



The FT Money Global Strategy Service
Empowerment Through Knowledge

The Autonomies

by Eoin Treacy



The Doja's Palace in Venice



Apple's New Campus in Cupertino



What are the Autonomies and why are they important?

Like the principalities of old, the Autonomies punch well above their weight on the international stage.

They are truly global corporations, that dominate their respective niches, display global brand recognition and have strong balance sheets. A considerable number are dividend aristocrats.

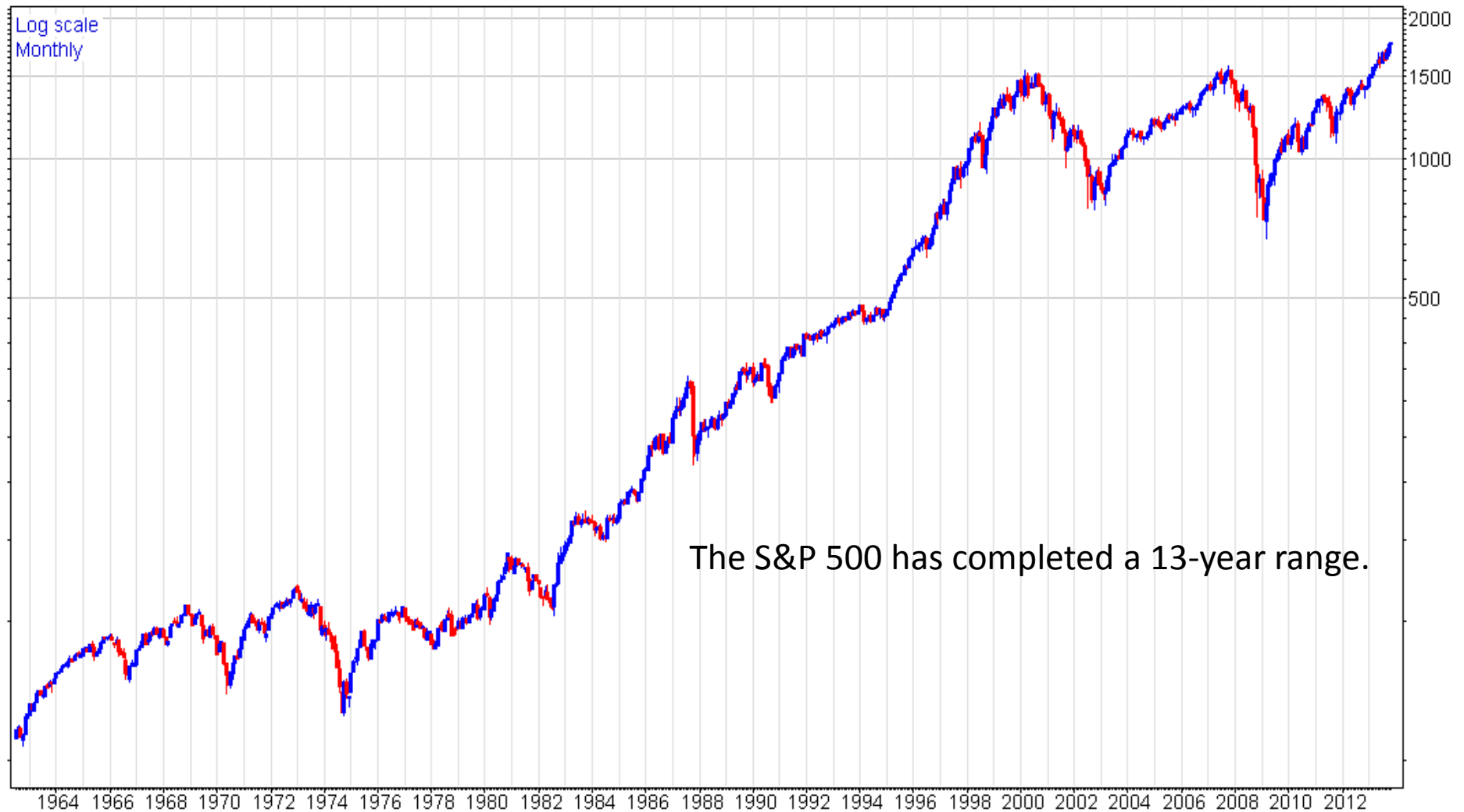
Due to their size and the breadth of their operations they offer unparalleled exposure to the growth of the global middle class. I have identified 134 candidates.



Where are we in the stock market cycle?

S&P 500 Index (SPX) 1763 +15.85

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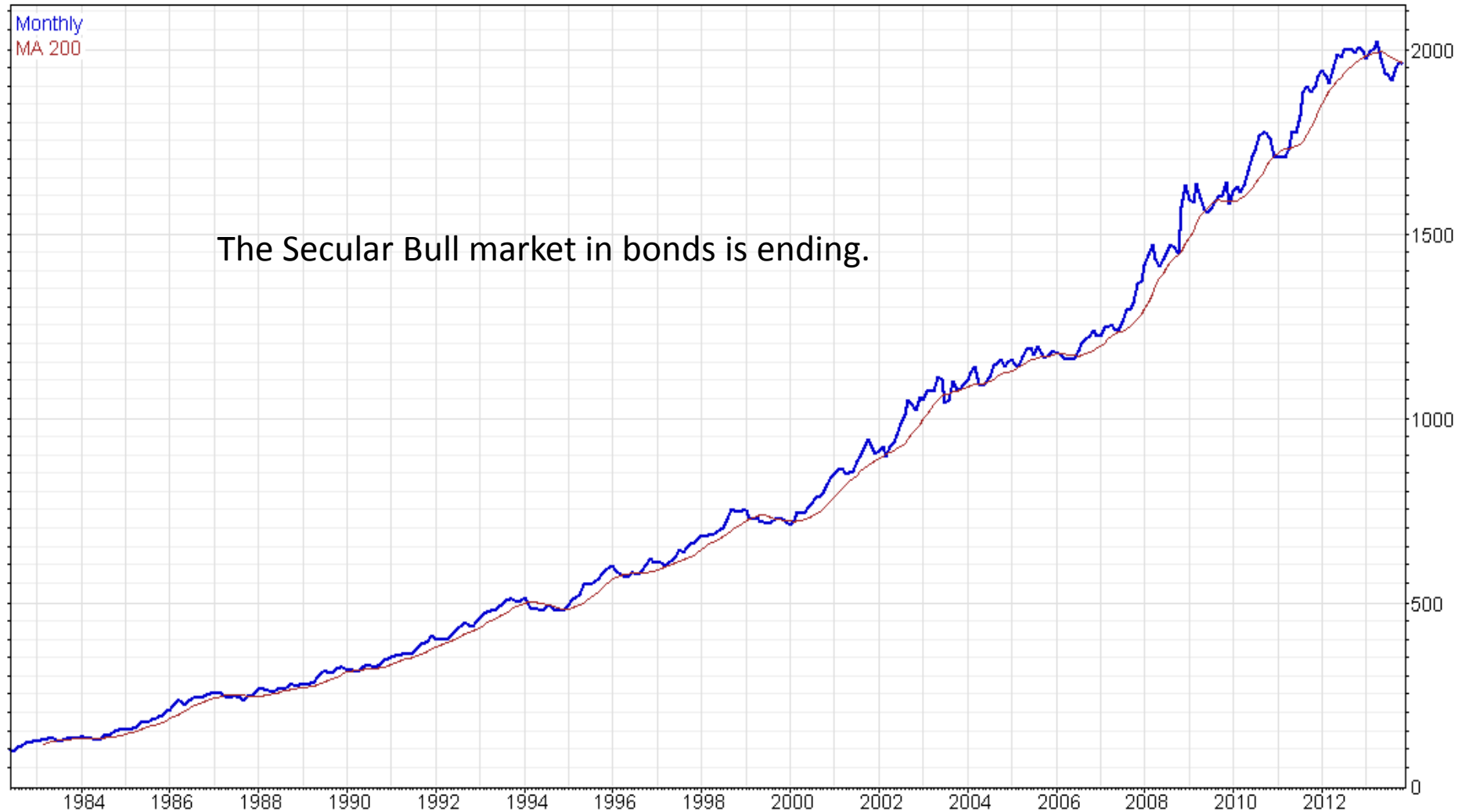




Where are we in the fixed income cycle?

Merrill Lynch 10yr+ US Treasury Total Return (MLT1US10) 1959.85 +5.56

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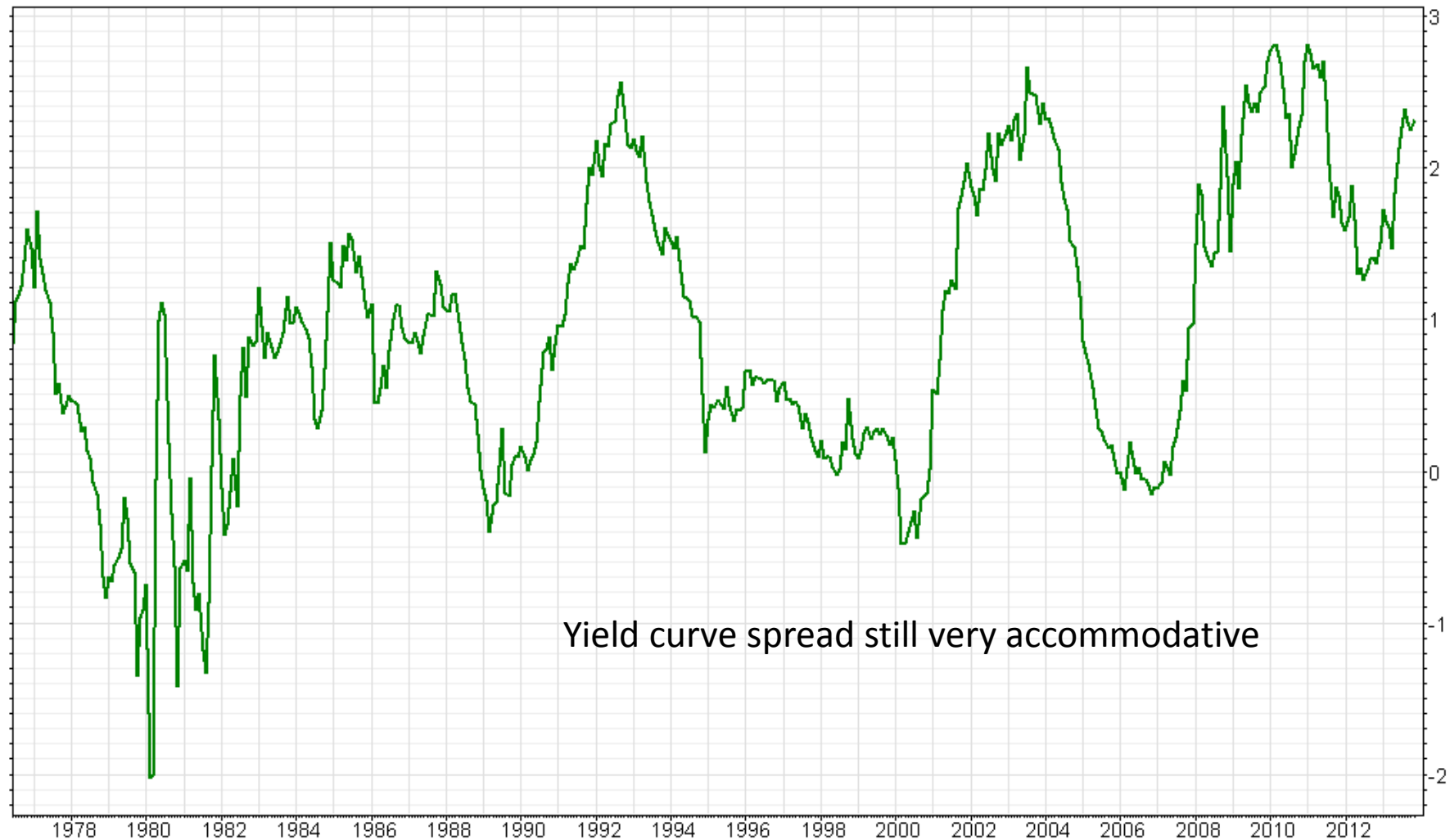




Where are we in the monetary policy cycle?

US 10yr Bond Yield (USGG10YR) - US 2yr Bond Yield (USGG2YR) = 2.31

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Yield curve spread still very accommodative

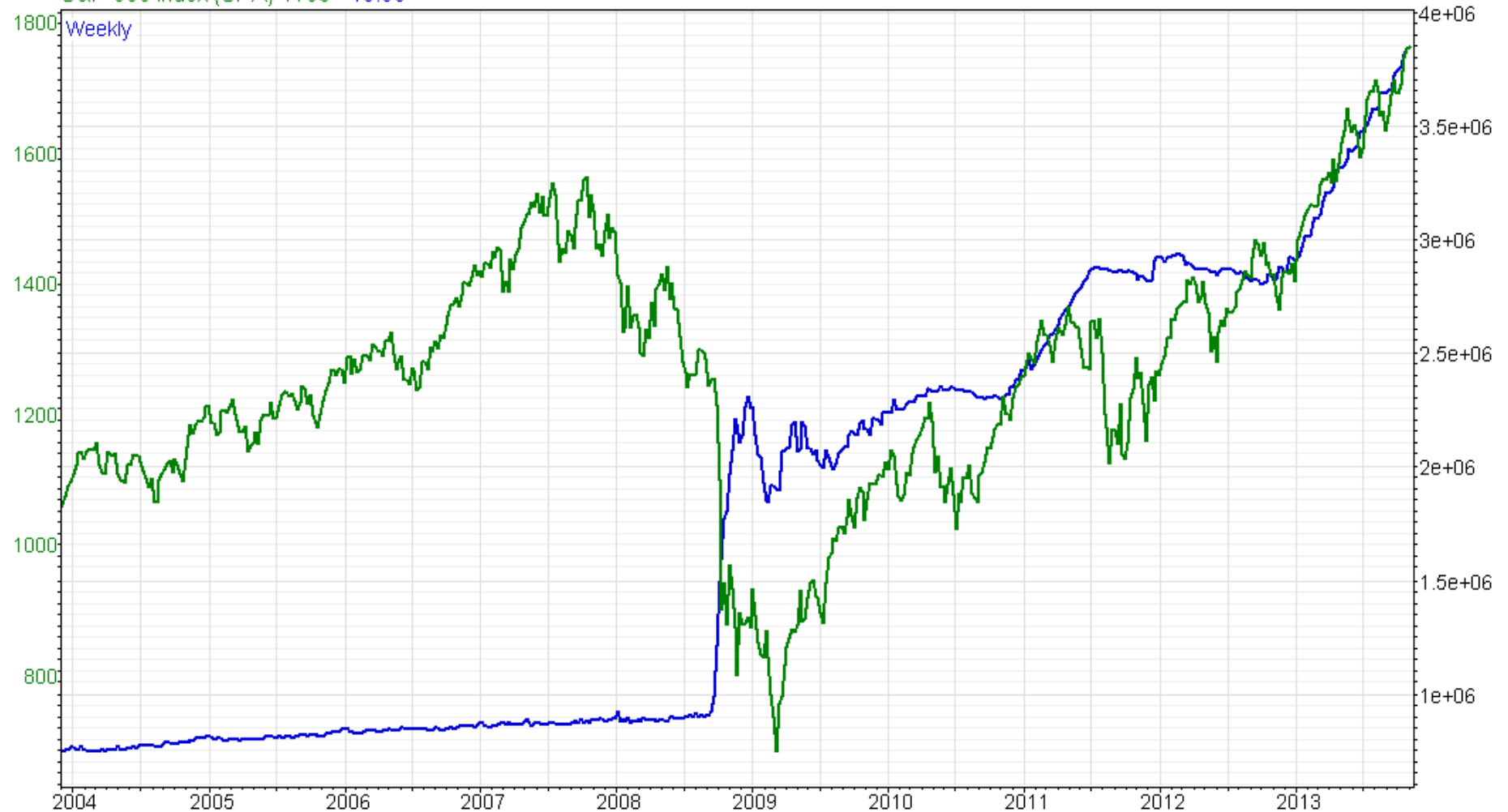


Wall Street's rally can be described as liquidity fuelled.

US Condition of all Federal Reserve Banks Total Assets (FARBAST) 3.85162e+06 +8227.00

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S&P 500 Index (SPX) 1763 +15.85

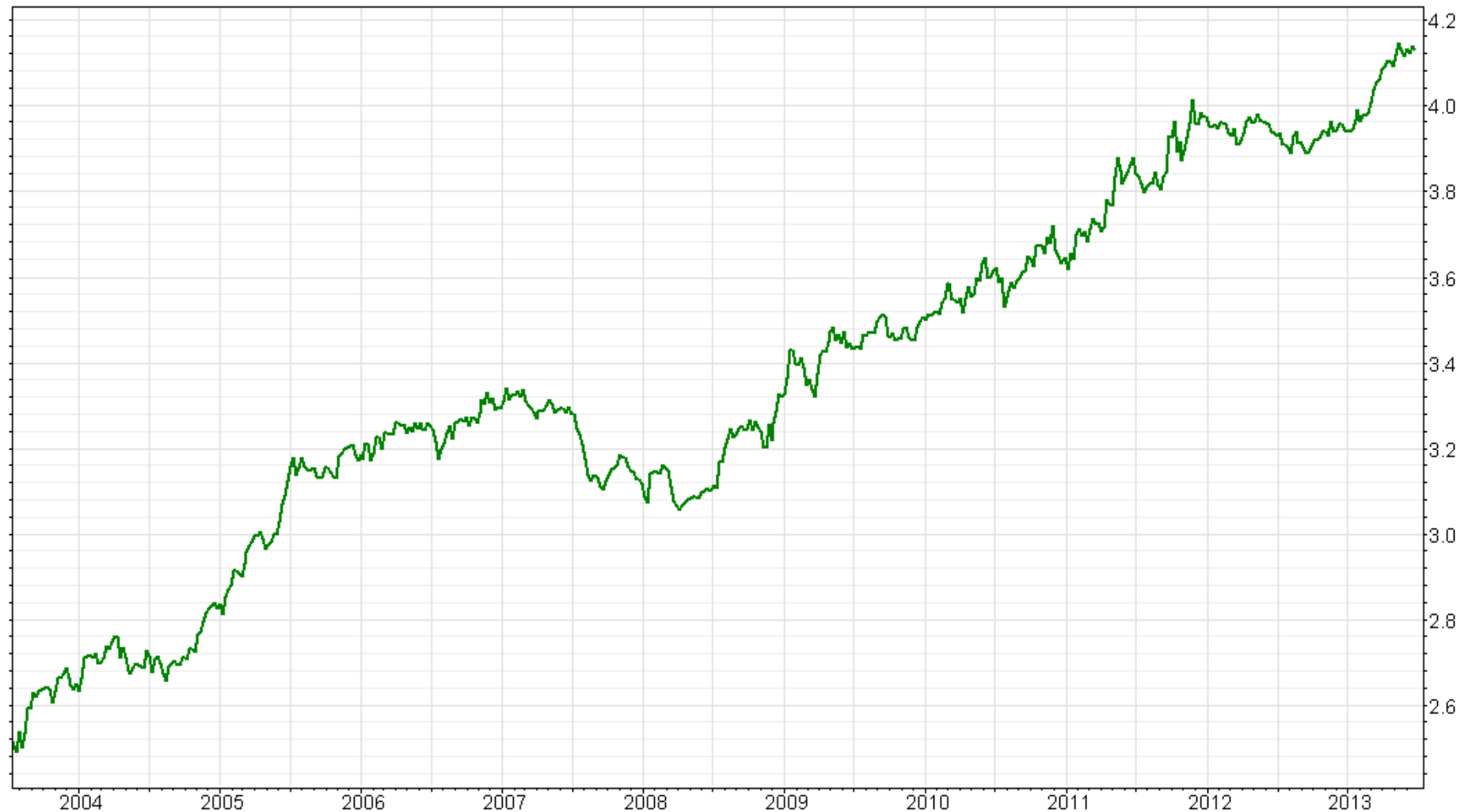




Companies have been borrowing to buyback shares.

NASDAQ Buyback Achievers Index (DRBX) / S&P 500 Index (SPX) = 4.13

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Initial conclusions

The bull market in bonds is ending so yields are likely to rise. Investors will need to relearn the need to price bonds on a yield-to-maturity basis.

A secular bull market is close to beginning in equities but the reliance on liquidity will need to be overcome.

Companies that grow their dividends and earnings faster than borrowing cost rise will command a premium. Cue the Autonomies.



Dividend Aristocrats

S&P 500 Dividends Aristocrats TR (SPDAUDT) / Standard & Poors United States 500 Total Return 1988 (SPTR) - 7 Nov 2013





Dividend Aristocrats

Definition – Companies that have impressive records of increasing dividends – USA (25 yrs), UK & Europe (10 yrs), Pan Asia (8yrs), Canada (5yrs).

They represent a useful start point because the indices are comprised of many successful global companies. However that ignores high growth companies and those that do not have lengthy enough records of dividend increases.

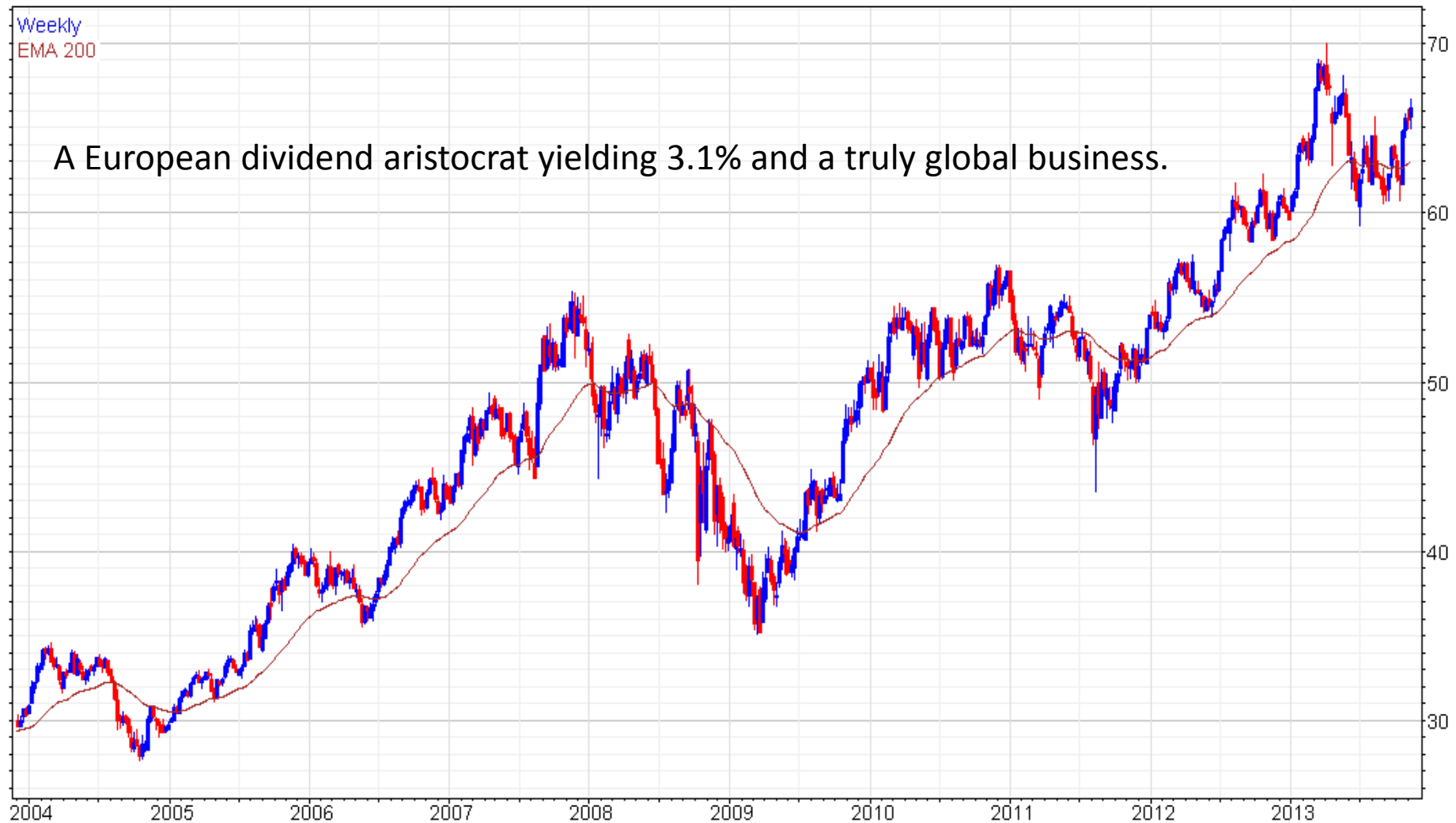
The Autonomies includes companies like:



Nestle

Nestle SA (NESN) 66.2 n/c

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Coca Cola

Coca-Cola Co (KO) 40.05 +0.22

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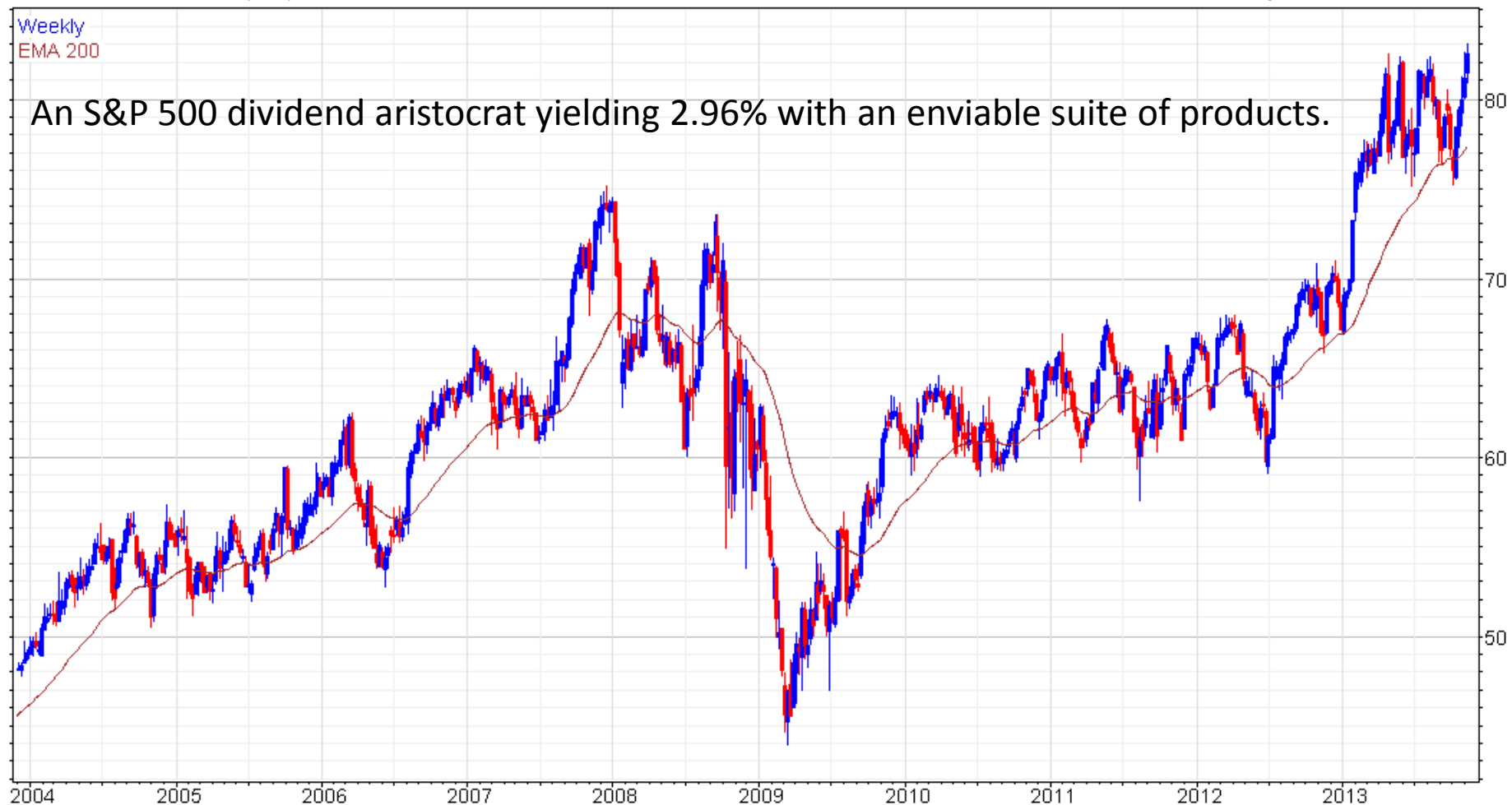




Procter & Gamble

Procter & Gamble Co (PG) 82.51 +0.19

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The Autonomies also include:

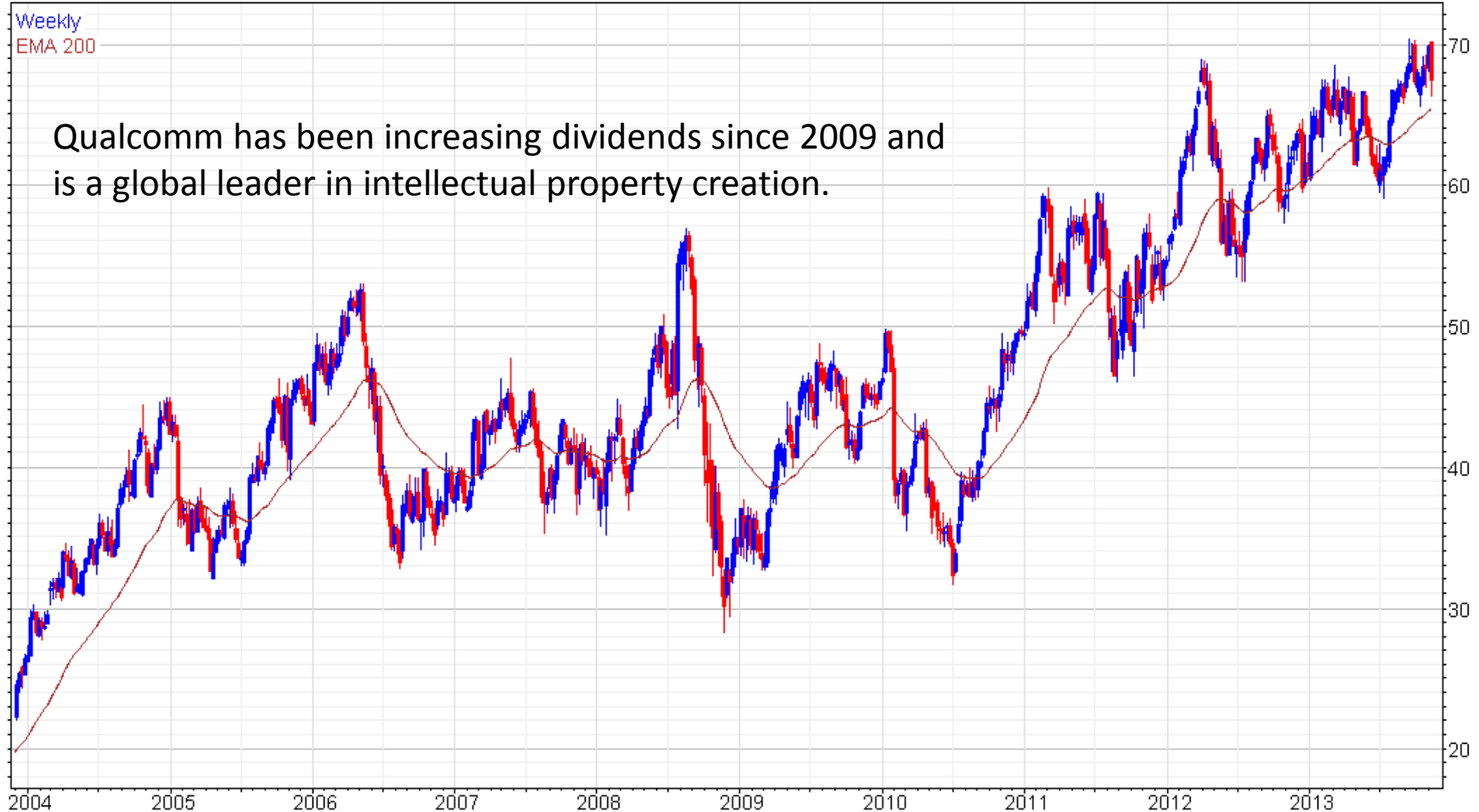
Technology companies that do not necessarily have long records of dividend increases but do have global businesses, strong balance sheets and brand recognition.



Qualcomm

Qualcomm Inc (QCOM) 67.45 +0.36

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Lenovo

Lenovo Group (992) 8.53 -0.07

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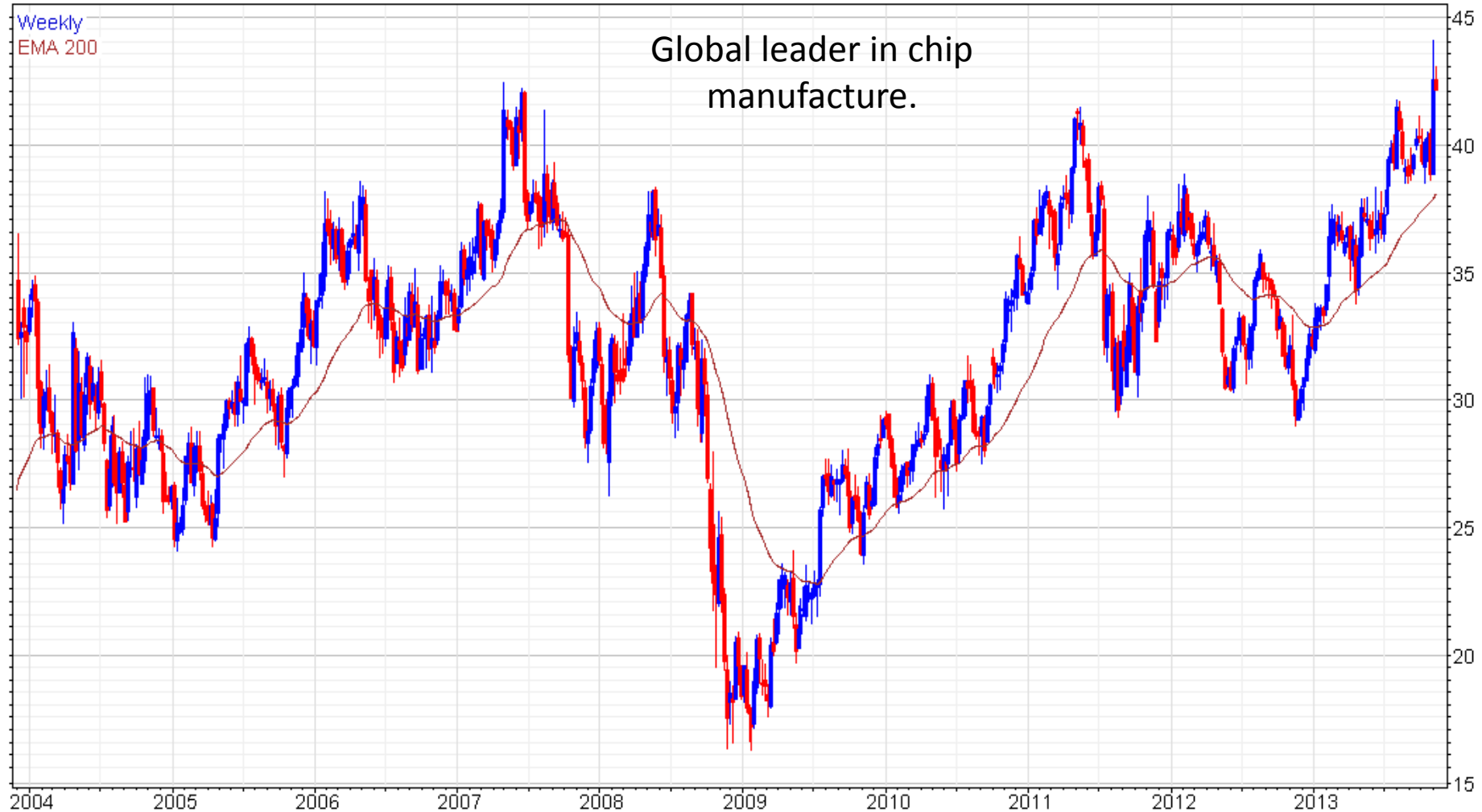




Microchip Technology

Microchip Technology Inc (MCHP) 42.16 -0.81

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The Autonomies also include:

Oligarchies that dominate their respective niches so completely that they are virtually synonymous with them. They enjoy high barriers to entry defined by ownership of physical resources, intellectual property or infrastructure.

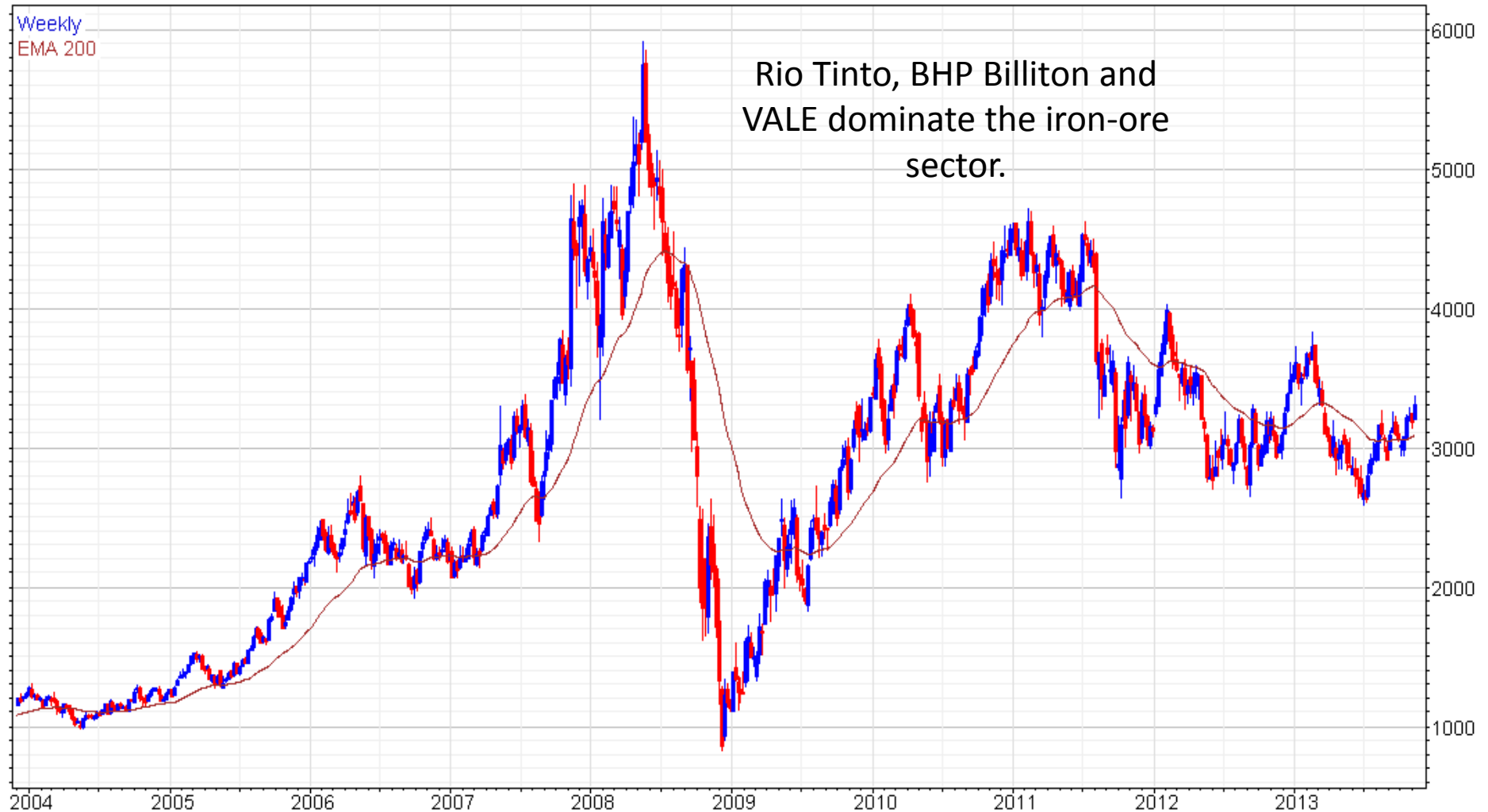
Examples include:



Rio Tinto

Rio Tinto PLC (RIO) 3319 +25.00

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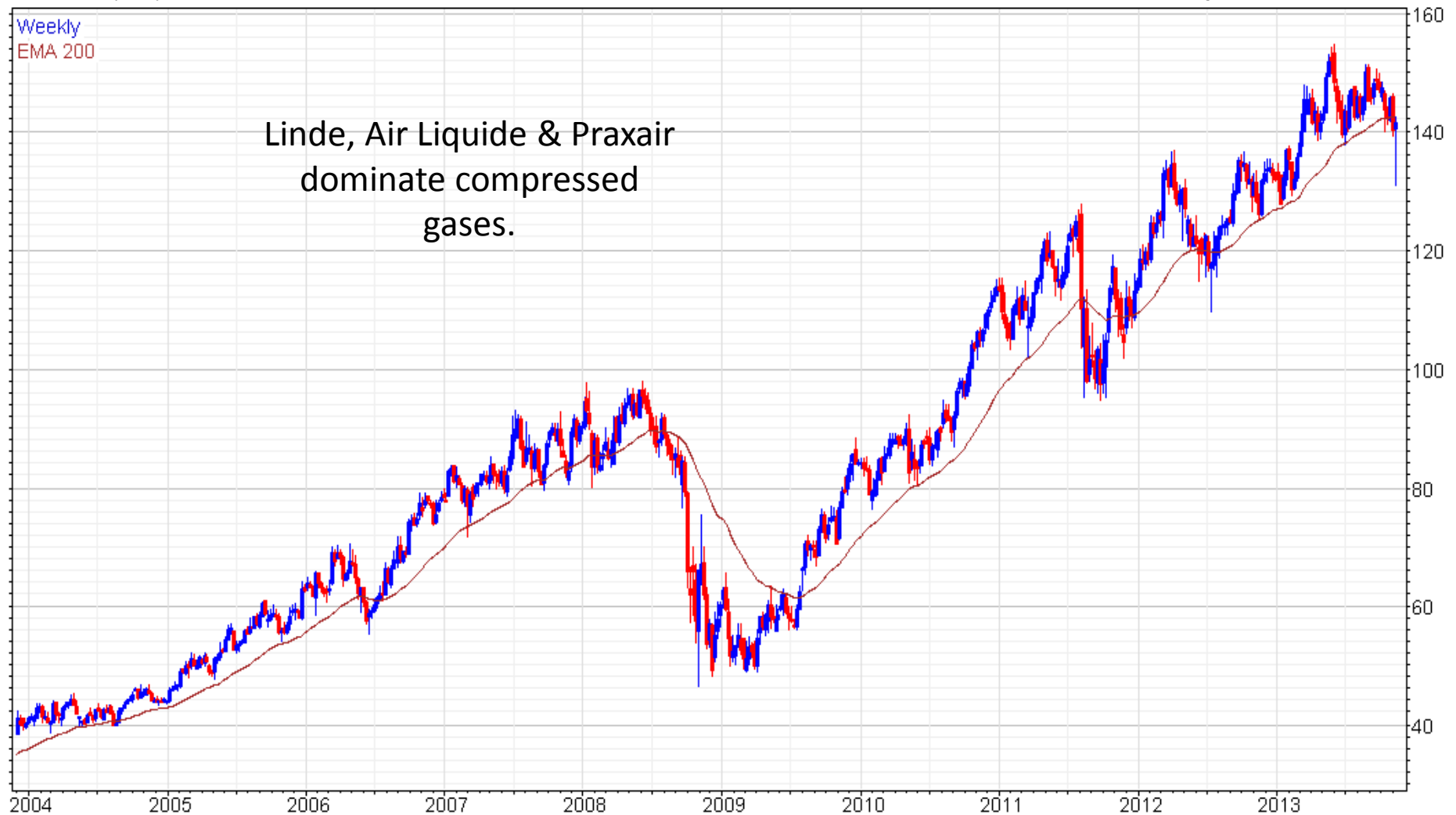




Linde AG

Linde AG (LIN) 141.575 -0.32

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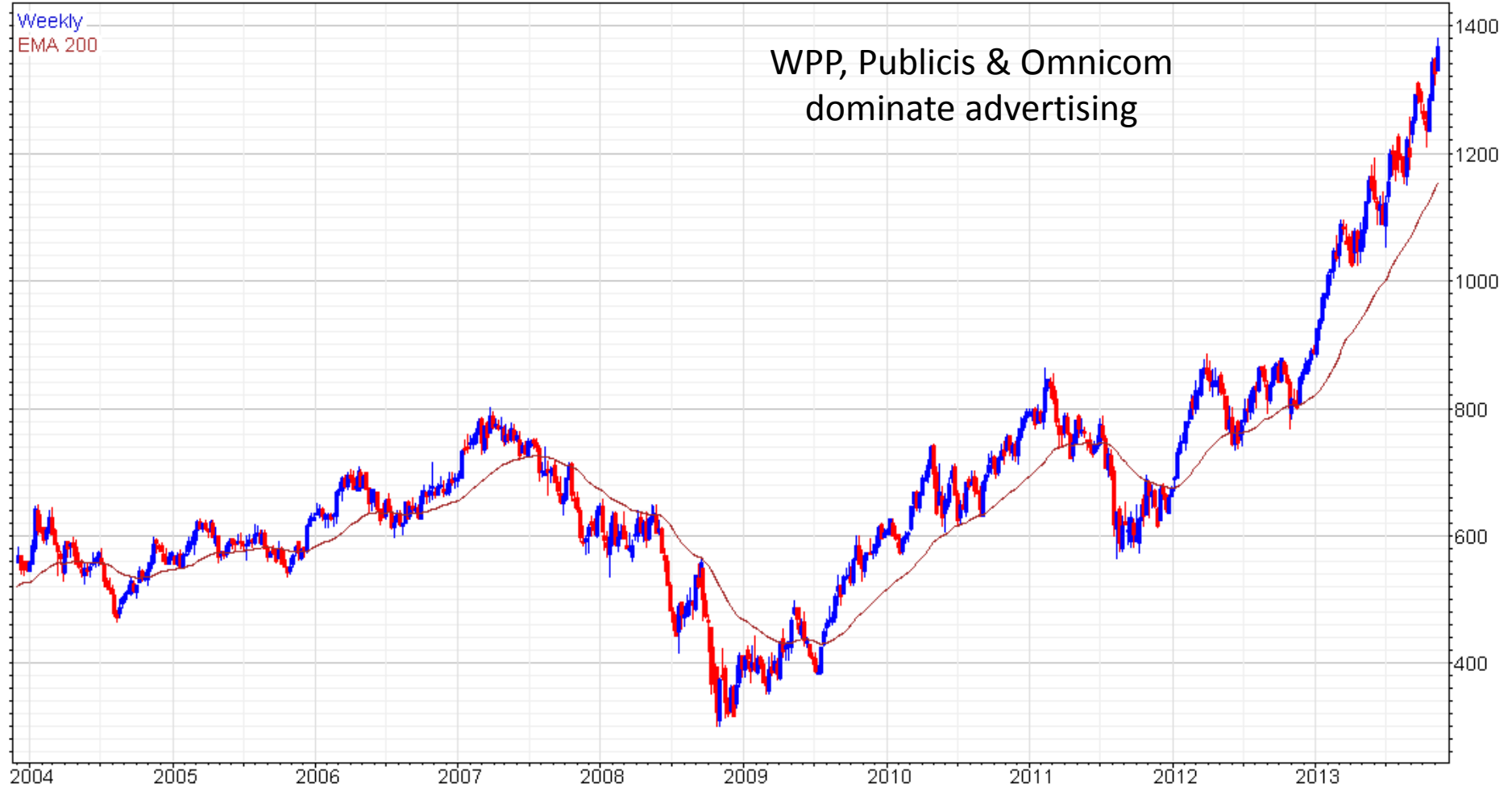




WPP Plc

WPP Group PLC (WPP) 1367 -1.00

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Facebook

Facebook Inc (FB) 47.56 -1.56

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Adidas

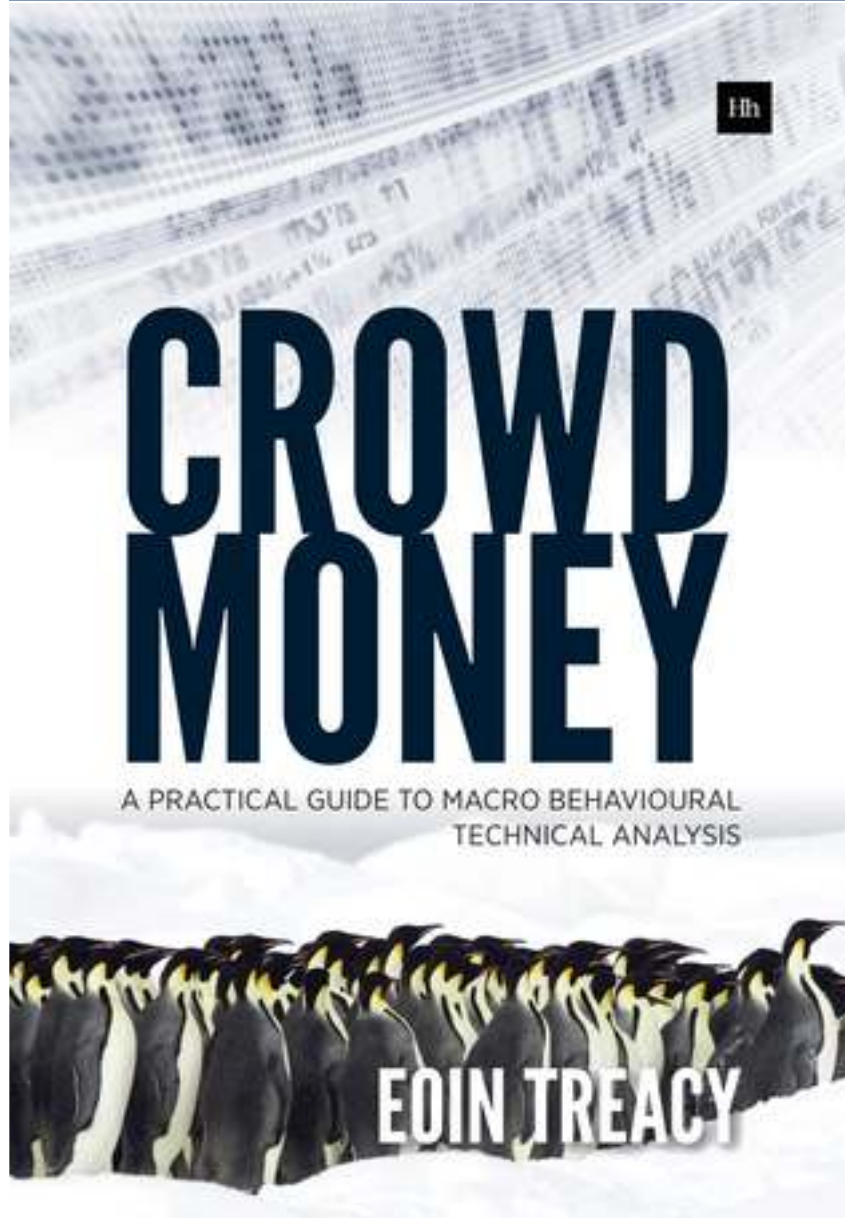
ADS GR Equity (ADS) 86.94 +0.31

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