



BINARY CAPITAL

Binary Capital Investment Management



Chief Investment Officer Note

Volatility everywhere.

Long-termism shapes our relationships and our investments.

May 2021



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Volatility everywhere.

May 2021 was typical to many other time periods over the past 24 months. Here at Binary Capital Investment Management, we always try and fully understand what is and what is not going on. Markets are complex systems, but we still aim to understand. With better understanding we can look forward to the rest of the year with confidence, much confidence.

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May was another volatile month across investment markets. A month where often fundamental news did not drive price movements, but more randomness was in action. A month where cryptocurrencies (or more specifically Bitcoin) witnessed heavy swings. We do not take any exposure to cryptocurrencies for clients – it is an asset class that is increasingly becoming mainstream. Volatility in Bitcoin is affecting the wider investment markets. We watch events with interest around this whole genre of virtual money creation and trading. What we do know is that cryptocurrencies, especially Bitcoin does have implications for investment markets in the way such markets behave around volatility. Hot money chasing different liquid assets.

The debate around value and growth continued at pace in May, with US inflation (CPI) numbers ahead of expectations, slightly above the 4% level. This affected markets during the month as investors re-appraised their outlook for interest rates for next year and beyond. We are still of the view that inflation is enhanced for many reasons. Inflation will gradually come down in due course to more normalised levels. We expect to see better guidance around inflation, interest rates by the US Fed over the summer months.

In May our portfolios have performed reasonably well, picking up in the latter part of the month. We understand there is a rotation into value investments away from growth strategies. This rotational movement has happened periodically in the past and will happen again in the future. The rotation towards value stocks may be temporary but the opportunity in genuine, long-term growth opportunities in health, biotechnology, and technology generally are still very compelling and, in our view, far in excess of any return from temporary cyclical rotational returns.

It is worth spending a bit more time around this equity rotational movement that we have seen from mid-November 2020, and more recently mid-February 2021. Markets are volatile, that is a constant. Capital movements into different sectors and trends is often hard to predict. Unlike growth, value strategies have limited upside before they themselves become excessively expensive and the rotation stops. Growth stocks, on the other hand have more scope for upside returns, more opportunity for the *asymmetrical investment returns* that we pay very close attention to and talk about regularly within our investment themes.

In growth stocks there are more limitless opportunities. We want to invest in such upside potential. We invest in positions that are set for a decade not temporary for a year. It is for this reason, amongst others, that we have this long-term investment mindset. Long-term thinking across all our investment strategies. We can allow any short-term movements to play out and the real value can be developed and eventually be realised.

As a sense of normality returns imminently to many western countries, we watch economic and investment data with interest to see the trends that could develop for the rest of this year. We believe we have very resilient portfolios. We look forward to the coming months with enthusiasm. We believe the values of: economic disruption, increase in market share, pricing power and lasting consumer demand will overcome short-term price volatility.



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