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Don't waste a recession

An insight from TAM.

As we close out the first half of what has been a very turbulent 2022 it's worth looking at some of the victories and some of the setbacks which TAM has seen. Importantly, where we go from here remains paramount if one wants to see this as an opportunity and as the title says, not waste a recession.

There is no detracting from the fact that both equity and bond markets have suffered collectively in 2022. With inflation proving extremely difficult to control, investors in both bonds and growth stocks, which have been on a parabolic rally since 2008, both started selling and selling fast. Funds that have posted stellar gains in excess of over 150% in two years very quickly gave this all back in a short period. Investment houses like Baillie Gifford have suffered steep declines given their focus on high growth stocks whilst Pzena has focussed on real earnings in companies trading at attractive prices. With Pzena outperforming Baillie Gifford's American fund by over 90% this year, the differential between growth and value pretty much tells the whole story in one number.

Similar moves happened in the bond market with investors starting to sell very quickly after a long period of big investments into bonds under the banner of quantitative easing. The prospect of rising rates and no more central bank support is scaring the market quite a lot.

This sell off in both equities and fixed income, which have historically been opposed in their performance, has certainly posed its challenges to defending client gains within a DFM mandate and one in which TAM's defensive DNA came into play for our clients.

TAM retained its long term underweight to bonds through the entirety of 2022 as well as moving clients to owning a lower equity position than historically normal. Under the hood of the equity bucket, TAM's clients own a much higher than average level of value-orientated funds, such as Pzena, which has absolutely been the right call in this market.

As a substitute to the underweight positions in both equities and bonds, TAM invested heavily into the alternatives market as a source of diversification. Investments into the likes of the Amundi volatility fund and selective commodities and precious metals funds have been, at various points, some of the best performing assets in the world this year and our clients have been invested into all three.

So it's been a tale of dual headwinds, uncontrollable inflation and the need for an entirely new tool kit of investment ideas to help protect our clients' long-term gains. In this respect, 2022 has very much been a contest of "those who lose least win".

I am pleased to say that the endeavour of protecting clients remains intact and we remain on the front foot when it comes to stepping in and protecting our client's assets from further volatility shocks.

So where to from here?

In essence, bear markets are akin to the stock market going on sale. Of course, with markets down at these levels we understand there remains a huge amount of trepidation in committing hard-earned cash to invest at a time like this, but you don't have to be a fund manager to know phrases like, "be greedy when others are fearful", or my personal favourite by Nathan Rothschild, "buy on the sound of cannons and sell on the sound of trumpets".

If one is serious about investing for the long term then this sell off, like so many before it, should be a chance to sensibly and rationally buy into the weakness of the stock market when it's on sale.

TAM has, over recent weeks, begun to build a position in Chinese equities, which, despite the shorter term risks around COVID, longer term this economy and its burgeoning middle class look set to take an increased share of the global economic stage and its markets should look to reflect that positively over the next few decades. In that respect, investing into China stocks could prove a good long-term driver of clients' investment portfolios, especially with Chinese equities at rock bottom prices right now.

Boom or bust matters not, TAM has increased its investment into high quality stocks with solid earnings, robust margins offering a product or service which is in demand through recessions and booms. Furthermore, dividends in this market are becoming valuable not only as a source of reinvestment but also as a source of income as we move through this cost-of-living crisis. TAM responded to this with select investments into UK dividend focused funds, which has, thus far, been the right call.

TAM is evaluating longer-term ideas such as selective areas of the ESG market, disruptive innovators and economic powerhouses with which to build strong long-term performance drivers to achieve those all-important compounded returns profiles for clients.

To TAM, good performance is found in consistency, in knowing your portfolio back to front and how it interacts with the short and long-term markets to achieve the long-term profit expectations of those who invest into it. We remain in full defence mode and rightfully so as this market continues to work out if we are going into a recession, but despite this, we are not immune to the charms of high-quality investments trading at steep discounts and have begun to selectively invest into these.

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Editorial Comment

Summer & CPD!

As I write, summer is in full flow – I hope you are enjoying it.

If you are using some of the "time off" to catch up on your CPD, don't forget that our recent **Masterclass Series** included two webinars that were recorded and are available as VoD – see **here**.

There is also our last **Annual Conference**, in London at the end of April. The whole event was recorded and the content is still very relevant. The recordings are split into 4 sections and these can be found **here**, along with details of how to obtain CPD certificates after you have watched one or more of them.

In total, across both the webinars and Conference, there is over 8 hours of CPD available.

Regards

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