



2021

End Of Year Market Review

Skybound Wealth Management

January 2022

The biggest
investment we
make isn't into
a single stock
or share, it's our
commitment
to helping you
realise the future
you always
dreamed of.



Investment Principles

- A consistent investment approach.
- Focus on long term growth prospects.
- Quality investments that we understand.
- Maximising risk adjusted returns through diversification.



“Imagine on 1 January 2021 someone found a newspaper which foretold all the events of the following 12 months.”



Yearly Commentary

Imagine on 1 January 2021 someone found a newspaper which foretold all the events of the following 12 months. It would tell of rioters attacking the US Capital building, the Taliban swiftly reasserting control of Afghanistan, a UN climate report warning of 'code red for humanity' and of course several new COVID-19 variants, continued restrictions on daily life and ongoing disruption to industries and businesses.

Now how do you think that person would have invested knowing all that was going to happen? My guess would be they probably would have steered well clear of the stock market, and perhaps invested in less risky assets like bonds. Had they done that though, they would have missed out on a very good year for the stock market.

As always, you can't really draw many conclusions from 12 months of returns, as they're unlikely to have much bearing on future performance. So rather than react to recent short-term gains and losses, other than to rebalance your portfolio, we think it's best to stay focused on your long-term investment plan. That of course should involve a well-diversified portfolio, giving your wealth the best chance to weather whatever market conditions are in store for 2022 and beyond.



Jonathon Curtis

Head of Investment Research

(All data in USD terms to 31 December 2021)

Here Are 2021's Biggest Winners & Losers

USA Leads The Way

Overall it was an excellent year for equity investors. During 2021 the global stock market rose 18.5%, which compares favourably with it's long-term average of between seven and nine percent. It owes a large part of this to the continuing strong gains of the USA, which now makes up over 60% of the total global market, and returned a sizable 25.5%.

2021 saw US companies posting strong earnings growth as they recovered from the economically-crippling lockdowns of the prior year and consumers began spending again. Combined with highly supportive policies from the Federal Reserve (the US central bank), such as keeping interest rates low and pumping enormous financial stimulus into the economy, US businesses benefitted leading to strong share price gains.

Both the UK and European stock markets also delivered good growth – around twice the annual average of the global stock market. While still delivering positive numbers, it wasn't such a great year for developed markets in the Asia Pacific region, which could only manage a 2.6% return, while the world's second largest stock market – Japan – eked out a 1.7% gain.

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China Concerns

It was a different story in 2021 for emerging markets, which fell 2.6% over the year. This was in no small part to the performance of China, which makes up over a third of emerging equity markets. The world's second biggest economy and third largest stock market fell sharply by 21.7%, which is even more eye-watering when compared with global equities' overall excellent performance.

Investors have found many reasons to be nervous about China. First there were trade tensions with the USA stoked by ex-US President Trump, which if anything have been ramped up by President Biden. Then there were worries about contagion from the potential collapse of Evergrande, one of China's largest real estate developers, which has been struggling to pay its mammoth \$300bn debt. To top it off, the Chinese government is also increasingly interfering in Chinese companies, and is providing less transparent economic data.

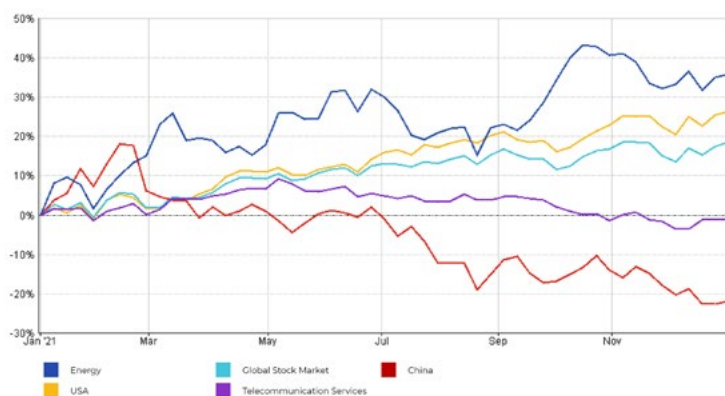


(All data in USD terms to 31 December 2021)

Sector Surprises

Moving onto the equity sectors, the strongest performer might surprise many investors. In 2021 there was plenty of talk and government commitments to reduce carbon emissions over the coming years. You might have thought this would spell disaster for performance of the Energy sector (which is dominated by oil and gas firms), but you would have been wrong.

With rapidly rising energy costs due to disrupted supplies and high demand, the Energy sector was actually the best performing of the major sectors in 2021, gaining a whopping 36%. The alternative energy sector (largely wind and solar power companies) on the other hand lost 17.6% – far more than the worst performing of the major sectors, Telecom Services, which fell 1.2%.



Past performance is not a guide to the future.

Source: FE Analytics to 31 December 2021

The Energy sector's strong performance and alternative energy's woes in 2021, despite all the rhetoric around global warming, goes to show that markets don't always perform like you might expect them to.

Speaking of which, with so much in the world causing concern, you might have expected it to be a good year for assets that tend to do well in times of crises, like bonds and gold. Again though, you would have been wide of the mark.

Inflation Beats Bonds

On the whole 2021 was a disappointing year for bonds. The global investment-grade bond market (around two-thirds government bonds) fell moderately, losing 2.9% in the 12 months to 31 December 2021. The coupons (income) fixed-income bonds generate are, as their name suggests, fixed. Therefore they become less attractive to investors if inflation picks up or if interest rates begin to rise. The former is creeping up and there were plenty of market expectations about future hikes in the latter, which combined to hurt bond performance.

Of the major bond types it was only high-yield (lower quality, higher risk of default) and inflation-linked bonds that delivered positive performance in 2021. High yield only just though with a 1.0% return. Inflation-linked was the pick of the bunch with a 2.7% gain. For most of the year inflation-linked bonds have performed much better than fixed-income ones. Many investors weren't convinced by the US Federal Reserve's line that this period of inflation was "transitory" – a phrase they've now stopped using.

Whether or not inflation does keep rising or we get a lengthy period of higher-than-average inflation remains to be seen. We'll certainly be maintaining exposure to inflation-linked bonds within all but our most adventurous portfolios though, to provide some inflation protection for whatever is in store.



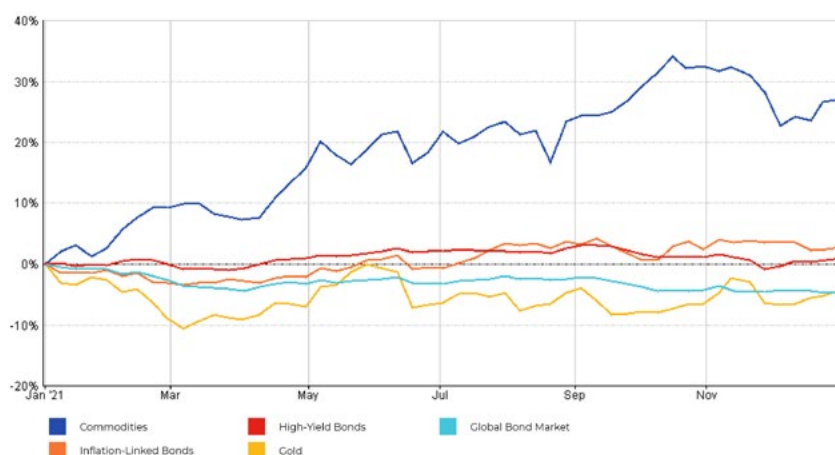
(All data in USD terms to 31 December 2021)

Gold Loses Its Shine, Commodities Climb

Gold also disappointed investors in 2021, losing 4.3%. Many invested in the yellow metal following its strong performance in 2020, when it beat the stock market. Gold shouldn't really be seen as a driver of returns though, but more of an insurance policy. It tends to do well when markets are at their most volatile, as they were at times in 2020. Gold can itself be volatile, but often in the opposite direction of stock market movements. That means it can offer good protection against market drops, as it did during the 2000 'dot com' crash and the 2008 financial crisis.

Broader commodities had a very strong year, beating equities by delivering a return of 27.1%. Energy, which makes up a significant part of the commodities market, played a big part in this, due to the previously mentioned price rises. Pent up demand after the reopening of economies also helped drive up commodity prices, as did inflationary concerns, given commodities are viewed by some investors as a good way to protect against inflation.

Commodities' recent returns will inevitably attract investment, as gold did after its strong rally in 2020. We think investors should bear in mind, however, that commodities have been a dreadful investment for many years. They barely earned anything over the past two decades, yet had nearly as much volatility as the stock market, offered much lower equity diversification benefit than either bonds or gold, and can be influenced by more unpredictable factors such as weather. On the flip side, if we are in for a lengthy period of inflation or, as some predict, we're starting a new commodities 'super cycle' then they could be set to benefit.



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(All data in USD terms to 31 December 2021)

Tales From The Crypto

We've previously written about why we don't invest in cryptocurrencies, but we know some readers will want to know how Bitcoin fared in 2021. Although it was way off its stellar returns in 2020, it still delivered a substantial 62.6% return. That's for those who were invested from the start of the year and held on through the 53.1% drop between April and July, and the 31.5% fall between November and the end of the year.

Because of the massive volatility, had you invested in Bitcoin on 215 days out of 365 last year (around 60% of the time), you'd actually be nursing a loss at the end of year, and that loss would average 13.9%. So despite the high annual return, most new investors in Bitcoin in 2021 likely actually lost money.

(All data in USD terms to 31 December 2021)

Planning For Your Tomorrow

A new wealth management company built upon that, which is most precious to you. The desire for freedom and benefit. The ability to make memories, experience life and tell stories.

Together, we can plan lifetimes of stories.



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