

Monthly Commentary 5th of September 2022

The risk-off sentiment returned to the markets in August, with equities in the US and Europe the hardest hit, falling 4-5%. Both sovereign and, especially, investment-grade corporate bonds were hit very hard, with UK Gilts suffering an incredible 8% loss as investors became very gloomy on the UK economy. The US dollar strengthened, while both crude oil and bitcoin fell 9% and 15% respectively.

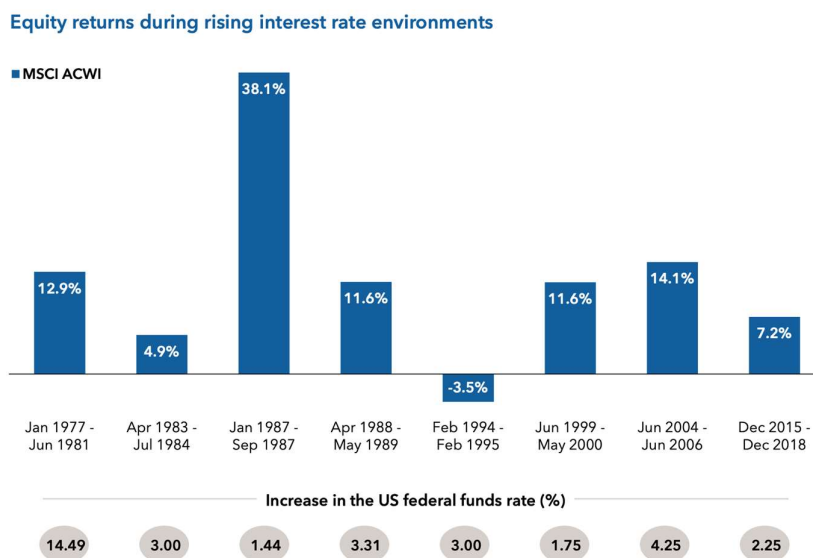
What caused the falls in August?

In a nutshell, the US Federal Reserve reiterated its resolve to do whatever it takes to fight inflation, knowing full well that the continuation of big rate hikes will most likely create a recession. They want and need to slow the economy down. Europe, which is in a tougher situation than the US due to its war-induced energy crisis will almost surely be in recession.

Is there a silver lining?

Among the doom and gloom of pending recessions, there is hope. Most strikingly, unemployment in the US, but also in Europe has remained very low by historical standards. With the consumer being two-thirds of the economy, this is not just a glimmer of hope. Additionally, corporations are adapting well to the higher costs of doing business as well as slowing demand. This is why opinion on Wall Street is divided almost evenly between bulls and bears. Markets rarely crash in such scenarios.

Elgin remains neutrally positioned in equities and significantly underweight in fixed income, as we have been for a while. Trying to time the equity market low is not an option, especially because we hold high quality. The chart below corroborates the idea that rising rates are not always bad for equities.





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