

What is the outlook for 2022?

Well, in the time it's taken me to write this review, the outlook for 2022 must have changed about twice in respect to Omicron and central banks. I think that's the best place to start in terms of summing up the year. It's been one of rapid step changes between asset classes, geographies and cyclicality, essentially extreme volatility between winners and losers depending on what part of the year one chooses to look. It's also been a seminal year for the retail investor and one in which history might reflect as the year retail money took on Wall Street, and won?

The front half of the year was tilted to value and cyclical stocks - with fixed income facing headwinds as the reopening trade roared ahead. The natural progression from here was into a more nuanced mid-cycle position where investors stopped chasing deeply discounted stocks and started to own high quality as the market calmed. Alas, what we got was a combination of unchecked inflation, soaring energy prices, central bank inaction and wild gyrations between growth and value as investors grappled with the new delta variant, proving to be anything but mid-cycle behaviour. To sum up the latter stages of 2021 in one word is difficult, but I would use the word 'rudderless'. And in a rudderless market such as these last six months, it's active portfolios like TAM - who usually thrive in a market with direction - which have

suffered at the hands of these sectoral whipsaws.

Headwinds have come from the likes of a weakening Asian market which has grappled with the same factors as the rest of the world, but with an added decelerator of Chinese instability. This has arisen from a policy perspective which has served to drag much of the region into negative territory. Soaring government debt and a rallying dollar in the latter stages of the year - off the back of surprisingly dovish comments from central banks - has also been a headwind to the TAM view which is still that debt remains at a historic price high. And with markets staring down the barrel of potentially aggressive rate hikes to control inflation, it remains prudent to be underweight this part of the global market.

Likewise, there have also been many positives from 2021. Namely remaining heavily invested into the UK's FTSE 250 over the larger 100 component of the All Share which has delivered stellar outperformance for clients. TAM continued to remain highly invested into the recovery theme which, in fits and starts, has proved to be a winner for the portfolios this year, as has spending most of the year invested into inflation protected fixed income, which has handsomely outperformed conventional fixed income.

In the latter stages of the year, as clients started to generate bumper returns vs history, TAM moved into protection mode with sales being made of big winners in the equity markets and purchases into funds tracking volatility. This helped to defend capital in the Omicron led volatility in Q4.

So, looking forward into 2022, what do we think the market holds in store for us?

Well I am going to say, tentatively, that I am bullish. However, not a bull ignorant to the risks. Why? Because it's difficult to be full bull in the face of a market with so many reasons to sell, yet has hit its 67th all-time high only a few days after a 4% fall in the S&P500. So yes, a bull, but one that acknowledges that we have not seen the back of volatility which will be a persistent bedfellow of 2022 much like 2021, so expect some bumps.

Profit margins are going to be king in 2022 and the growth of these margins, which doesn't look to be as aggressive as in 2021 but still positive, perhaps in the order of 5-10%. This strength in earnings will be what underpins central bank confidence to keep tightening so expect earnings to be a stalwart of the market direction in 2022.

I am expecting 2022 to be what 2021 should have been, which is active management focussing on high quality companies who are not trading on silly prices after another year of bumper market gains. High quality companies should prove to be a fertile hunting ground for those who want to find the value left in this market, whilst seeking to insulate from a growth slowdown later on.

For this to happen I think the market needs to see a little more COVID stability in terms of our ability as a market to overcome variant news, without swinging wildly into growth stocks then all the way over to deep value stocks. I read today that the Omicron wave Vs the 3rd Delta wave looks to be delivering 90% fewer hospitalisations which, whilst a tentative piece of good news, is definitely a step in the right direction and one which will be no bad thing for investors looking for stability in 2022.

Likewise I expect A) a global central bank which will finish QE and get a few rate hikes in 2022 but not too many before we are close to stall speed on economic growth which will be a hard stop for more rate hikes and B) Inflation will begin to top out as a combination of rate hikes and a softening out of the oil market both hammer CPI into a negative sloping trajectory. But let's not forget inflation is one of the best ways to get rid of public debt. So central banks and governments will want it controlled, but they will want it above 2% for as long as reasonably comfortable to hack away some of the massive debt load taken on to fight COVID.

This should prove a boon for precious metals who remain negatively correlated to real yields (which won't be going positive if we don't raise interest rates very much) and should also be beneficial to longer duration fixed income assets. So expect higher yields in 2022 but not to the moon before the fixed income market steps back in.

Rate hikes are also not a late cycle phenomenon but more mid cycle economics so this fits in with where we believe the market is heading - owning high quality companies with robust earnings margins.

Obviously, there is a sword of Damocles hanging over the market which is its record-breaking strength and thus the obvious potential for a steep sell off. Earlier I referenced 5-10% margin growth for businesses in 2022 and shallow rate hikes which should be chief in keeping the market moving higher by potentially 10% in 2022.

However, should this prove overcooked and margins begin to shrink and earnings pull back, expect to see investors hitting the sell button and potentially quite aggressively. Where should one be invested in a sell off? In high quality businesses with strong and robust profit and growth margins - so again this is another reason to keep this tranche of the market as the core element of one's portfolios.

To my mind there is another "known unknown" in the market for 2022 and that's a central bank miss step. The rocket fuel which has powered this market through 2021 has been the perception that the proverbial central bank will continue to keep the spending taps open to prop up the economy, keep yields low and boost equity purchases.

Ostensibly this is all coming to an end next year (QE tapering) but tighten too fast in 2022 and central banks run the risk of stalling the economy (cue the next recession and market correction) or raise too slow and too small and inflation will continue to rise unchecked. This will cause much harsher rises in 2023 which has historically been the very thing that kills a bull market. We have just seen the BoE raise, albeit by a paltry 0.15% but it is indicative of central banks taking the need for rate hikes seriously and one can expect more to follow in the first half of next year for certain.

Whilst this is certainly not the base case as central banks are, on the whole, masters of finessing monetary policy, a policy miss step is certainly the silent assassin of this lofty market and something which TAM's investment team are keeping a close eye on as we move into 2022.

TAM's positioning remains more and more invested into high quality companies across western markets

with a special focus on Europe with the belief that this market looks set to close the growth gap with the US. In a world where future earnings potential continues to trump actual earnings it's a comfort for TAM's portfolios to be focusing on companies who are not only set for future growth but throwing off good levels of cash right now, in a world as uncertain as this one I think that's no bad thing for our clients to be invested into these companies.

Likewise, China looks set to be headed into a more positive year despite the property woes. Yes, Xi's "elections" in 2022 might be somewhat of a foregone conclusion, but Xi will want a booming economy and importantly a booming market backstopping the year which we remain positive about. Volatility and absolute return funds focussing on risk diversification will continue to bring up the flanks of clients' portfolios, adding in some healthy levels of diversification and protection should we start to see the market selling off. ETFs have also been marginally increased in client portfolios to give clients' equity investments an added layer of liquidity should we need to act in a sell off to protect assets.

To conclude, it has been a very challenging market to invest into this year, and on the whole we are very positive about clients' performance in both absolute and relative terms. 2022 is an exciting time and one filled with challenges and opportunities which we are evaluating as we write this ahead of next year.

So, all that is left for me to say is stay safe one and all, and importantly, in the words of Prime Minster Johnson (who appears to be having a more challenging year this year), have a jolly 'jolly careful' Christmas.

This document is not intended in isolation as an offer or solicitation or recommendation to use or invest in any of the services or products mentioned herein. Investors should be aware that the value of the portfolio and the income from it can go down as well as up so you may get back less than you invested. Past performance is not necessarily a guide to future returns. The value of investments denominated in foreign currency may fall as a result of exchange rate movements. The investments and services referred to in this document may not be suitable for all investors and, if in doubt, you should seek qualified independent financial advice. Any opinions, expectations and projections within this note are those of TAM Asset Management International Limited, represent only one possible outcome and do not constitute investment advice.

TAM Asset Management International Limited is regulated by the Financial Services Commission of Mauritius and is an authorised Financial Services Provider regulated by the South African Financial Service Conduct Authority.