

TAM INTERNATIONAL INVESTMENT NOTE



Down but not out!

2018 will hardly be remembered as a vintage year for global markets, in fact, it will likely be lamented with a grimace as the year that broke the back of the 10-year bull run and a year when investors were reminded, uncomfortably, that markets go down, as well as up.

The year was mired in equal part because of the double-digit losses across almost every single index but also that these losses flew in the face of the overwhelming optimism for 2018's prospects after a truly heroic year for markets in 2017. Indeed, January of 2018 saw markets having one of the best starts to any year in recent memory, firmly putting the prospect of another bumper year for equities on the launch pad. Sadly, in reflection, markets in January were simply rallying on 2017's fumes and, as with all speculative rallies, the reality of fundamentals bit and it bit rather deeply.

The factors that had caused markets to rally in 2016 and some of 2017 – tax cuts, healthy inflation, wage increases and drops in unemployment simply turned into panic that tax cuts had over extended the US economy and inflation, which was seen as long overdue in 2016, was now seen as a threat which, if kept unchecked, would cause the Fed to hike interest rates to get in front of. Given many recessions have been sparked by the Fed raising rates too fast, this set the stage for a 20%+ global sell-off over the course of the year, ending with the worst December for stock markets in over a decade.

Now, the main question on every investors mind as we move into 2019 must be, what will it bring?

All one has to do is pick up a newspaper to see 2019's prospects appear nowhere near as positive as 2018 which, on initial observation, could be construed as a negative but there are some valuable nuggets to be gleaned from all this seemingly bad news. One undeniable fact of 2017 was that markets were overpriced - companies share prices in 2017 were being sold for well above the intrinsic value of their businesses with little justification as to why; a state of affairs any seasoned investor will tell you is ripe for a correction and lo, 2018 saw such a correction.

Despite all the negative press we are seeing, a lot of the high stock prices we saw at the end of 2017 have now corrected back to an infinitely more palatable level which has created opportunities not seen in recent history. This opportunity is compounded by the fact that the earnings of these companies are still increasing because we, as a global economy, are still growing! Again, seasoned investors would tell you it may be time to get interested in stocks once again.

This might help illustrate - Warren Buffet, perhaps the most accomplished investor of our time, has always quoted this – “Be fearful when others are greedy and greedy when others are fearful”.

As we enter 2019, think like Buffett and ask yourself, are you fearful for the year ahead and if so, perhaps it's time to go against the grain of negativity and hold out for a reflation of these depressed markets?

TAM believes the pressure that's been released from the stock market valve has left market indices such as China, Emerging Markets, Europe, UK and to some extent the US at an attractive level given we know how high they can get from 2017's levels.

With Trump and China looking towards serious progress on trade negotiations, Italy finally negotiating its way out of the political volatility and the UK managing to mess up Brexit so much it may not even happen, it could spell some good news in the pipe for markets in 2019.

It is because of these macro possibilities and low valuations that TAM will be keeping its portfolios invested across these regions on the expectations of a recovery rally being staged at least in the first half of 2019 as investors across the globe begin to buy into these attractive levels.

Now, that's not to say we think it's plain sailing from here, far from it. Markets are late cycle and the global economy is creeping towards a recession, hence why we still advocate extreme caution in 2019 and 2020 with the possibility of more volatile trading sessions ahead. The fact is, with the 20% + declines in valuations from 2018, there is now sufficient opportunity presenting itself for TAM to remain invested into equity markets in order to rally back from these lows.

Always thinking about protection, TAM remains hyper focussed on building its long-term defensive investments across every portfolio strategy to account for this late cycle scenario. This is in order to keep insulating portfolios, as we have done in 2018, from any potential disaster that might befall markets in 2019 or 2020.

There is none more appreciative of the pain that's been endured from 2018's markets and despite the fact that TAM's performance remains above that of the headline stock markets in 2018, we never take any sort of negativity lightly and remain, as always, absolutely committed to giving every client the best levels of capital generation, as well as capital preservation across these choppy markets.

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