

Monthly Commentary 1st December 2021

November was a mixed month, with bonds doing much better than stocks. European, Japanese and Emerging market equities fell more than 3%, while the S&P 500 held on for a loss of less than 1%. Having said that, the blue-chip Dow Jones index fell 3.7%. Commodities were weaker, led by a 21% drop in crude oil. The USD was very strong, rising by almost 2% and Bitcoin fell a modest 6.3%,

Forecast time

It is this time of year that investment houses start giving their outlook for 2022. The documents they produce are veritable troves of research and data - much more than any individual can absorb. We actually (mostly) read the ones that land on our screen as it is important that we understand what the investment community is thinking. We also get some good investment ideas, though they are few and far between.

In this commentary we shall focus on one particular bank (Bank of America) and one particular market (the US stock market). The former is a powerhouse of investment research. The latter is the world's largest equity market by far, having more than half of the world's market capitalization.

So, what does their analysis yield?

Using multiple factors that they discuss in detail, and with varying weights given to each, they conclude that the S&P 500 will end 2022 at 4,600. That's pretty well where it closed in November i.e., no gains for the US market in 2022 according to Bank of America strategists. They also argue that based on today's valuations, the next 10 years will also produce negative price returns. Who says Wall Street banks are cheerleaders to the markets?

They might be right. And they might be wrong. Unlike us, no one will hold them to account a year from now. Back in November 2020 they predicted a 6% gain for 2021, with equally compelling analysis. With a month to go, they are off target by 16 percentage points. That's 16%. And their 2020 forecast was off by a mere 8%. Both were wide of the mark

It just goes to show that no one can really predict where the markets are going – no matter how deep and complex their research is.



One statistic we did learn from their detailed report was that the S&P Quality index, which ranks the top 100 companies in the market by three criteria: Return on equity, accruals ratio and financial leverage, have never had a negative 10-year return. See the graphic below:



At Elgin, our Best Ideas portfolio also invests in high-quality though we have more criteria. This gives us confidence that no matter how the markets perform, over the next 10 years we believe that investors in our Best Ideas strategies will be rewarded.

Covid – a tale of two countries

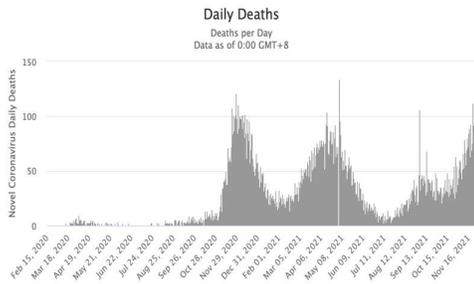
Senior US health officials recently referred to Covid as the “pandemic of the unvaccinated”. This makes sense as more than 90% of those admitted to hospital and those that die of Covid are not vaccinated.

Increasingly many countries are considering vaccine mandates. Austria is the first western country to make vaccinations mandatory from Feb 1st, 2022. As the law is being drafted, it seems that it will have provisions for fines of up to EUR 7,400 for any Austrian resident that refuses to get vaccinated unless there are medical reasons. The new German Chancellor recently said that he is in favour of a vaccine mandate. Despite the potential legal potholes that might emerge, in our opinion these policies are most encouraging.

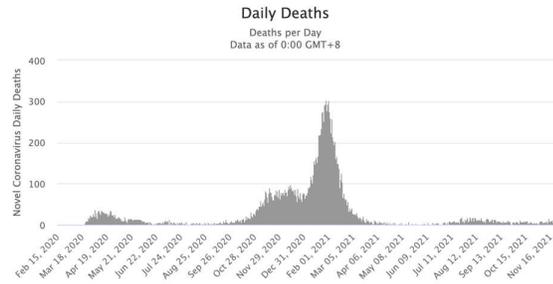
Yesterday, the Greek prime minister announced a fine of EUR 114 per month for those that are over 60 and are not vaccinated by January 16th. With good reason. In that age group only about 83% are fully vaccinated versus 98% in Portugal, a country with a similar population. The two graphics below show the effect that this is having:



Daily New Deaths in Greece



Daily New Deaths in Portugal



As you can see, about 100 Greeks are dying every day, whereas only 10-14 Portuguese have the same fate.

Finally, it is worth mentioning that in the worldwide rankings of the rate of death from Covid (deaths per million population), 8 eastern European countries feature (see below)! Bulgaria is the worst after Peru. It is no wonder that only 25% of Bulgarians are vaccinated!

		Deaths/ 1M pop ↓
1	Peru	5,983
2	Bulgaria	4,120
3	Bosnia and Herzegovina	3,870
4	Montenegro	3,661
5	North Macedonia	3,633
6	Hungary	3,586
7	Czechia	3,080
8	Georgia	3,030
9	Romania	2,966
10	Gibraltar	2,910

It seems that the anti-vax movement as well as ignorance about the vaccine is thriving in Eastern Europe. Perhaps life is not valued as much as it should be...



May we take this opportunity to thank you all for the trust you have placed in Elgin AMC for managing your portfolios and also wish you happy holidays and a healthy 2022.

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