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Markets to enter ‘new phase’ with hidden risks lurking, says top stock picker Peter Cooper

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Top-ranked fund manager Peter Cooper, the chief investment officer of Cooper Investors. Picture: Valeriu Campan

One of the nation’s most influential fund managers has warned that investment markets have entered a “new phase”, with hidden risks in the form of debt sitting in super funds, private equity and big investors that is set to test the financial system.

Peter Cooper, who founded the $13bn funds house that carries his name, said the return of surging inflation and the unwinding of “free money” by central banks has changed the investing game.

“It’s all gone back to the notion of back-to-basics risk,” Cooper says

The inflation-led shake-out of markets so far this year has been “extraordinary”, representing some of the reversal of the massive asset bubble that has built up since the Global Financial Crisis. But there could be more fallout to come with big super overseeing investments that include debt sitting out of sight from public markets.

“A lot of those private market structures have a lot of leverage behind them,” he says. “Australian superannuation is in a good spot, but there’s been a lot of money pressed into private equity and property development.”

The unwinding of free money has restored back-to-basics investing. Picture: Getty Images

Cooper, one of Australia’s top-ranked investors, rarely gives interviews but spoke to The Australian ahead of the seventh Sohn Hearts & Minds investment conference to be held in Hobart on November 18.

Cooper is one of the headline fund managers who plans to offer an investment tip, with all proceeds from the high-end conference to be donated to charity.

For his part, Cooper says he is neither bullish nor bearish, “just dispassionate” about markets. Cooper Investors’ mantra is “observation not prediction”.

He oversees eight funds, including the flagship CI Brunswick fund, which has been closed to new investors for years. Named after the inner-Melbourne suburb where he grew up, the fund has a long line of potential investors waiting to get in given its reputation for beating the index. Since its inception nearly two decades ago, the Brunswick fund has returned 15 per cent compared to 7.9 per cent for its benchmark. While it is focused on long-term returns, it is one of the few to deliver positive returns (1 per cent) this financial year to date even in the face of one of the biggest market shake-outs since the GFC.

The 30-year market veteran says he is not going anywhere as he continues to oversee the funds. He intends to continue doing what he describes best as the “art of investing”, as opposed to asset gathering.

‘New territory’

As long as Cooper has been in the markets, inflation has always been trending down, but he says it is no surprise the level of stimulus in the system, even before the pandemic, is now catching up. What happens next is “somewhat new territory”.

While the first order of effect on markets about rising interest rates and inflation is predictable (a shift to infrastructure and defensive stocks come into favour versus growth stocks), it’s the second-round effects that is the real unknown.

“What I mean by that is what activity in the market was happening as a result of the cheap money,” Cooper says.

Here he points to the wealth effect that comes from surging property prices and how that influenced spending decisions by households through the decade.

“What unwinds from all of that in terms of a retraction of consumer behaviour is a really challenging question,” he says.

He also points to the inequality created by ultra-low interest rates. The huge amount of money flooding the financial system is creating real social tensions.

“We’ve had inflation for the last 20 years. It’s called asset inflation,” he says.

When it comes to investing, Cooper looks for cyclical opportunities and, while it sounds basic, companies with quality business models that represent something tangible.

For tech, the proposition has to be clear – that is, finding companies that use tech that enable business to increase revenue and decrease costs.

Some key themes involve finding companies that have the utility of the value proposition, such as an “everyday needs business” like supermarket operator Woolworths. He even nominates Apple in this category because an iPhone is almost an essential service in the new economy.

He also points out that governments and economic policy are playing a bigger role than ever in influencing companies, particularly around energy, healthcare and demographics.

“If you draw a line down the middle of the page, in a relative sense, half the companies on the stockmarket are going to be on the positive side of government and the other half are going to be on the negative side,” Cooper says.

High importance in stock selection is the quality of management teams, with a clear focus and an entrepreneurial mindset.

He says Macquarie Group is “an amazing company” for its abilities to create opportunities.

“They (Macquarie) are an example of regulatory dexterity just outstanding around navigating government influence on policy from green investment to infrastructure,” he says.

Others include Qantas, which as a cyclical stock is “ruthlessly driven” for investors and has been able to exploit data to deliver higher returns. Another is BHP, which is supplying all the raw materials such as copper and iron ore needed for the new economy.

Cooper is less convinced about hydrogen as a near-term solution for a renewable energy shift, saying serious work has been going on in the area for decades and as a technology it still seems to be 20 years away from application.

“There’s going to be a lot of money made and there’s going to be an enormous amount lost … we’re just a little cautious on the technology frontier stuff,” he says.

Qantas is “ruthlessly driven” for investors says investor Peter Cooper.

With markets having just gone through an incredible period of zero interest rates and mad money theory “nonsense”, central bankers and policymakers now have to work through this, which is going to take time, Cooper says.

The paradox is that all the free money designed to save the system from the GFC or Covid crash has made it inherently more risky.

“As that gets unwound somehow, I just don’t know how this movie is going to end.”

But this means the risk-adjustment process is alive and well.

“There’s been a lot of readjustments, so, we’re looking with enthusiasm at some of the some of the stuff that’s been crunched,” Cooper says.

“Markets are like an air mattress in some respects – you sit on one side and the other side goes up.”

Peter Cooper will be a speaker at the Hearts & Minds Investment Leaders Conference on November 18 in Hobart, Tasmania.

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