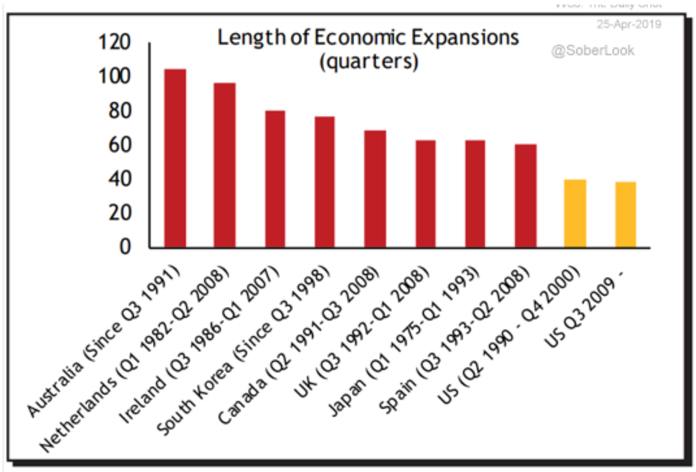
Monthly Commentary 2nd May 2019

April was “in like a lion and out like a lion” as equity markets went from strength to strength, adding to the year-to-date stellar gains. World equities as a whole, as measured by the MSCI World Index were up 3.45%. Bonds took a bit of a breather and did not move much, while the broad commodity index was slightly up. While oil was very strong, precious metals lost money and agricultural commodities were especially weak. Currency markets did not move much, with the USD gaining slightly.

Late cycle?

When there is news that the global economy is slowing (and one can read such news every day), financial pundits pronounce the current era as “very late in the cycle”, implying that a recession is not too far away. While it is good to be prudent and to be aware of the risks that threaten the current expansion, many fear-inducing warnings have sounded like a broken record. Without being complacent about these risks, there is no reason that every economic expansion should fit neatly into a box, based on past cycles. In the US, the current expansion has gone on for more than 10 years, making it “very long in the tooth” according to most economists. Yet, as the chart below illustrates, there have been far longer periods of expansion in the developed world. So why pronounce this one as “almost over”?

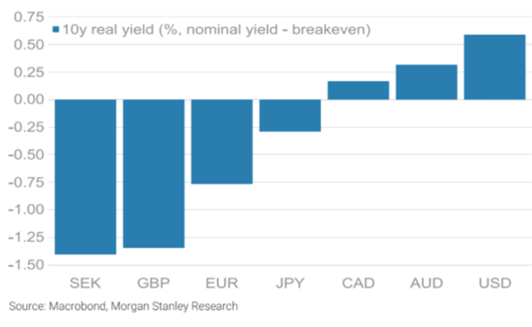


Source: OECD, Austrade, CIBC

Surely, one needs to keep the above chart in mind as it has implications for financial assets.

Real Yields

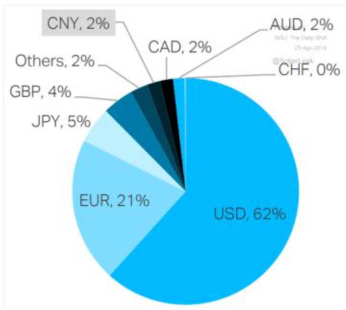
The graphic below also has implications for financial assets as it highlights why it is so difficult to be overweight developed world government bonds.



As one can see, the real (after inflation) yield is on either side of zero. And yet, developed market bonds have rallied this year! The only explanation for the demand is that one expects yields to fall even further. For us, this is partly speculation and not sound investing.

International reserves

Finally, a small pie chart that serves as a reminder of how important the US Dollar is as a reserve currency. The chart shows the percentage of international reserves held in each currency.



Source: TS Lombard

The Elgin Analysts' Team

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