

Monthly Commentary 2nd of March 2022

February was a strong down-month for equities, with Europe falling the most (6%). Bonds were also hit hard, with the Bloomberg Global Aggregate falling 1.33%. Investment grade corporate bonds fell even harder. The only place to hide was commodities and Bitcoin – they both rose sharply.

What to do when all is gloomy?

It is surely uncomfortable seeing portfolio values drop. Every hour there are hundreds of comments from investment houses who try and rationalize the situation and advise investors on what to do. Below is one from Bank of America, which has thousands of highly qualified analysts and strategists:

While events are moving quickly, we offer some preliminary thoughts on the Russian shock. In particular, we look at the implications of a major Russian expansion into the Ukraine and major sanctions from the US and Europe but no military action between Russia and NATO and no major disruption to commodity supplies coming out of Russia. Here are our thoughts.

- 1. The shock to markets thus far is moderate, with a plunge in Russian markets and corrections elsewhere. Similarly the rise in oil prices is meaningful, but not huge. However, natural gas prices have surged in Europe, adding further pressure on those economies. Our base case is that the market impact of the shock will be short lived, but it is early days yet.*
- 2. Outside of its commodity sector, Russia is a marginal player in the global economy. Unlike China, it plays little role in global supply chains. Even countries in Central and Eastern Europe only send 1-to-3% of their exports to Russia. US linkages are even smaller. For example, only 0.1% of sales by S&P 500 companies go to Russia.*
- 3. The US and global economy have strong momentum going into the crisis. We are forecasting well-above-trend growth this year for the US (3.6% vs 1.7% trend), the Euro Area (3.5% vs 1.0%) and the global economy (4.3% versus 3.0-3.5%).*

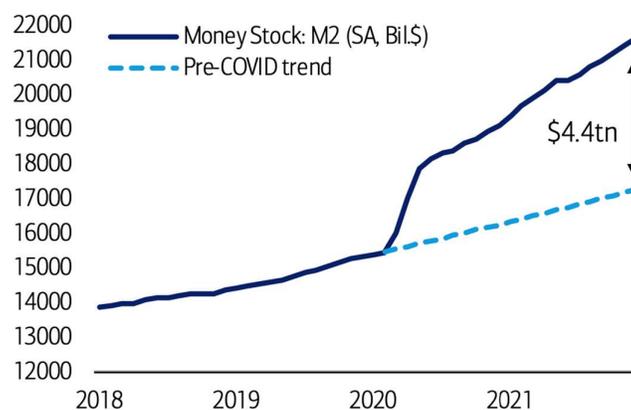


It is also our base case that the impact of the shock on financial markets will be short lived.

In our commentary last week, we cited research from Deutsche Bank that markets fall about 8% when war breaks out, but then recover within weeks or months, not years. Of course, we acknowledge that matters are very fluid and keep changing.

The US consumer

The US consumer has long been a major driver of world economic growth, and to a large extent is still so today. The below graphic shows M2, the measure of the money supply that includes cash, checking deposits, and easily-convertible near money. Basically it is liquid savings. As you can see, there has been an excess of \$4.4 trillion stashed away in the US alone since the pandemic began.



Source: Federal Reserve Board

This creates a very powerful source of potential demand for goods and services that eventually benefit corporations – and their stock prices.

Additionally, as the market has fallen, valuations become more attractive. This suggests that long term investors that have a long-term outlook could start looking into buying high-quality companies even if there is further downside risk. We purposely used “long term” twice in the preceding paragraph.



The bottom line

As we wrote only last week: *“Over the last few years, we have had multiple crises which we were able to handle successfully. The reason was mostly because of our investment philosophy.*

There was no market timing, no hedging and no shortcuts. By buying quality and liquid assets, diversifying across different asset classes and following each client’s investment risk profile we were able to navigate every financial crisis. We assure you that this is what we will do again”.

Practically, we added some commodity exposure to most portfolios – especially in January. We also refrained from allocating fully to fixed income as rising rates have hurt the asset class. On the equity side, we remain weighted according to each client’s risk profile and are not tempted to “panic-sell” into so much uncertainty. We also note that the Crypto space has become less correlated to traditional markets and some areas of crypto have risen sharply lately as they are seen as an asset that is untethered to governments. We remind you that we have access to a crypto fund of funds that would enable you to diversify further.

Communication

If any of you would like to communicate with us or have any specific concerns, please contact your advisor or us directly at pmt@elginamc.com . If you need to talk to one of us, we shall be happy to oblige and can set up a call.

Final thought on current events

On a personal note, Nico’s son Jason who is a history graduate penned the following poem as war broke out:

*As the sirens sound once more,
Slice through a still disbelieving air,
And we ask
How now?
Really now?
No, but really, now?
The comfort that now used to bring us*



*Now as opposed to Then, Now as materially, philosophically, distinct from Then,
As History was relegated, not in practice but in our sheltered minds, to history,
Has been shattered, Now is not safe, that Now is in the past,
Now is now death, Now is history,*

*Of course, the old Now was never really there,
Not in the still unsettled dust, still unremoved rubble, from Aleppo, Sana'a, Gaza,
Not in the ravaged homes and families and villages in Tigray,
Not in the muffled screams of the Rohingya and the Uighurs,
Not in the disenfranchised the world over,
Those who never had the charmed blanket of a, not the, peaceful present
Saw History more as an unending today,*

*Now the rest of the world also sees
Esteemed, inevitable Progress,
We tentatively welcomed you back into our apprehensive grasp,
And then we embraced you,
We understood that there would be setbacks,
The World, was, after all, complex, we weren't naive
But the World was different,
Because we had Europe, standing elegant, higher,
Inoculated from the mistakes of the past
By the accumulated wisdom acquired through those awful mistakes,
Even Yugoslavia, not long ago at all,
Represented an unshackling, the final removal of cobwebs, of Then,
History was dead, long live History as, simply, history
Now had its problems, but they were petty
What were a few terrorist attacks,
What were a few lies about threats to democracy, about an illness,
What was a hopeless attempted insurrection across the ocean?
What were a few idiotic decisions,
What of a few problematic governments outside of our hallowed borders,
A few wars in places that didn't count.
Even an ever-warming planet didn't really count.
Problems, but problems of peace.
And that was it;
We, those of us who mattered, had serenity, did we not?
We had chosen to love each other, to live.*



*We underestimated idiocy,
We ignored our collective capacity to indulge its perpetrators,
Because idiocy wouldn't return us to History, History was over,
History was to be studied, no more
How could there be some who saw themselves as agents of History when History was long gone,
Confined to books whose dust was only occasionally unsettled by a few who wanted to shield
themselves from harsh, peaceful reality?*

*Outside our hallowed borders
Outside our concerns
Idiocy didn't matter.
But it did, it always did,
It does.
And now we can once again say,
Let out in a horrifying shriek as subdued collective memory bursts out*

*As that becomes this,
As then becomes now,
As we who matter become scared,
"In this war there are many foolish things."
"In this war there is an idiocy without bounds."*

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