

Strategy Commentaries for February 2022 [31st Jan, 7,14,21 Feb]

STRATEGY FOR week commencing 31 January

Last week again showed how global markets can be so brutal with declines and retracements the order of the week, with the VIX “fear gauge” surging towards a level of 40 last Monday. The month of January has been a wild ride to the downside on the helter skelter of trading. All US indices have suffered declines for January with Nasdaq -12.5% S&P -7.01% and Dow Jones -4.4%. The relentless pace of market correction continued into last week as major indexes suffered another week of significant falls. Market sentiment often takes notice of messages from the wise and not so wise. The market had been hoping for some respite as bond yields showed signs of settling following their run up since New Year. Yet last weeks FED meeting dashed hopes for expectant investors hoping that they would be market friendly. Fed Chair Jerome Powell communicated a defiantly hawkish stance against inflation, even to the expense of economic growth and asset prices which he sees as “elevated”. The market interpreted this as “the Fed put” being removed, thus opening the trap door to greater downside risk in the coming months. Equities certainly did not take to the news kindly, which sent US markets further decline into continued market correction territory. Whether last Fridays [28 Jan] stock rebound in the US can lead to a change in market sentiment is open to doubt. The FTSE 100 fell to the 7,500 level last Friday, led by weakness in banking shares, ahead of the Bank of England's monetary policy meeting due this week. The retrenchment in stock markets activity should be considered in context of headwinds currently in play. Geopolitical tensions continue to dominate news headlines and domestic pressures on cost of living, inflation, increasing energy costs and higher interest rates all will have an affect on share prices. In the UK, car exports fell by 15.4% from a year earlier to 46,219 units in December 2021, a sixth consecutive month of decline a far more sobering fact than the obsession of cake parties by political opportunists who are ignoring the more important facts of life such as European security. Trading perspectives can be gleaned from considering follow through consequences of future potential actions. For example US natural gas futures surged as much as 14% on Friday to almost \$4.8 per million British thermal units, closing in on its strongest level since the end of November, on stronger demand for heating and power plant fuel as a powerful winter storm is set to hit U.S.

So how does one cope with adversity when the status quo song ‘down down deeper on down’ is evident all around. The answer lies in taking cool pragmatic decisions based on fact and not hyperbole. Last week the portfolio saw a reduction of -2.43% following on from the previous weeks -8.81% reduction. January has been an absolute brutal month where strength and courage has been needed to cope with the declines experienced. Week on week Texton had seen a -5.8%. Last week time was called on Myrg and Qovro whose poor performance meant liquidation. The shares have been poor performers and time to swallow my pride and take losses on liquidation. You can only allow shares so much room for disappointment as stop losses had been triggered. I really did not want to wait for eventual improvement as their decline has been damaging. This week further disposals will be made if market declines persist. I am inclined to wait until this period of market instability begins to fade until I venture into further purchases. But hey you never know. Until next time.

STRATEGY FOR week commencing 7 February

US stocks closed positive last Friday with strong earnings reports lifting the tech stocks higher in spite of lingering concerns over interest rates hikes. The yield on the benchmark US 10-year Treasury spiked to a 25-month high of 1.9% after nonfarm payrolls largely exceeded expectations in January. Last week saw the US economy unexpectedly added 467,000 payrolls in January of 2022, much better than market forecasts of 150,000. January figures were a big surprise. The genie is now out of the bottle with Inflation spiking in major economies throughout. We're now off to the races with the Bank of England's hiking interest rates to 0.50% a rise from 0.10% which seems for the moment to be a starter for ten. With inflation running now at 7% the elevated rise in interest rates looks likely as the policy response. Yet one can accept the era of cheap money is becoming to an end. Expect Quantitative tightening the new buzz word to be adopted in the economic lexicon. In the week ahead the US CPI report is likely to show the inflation rate hit a new four-decade high. The UK will release Q4 GDP growth numbers and central banks in India, Russia, Indonesia, Thailand and Mexico will deliver their monetary policy decisions. Expect similar policy announcements from these countries. This week the Winter Olympics provides a welcome relief against economic and political headwinds. A diversion is often a great way to deflect impending issues from arising. Post Olympics expect political decisions to manifest in possible difficult geopolitical conflicts that will be hard to ignore. Trading perspectives can be gleaned from considering follow through consequences of future potential actions. Hedging techniques designed to protect portfolios from adversity is worth a consideration. As stock market volatility has recently become the norm, trade ideas generation provides a way to counter such diversity. Energy and resource stocks have become an ideal way to offer a hedge against inflation and volatility. A shift towards materials has been my decision last week. Demand and supply always leads the way. And as smelting plants close down in China demand is still there. So increasing demand and reducing supply theoretically leading to higher prices. This is what I had in mind regarding the purchase of shares in Alcoa Corp a US company engaged in the production of bauxite, alumina and aluminium of various cast and rolled products in a global context. This is my take, not a recommendation but an observation which led me to take a position with all the possibilities that could arise. The portfolio saw another -2.48% fall last week. Interest rate increases are not good for interest rate sensitive stocks. US housing stocks for instance have had a miserable time as of late with DR Horton having seen its price reduce from \$110 to \$84 a share a 16% decline from its high. DR Horton fell -4.2% and Lenmar -3.2% a sharp reminder that even bricks and mortar is no longer a reliable safe haven. On the brighter side Livent Corporation a lithium miner seeing 4% increase week on week with. On semi-conductors +5.8% and Ultra Clean Holdings +5.47%. A same thought for this week may see me ignore current doom and opt for additional purchase or two dependent upon a market upturn that may be around the corner. The thick of reporting season whether good or bad may affect future share prospects but caution is always advised especially where geo political tensions that may trigger somewhat unwelcome consequences and hence the need for portfolio protection from hedging of some kind of another. Best

STRATEGY FOR week commencing 14 February Geo political factors will hang heavy this week as tensions see heightened activity. Volatility is sure to be the name of game this week with the resources sector in favourable focus. For Example Aluminium futures rebounded to \$3,255 per tonne on Monday, close to a near 14-year high of \$3,286 reached last week, as rising tensions in Eastern Europe fueled concerns over future supplies. The imminent risk of sanctions and supply disruptions triggered a rush to aluminium stocks at LME warehouses, which currently sit at roughly 50% of March 2021 levels. In the UK and the US, Inflation has also taken centre stage as levels exceed targets set up Central Banks. In the UK. For the classical economists among you, Increasing levels of money printing as has been the experience by central banks will lead to inflation. The years of Quantitative easing were considered to be the answer to pump up the volume for economic growth and keep sustainable levels of employment. Now millions of vacancies now exist with workers shunning the employment scene so cost push inflation may now be resurrected from the reminiscent of the 1970s. Up to the present day the Bank of England's quantitative easing program is on course to book a £3 billion- (\$4.1 billion) loss in the coming weeks as the central bank's massive bond holdings start their journey from government cash cow to a drain on the public finances. The BOE decision this month to begin unwinding its £895 billion- bond stockpile kicked off a process that will see gilt holdings fall by more than 200 billion pounds by the end of 2025. In the 13 years QE has been running, the Treasury has received 120 billion pounds as the interest paid on the gilts is round-tripped through the BOE back to the government, minus some charges. The QE program has already booked losses of about 28 billion pounds on bonds that have matured since 2013, but they went largely unnoticed as the funds were reinvested and the cost was swallowed up by the proceeds from coupon payments. Those payments will also more than cover the March shortfall. As a result, the Treasury will only forfeit income then rather than make a direct cash payment. The portfolio saw a +0.69% increase last week with recent purchases Alcoa [Aluminium] benefiting from the recent surge in prices and General Payments which benefited from recent positive earnings. There were other winners and losers which saw the portfolio recover to a neutral position. Until Next Time

STRATEGY FOR week commencing 21 February Global markets were once again under the cosh where daily fluctuations meant anxiety for holders of shares. The current unstable geo political situation have feed through into negative market turbulence/direction reminiscent of the wild-west. Market dynamics have been heightened and have reacted with vibrant verbosity. The stand-off in political posturing looks like coming to an end with unbeknown consequences the result. 2022 has been a dour year with declines overall. Inspiration and courage is now the order of the day. One can only hold on for so long until the feasibility of retention of once regarded shares as a forlorn course of action. The resources sector would now seem to be the place to be with gold, aluminium, Nickel and cobalt all proving their worth. Asset allocation to specific areas of popularity now probably the best course of action with the carnage to major indexes now an everyday occurrence. Cyclical to defensives a possible option to consider. How one copes in times of challenge is often synonymous with ones character as well as how one accepts unfortunate losses. Restricting losses to my portfolio has now become my strategy with liquidation as opposed to continually seeing endemic falls. The current destabilising political environment means a reassessment and protecting ones portfolio. Since the first week of January it has been a relentless with markets being continually in freefall after initial bounce back. Last week the portfolio declined another -3.21% such a bitter pill to swallow. I discarded recent purchase of General Payments conscious of the fact that a small loss could well exacerbate to a larger one. It was again another week where shares in the portfolio just didn't perform and for the coming week I will be discarding those that have become laggards with portfolio management a high priority. Limiting losses will be my strategy this week conscious

of the fact that the deteriorating geo political situation is one where a 'fight to safety' to be the appropriate course of action thereby allowing one to fight another day. On a positive note Alcoa aluminium company again shone brightly with a +10% increase outperforming the other shares and that may well be the course I will follow. Akamai Technology, Knight Swift transportation, Ultra clean and housing stocks now in the firing line for disposal with liquidation despite the losses so as to protect the portfolio given the unstable market turbulence likely to persist in the forthcoming week. Until next time I hope.