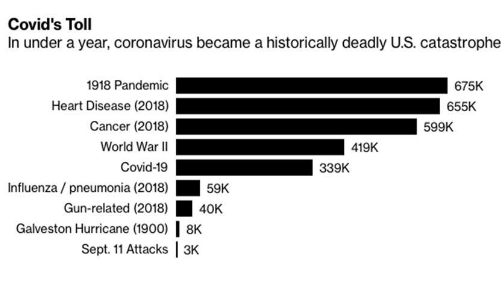
Monthly Commentary 5th January 2020

December closed an incredible year for markets with solid gains. From the 93 equity "Primary Indices" that Bloomberg ranks, in local currencies, 41 of them were up, with Nigeria being the strongest at +50% and Mauritius the weakest at -24%. From major markets, the S&P 500 (US) and Nikkei 225 (Japan) were in the top 10, both with 16% returns while the FTSE 100 (UK) and IBEX 35 (Spain) were in the bottom 10, with -14% and -15% respectively. In currencies, most developed majors were up vs the USD, ranging from a 2% gain for the Singapore dollar to a 14% gain for the Swedish Krona. By contrast, with the exception of the Krona, most major developed currencies were either at par or fell vs the EUR. As a result, for EUR investors, world equity returns were not as good, with the S&P 500 eking out a 6% gain and the Dow Jones Industrial Average falling by 2%. In commodities, with the exception of energy (crude oil fell more than 20%), metals and most of agriculture had banner years, with precious metals up particularly strongly. Finally, benchmark government bonds were very strong (with the exception of Japan), as were investment-grade corporate bonds, and to a lesser extent high yield corporate bonds. Did we forget to mention Bitcoin? Yes.

Taking stock

By all accounts, 2020 has been a horrible year for the world, with Covid 19 causing more than 1.8M deaths and untold harm to the world's economy. It still amazes us that millions of ignorant people around the world still believe that Covid is no more serious than a common cold. It is these hundreds of millions of idiots – yes, we'll happily refer to them as idiots - who still refuse to wear masks and social distance, and who claim that these deaths would have happened anyway because of other underlying conditions. The chart below (as of December 26, 2020) puts the number of US deaths in perspective.



Unfortunately, it is many of these same people who will either not accept to be vaccinated, or are ignorant, anti-science and anti-vaxxers. Showing the efficacy of existing vaccines, as in the chart below has obviously not helped them understand anything.

In these difficult times, we celebrate the hard work, dedication and brilliance of the scientific community, which together with the billions thrown at it from governments and the private sector have managed to come up with multiple vaccines for Covid 19.

It is because of these vaccines that there is now realistic hope that the world economy will normalise and grow at a faster clip than most expected. This can only be good for employment, and by extension, consumption. The markets have obviously anticipated this and hence the strong finish to the year.

Are we borrowing from future gains? Perhaps. There is no doubt there is a bit too much euphoria in the markets and that valuations have gotten quite expensive. We would not be surprised to see a meaningful correction of 10-15% at any time. But it would surprise us if the current backdrop of massive monetary and fiscal stimulus, as well as continuing innovations and adaptation by corporations does not lead to further market strength. Especially so at a time when interest rates are firmly anchored to near-zero.

For those of you that already have traditional portfolios, you might want to consider creating a new account and invest in our "Best Ideas" portfolio. It is certainly more aggressive, as it invests in quality companies that are growing their sales and profits at a much faster clip than what the economy is growing. And most of these companies are more expensive than the market as a whole. But there is a reason for this, and that is the combination of quality growth is rewarded in the long term.

Talk to your advisor or contact us if need more information.

We wish you all a much better year and we thank you for your trust in what has been a difficult year for all.