CHARTERIS TREASURY PORTFOLIO MANAGERS LIMITED

View in Browser ¦ Forward to a Friend
Tel: +44 (0)207 220 9780 ¦ info@charteris.co.uk

HOME SERVICES GOLD FUND EQUITY FUND OUR PEOPLE NEWS & MEDIA CONTACT US

Below is the latest Market Comment from Ian Williams: (02/12/2016)

Many investors are becoming convinced that now that Donald Trump has won the US election a series of reflationary measures will be unleashed on the US (and Globally) economies that will herald in a new era of reflation. The trouble with this analysis is that it is probably correct albeit for the wrong reasons as no one human being can possibly turn global deflation into global reflation on their own. However the reasons the underlying view is probably correct is that the deflation/inflation cycle has been turning all through 2016 long before Trump was even the republican nominee.

The 1st piece of evidence that the cycle was turning was the mega cycle low in January this year of a basket of global commodity markets. The Bloomberg Commodity Index hit its low point on 21st January 2016 following a near perfect ABC bear wave pattern which fits in with our long term cycle analysis and in our view signals the end of the entire commodity bear market that began with the crash of 2008. If this analysis is correct we are now at the start of a new bull market. Typically when a new bull market starts the leaders of the commodity complex are the precious metals especially Gold and Silver which enjoy first mover status.

The 2nd piece of evidence is that 2016 YTD 7 of the top ten UK mutual funds across all sectors are Gold and Silver Funds - led by our own Charteris Gold Fund which has a 70% Silver weighting (Silver typically outperforms Gold in a bull market). What then follows about 9-12 months after Gold and Silver is that the base metals also rise sharply. This has now occurred (3rd piece of evidence) with Copper rising 20% in the last few weeks and metals like Zinc moving to a 9 year high. Indeed Copper is half-jokingly referred to Dr Copper PHD for its unrivalled ability to spot and react to changes in the global economic deflation/inflation balance (way better than the average City economist who are usually so far behind the curve).

The market that is most inversely related to base metals are the Government Bond (and by extension ALL Bond) markets which have an enormous historical (inverse) correlation to metals such as Copper and Nickel, as Bonds price in and benefit from global deflation and suffer from global reflation. The 4th piece of evidence is the ongoing collapse of the Bond markets worldwide. In the week following Trump's election One Trillion Dollars was wiped off the value of global bond portfolios and since the 1st week post-Trump nearly another 1 Trillion Dollars of losses have been seen.

Many investors are coming to the view that the cycle is turning (for whatever reason Trump or no Trump) but are reacting to this potential change by increasing their exposure to Index Linked Bonds as an antidote to this dilemma. This is just about the worst decision an Investor could make even if the underlying assumptions about deflation/inflation turn out to be correct. If this is a turn in the cycle Index Linked Gilts will be among the worst performing asset class and will fare far worse than conventional Gilts (and they will be bad enough) due to their grotesque overvaluation that current levels.

But how can this be? - Surely Index Linked Gilts will thrive if Inflation replaces deflation as the underlying force in the global economy. No, they will not - Index Linked Gilts are driven by relative real yields (i.e. relative to conventional gilts) not the level of Inflation per se. If Inflation returns Investors will demand a positive real yield on conventional gilts so the real yield on IL Gilts will almost certainly also go positive under those conditions - as it always has in the past.

At present the 50 year IL Gilt is on a negative real yield of -1.5% at a price of 225 if the real yield goes to zero the price drops to 106 - if the real yield rises to 1% the price drops to 65 (from 225).This potential loss is much greater than anything remotely possible in the conventional gilt market especially if we return to anything like the historic real yields seen since the IL Gilts were issued. Between 1984 & 1998 real yields on IL Gilts traded between 3% and 5% - if the real yield on the 50yr IL Gilt rose to 4% the price will drop from 225 to 15.

If the deflation/inflation cycle is turning then Investors will start to switch from deflation proof assets like Gilts - All Gilts both conventionals & IL Gilts (where they have a huge overweight position) into genuine inflation proof assets such as Gold, Silver and Property etc. (where they have a huge underweight position). - this list also includes other commodity based investments such as BHP Billiton, Rio Tinto Zinc etc.

The author of this article spent many years as a specialist in the Institutional index linked Gilt market covering institutional sales, research, trading and market making. Between 1993 & 1996 he ran the Index Linked market making book within the Kleinwort Benson Gilt Edged market maker. When the US government decided to issue Index liked Treasury Bonds he was one of 7 specialists from the London IL Gilt market invited to the US Embassy to advise on the issuance of US TIPs.

If you would like any more information on any of the newly launched or existing funds, please contact myself or the team.

Warm regards,

Ian Williams, Charteris CEO and the team.

****
This email originates from the sender at Charteris Treasury Portfolio Managers Ltd (“the Company”). Charteris Treasury Portfolio Managers Limited is registered in England Number 1830771. The registered Office is: 8-9 Lovat Lane, London. EC3R 8DW: Tel: 0207 220 9780 - Fax: 0207 929 6925.
Charteris Treasury Portfolio Managers Ltd is authorised and regulated by the FCA (25 the North Colonnade, London E14 5HS) with no. 114952. CTPM is also authorised and regulated by the Gibraltar Financial Services Commission.
The information contained in this email and any attachments is confidential and may be privileged. It is intended for the exclusive use of the addressee(s) indicated. If you are not the addressee(s) or authorised to receive for the addressee(s), any disclosure reproduction, distribution or other dissemination or use of this communication or any attachments is strictly prohibited and may be unlawful. If you have received this transmission or any attachments in error, please delete the message and any attachments and notify us immediately by telephone.
The views expressed are not necessarily those of the Company and no contractual commitments should be considered as entered into as a result of this email, unless explicitly stated. Any prices shown are indicative only, unless explicitly stated.
We do not accept responsibility for any changes made to this message after originally sent or any subsequent distribution thereof. In addition, it is the responsibility of recipient(s) to carry out such virus or other checks.
****