Major Markets Letter #2
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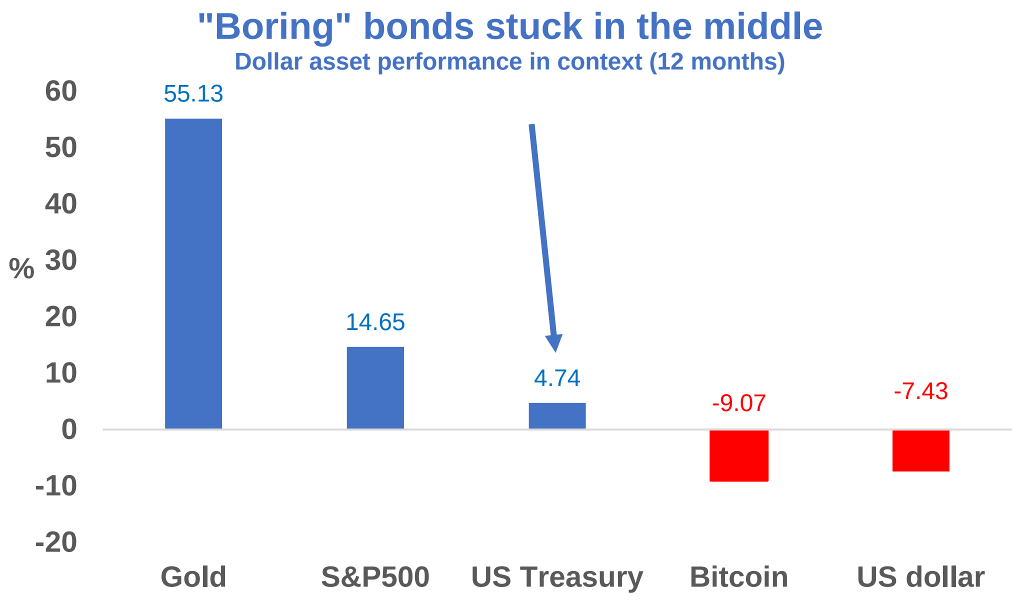
Ask your parents
For reasons unbeknown to me, one of my American nephews – a Gen Z, real economy, business owner – recently asked for financial advice. He opened with, "the US is going to switch from the dollar to help wipe out the debt. I am thinking about how to diversify between real estate, bitcoin and gold" In hindsight, I probably should have told him to speak with his mother or father.

It soon became obvious that he'd been exposed to the "dollar debasement" narrative, He wanted to know whether I thought other countries might also abandon the US dollar. My nephew was worried about a massive currency devaluation and a collapse in the bond market.

This wasn't the first time I've heard the "dump the dollar and sell bonds" hullabaloo. You don't have to look far to find investors with the same fears – some managing very large sums of money. One day, they may even be right. So, after the obligatory health warning about analysts and their forecasts (see last week's MML), and with the reminder that today's geopolitical uncertainty argues for *less* risk, not more, I decided the least I could do was make a chart.

I chose a simple comparison to address my nephew's question - not to advance any agenda of my own. The chart shows total returns over the last 12 months for five dollar-based instruments, Total return includes price performance from Bloomberg indices plus coupons or dividends where applicable.



Source: Bloomberg. Note: Total returns for indices: GOLD, SPXT, LUATTRUU, XBTUSD, DXY.

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The chart would arguably be more informative if it also showed the larger moves of the last five years, but the numbers are so big they would force a change in the y-axis scale and bury the one-year returns. If anyone has a clever solution, please feel free to reach out.

Over five years gold is up 129%, while the S&P 500 has effectively doubled, returning 102%. As the chart shows both assets did very well over the past year too, returning 55% and 15% respectively. Investors who stuck with the trend were rewarded.

Bitcoin, on the other hand, is down about 9% over the last 12 months. True, anyone who bought at the October highs would be down 26% but those who held over the last five years are sitting on a whopping 410% gain. Bitcoin outperformed both gold and the S&P - but the volatility is enormous, hence the occasional squeaky-pants moment.

So, over the one year period framed by our chart, gold has surged, the stock market has gone from strength-to strength, and bitcoin is down, a little or a lot, depending on timing.

In the middle of the pack is the much-maligned US Treasury market, up almost 5% in the last year, but still down about 5% over five years. This reflects an index with an average duration of just under six years, capturing both price movements and coupons. The benchmark 10-year yield is roughly where it was a year ago, so the return came from the coupon. Compared with the fireworks elsewhere, Treasuries look dull – but they've provided balance and behaved as intended.

The US dollar, meanwhile, is down almost 7% this year relative to a basket of major currencies (DXY) - unremarkable by historical standards. Viewed from five years ago, the dollar is actually up nearly 9%. So why the panic about debasement and a debt-driven bond market collapse?

Armed with the chart and some broader context I now need to go back to my nephew and give him some more considered thoughts to help him decide on his dollar investments. And if experience has taught me anything, it's to think before I speak. In this case it turns out my snap reaction wouldn't have differed much from the more considered one I can offer now.

Be realistic about return expectations: 5-7% is good. Diversify, of course. Avoid speculative markets, especially those detached from fundamentals. Try not to put too much money into assets that have already had a big run. Don't be distracted by the noise in whatever news you are following. And remember: your uncle has no inside knowledge, and gets it wrong too.

Or, better still, just ask your mum and dad.

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