

## What Does 2022 Hold for Investors?



**I know it is now late January, but an idea of what is in store for investors this year seems worth a few lines.**

For a good summary of what to expect, Bloomberg's compilation of forecasts from some 50 financial institutions is probably the place to go.

<https://www.bloomberg.com/graphics/2022-investment-outlooks/?srnd=premium-europe>

Even though these notes are simple summaries, it quickly becomes confusing when trying to navigate a way through the more than 100 pages. If anything, the various, yet considered views of so many intelligent, financially-aware people show how impossible it is to predict what the future holds in financial markets.

To summarise (from the first paragraph of the article):

In January 2022, the overriding message from almost 50 financial institutions across Wall Street and beyond is that conditions still look good, but the tremendous rallies powered by the reopening are history. Growth will slow. Returns will moderate. Risks abound, but so do opportunities.

While there are some consensus views (like inflation being higher than average in the first half of 2022), there are also many differing ones, and that is what makes markets exciting and unpredictable. Most of these forecasts will have proven to be wrong when we look back in 2023, regardless the logic of any specific view.

So how does one formulate an investment strategy? I believe that diversification, and sticking to quality are always the best strategy.



We still have very low interest rates, arguably poised to rise.

While this is a consensus call, and might not necessarily happen, full allocation to fixed income (bonds) at a time when rates are so low seems a bit blasé, when there are 3 possible outcomes;-

- Rates stay the same, in which case the yield is about zero or negative
- Rates rise, in which case there will be a loss in the value of bonds
- Rates fall, in which case the value bonds rise. (This eventuality is the least likely)

Holding a little extra cash instead of being fully invested in bonds therefore makes sense, even though you could argue cash is not 'earning it keep'. However, risk profile needs to be considered. The traditional view is to hold a proportion of fixed income (bonds) to reduce the risk profile of an investor not comfortable with 100% in equities.

My article from November 2021 suggests why bonds may not be the smart asset to hold, and could result in losses at the current low interest rates.



What about alternatives such as Hedge Funds, Basic Commodities, Gold, Private Equity, Venture Capital, Crypto etc?

Fair enough, but these investments all have their own risks.

Hedge funds have been wildly unpredictable in the last 10 years and have, by and large, proven that they do not "hedge" effectively. Commodities are not only extremely volatile, but accessing them is not that simple, as it involves being exposed to short-term futures contracts that need to be rolled-over on a regular basis at a considerable cost.

Gold has had so many false dawns since 2012, and seems likely to continue to disappoint. Private equity and venture capital is both illiquid, and largely inaccessible to the retail investor.

As for Crypto, many mainstream platforms are still reluctant to accept almost all crypto-related investments whether due to regulatory, liquidity or risk-related concerns.



This really leads us back to equities. While they carry risk, it is vital to weigh their potential based on historical analysis and assess how much to allocate to them in a portfolio. The US S&P500, for example, has had only 7 negative years since 1980, and average annual returns of 10%.

### Historical S&P 500 Index Stock Market Returns

Year	Return	Year	Return
1980	31.74%	2001	(-11.85%)
1981	(-4.70%)	2002	(-21.97%)
1982	20.42%	2003	28.36%
1983	22.34%	2004	10.74%
1984	6.15%	2005	4.83%
1985	31.24%	2006	15.61%
1986	18.49%	2007	5.48%
1987	5.81%	2008	(-36.55%)
1988	16.54%	2009	25.94%
1989	31.48%	2010	14.82%
1990	(-3.06%)	2011	2.10%
1991	30.23%	2012	15.89%
1992	7.49%	2013	32.15%
1993	9.97%	2014	13.52%
1994	1.33%	2015	1.38%
1995	37.20%	2016	11.77%
1996	22.68%	2017	21.61%
1997	33.10%	2018	(-4.23%)
1998	28.34%	2019	31.21%
1999	20.89%	2020	18.02%
2000	(-9.03%)	2021	28.47%

In conclusion, whilst 2022 seems likely to be more challenging than 2021, and investment returns possibly less dramatic, the generally accepted view is that equities generally are the place to be. Risk tolerance, and diversification remain, as always, important.