Elgin asset management

investment commentary monthly

Monthly Commentary 1st November 2021

Following a difficult September, October defied expectations and equity markets rallied hard, led by the US market that rose a stunning 6.9%. Among major markets, only the Japanese market was down (-1.9%) while Emerging Markets continued to underperform, producing a less than 1% gain. Bond markets were quiet, with UK Gilts being the exception, rallying more than 2% in October, in what has otherwise been a torrid year for them. Commodities rallied on the strength of crude oil that staged an impressive 11% rally. The USD was largely flat while Bitcoin zoomed ahead with a massive 40% gain.

A tale of two months

Last month was the worst month of 2021 for equities and many pundits suggested that October, being a seasonally weak month historically, would continue the down trend. They were wrong. Unfortunately, it is difficult for some to be calm and to view the big picture during a selloff. So during September's swoon, as inevitably happens every time there is a 5%+ downturn, some clients decided to instruct us to sell everything, believing that a crash is coming. While we always try and rationalize their fears, it is our investors that have the ultimate say, so if they insist, we follow their wishes. In this case, not only did they crystallize September's losses, but they missed out on October's rally. Thankfully, only very few clients asked us to sell.

And where to from here?

We don't know. There's lots to worry about, much like last month and the month before. On the bright side, the chart from Bloomberg below, shows that US companies had record profit margins recently.

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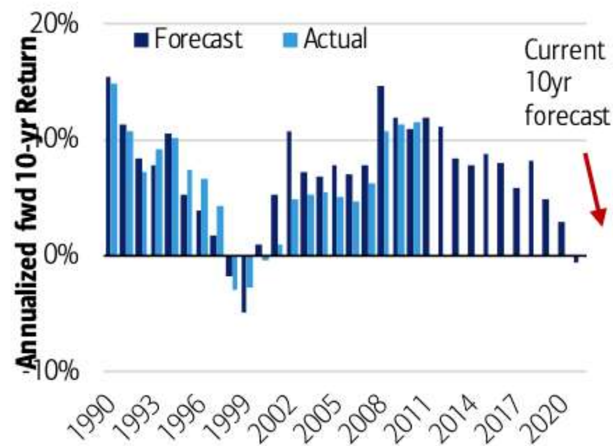
That's pretty impressive. I recall that every year for the last 10 or so, when profit margins reached 9%, many were saying it is as good as it gets. And they are saying the same again now. We shall see.

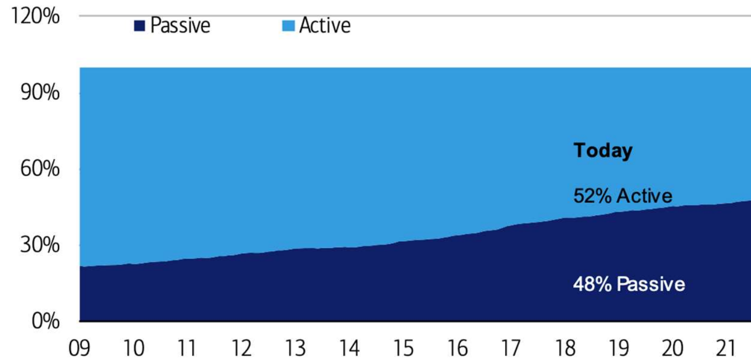
Of course, we are grounded enough to know that there are problems out there and any one of them can affect the markets. Merrill Lynch researchers point to a valuation model that has been good at predicting long term returns, and it now points to a minus half a percent annually for the next 10 years for the US market. Not encouraging. See below:



Will they be proven right? Time will tell.

Chart of the month

As we all know, the debate between passive vs active investing has been going on for years. As the graphic below from Bank of America shows, passive seems to be winning.



Source: Strategic Insight SimFund, BofA US Equity & Quant Strategy.

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