Monthly Commentary 6th January 2020

December market performance was the icing on the cake of a strong year for both equities and bonds. The standout performers in December were emerging market equities, which rose more than 5%, perhaps partly due to the near-2% fall in the USD index. Commodities also had a good month and year, with crude oil doing exceptionally well.

What to expect for 2020?

We don't know. There are so many moving parts that even the most logical arguments at this stage can look really silly by yearend. For what it's worth, the statistics say that after years (like 2019) in which the US markets returned more than 20%, the average return in the following year has been 13%. Comforting? Yes. But we would not read too much into it. We are more reassured by the valuation-based long-term forecast that the US market should provide mid single-digit returns annually over the next decade. Not bad when one considers what bank deposits are yielding today.

Currencies?

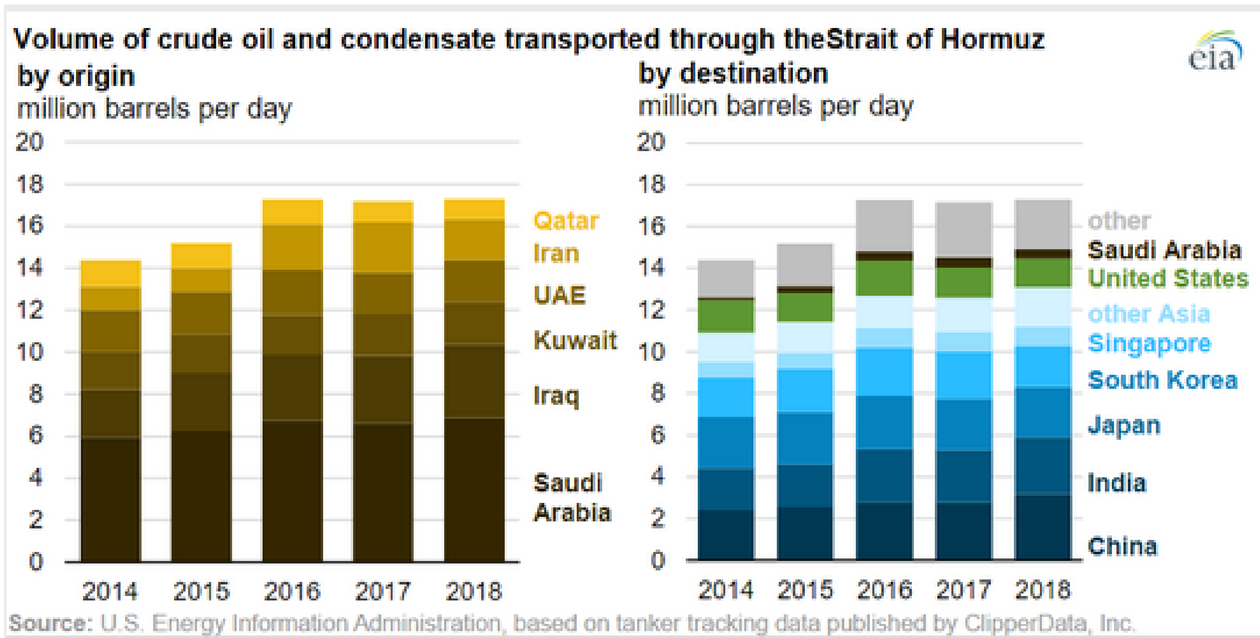
Getting currency forecasts right is just as challenging. We have observed over the years that being contrarian tends to improve one's chances of being closer to the target than not. So we had to smile with an article in the FT with most currency strategists giving their usual "strong" arguments with their calls. In this case most predict that the euro will strengthen against the dollar by the end of this year. On the next page is the accompanying chart. Barclays anyone?

We have always tried to reduce currency risk in portfolios to the extent that it will not damage the overall portfolio should your home currency appreciate meaningfully against currencies in which some of the investments are exposed to.

Geopolitics and markets

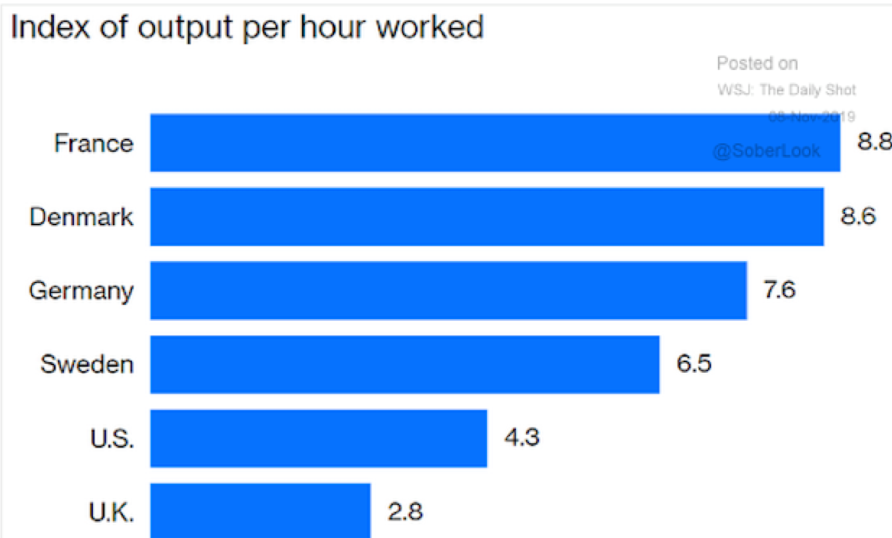
The year started with news of the assassination by the US of a top Iranian general. Any such news increases global tensions and is not good for the markets. Yet we have long maintained that unless it leads to very major conflict, the effect on markets will be short-lived, and any selloff often creates buying opportunities.

The worry with the current episode is that, if it escalates, and the flow of oil out the Gulf is disrupted, it will lead to an extra burden on most of the world's economies that are energy importers. Below, are graphics from the US Energy Information Administration that clearly show that Asia accounts for about three quarters of the oil and condensate that flow out of the Gulf every day. Draw your own conclusions.



On productivity and France

France has once again been in the news for the wrong reasons, as strikes have wreaked havoc in a country where most people do not want to understand that the country's finances will not be able to sustain its generous welfare system in the future. It is also known for its shorter working hours and earlier retirement age than most of its peers. So it came as a bit of a surprise to us to see France on top when the OECD published the latest productivity figures. See below.



As Paul Krugman, the Nobel-winning economist put it: "*Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker*"

The Elgin Analysts' Team

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