

Pathfinder Investment Outlook

For the week ending July 29, 2022

Bonds really matter

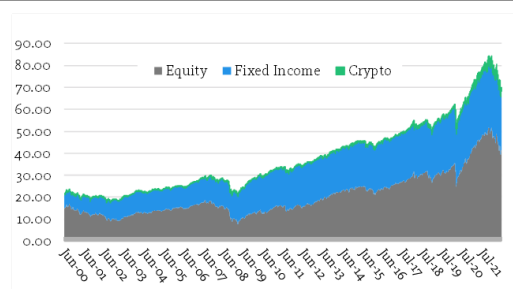
We begin a series for August that will explore the change in aggregate market value that has occurred over the past 6 months. While the headlines from the financial press have captured the drop in markets since the beginning of the year, they tend to follow those stories that will generate the most readership. Thus, most people will have heard about the drop in equities, the drop in crypto assets and the play-by-play of what Elon Musk is up to, but there is a less publicized issue of the aggregate impact of fixed income on the overall market. Bonds are just not that exciting; nonetheless, they have serious implications for all investors. We present US data below for the first half of the year. It is a compilation of the Russell 3000 index and indices from Bloomberg Markets LP: the US Microcap Index, the US Aggregate Government Bond Index, US Corporate High Yield Index and US Municipal Bond index. We also added composite crypto data from CoinGeko. All told, the data include 4,667 equity securities, 70,898 fixed income securities and 13,107 crypto coins representing US\$ 69.2 Trillion in assets as of the end of June, 2022.

- In **Figure 1**, we can see that the data started in early **2000** at just over **\$US 20 Trillion** and increased to a **peak of \$85.5T** in Dec of 2021.
- It is hard to see from the chart (and we will explore this further in coming issues), but in **2008**, there was **\$8T** loss of wealth from top to bottom. **So far** in this bear market, we have **lost \$16.3T of value**, a little **more than twice** the value from the Great Financial Recession (GFR). A major contributor to this is fixed income. This is different than what we experienced in the GFR.
- The US economy is bigger now than in 2008 so **Figure 2** normalizes the difference between the values in Figure 1 and the US economy. You can see that even with the huge adjustment in valuation and the economic growth, **we are still at the higher end of the value of financial assets** in relation to the economy.

"This means that" we are just at the start of this study so we will hold onto our conclusions, but will continue to update the data as we progress through the study.

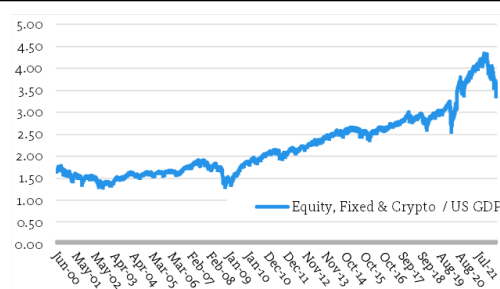
Michael Rudd, CFA | President, CEO & Portfolio Manager

Figure 1: US Equity, Fixed Income and Crypto Value July 29, 2022



Source: Bloomberg Markets LP, Pathfinder Asset Management Limited

Figure 2: Value to GDP July 29, 2022



Source: Bloomberg Markets LP, Pathfinder Asset Management Limited



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Sources: Pathfinder Asset Management Limited

Disclosure

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*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Pathfinder Real Fund are presented based on the masters series of each fund. The Pathfinder North American Equity Portfolio and The Pathfinder North American Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder Chairman (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder North American Equity Portfolio (January 2011), Pathfinder North American High-Income Portfolio (October 2012) Pathfinder Partners' Fund (April 2011), Pathfinder Real Fund (April, 2013), and Pathfinder International Fund (November 2014).

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