Monthly Commentary 4th of March 2024

The 2024 rally continued with February posting gains for the world's equity markets. More specifically the S&P500 index ended up 6%, the MSCI Euro index up 4% and the Nikkei 225 index up 4.92%. The UK equity market continues to lag its global peers despite its huge valuation discount ending the month up only 0.68%. Bonds dropped for the month as the odds for rate cuts have been pushed to midyear. In commodities, oil was the big winner with gains 5.43% for the month. Bitcoin was up 47% for the month gaining on the ETF creation as well as the approach of the "halving" period, which limits supply. More on this below.

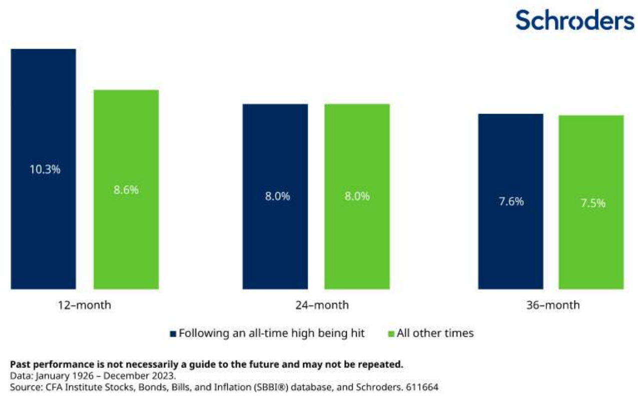
Bitcoin Halving (*from Anthony Cuthbertson at Independent)*

The halving stems from bitcoin's unique digital design. Unlike traditional currencies, the number of bitcoins that will ever exist is fixed. The mathematical code underpinning the cryptocurrency means that only 21 million bitcoins can ever be produced and no amount of quantitative easing can artificially inflate this. As the name indicates, the halving cuts the production of bitcoin in half in such a way that mining the cryptocurrency only generates 50 per cent of the yield it used to. It takes place roughly once every four years whenever 210,000 blocks have been mined, and is predicted to take place on 19 April. This halving will see mining rewards fall from 6.25 bitcoins per block, to 3.125 bitcoins. Previous halvings have resulted in sharp price increases and severe market volatility for bitcoin and other cryptocurrencies, as traders and miners adjust to the new production limitations of the world's most valuable virtual currency. The halving in 2012 saw bitcoin's value shoot up by 80 times, while the 2016 halving preceded a 300 per cent rise in bitcoin's value. In the 16 months following the 2020 halving, the price of bitcoin rose more than 600 per cent. The simplest explanation for these price increases is the basic economic principle of supply and demand: if the supply suddenly drops but demand stays the same, the price will inevitably rise.

Investing at all time highs

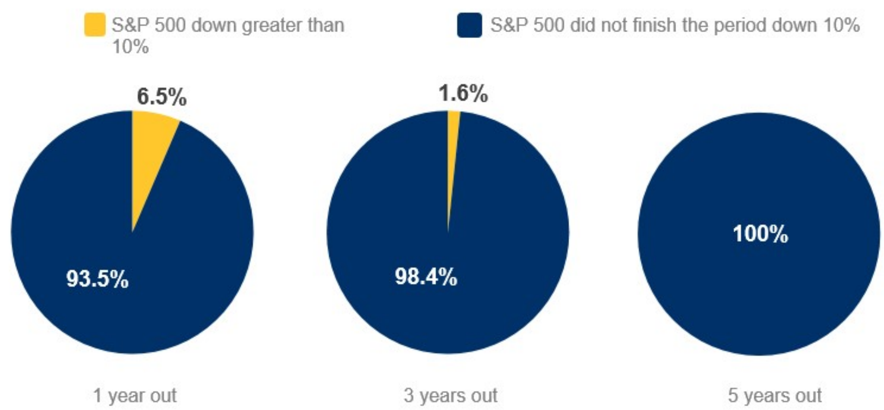
Investing at all time highs is often a psychological barrier for most investors as they feel that waiting for a correction is often a much safer choice. This type of investing is linked to market timing which is almost impossible to get right consistently, so giving up lot of upside. The US stock market hit a new all-time high in mid-December 2023 and has moved higher since then. As we write this newsletter the US stock market has moved 12% higher since the mid-December previous high. According to Schroders the market is actually at an all-time high more often than we might think. Of the 1,176 months since January 1926, the market was at an all-time high in 354 of them, 30% of the time. And, on average, 12-month returns following an all-time high being hit have been better than at other times: 10.3% ahead of inflation compared with 8.6% when the market wasn't at a high. Returns on a two-year or three-year horizon have been slightly better on average too (see below chart)

Average inflation-adjusted returns for US large cap equities per annum.



Another statistic from RCB GAM shows how often the S&P 500 Index has finished down greater than 10% over various periods of time, following each of the 1,170+ all-time highs since 1950.

How frequent are market corrections following all-time highs?



Source: Bloomberg, RBC GAM. Data as of January 1, 1950 to December 31, 2020 in U.S. dollars

It is normal to feel uncomfortable investing at all time highs but history suggests that waiting for the market correction to come is often damaging for your wealth as you tend to miss considerable upside. New highs are a normal occurrence and do not necessarily imply that a market correction is ahead. In fact, it often signals that further growth lies ahead.

The Elgin Analysts Team

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