Monthly Commentary 1st of June 2022

Markets continued their volatile ride in May. Equity markets were largely flat after being down a lot for most of May. In fixed income, Eurozone and UK bonds were down 1-3% as high inflation unsettled bond holders. Commodities were strong, led by oil & gas, though precious metals had a strong down month (gold -3%, silver -5%), at odds with those who believe that gold is a good hedge against inflation. The USD gave back some of its strong YTD gains, while Bitcoin had another very bad month, down 17%.

Assessing the year to date in markets and the impact on portfolios

As a full-blown inflation scare turns into a growth scare, investors are unsettled. Portfolios have been hit hard this year as both equities and bonds, by far the world's two largest (non-real estate) asset classes, that are almost USD 230 trillion in total size, have fallen by double digits. There was almost nowhere to hide – from developed and emerging market equities to high-grade and high-yield bonds. While perhaps of little comfort to you, you are not alone. Almost all portfolios managed by the biggest and most prestigious names in the business – from Goldman Sachs to UBS to JP Morgan have fallen by similar amounts. Also hit hard are the world's largest pension funds, sovereign wealth funds and most well-known billionaires, from Elon Musk to Bill Gates to Bernard Arnaud. These are very savvy investors that have seen hundreds of billions wiped out.

What almost all these portfolios have largely in common is that only a tiny fraction of managers or individuals that control them "sold" before the decline started, and if they did, they reduced their allocation by a few percentage points, which in the scheme of things, had very little impact on performance.

Of course, we possibly all know someone who might have invested heavily into energy stocks or natural gas, or shorted the Nasdaq aggressively. Good for them. Lucky for them. After all, energy equities comprise a very low single-digit percentage of financial assets. And despite the recent rally, they are still the worst-performing sector of the last 10 years!

So where from here?

We can paint both a negative and positive outlook, and both are convincing.

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Some negatives: High inflation, slowing growth, possibility of recession, geopolitical turmoil, higher interest rates, supply chain issues, worsening consumer sentiment…

Some positives: High levels of employment, healthy consumer balance sheets, robust corporate balance sheets, strong tech-enabled productivity growth, still-low interest rates by historical standards, more reasonable market valuations…

We can go on and on. What do to?

Most serious financial experts caution not to sell into large market drops. The reasons:

- It's difficult to time when to sell
- It's even more difficult to time when to buy back in
- History is on an investor's side – as cliché at it sounds, markets have continuously made new highs given time.

As another cliché says, "it's not about **timing** the markets but **time in** the markets".

And market bottoms often prove to be "V" shaped, meaning that when they bounce back, they do so very fast. See below the five "V" shaped bottoms in the World Equity Index in the last 30 years following large drops.

Market bottoms are sharp and V-shaped

A recent example is the US market – the world's biggest. Up until last Friday, May 20th, it had the longest streak of weekly drops in a decade. Then, from last Friday's low, it notched the best rally since the pandemic began, up 9% in 5 days!

While big up-weeks certainly feel like relief to harried traders, they are part of a larger picture where this year's punishing volatility is exacting a severe cost on anyone who fails to time the swings perfectly.

As we write, the S&P 500 is down 14% in 2022. If you subtract its biggest five up-days, the year-to-date decline swells to 25%. So, does market timing really work? We say No!

What has proven to be a good strategy is for investors to put more of their savings to work whenever there are large market drops as we are currently experiencing. While it contradicts the prevailing market logic and sentiment, those who are brave and buy when the markets are selling off and well below their highs, stand to benefit in the longer term. You don't even have to put your savings to work in one go. As we never know where/when the bottom is, you may cost-average as the market falls. It is a sound strategy.

To conclude, while it is still very uncomfortable seeing paper losses, as long as your portfolios are well diversified, we are confident that this too shall pass. Then, markets, together with your portfolios, should rebound. The glass is indeed half full.

Should you want to contact us and/or arrange a call please contact your advisor.

Revisiting Crypto

Suddenly, we get less enquiries from clients about how they can invest in the crypto space. It is amazing what a big bear market can do to investors' psychology. As a whole, crypto is down by about 65% from its November peak. And yet, this might be the time to consider dipping your toe into the space. This week, Barron's, the financial weekly and sister publication to the Wall St Journal, published its first ever Crypto Roundtable https://www.barrons.com/articles/bitcoin-crypto-blockchain-investing-51653676116?mod=hp_LEAD_1

Barron's asks the following from its panel of experts: *Is crypto facing an existential crisis? Or, as the bulls argue, is this a cyclical blip for a technology that will revolutionize markets, transform global commerce, and even form the basis for a new version of the internet called Web3?*

Having read the discussions it is difficult to conclude that crypto is a fad that will go away. On the contrary, here are snippets of what the panelists are saying:

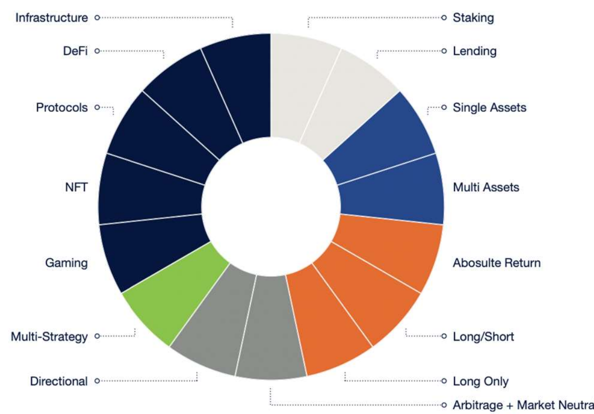
Lisa Shalett (Chief Investment Officer, Morgan Stanley Wealth Management): *We're huge advocates of the crypto ecosystem.*

We think blockchain technology will be transformative and ultimately add value to a portfolio. So, we advocate exposure. But you probably want to do it in a highly diversified way, across the asset-class spectrum.

Alkesh Shah (Head of digital asset strategy at Bank of America): *Look at the amount of venture-capital money flowing in—$25 billion last year, up from $3 billion in 2020, on track for $30 to $40 billion this year. There are 278 private companies valued above $100 million, 118 above $500 million. As you think about those companies going public, you'll probably have, within three years, a $1 trillion sector*.

Eswar Prasad (Professor of economics at Cornell University): *It's hard to make the case against holding, say, 2% to 3% of your portfolio in crypto, because even if the value of those assets goes to zero, you're not out very much. But the upside could be enormous..*

So, for those of you who want exposure, now would be as good a time as any. At Elgin, as we are not experts in the space, we propose investing a small amount of your net liquid worth (2-4%) in a diversified fund of funds. Having looked at the space, one such fund is the BAM Blockchain Strategies Fund (BSF). It is a global fund providing diversified access to the expertise of active managers specialising in different blockchain and digital assets investment strategies. We find this far more appealing than trying to forecast which coin or token will be the winner.



BSF Asset Allocation

For access, you would have to open an account on a platform. Our admin would be happy to assist, so please contact your advisor for more details. We suggest at least a 3-year horizon. Buy when others are fearful…

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