Elgin asset management

investment commentary monthly

Monthly Commentary 1st December 2016

November was a month to remember both in geopolitical and market terms. There is no need to mention what happened in geopolitics – as the late great Leonard Cohen sang - “Everybody Knows”.

Markets were all over the place. In equities, the US and Japanese markets were up sharply, Europe was flat while the UK and Emerging Markets were down a lot. In commodities, oil was up about 5% and gold was down 8%, whereas in currencies the USD shone brightly. **But by far, the biggest market news was the capitulation in bonds**. Bloomberg’s top news story yesterday is worth replicating below:

Global Bonds Suffer Worst Monthly Meltdown as $1.7 Trillion Lost

by **Garfield Clinton Reynolds** and **Wes Goodman**
November 30, 2016 — 10:16 PM EST *Updated on* December 1, 2016 — 2:04 AM EST

This is not a typo. Global bonds, as measured by the benchmark Bloomberg Barclays Global Aggregate Total Return Index suffered its worst monthly performance since inception 1990, falling 4%.

Will the bond bears that have been calling the end of the three-decade long bull market for the last three years, finally be vindicated? We are not sure. What is unlikely to happen is that this index will keep producing the 6% annual returns of the last 26 years.

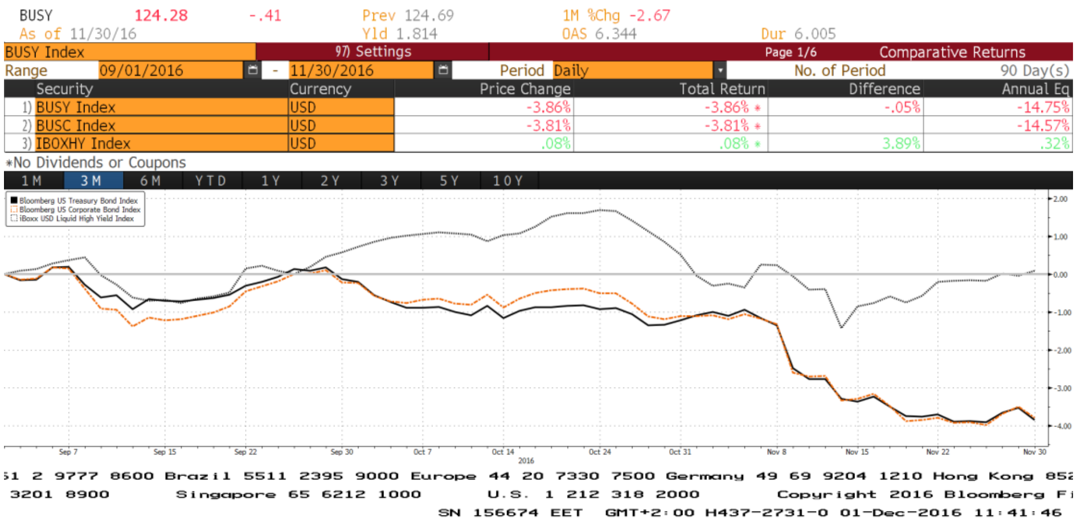
At Elgin, we have been skeptical about the last phases of this rally and three years ago, we decided to underweight bonds in our portfolios – not without pain as we saw ever-decreasing market rates continuing to fall.

This made almost all the gains in bonds coming from capital gains and not from coupon-clipping. In addition to lowering our exposure to bonds, we invested in low-duration, high yield and un-benchmarked funds. This paid off handsomely in the last three months as the funds we use performed much better than bonds in general, but they also did well so far this year.

Below is the performance of the USD bond indices in the last three months, followed by the performance of our funds, all of which avoided the big slump.

US Government (-3.86%), US Inv. Grade Credit (-3.81%), US High Yield (+0.08%)

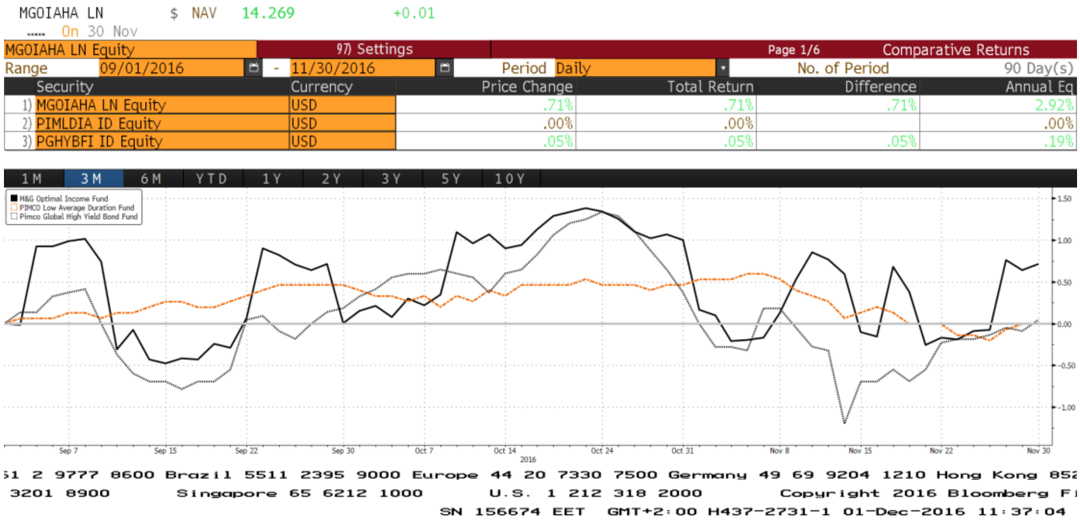
3 Months



Source: Bloomberg

M&G Optimal (+0.71%), PIMCO US Low Dur. (0.0%), PIMCO Gl. High Yield (+0.05%)

3 months


MGOIAHA LN $ NAV 14.269 +0.01

On 30 Nov

MGOIAHA LN Equity 97) Settings Page 1/6 Comparative Returns

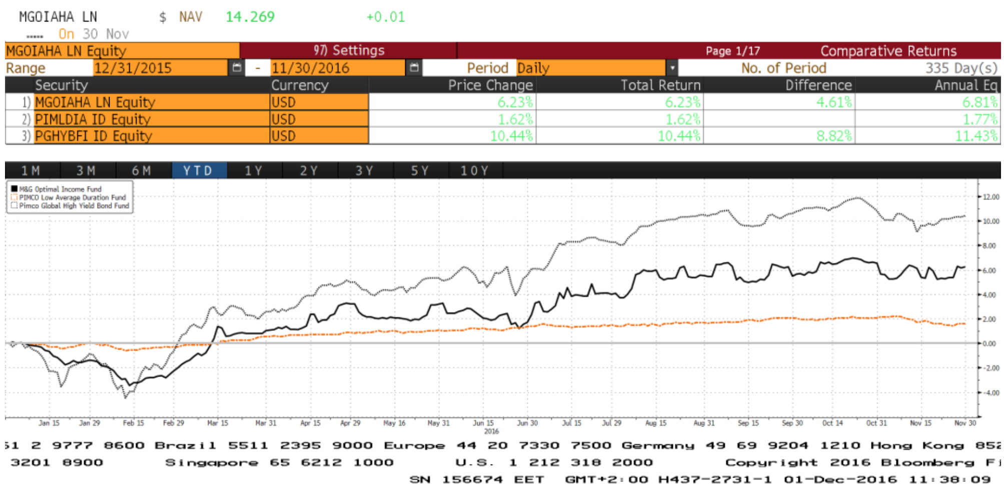
Range 09/01/2016 - 11/30/2016 Period Daily No. of Period 90 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	MGOIAHA LN Equity	USD	.71%	.71%	.71%	2.92%
2)	PIMLDIA ID Equity	USD	.00%	.00%		.00%
3)	PGHYBFI ID Equity	USD	.05%	.05%	.05%	.19%

Source: Bloomberg

M&G Optimal (+6.23%), PIMCO US Low Dur. (1.62%), PIMCO Global High Yield (+10.44%)

Year to Date (YTD)


MGOIAHA LN $ NAV 14.269 +0.01

On 30 Nov

MGOIAHA LN Equity 97) Settings Page 1/17 Comparative Returns

Range 12/31/2015 - 11/30/2016 Period Daily No. of Period 335 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	MGOIAHA LN Equity	USD	6.23%	6.23%	4.61%	6.81%
2)	PIMLDIA ID Equity	USD	1.62%	1.62%		1.77%
3)	PGHYBFI ID Equity	USD	10.44%	10.44%	8.82%	11.43%

Source: Bloomberg

It is worth noting that high-yield bonds, the usual canary in the coal mine, have held up very well in the latest bond rout. With regards to our fixed income strategy, we shall largely remain underweight and stay invested in current funds. We are also keeping an eye on emerging market sovereign bonds.

While these bonds have taken a big hit, we are patient and would be willing to buy at even lower prices in order to lock in an attractive yield.

Tidbits on predictions

In this publication, we have often mocked market predictions as they hardly ever hit the target, no matter how solid and seemingly rational an argument is made to justify these forecasts. We could not resist highlighting Deutsche Bank's comments on European equities the day before the US election:


CNN Money International + Markets Economy Companies Tech Autos India Video

Election 2016: Your money, your vote

Deutsche Bank: European stocks could plummet 10% if Donald Trump wins

by Ivana Kottasova @ivanakottasova

November 7, 2016: 12:01 PM ET

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No comment really necessary. After all, they did qualify their prediction by using the word "could".

We all know what happened. While European stocks did not rally as their US counterparts did, they certainly did at least 10% better than they "could have done" according to DB.

As for US equities, below is what Citi had predicted if Trump would have won:

> A win for Donald Trump in next week's election could take a big bite out U.S. stocks, according to the latest forecast from Citi.
>
> In a note to clients late Thursday, the bank said the S&P 500 will fall by 3% to 5% immediately if Trump is elected. A victory by Hillary Clinton wouldn't move stocks significantly, it predicted.

In all fairness to Citi, US stock index futures did indeed drop 3-5% overnight as it became apparent that Trump would win. But when the US markets opened, they were very marginally down. How long did this drop last? All of 15 minutes.

Moral of the story?

Do not make large bets based on what you or any expert think might happen. You'll end up licking your wounds.

We wish you all a happy holiday season and thank you for your support in 2016.

The Elgin Analyst Team