Monthly Commentary 3rd March 2016

February was a crazy month for financial markets. By February 11th, many of the world's major equity indices had fallen into bear market territory, having dropped more than 20% from their highs. Commodities, which were already battered, fell to lows not seen in more than a decade. On the other hand, many government bonds were very strong resulting in new lows in yields. In fact more than 30% of outstanding developed-nation government bonds had negative yields.

As the month came to a close, we had a meaningful rally, with many indices rising double-digits. In the end, there were only minor losses for world equities, while bonds ended a very strong month in the black.

As we had mentioned in our previous commentary, and based on the data at hand, we did not believe that the odds favoured a recession in the US. We then argued why equity markets could not fall into a severe bear market without a pending recession, and used this reasoning not to go underweight equities. The prescient question is that if we had sold, when do we get back in? And had we sold, would we have participated in the ensuing 10-13% rally for many markets? Probably not, as market timing is a dangerous endeavour.

The question now is whether we have seen the worst in equity markets. We can argue both ways. Our technical analysts, who study a host of charts and statistics, are concerned that we are not out of the woods yet. Fundamentally, the picture is mixed. If one was to side with Warren Buffet's latest outlook, the glass is certainly half full. His company, Berkshire Hathaway, made almost $25 billion in 2015 profits. Below is a quote from his latest annual letter:

"For 240 years it's been a terrible mistake to bet against America, and now is no time to start. America's golden goose of commerce and innovation will continue to lay more and larger eggs."

The Elgin Analyst Team