

Strategy Commentaries for January 2022 [3rd, 10th, 17th, 24th]

STRATEGY FOR week commencing 3 January

A new year is always a time for optimism. For global financial markets, 2021 being the second year of the COVID pandemic has been nearly as dramatic as the first. No economy has escaped the devastating effects with sector allocation the way forward in answer the unstable events of recent times. Cycle theory advocates that what goes around comes around. It has been 14 years since the great financial crisis where markets have experienced an elongated bull run. This year will see a reversal in the direction of interest rates with central banks and Governments determined to fight the resurgence of inflation. Surging energy and food prices have turbo-charged inflation, rattling the bond markets, while China has seen \$1 trillion wipe outs in its heavyweight tech and property sectors. China's crackdown on its big online firms, combined with a property sector crisis, have wiped over a trillion dollars off its markets in 2021. So is the bull market ready for a recalibration? U.S. Treasuries - the global benchmark for government debt investors - are set to deliver a loss of around 3%, their first red result since 2013. The mythical world of Crypto currency saw volatility as its friend in 2021 with more to follow in 2022. For traditional sectors such as travel and anything customer centric the pandemic has done its job of adversarial affects to its economic structure. Airline stocks continue to suffer with global demand crashing to almost uneconomic levels. So what sectors to benefit in 2022! Think sustainability as the new kid on the block with renewables taking the fashionable route for the brave. So is the stock market bubble to burst in 2022! [CLICK HERE for informed opinion.](#) Energy and the alternatives to fossil use looks like the theme for 2022 with added emphasis on climate change and sustainability. A look to the past always provides an interesting comparison with what could happen in the future. 1932 saw zero interest rates with plenty of monetary expansion to keep economies on track. Germany of the 1930s saw runaway inflation where a loaf of bread cost a mint. Fast forward to 2022 and de ja vue would seem to be showing the same ingredients with relentless support provided by Central Banks and Governments. 2022 any different! yes I believe it will be as policy directives over the next year will be implemented to stem the giant tanker relentless pursuit into the unknown. With tapering of bond purchases, confirmed interest rate rises on the horizon and easy monetary policies on the wane, the days of unrivalled support looking numbered. The portfolio ended the year overall with a 3% annual gain which considering the significant drawdowns in April and May of 2021 meant finishing the year in the ascendancy thereby exceeding the benchmark of central banks interest rates of 0.10%. I refrained from an end of year disposal wanting to ensure that shares will hit their price targets which I expect to be fulfilled in January. The first week of 2022 will set the tone for the rest of the year. I will be looking to capitalise on profits accumulated and consider new stock replacements to share that have not performed satisfactory. A clean portfolio slate perhaps not but selected share replacement a real possibility. Events will drive my decision in 2022. Wishing you a successful 2022. Until next time.

STRATEGY FOR week commencing 10 January The first trading week of the year, historically, provides a glimpse of the prospects for the forthcoming year. That being said one must be observant of the fact that U.S. stocks fell, with the S&P 500 posting the worst start to a year since 2016, amid concern the Federal Reserve will be forced to raise rates faster than some investors had anticipated. Markets never cease to disappoint when it comes to surprises. The brutality of the tail end of last week saw significant retracement in specific sectors, housing and transportation.. The tech-heavy Nasdaq 100 closed down more than 4% on the week. A hawkish stance in minutes of Fed's December meeting released mid-week fueled the selloff. The Fed did its bit with its previous minutes emphasising its hawkish stance on

expected interest rate rises and intended balance sheet reduction through bond reduction strategy. Rate sensitive sectors were duly affected with US housing stocks taking a significant hit and financial stocks in the services sector ending with a smile. Energy stocks also enjoyed a surge in crude oil prices. Debt is climbing to record levels. US Government debt is over \$20 trillion and rising. Corporate debt is at record levels. Personal debt is not as bad but getting bad quickly. Inflation has taken hold and purchasing power will adversely be affected. In the words of Noel Coward [in the film *Italian Job*] If you don't come back with the goods Old Nelly will turn in her grave and likely as not jump right out of it and kick in your teeth. As an analogy one can only kick the can down the road for debt so far when eventually one wakes up to the smell of the cool lag of default. The US ISM manufacturing Index registered a 58.7% reading, below the 60% expectation and a drop from 61.1% in November. A reading over 50% signals the manufacturing sector is expanding in general, while a reading under 50% is a sign it is mainly contracting. The biggest subtractions from the index came in supplier deliveries, which fell 7.3 percentage points, and a surprise plunge in prices, which dropped 14.2 percentage points at a time when inflation is running at its highest level in nearly 40 years. The portfolio started 2022 on the back foot with a -6.44% fall. The brutality of the decline shown in all stocks with noticeable falls in US housing stocks DR Horton [-12.5%] Lenmar [-11.7%] Tech Stocks Akamai [-6%] On Semi Conductors -5% , Myrg Group [-8%]. DR Horton evaded my original price target and as a result regretfully resulting in dissipated profits. The FED hawkish stance saw markets react with vigour. Obviously not an ideal start to the year and I will have to focus on preventing further downgrades. Whether the continuance of the market sell is a temporary blip or more corrective in nature only time will tell. Whatever the outcome the first week has felt like an upper cut to the jaw. Off to go and play Elton John's song 'I'm still standing' which hopefully will be playing this time next week. Once more into the breach dear friends.

STRATEGY FOR week commencing 17 January

US markets market performance last week were reminiscent of a car starting, stalling with uneven directionless. Since January first it has struggled to maintain momentum. The major averages are testing key support areas, though the Nasdaq has held its 200-day line so far. The Nasdaq has lagged the S&P 500 index since last February, with that underperformance increasing over the past two months. Last week saw US inflation hit 7% and talk of four not three interest rate hikes and the effect on the 10 year treasury yields were the talk of Wall Street. The 10-year Treasury yield edged up 1 basis point to 1.77%, rebounding last Friday after pulling back modestly for three straight sessions. It hit a 23-month high of 1.81% intraday Tuesday. U.S. crude oil futures climbed more than 6% for the week to \$83.82 a barrel. In the UK energy costs escalation and the effect on the cost of living have been similar talking points. Increasing geo political tensions together with wider financial issues on debt severance has raised the fact that 2022 will be a different kind of animal than 2023. In days gone by globalisation was the consensus, but as countries begin to look inwards and adopt protectionist policies the name of the game has changed somewhat. Had one participated in the first week of the year one's account would be badly down reinforcing the important point of time in the market rather than timing the market. Seasonality is often under factor when stock market performance is considered. The Months of November to March have been always more favourable than April to October. Yet 2022 has so far one of retrograde and careful monitoring required to prevent correction turning into bear market territory. So far 2022 has been reminiscent of the so called dead cat bounce being a small and temporary recovery in a financial market following a large fall. A sign that something is healthy or recovering, when in fact the thing is already on its way to ruin, collapse, or stagnation. To participate in such a market one needs firm belief that those times are changing. Given 2022

so far one must be cautious of so called temporary reprieve. William O'neill the legendary stock market guru offered some invaluable advice about market participation. When your doing nothing the undisciplined and unskilled are laying the groundwork for your success' sit out power can be more disciplined than the discipline to buy. Is the reward paying for the risk an important factor to consider. Despite the unstable nature of market performance in the US last week, the portfolio saw a +0.39% increase providing a slight dent on the previous weeks -6.44%. Best of the bunch last week was the +11% increase in Ultra Clean holdings providing significant upside. A gradual recovery in US housing stocks D R Horton 2.8% and Lenmar 4.4% and On semi-conductors 2% provided comforting transitional relief against last week decliners, Knight swift transportation -3.6%, Myr Group -5.2% and Qorvo -4.4%. The constant price decline in these stocks mean that they now inclusion in the portfolio now questionable for 2022. Qorvo group has been in the portfolio for a year and has been a dismal performer. Earnings season approaches in the US so one must believe there will be a change in fortune. But one must be conscious of geopolitical factors at play which may well reflect in market behaviour for the rest of January. U.S. markets will be closed Monday 17th January in observance of the Martin Luther King Jr. holiday, though other exchanges around the world will be open. For an informed approach on trading techniques, by Mark Minervini US investing champion worth taking a look. [CLICK HERE](#) Until next time.

STRATEGY FOR week commencing 24 January

The relentless pace of market correction continued into last week as major indexes suffered another week of significant falls. The stock market correction took a firm hold last week, with the major indexes suffering sharp losses and breaking several key support levels. The Dow Jones Industrial Average tumbled 4.6%, the S&P 500 index skidded 5.7% and the Nasdaq composite plunged 7.6%. The small-cap Russell 2000 dived 8%. The 10-year Treasury yield spiked to a two-year high of 1.87% intraday Wednesday, but closed the week down slightly at 1.75%. With inflation riding high some good news would be welcome yet geopolitical tensions will further test market confidence in the forthcoming weeks. The brutality of market correction could turn even more sour as projections to where the market may fall to is difficult to estimate. A bear market is defined as a fall of 20% from index highs so the potential for even more declines a real one. Volatility in the crypto market saw significant market correction. Bitcoin's decline since hitting the record has wiped out more than \$600 billion in market value, and over \$1 trillion has been lost from the aggregate crypto market. Since the FED opening weeks policy announcements of intended interest rates increases and balance sheet reductions a contributory factor in recent market negative sentiment and with inflation now hitting levels not seen in many a year markets a period of instability a real one. This coming week will see the Fed meeting announcement Wed afternoon 26 Jan and Fed chief Jerome Powell's news conference could set the tone for the stock market and Treasury yields for weeks to come. The Fed is expected to continue its accelerated bond taper, staying on track to end asset purchases by mid-March. The forthcoming weeks will see a raft of earnings. Tesla stock and Dow Jones giants Apple, Microsoft and caterpillar are on tap this week, along with dozens of other quality companies. January has so far been a sobering month for the portfolio with a -13.6% decline to date. Last week saw a -8.81% decline with corrections and decline across the board. All stocks in the portfolio saw extensive damage with high end losers including Housing stocks DR Horton [-10%] and Lenmar [-11%], Ultra Clean holdings -18.5%, On semi-conductors -16.5%, Livent [-10%]. I have continued to take a non active approach but market intransigence for everything downward may need to take decisions to prevent further losses and damage to prevent portfolio harm. It takes courage and resilience to compete in this kind

of market. The brave will survive. Keep calm and carry on a once war time slogan. Totally apt one would say for the first week of January. Until next time.