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Why have there been so few greens in markets around the world this year?

Synopsis
As interest rates go up, it hits both the fixed income as well as the equity markets. Let alone anything with credit risk, the proverbially safest investments in the world, US treasuries (government bonds) are down 8.5 per cent for the year!

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Devina Mehra, Chairperson and Managing Director of First Global, is a gold medalist from IIMA as well as from Lucknow University where she broke several records. She had a seven-year-long stint at Citibank in Investment Banking & Corporate Credit/ Risk before becoming a member of the Bombay Stock Exchange in 1993 - her proprietorship which later corporatised and became India's leading institutional brokerage firm, First Global. She spearheaded First Global's globalisation over two decades ago, making First Global the first Asian (ex-Japan) firm to become a member of the London Stock Exchange and then the NASD.

First Global has since become a leading quantitative global asset management firm managing both PMS schemes in India as well as global funds.

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There is an old saying in financial markets that in times of crisis all correlations go to one.

What does that mean? It means that when things are looking really bad, almost everything goes down: across asset classes, across geographies, across sectors! In such times, assets you thought provided a counterbalance or a place to hide, are often not able to do that or can do it to a very limited extent.

The COVID crash of February/ March 2020 was a good example. We, at First Global, did see that something crazy and unprecedented was coming and in our global multi asset portfolios and funds, we went from the normal 70-80 per cent equity to less than 10 per cent. However, we invested the balance in investment grade bonds. As it turns out when the markets fell, these fell too – by much, much less than equity markets so our portfolios outperformed by a huge margin. But they did not provide protection to the extent we had anticipated.

This year also there have been certain global developments which have caused turmoil in the markets. These include the Russia-Ukraine war which put a crazy spin on commodity prices and hence on inflation; plus a change from years of a very easy monetary policy that the western central banks had been following for many years. After 40 years, inflation made an appearance in the west, forcing central banks to tighten.

This upward pressure on interest rates saw this phenomena of almost all asset markets moving down together.

Looking back at the year now, almost 7 months gone, here are the numbers, year-to-date (YTD).

Exactly 6 out of about 45 country equity indexes are in the green - all of which are commodity-led markets like Saudi Arabia, UAE, Chile and Indonesia. The rest of the world is in the red - mostly deeply so.

As we had anticipated, India has been outperforming and remains in the top 10 list, just as it was for 2021. The NASDAQ, which appeared the best market to most people last year (not to us), is much closer to the bottom – nearly 24 per cent down in spite of the recent rally.

Equity markets, of course, are known to be volatile, but in such times we expect fixed income to provide a haven but that has also not worked out this year.

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Want to look at currencies? There too, except for the mighty dollar (up 11.6 per cent against a basket of currencies), almost everything else has been in the red.

Emerging market currencies are down 4.9 per cent on the average. Both the Euro and the British Pound are down in double digits against the US Dollar. The Swiss Franc is down 5.2 per cent and the Japanese Yen is down 15.5 per cent. The surprise winner in the currency sweepstakes is ironically the Russian Rouble that is up a whopping 29 per cent!

So as the carnage swept through almost all asset classes, was there a place to hide?

The source of a lot of uncertainty globally were the commodity markets, starting from last winter with its rising oil and natural gas prices. This only intensified with the Russia-Ukraine war which directly impacted many commodities even outside of Energy like metals and agricultural commodities. So, logically you should have been safer had you invested in commodities.

However, even this category did not hold out for long. Almost all metals are negative in terms of YTD price movements – aluminium, copper and tin are down substantially. Nickel and palladium which zoomed for a while are now barely up since January.

Agriculture commodities also have largely given up their gains with only a few like soya and rice still significantly up for the year. Of course many of them are still up on a 1 year basis.

Only crude and gas are up significantly since January, which also shows in the list of equity markets that are up.

Net conclusion

As in many other episodes of turbulence in the world diversifying across asset classes has brought only limited protection.

The only winning strategy would have been to be almost exclusively in oil and gas which is also an extremely risky strategy, given that besides everything else, this is one commodity which is sensitive to unpredictable political decisions or those of the OPEC.

Markets are complex – a never-ending puzzle. Sometimes they give you an easy chance to accumulate a lot of runs, at others you have to concentrate hard to just remain on the crease.

GLOBAL CROSS ASSET YTD PERFORMANCE SUMMARY

Source: Bloomberg. As of the end of week ending July 23rd

EQUITIES

Indices	Country	$YTD(%)
S&P/CLX IPSA (CLP) TR	Chile	8.8%
TADAWUL ALL SHARE INDEX	Saudi Arabia	7.7%
DFM GENERAL INDEX	UAE	4.8%
BIST 100 INDEX	Turkey	4.5%
JAKARTA COMPOSITE INDEX	Indonesia	2.0%
Straits Times Index STI	Singapore	1.0%
BRAZIL IBOVESPA INDEX	Brazil	-3.9%
S&P BSE SENSEX INDEX	India	-9.4%
S&P/BMV IPC	Mexico	-9.9%
FTSE/JSE AFRICA ALL SHR	South Africa	-10.3%
HANG SENG INDEX	Hong Kong	-10.4%
S&P/ASX 200 INDEX	Australia	-10.5%
FTSE 100 INDEX	United Kingdom	-10.7%
S&P/TSX COMPOSITE INDEX	Canada	-10.8%
FTSE Bursa Malaysia KLCI	Malaysia	-10.9%
TA-35 Index	Israel	-12.3%
OMX COPENHAGEN 20 INDEX	Denmark	-12.8%
STOCK EXCH OF THAI INDEX	Thailand	-13.4%
SHANGHAI SE COMPOSITE	China	-13.6%
IBEX 35 INDEX	Spain	-14.1%
MSCI COLCAP INDEX	Colombia	-14.5%
SWISS MARKET INDEX	Switzerland	-15.8%
S&P 500 INDEX	United States	-16.2%
NIKKEI 225	Japan	-17.0%
PSEi - PHILIPPINE SE IDX	Philippines	-18.9%
AEX-Index	Netherlands	-19.4%
CAC 40 INDEX	France	-19.8%
BEL 20 INDEX	Belgium	-20.2%
S&P/NZX 50 Index Gross	New Zealand	-20.9%
HO CHI MINH STOCK INDEX	Vietnam	-21.5%
TAIWAN TAIEX INDEX	Taiwan	-21.7%
OMX HELSINKI 25 INDEX	Finland	-21.9%
NASDAQ 100 STOCK INDX	United States	-23.7%
DAX INDEX	Germany	-24.6%
OMX STOCKHOLM 30 INDEX	Sweden	-25.7%
KOSPI INDEX	South Korea	-26.7%
FTSE MIB INDEX	Italy	-27.3%
BUDAPEST STOCK EXCH INDX	Hungary	-29.9%
WIG 20	Poland	-33.5%
EGX 30 INDEX	Egypt	-33.6%
SRI LANKA COLOMBO ALL SH	Srilanka	-63.7%

FIXED INCOME

ETF	Category	$YTD(%)
TIP	US Treasury Inflation Protected Bonds	-7.0%
AGG	US Aggregate Bond Index	-8.5%
GOVT	US Treasuries	-8.7%
HYG	US High Yield	-9.5%
GHYG	Global High Yield	-12.3%
AGGG	Global Aggregate Bond Index	-13.0%
LQD	US Investment Grade	-13.1%
EMB	EM USD Sovereigns	-19.3%
HYEM	EM High Yield	-21.0%

COMMODITIES

Commodity Futures (Front Month)	YTD(%)
US Natural Gas	122.5%
Brent Crude	32.7%
Rough Rice	15.3%
Soybeans	8.0%
LME Nickel	5.9%
Palladium	5.6%
SGX Iron Ore	3.4%
Wheat	-1.5%
Corn	-4.9%
Sugar	-5.2%
Gold	-5.5%
SHFE Steel Rebar	-7.0%
Coffee	-8.6%
Platinum	-10.7%
LME Primary Aluminium	-11.5%
Cotton	-11.7%
LME Zinc	-14.9%
Silver	-20.4%
Copper	-25.0%
Crude Palm Oil	-27.8%
LME Tin	-35.9%
Lumber	-49.0%

CURRENCIES

	Spot YTD (%)
Indices	
Dollar Index Spot (DXY)	11.6%
JP Morgan EMFX Spot Index	-4.9%
Currencies (vs USD)	
Russian Ruble	29.2%
Peruvian Sol	2.2%
Brazilian Real	1.4%
Mexican Peso	0.0%
Hong Kong Dollar	-0.7%
Canadian Dollar	-2.2%
Singapore Dollar	-2.8%
Australian Dollar	-4.6%
Indonesian Rupiah	-5.1%
Swiss Franc	-5.2%
South African Rand	-5.3%
Chinese Renminbi	-5.9%
Malaysian Ringgit	-6.4%
Indian Rupee	-6.9%
Taiwanese Dollar	-7.5%
New Zealand Dollar	-8.2%
Colombian Peso	-8.6%
Czech Koruna	-9.0%
South Korean Won	-9.4%
Euro	-10.2%
Danish Krone	-10.3%
Chilean Peso	-10.8%
Norwegian Krone	-11.2%
British Pound	-11.3%
Swedish Krona	-11.5%
Polish Zloty	-13.0%
Japanese Yen	-15.5%
Hungarian Forint	-16.5%
Argentine Peso	-20.8%
Turkish Lira	-25.0%