Elgin asset management

investment commentary monthly

# Monthly Commentary 2nd of February 2023

The year started strongly for risk assets as they more than reversed the large losses from December. Global equities were up more than 6%, with Europe being the strongest. Bonds were also very strong, especially investment grade corporates. Commodities were flat on aggregate, and the USD continued weakening, down by more than 1.3%. Crypto came back to life as Bitcoin surged almost 40%.

**As goes January…**

"*Since World War II, if the market is up in January, it has continued to rise in the remaining 11 months of the year more than 85% of the time and average gain is about 11.5 %*," says Sam Stovall, chief market strategist at CFRA. " *So the old saying, 'as goes January, so goes the year,' popularised by the Stock Trader's Almanac, is a true one*."

The market started the year on the front foot, doing what it does best – defying most (thoughtful) predictions by market strategists, but even those of the mainstream financial media. We repeat what we wrote last month:

*"To kickstart the new year, Bloomberg News has gathered more than 500 calls from Wall Street's army of strategists to paint the investing landscape ahead. And upbeat forecasts are hard to find, threatening fresh pain for investors who've just endured the great crash of 2022.*

So why have things not gone to plan? Is the market totally ignoring the harsh macro realities out there? Many pundits are sticking to their guns and are still very negative. Not a day goes by that we do not see or read someone saying that the market has run ahead of itself and that the Fed (US Central Bank) is likely to remain very hawkish for a long time in order to fight inflation and ensure it does not become entrenched.

Interestingly, in January, the equity and bond markets have given us mixed signals. Strong equities are telling us that the future is brighter and that corporate earnings will not be as bad as expectations. While falling bond yields, together with higher short vs long term rates, are saying that we might very well get a recession. Surely that would not be good for equities.

It is rather amusing that some strategists are saying with a lot of conviction that markets will fall into mid-year and then rise again. Take Milla Savova, the European equity strategist at Bank of America, who was quoted on Bloomberg as saying that "*because business activity in Europe is running at recessionary levels*", she expects *"the European index (Stoxx 600) to fall 20% by the middle of the year, but then rebound by 18% by year-end as growth recovers*". Really? So, do we sell now (following a 9% gain in Europe) and then buy again after the 20% drop? That would, in theory lock in a 29% (1.09*1.18) gain for the year. Not bad.

Of course, this is market timing, and all we can say is good luck to all who attempt it. We are happy that we remained invested at the end of December, despite the doomsayers, and thus participated in the January rally. This does not smack of complacency but realism…

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