Monthly Commentary 1st April 2020

March was similar to February in that most equity markets were up strongly, bonds were down and the USD strengthened. World equities rose more than 3% (in local currency terms) with Germany's DAX being the top performer (+8.9%). In the US, there was a large difference between the Dow Jones (+6.7%) and the Nasdaq (+0.4%), while emerging market equities were lower by more than 1%, weighed down by China and Turkey. US bonds continued to retreat as yields kept rising. Commodities fell, especially gold and silver that had a month to forget. The USD strengthened broadly. Bitcoin? Following a gain of 39% in February, it tacked on more than 25% in March.

What investment style - Growth or Value?

First the definitions. Growth investors seek companies that offer strong earnings growth while value investors seek stocks that appear to be undervalued. Most sectors contain both growth and value stocks but we can generalize that the likes of technology, healthcare and consumer discretionary stocks are more growth-oriented, whereas financials, consumer staples and materials are more value-oriented. Even broad markets have biases (the UK's FTSE-100 has a "value" bias whereas the Nasdaq has a "growth" bias). While in the last decade growth stocks have massively outperformed value, investors might have noticed a rotation from Growth to Value in the last 5 months. Year-to-date in the US, value is up almost 11%, while growth is flat. This explains why the Nasdaq has been underperforming the Dow lately.

What does the future hold, and where do Elgin look for gains in equity markets? With regards to the short term, most investment strategists believe that this rotation has further to run. At Elgin, for most of our clients we invest in broad indices that cover both growth and value stocks. For example, our biggest holdings in USD portfolios are the broad US indices and they account for much more than 50% of the total equity component. For our Best Ideas portfolios, we are far more heavily tilted towards growth stocks. We believe that we are undergoing a 4th "industrial revolution" and the best sectors and industries to be in are Software (cloud, cybersecurity), e-commerce, semiconductors, renewables (solar, wind, hydrogen, EV's), pharma, genomics, infrastructure, fintech etc.

So, we have both styles covered. If you too believe that you want a more growth-oriented portfolio, you could consider investing part of your money in our Best Ideas.

Interest rates, equity markets, uncertainty and real estate

The most common question we get from clients is where they can get "safe" recurring revenue from their investments. In the past, investing in government bonds and even high-grade corporate bonds created a solid income with interest rates above 4% annually. In fact, public pension funds invested more of their assets in bonds than stocks because of this high and safe yield. In the early 1980's about 75% of public pension fund investments were in bonds and only 25% in equities. Today the ratio has changed to 70-30 in favour of equities as the pension fund managers do not see how they can meet their future liabilities by investing in bonds with such low yields (-0.5% - +2%) as today.

One alternative would be real estate. The problem with real estate is that rental yields have fallen as property values have skyrocketed. Additionally, being a landlord comes with all the nuisances of costly maintenance, dealing with a difficult tenant and even the possibility of damage to the property.

We have searched long and hard to find investment property with the following characteristics:

- High and dependable rental yield (5-6% annually)
- Safe jurisdiction with strong legal framework.
- Guaranteed title deeds.
- No extra costs associated with maintenance.
- No need to ever deal directly with finding or dealing with tenants.
- Low entry level (EUR 80-100K per property)
- Good liquidity (easy to sell).

We are happy to say that we have found such properties. Please contact us or speak to your advisor for more details. This kind of property can form part of your overall diversified assets.