

Pathfinder Investment Outlook

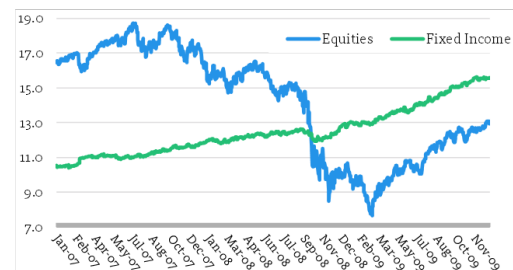
For the week ending August 5, 2022

The Great Balancing Effect

We began last week with a series that will explore the change in aggregate market value that has occurred since the beginning of the year. We noted that while the headlines from the financial press have captured the drop in equities and “crypto”, the change in fixed income has been somewhat less topical. We present US data, again this week, below for the first half of the year. As a reminder, the data is a compilation of various indices from FTSE Russell, Bloomberg Markets LP and CoinGeko, representing US\$ 69.2 trillion in assets as of the end of June 2022. This week, we break apart the aggregate data into two groups: 1) fixed income and 2) risk assets, as represented by equities and crypto. We then isolate two periods of time so that we can study the impact of each group on total wealth.

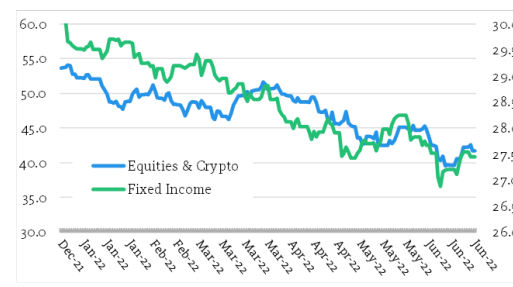
- In **Figure 1**, we present data from the two-year period around the Great Financial Recession (GFR). The peak of aggregate wealth was in October of 2007 when assets were US\$30T and the bottom of US\$20.6T was reached in March of 2009, for a top to bottom drop of **-31.4%** or **US\$9.4T** in **wealth destruction**.
- In **Figure 2**, we present the same data from the beginning of the year, although we have added Crypto assets to the equity total. We started the year at US\$83.8T and ended in June at US\$66.7T for **US\$17.0T** in **wealth destruction**, almost twice as much as in the GFR. The difference being now that financial markets are much larger than they were in 2009, so on a percentage basis we are down **-20.4%**.
- The big take away from the two charts is how differently **fixed income** has behaved. With rates at generational lows coming into the beginning of the year, fixed income **did not act as a balancing factor like it did during the GFR**. Indeed, it has behaved more like the equity and crypto streams.

Figure 1: US Aggregate Wealth (GFR) - US\$ Trillions August 05, 2022



Source: Bloomberg Markets LP, Pathfinder Asset Management Limited

Figure 2: US Aggregate Wealth August 05, 2022



Source: Bloomberg Markets LP, Pathfinder Asset Management Limited

"This means that" we will still hold onto our conclusions as we progress through the study, but there is a marked difference between the behavior of financial assets between the two periods. We will broaden our study to global assets in our next issue of the series.

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Sources: Pathfinder Asset Management Limited

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