

## Monthly Commentary 1<sup>st</sup> of August 2023

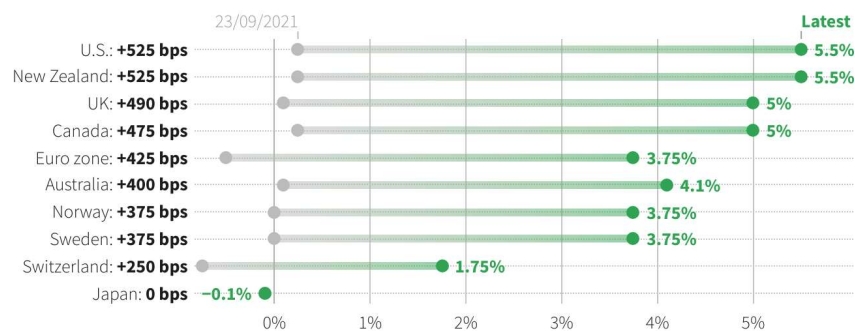
The major equity market indices finished higher in July with the S&P 500 reporting the biggest gain (up 3.11%) among developed markets. The FTSE 100 was also strong, up 2.23% followed by MSCI Europe 1.55%. Japan was the only laggard following the announcement of the Bank of Japan, saying it would start letting bond yields rise slowly. The Nikkei 225 ended the month up 0.82%. Bonds were mixed as most Government bonds were flat to negative while corporate bonds were flat to positive with the UK corporates up by 2.39%. Commodities in general did well with crude soaring 15.80%, Silver up 7.89% and Gold up 2%. The dollar and Bitcoin fell 0.92% and 4.86% respectively.

### Economic news

The Fed raised the policy rate by 25 basis points in July. Major central banks are following the Fed's example, keeping rates higher for longer. Given inflation has recently showed signs of easing, most central banks have hinted that they may be near the end of their aggressive tightening cycles. The European Central Bank raised rates by another 25 bps and emphasized that it won't continue to hike rates if inflation meaningfully moderates but kept the door open for an increase at its next meeting if inflation remains too high. The Bank of Japan announced on Friday that it's ending its yield curve control policy, now allowing the 10-year Japanese Government Bond yield to rise to 1%, instead of the prior cap of 0.5%. This will make yields in Japan more responsive to its economy and global markets. Finally, the Bank of England is expected to raise rates by 25bps on August the 3<sup>rd</sup>.

### The race to raise rates

Change in policy rates by central banks overseeing the 10 most traded currencies since the start of the interest rate tightening cycle in September 2021.



Source: Refinitiv Datastream | Reuters, July 27, 2023 | By Vincent Flasseur



## The case for Hermes

It was August 2001 when, in an episode of Sex and the City, Samantha was told the immortal words: “It’s not a bag; it’s a Birkin.” As demand for the quintessential fashion accessory skyrocketed, people realized that the Hermès Birkin bag had become an icon.



One doesn’t just buy a \$12,000 bag for quality. A customer only looking for a quality bag will buy one for \$300. The other \$11,700 is for the status, prestige, and most importantly, brand value. Hermes constantly shows that it has achieved that. More recently the French luxury group has defied an industry-wide slowdown in the US, posting 22% growth in sales across all markets in the first half of the year. Operating profits surged 28%. Hermes blew the luxury industry out of water, and it shows that its brand is resilient to economic trends. Hermes features in our Best Ideas portfolios as one of our core holdings because of its unique characteristics. Some of them are: Its ability to carefully manage volume and help drive brand desirability and pricing power. Its high gross margins that enable the company to invest heavily in the brand whilst also generating high levels of profitability. Its family-controlled ownership which makes the company focused on long term wealth creation.

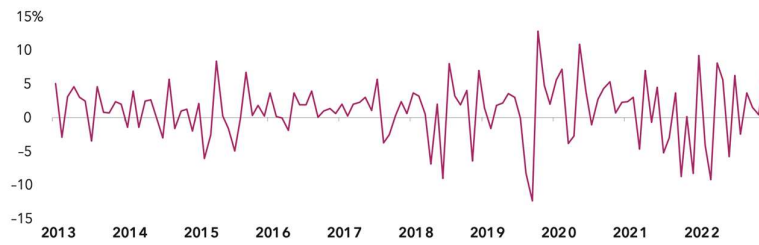
## Stop looking at noise!

Equity markets have been strong this year, defying most strategists’ expectations. While breadth (the number of stocks that participate) has been weaker than investors prefer, indices are almost all up. What worries us is that we are increasingly getting a bullish chorus on Wall Street. This can be a contrarian indicator, and the markets might indeed pull back just as the many investors who lost out on this year’s rally finally capitulate and start adding money to the market.

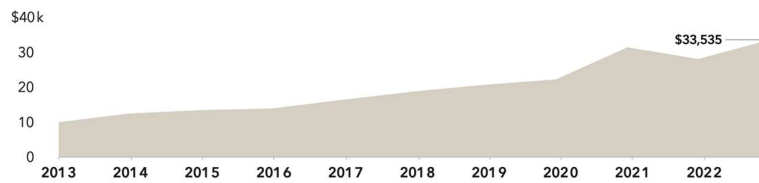
What is important is that an investor does not focus too much on the short term as volatility can be high. The graphic on the next page from Capital Group, that shows monthly volatility of returns versus the long term, indicates this very well.



**Short-term view: Monthly returns are volatile**



**Long-term view: Portfolio grows smoothly over time**



Source: Standard & Poor's. Short-term view represents the S&P 500 Index and reflects monthly return percentages from 6/30/13 through 6/30/23. Long-term view represented by a hypothetical \$10,000 initial investment in the same index from 6/30/13 through 6/30/23.

So, if the markets do indeed fall by 10% in August, investors should remain calm and focus on the long term.

The Elgin Analysts Team

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