Monthly Commentary 6th February 2020

The month started like a lion for risk assets and finished like the proverbial lamb, with all major equity markets down in January. The US markets suffered minor losses but all other markets, especially the UK and Emerging Markets fell more than 3%. Even worse, commodities also suffered sizeable declines of more than 8% (precious metals bucked the trend). Importantly, bonds reminded us that despite current very low or even negative rates, they act as a diversifier and had very strong performances across the board in the developed world. The USD continues to defy expectations and keeps rising.

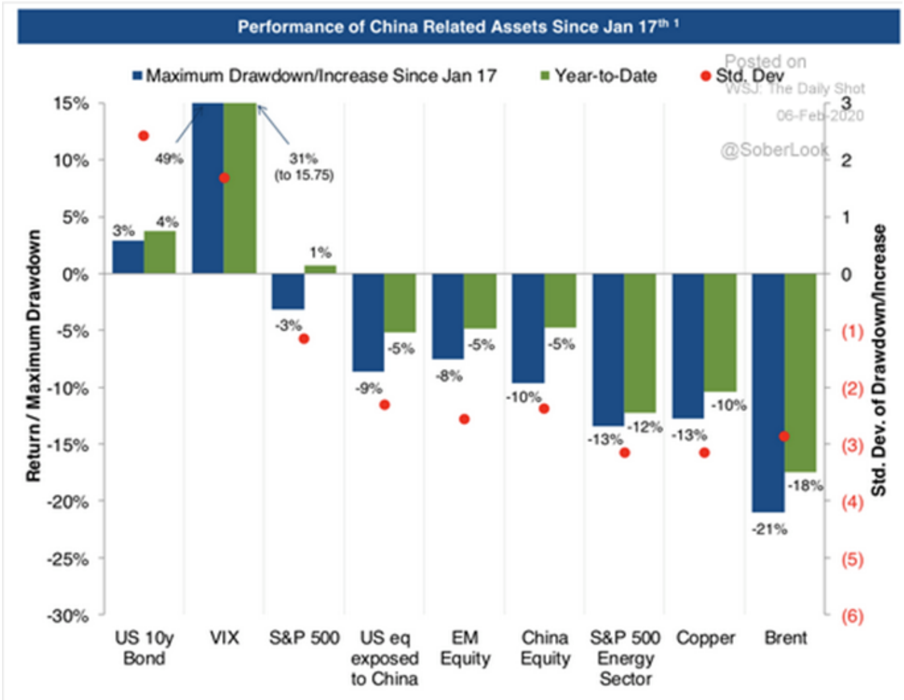
What to expect for 2020 (part 2)?

Last month we posed the same question and answered it by saying "*We don't know*". A month later, we do not have any more clarity. We never will. The coronavirus has added an additional layer of uncertainty and we are sure you have all read every single scenario possible. Indeed, worst-case scenarios are scary for the expected massive slowdown in economic activity and the dire effects on financial markets.

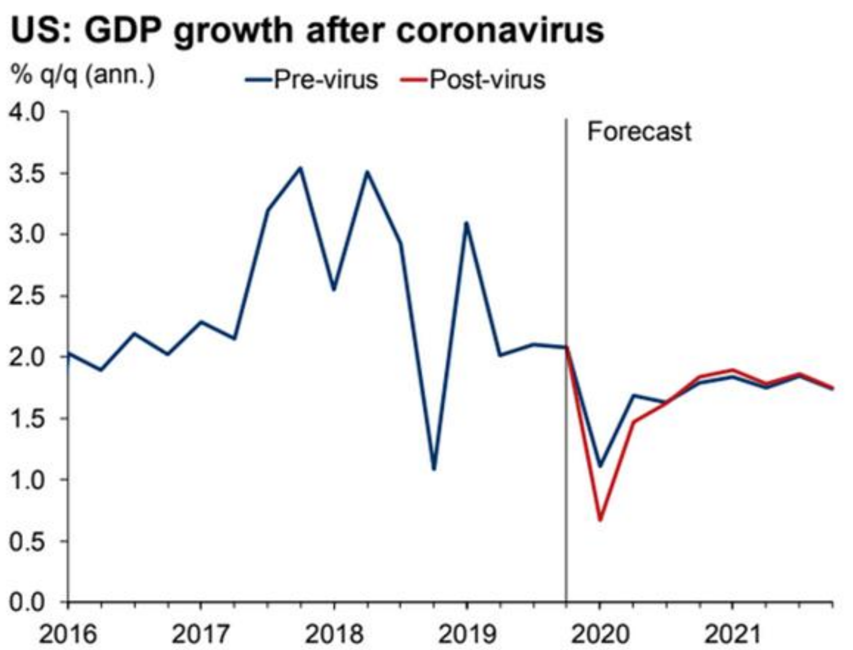
We really do not know how this will play out, and like you, we read the scenarios and try and assess the impact on portfolios. Our conclusion is almost inevitably the same. There are always many worries, and the markets have never had a positively clear road ahead when one can invest without worries. Never. It is only hindsight that brings such clarity. We are invested in quality assets and expect them to perform in the long term because that is what quality assets do. Clients need to decide how much risk they are willing to take and leave the implementation to us. We can never tell them how much risk to take.

The first graphic on the next page shows how China-related financial assets have performed year-to-date, juxtaposed with their maximum drawdown. As expected, Emerging markets, and especially China have been hit quite hard. Energy assets have also suffered.

With regards to the impact of the virus on US GDP, Oxford Economics expects US GDP to be affected by as much as 0.6 percentage points in the current quarter, and about 0.2% for 2020. Eventually, the effects of this virus, like every other, should prove ephemeral.



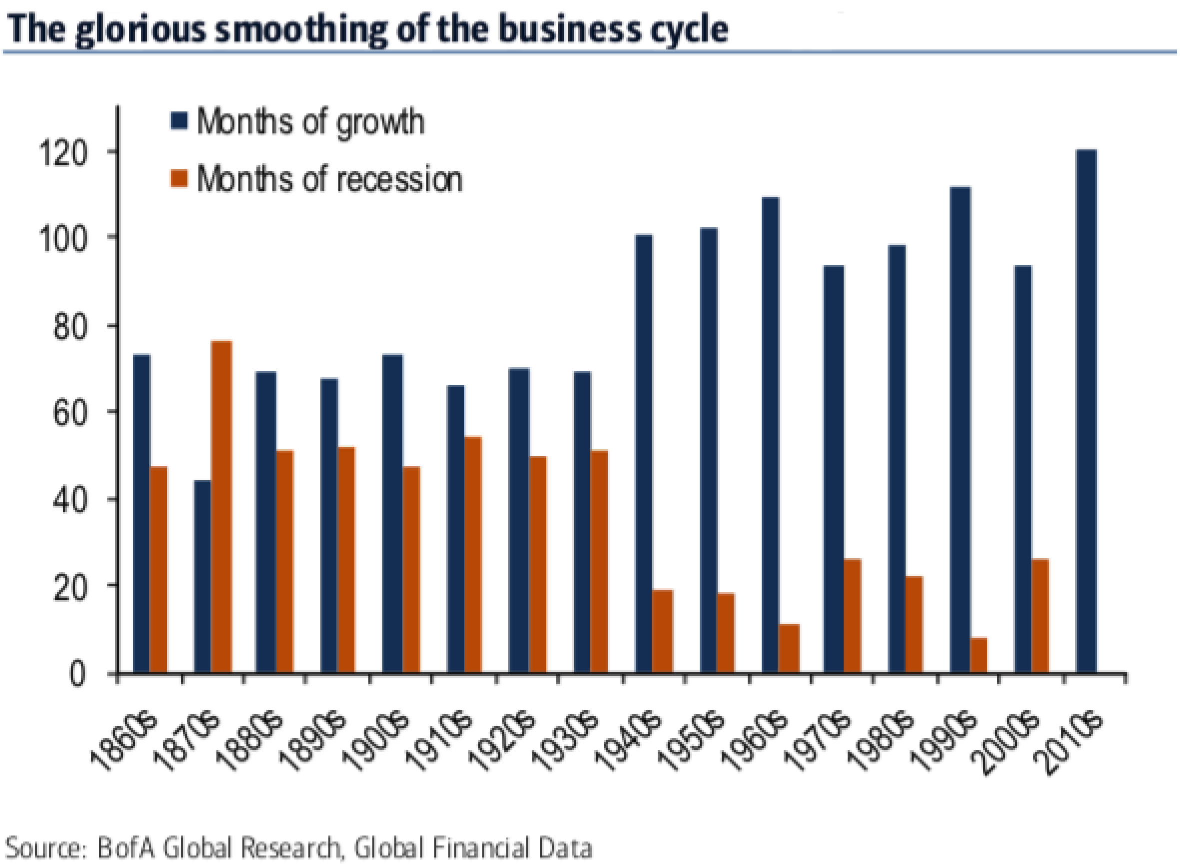
Source: Goldman Sachs



Source : Oxford Economics/Haver Analytics

Is something changing with economic cycles?

The charts below from Merrill Lynch show that the last decade (2010-2019) was the first in US history without a single month of the US economy being in recession. This is remarkable. It is worth noting that with every passing decade it seems that the US spends less time in recession. A good omen?



The Elgin Analysts' Team

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