Elgin asset management

investment commentary monthly

Monthly Commentary 5th April 2019

March was another positive month for risk assets. The standout performers were global bonds, which rose between 1% and 3%. This was huge. Global equities were also up across the board, but not at the frenetic pace of January and February. The USD rose, which partially explains the fall in gold prices.

The bond rally was quite unexpected and can be interpreted in different ways. The bears will point to the fact that global growth has slowed significantly and that the fall in bond yields reflects economic trouble ahead. The bulls will say that central banks are ahead of the curve, and will become more accommodative in keeping the current economic expansion going.

Both bulls and bears have good points and the future is as uncertain as ever. It always is. What cannot be debated is that, following a bruising 4th quarter of 2018, the first quarter of this year has seen the markets climb the proverbial wall of worry once again.

Is bad news "not that bad"?

A lot of the recent news on the global economy has been dire. Even the US yield curve (which plots the yields of US government bonds from 1 month to 30 years), became "inverted" recently. This has been a very reliable indicator of trouble ahead, causing most pundits to declare that a recession is coming. Additionally, earnings growth for US companies in Q1 is expected to be negative - another ominous sign. Yet the US market marches on. What gives?

In China, car sales have plummeted like never before and so have mobile phone sales. With so many people owning a car and even more having a phone, fears of an acute slowdown are rife. Yet the Chinese market is up 30% YTD. What gives?

In Germany, the engine of Europe, the economy has indeed slowed down a lot and as we can see in the chart on the next page, manufacturing orders have been a "disaster" (as per the Wall St Journal). Yet the main German market is up 13% so far this year, and even more notable, the MDAX that consists of mid-size companies that are the backbone of the German economy has risen more than 16% so far this year. What gives?

1. The February German factory orders report was a disaster.

As we have stated in the past, markets do what they want, in their own time and mostly manage to frustrate the maximum number of investors. So trying to logically argue the market direction based on economic data is a fool's game. In the end, we live in a world that is still growing. Companies are in the business of making money and keep growing their earnings. It's better to stay invested than to try and time the ups and downs. While it can often be painful (as 2018 proved to be), in the longer term it pays off to be invested – especially when one does not make big bets on individual stocks or sectors.

To make a point, let us use two widely held sectors – technology and health care. In the first quarter of 2019, the broad US market was up 13.65% whereas tech was up 19.78% vs only 6.45% for health care. If we go back three months to Q4-18, the reverse happened. The US market fell 13.53% whereas tech was down 17.35% and healthcare fell "only" 8.66%. Now try and time that!

The Elgin Analysts' Team

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