**

RUS	2	}	}	RUS
CRO	1			
GER	2	}	}	GER
POL	1			
POR	2	}	}	POR
FRA	1			
SWE	1	}	}	ENG
ENG	2			

**SEMI FINALS**

In the first fixture of the knock-out rounds, hosts Russia surprised Spain, boasting the highest equity market dividend yield in the competition and one of the lowest dependency ratios too. St Petersburg bars resonated to *na zdorovie!* Clearly energised by their home advantage, Russia also snuck two goals past Croatia (who had earlier overcome Denmark 2-1) in the quarter finals while only conceding on their currency valuation, which appears expensive when measured by REER.

Serbia and Germany arguably played out the tightest game in the competition so far. While Erik Lueth's team set the early pace with a convincing win on dividend yield, it was Serbia who edged the dependency ratio with a score of 50.1 vs. 52.3 for Germany. Remember, a lower score is better here as it indicates a larger working age population. The last goal decided by the finest of margins, with the Germany's REER of 0.98 edging the Serbian dinar standing at 0.99, again a lower number is better as it indicates a better value currency.

Pioch's Poland edged out Belgium, the Poles' low dependency ratio the decider between them and Teschmacher's Red Devils. But that was to be the end for Poland, who came unstuck against the

experienced and increasingly enigmatic Lueth in the quarter finals.

### A BITING DEFEAT

Uruguay's match up against Portugal had echoes of their previous world cup exploits: they were effectively down to 10 men, just like when Luis Suarez was sent off against Italy for biting... as we could not find any information on Uruguayan equity market's dividend yield. They immediately conceded one goal. Not that it mattered, as from there they were unable to turn the tide against Portugal, losing 3-0 in the end.

On the other side of the draw, we should give a special mention to Iceland, England's conquerors two years ago in the European Championships. Rather than being a flash in the pan, they surprised everyone by once again by flying through the group stages only to come a cropper against France on the basis of low dividend yield and expensive REER. Led by the mercurial [Francis Chua](#), this was again another great effort from the Icelanders!

That match set up a meeting between Portugal and France in the quarter finals in a replay of the 2016 Euro finals. Again, it was Portugal who won, giving them a place in the semi-finals having not yet lost

a game. In a game for the neutrals, Sweden took on Switzerland with the Swedes progressing, their next opponents decided by the match between Japan and England.

The Japanese were particularly unhappy when they saw the criteria for goals being drawn – they suffer from a famously low dividend yield (something that Prime Minister Shinzo Abe is looking to address through corporate reform) while that of the UK equity market is famously high. In addition, the ageing Japanese population suffers from a shocking dependency ratio of 65.3, meaning that there are almost two non-working age people in Japan for everyone in the traditional working age group. On these criteria alone, Japan were 2-0 down against England, only able to salvage a conciliation goal with a better REER as sterling (the currency, not Raheem) failed to deliver.

In the last quarter final, it was England vs. Sweden, invoking memories of Zlatan Ibrahimovic's 30-yard overhead kick against England in 2012. Fortunately this game was not to be played out on the pitch, with Onuekwusi guiding his team to a 2-1 victory.

**So we head to the semi-finals with Russia taking on Germany and Portugal set to play England.**

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