Elgin asset management

Minvestment commentary monthly

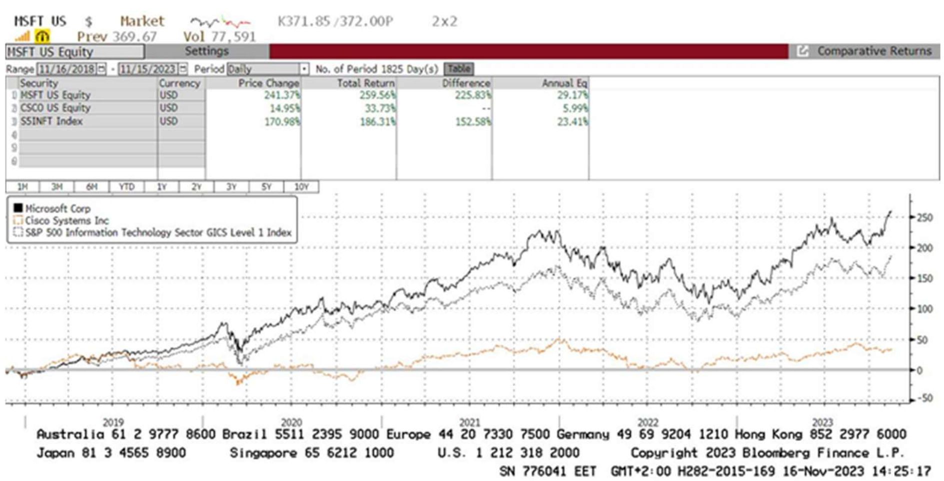
Monthly Commentary 4th of December 2023

November finished with solid gains for most equity markets, with the S&P500 up 8.92%, MSCI Euro up 7.86%, FTSE 100 up 1.8% and Nikkei 225 up 8.34%. The US equity market reported the best month for 2023 as investors believe that the Federal Reserve is finally done raising interest rates. This thesis got more support with a report that the Fed's preferred measure of inflation cooled last month. The latest data on economic growth and consumer confidence have also raised hopes that the Fed will achieve its sought-after "soft landing," which involves cooling the inflation without throwing the economy into a recession. The above economic data also had a positive impact on bonds which finished higher across the board, with US, UK and EU investment grade bonds all up a massive 3-6%. In commodities Gold was up by 2.85% while Oil slipped 6.25%. The dollar index as measured by the DXY Index was down by 3.12% while bitcoin was up by 10%.

The folly of "Cheap" vs "Expensive" stocks

We have heard so many pundits in the last few months touting how Cisco is a "great value", and a great company. Perhaps it is. It trades for 13x forward earnings versus 32x for Microsoft. Which one of the two is in our Best Ideas portfolio? There is always an ongoing debate about "cheap" value versus "very expensive" growth. See Cisco's performance vs Microsoft's and the IT space in general. No comment needed.

Microsoft vs Cisco vs Technology Sector



Source: Bloomberg

Of course, there are many tech companies that have very high multiples that we would not touch. The same applies to all sectors. JPMorgan (P/E 9.7) vs Citi (P/E 7.8), Lilly (P/E 50) vs Pfizer (P/E 10) etc. There are too many value traps out there and too many pundits saying that the magnificent seven are way overvalued. They've been saying that for years and yet they keep delivering.

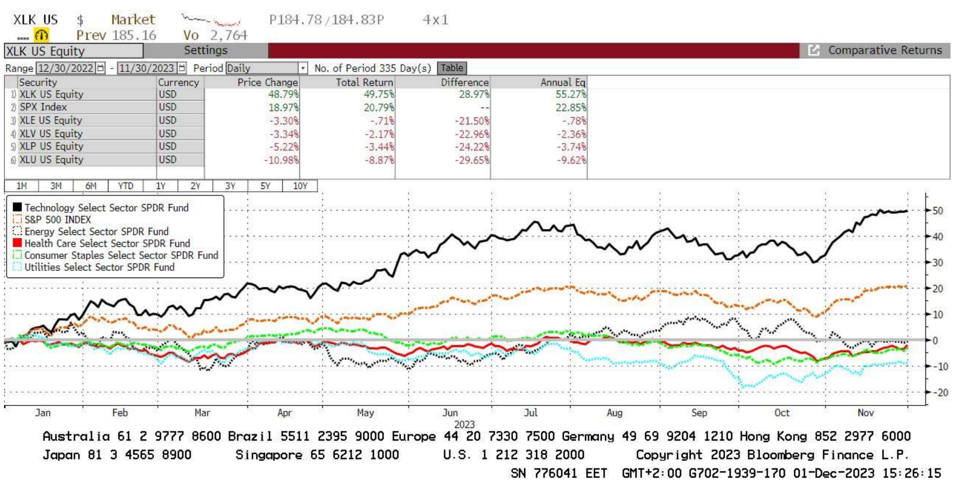
Bottom line, valuation is far less helpful in predicting intermediate-term price performance than most investment pros believe. Next time someone urges you to buy a stock "because it is cheap," think twice.

Indices vs Sectors

As a reminder through all this equity euphoria, while the main US index, the S&P 500 is up a massive 19% so far this year, large parts of the market have not done as well. The Dow Jones Industrial Average, which is comprised of mostly blue-chip stocks is up only single digits. Even worse, major sectors that are a big part of the S&P 500 like Health Care, Consumer Staples, Utilities and Energy are actually down so far this year. Only tech and consumer discretionary sectors were responsible for almost all the gains in the major index.

So a lot of investors who had no exposure to the two winning sectors because of their high valuations are licking their wounds. As you can see below, there is a lot of red.

S&P 500 Index versus US Sector ETFs



	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	XLK US Equity	USD	48.79%	49.75%	28.97%	55.27%
2)	SPX Index	USD	18.97%	20.79%	--	22.85%
3)	XLE US Equity	USD	-3.30%	-.71%	-21.50%	-.78%
4)	XLV US Equity	USD	-3.34%	-2.17%	-22.96%	-2.36%
5)	XLP US Equity	USD	-5.22%	-3.44%	-24.22%	-3.74%
6)	XLU US Equity	USD	-10.98%	-8.87%	-29.65%	-9.62%

Source: Bloomberg

The Elgin Analysts Team

Disclaimer