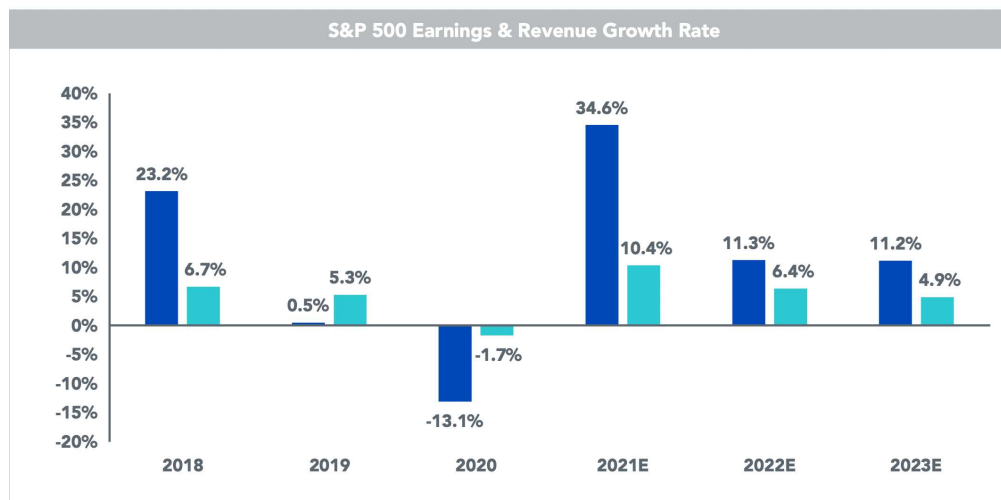


## Monthly Commentary 2<sup>nd</sup> July 2021

June was another positive month for world equities, with the US advancing more than 2% and the rest of the world having more modest gains. In a reversal from May, “growth” far outpaced “value” as US Treasury yields fell. Bonds, in general had a positive month. In commodities crude oil was up 10% while gold had its worst month in a while, falling 7%. In another reversal from May, the USD strengthened despite lower bond yields. Finally, bitcoin fell modestly by about 5%.

### Equity markets keep marching on

Despite multiple worries (new covid variants, higher inflation, high valuations etc), markets keep rising. The short positions (those that bet against markets) have soared as the so called “short interest ratio” in the S&P 500 ETF has risen to 5% lately after being at 2% for quite a while, indicating that there is fear. And most major bank strategists have year-end targets for the US markets that are lower than today’s value. In the end, earnings growth is what drives markets and the graphic below from Zacks says it all.



Source: Zacks Investment Research, as of 6/9/21.

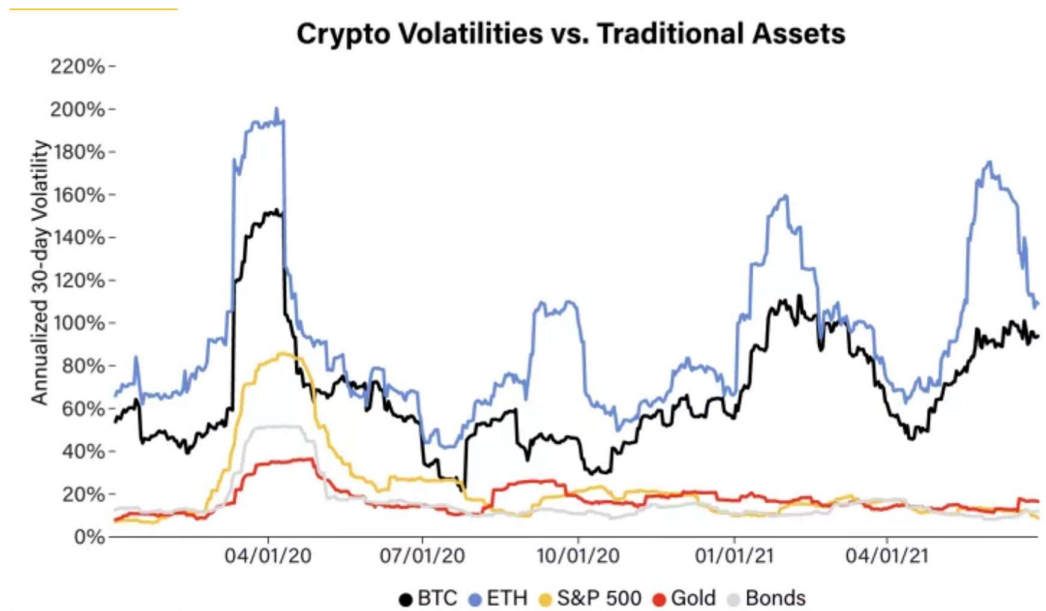
Earnings are expected to grow by 34.5% this year and by double digits in the following two years! Revenue growth is also expected to be very healthy.



As a result, the return attribution in the US market has gone from being reliant on “multiple expansion” (where valuations keep rising) to earnings-driven (where valuations are kept in check and most of the price growth comes from earnings). This is good.

## On Crypto

We are by no means even pretending to be experts on cryptocurrencies and decentralized finance (DeFi), but we have observed that the volatility in the space has increased dramatically in the last few months. As you can see below, the volatility of Bitcoin and Ethereum (the two largest) is much, much higher than traditional asset classes.



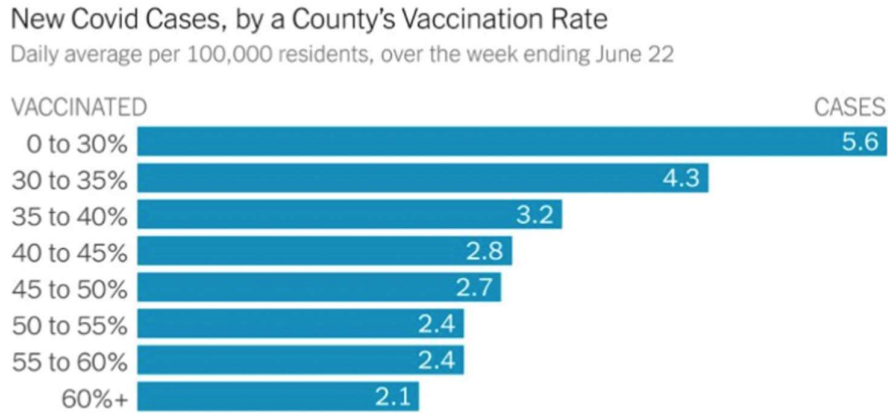
In fact, over the last year, the risk adjusted returns for the likes of Apples, Google and Tesla have been very close to those of Bitcoin, an interesting development indeed. As for DeFi, there have been some blowups lately whereby two projects/tokens - Whalefarm and Titanium – went from \$210 and \$60 respectively to zero in the blink of an eye. Total loss. So, if you are going to get involved with this space, by all means be careful rather than greedy. But there are surely opportunities as the space is just evolving.



## On Covid and vaccinations

Some interesting stats are emerging with regards to attitudes to vaccinations in the US and the increasing new cases in the UK. The UK, an important bellwether for what happens when the Delta variant is near 100% and vaccination rates are high: The cases keep rising but hospitalizations and deaths are pretty flat and holding. This makes a strong case for getting vaccinated.

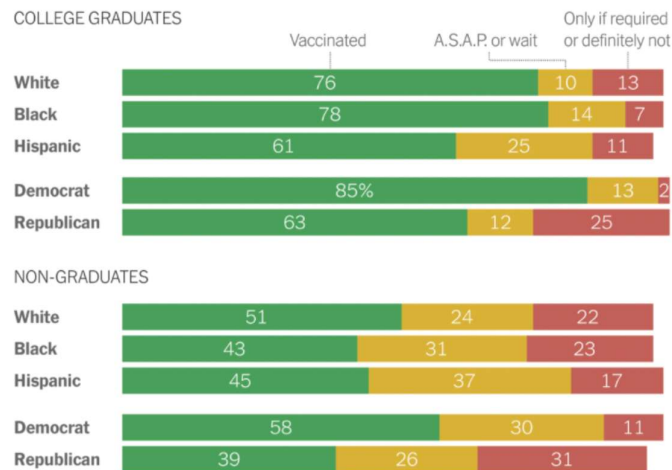
As for the US, the graphics below say a lot:



Counties with unavailable vaccination data are excluded from the chart.

By The New York Times | Sources: State, county and regional health departments

### Vaccine Attitudes by Class



Random survey of 2,097 adults conducted from April 15 to April 29, 2021.  
Not all figures total to 100 percent; some people did not give an answer.

By The New York Times | Source: Kaiser Family Foundation

We will let you draw your own conclusions. All we will say is that we are unabashedly in favour of science, and we are happy to say that all Elgin staff have been vaccinated.



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