Monthly Commentary 5th of December 2022

November followed October in being another good month for financial markets. Global equities were up about 6%, with emerging markets being the strongest, up more than 11%. Bonds were also very strong across the board as yields fell. The USD retreated meaningfully once again, dropping 5%. Commodities were up slightly after a very strong performance from precious metals but a fall in oil. Bitcoin fell 16%.

How do we interpret the above?

If something stands out from the last two months, it's the weakness in the USD that has dropped about 8% on a trade-weighted basis. This is a huge move. The usual suspects reacted accordingly. That is, emerging markets equities and bonds had a strong bid, as did precious metals. Perhaps even the US equity and bond markets were helped by foreign inflows as the dollar was less dear than it was in September. It also helps US companies that derive a large percentage of revenue from abroad.

Of course, coming only from one angle, this is rather a simple view of the markets. After all, the multiple headwinds that have been buffeting the markets in 2022 have not gone away. In fact, most of the articles and research we read are very skeptical about the next 6 months at least and almost all pundits and financial gurus are warning that investors should be defensive and keep a lot of dry ammunition. In plain English they warn: "**This is a bear market rally that will not last**".

While we are aware of all the potential pitfalls that lie ahead, we question outcomes that are expected by so many lopsided beliefs. Had we not been invested in the last two months, we would have missed an impressive rally.

Below we quote Jim Fullerton, the wise (late) chairman of the Capital Group of Funds:

"*… Each economic, market and financial crisis is different from previous ones. But in their very difference, there is commonality. Namely, each crisis is characterized by its own new set of nonrecurring factors, its own set of apparently insoluble problems and its own set of apparently logical reasons for well- founded pessimism about the future.*

Today there are thoughtful, experienced, respected economists, bankers, investors and businesspeople who can give you well-reasoned, logical, documented arguments why this bear market is different; why this time the economic problems are different; why this time things are going to get worse — and hence, why this is not a good time to invest in common stocks, even though they may appear low…"

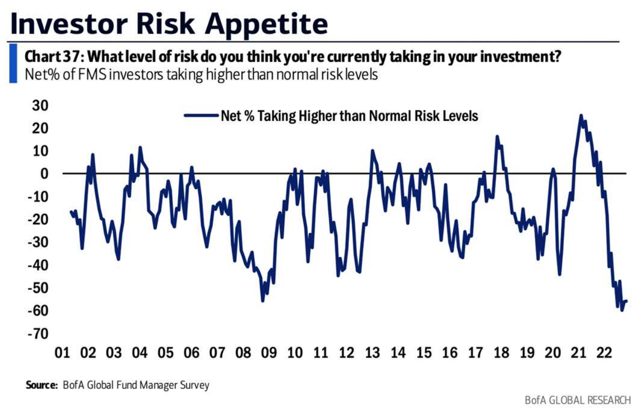
We think that the talking heads of today should pause and think before revealing their "strong convictions" about the future of the markets. Fullerton ends with a very poignant fact:

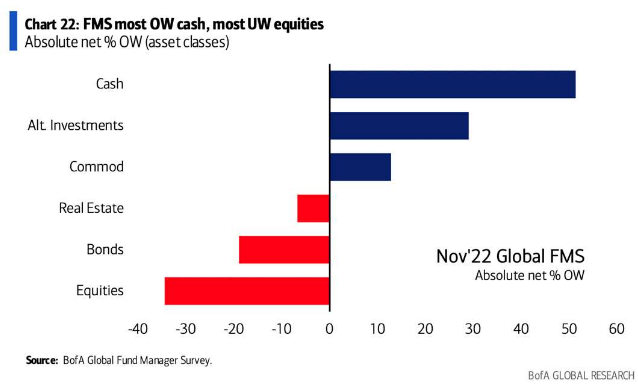
"*Some people say they want to wait for a clearer view of the future. But when the future is again clear, the present bargains will have vanished. In fact, does anyone think that today's prices will prevail once full confidence has been restored*?"

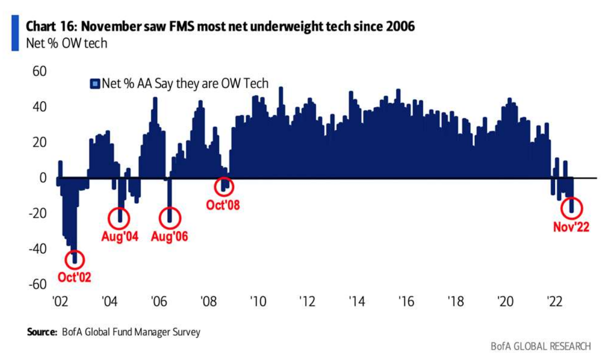
In our view, he could not be more spot-on!

How are fund managers positioned?

Below are three charts from Bank of America's monthly survey of fund managers (FMS). They clearly show a lot of pessimism.







Only time will tell how warranted their views are. What we can say is that consensus is rarely right when it comes to forecasting. I.e. when so many investors are positioned for a negative outcome, like Godot, it might not arrive. We are not saying that we are optimistic, but we have been around long enough to never be too dogmatic with our expectations.

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