



Insights, Tacit Thought | Weekly Investment Insights

What Next?

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2022 was a year most professional investors would like to forget (a bit like 1998, 2001, 2008 and 2020).

When we launched Tacit in 2010, it was our belief that clients expect their professional advisors to be contactable at times of stress and to manage investment risks that they themselves do not fully understand. That's what they pay for after all...

So how does the Tacit Report Card read for 2022? Our strategies managed risk in absolute terms throughout the year reasonably well, with drawdowns being smaller than the reference benchmarks at all points throughout the year. We produced regular communications through difficult times, with the objective of briefing our professional and private clients of our current mindset, and we aim to continue to do so.

Disappointingly, absolute returns were negative for all investors, giving back some of the gains generated in the previous year.

As we often remind readers, many academic studies have concluded that the valuation at which assets are bought is a significant factor in future returns. Also, we have written often about how zero interest rates and Quantitative Easing dating back to 2008 drove investors to take more and more risks with the assets they purchased as the 'fear of missing out' drove markets ever higher, and government bond yields ever lower. It was inevitable that the adjustment from zero interest rates to positive rates would lead to significant falls in certain asset prices as investors had to reassess the risks they were taking. 2022 in hindsight was the year this began.

The extent of the declines in cryptocurrency and non-profit making technology companies has been exaggerated by the monetary and fiscal response to the Covid pandemic. More and more money chasing fewer and fewer 'investments'. It is likely that many of these 'investments' will not recover in value but it is important not to look backwards when investing for the future.

Back to valuations. Many of our longer-term investors will remember that coming in to 2020 we did not see valuations as attractive in most equity markets (with the exception of the UK) or bond markets. The prices investors were paying for assets were high in absolute and in historic terms which made portfolio values vulnerable to a turn in the interest rate cycle.

Now that this adjustment in interest rates has occurred, we see significant valuation anomalies across the world which gives the 'Growth' component of our portfolios meaningful upside potential. When this potential will be realised is not something we can forecast, but this is where our philosophy of combining Growth and Stabiliser assets comes into its own. The yields available in government fixed interest markets have also risen and provide investors with more protection from volatility in the 'Stabiliser' component of our strategies, as well as contributing a positive return in their own right. These two elements combined make us more positive on the outlook for portfolio returns in the future than we have been for a few years now.

Investors need to be patient in periods of lacklustre returns which are normally followed by a period of stronger returns, both in absolute and real terms. Forecasting the turn is futile but investing in assets that pay you income now to compensate you for the wait is vital. Our strategies now have higher income yields than at any point in Tacit's history which should bode well for the short and longer term.

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