Opinion | 21 June 2019

All's well - S&P500; back to record highs

Is it just me, or is the "Buy assets" market mood a bit disquieting?

Source: shutterstock

Happy, I remember happy...

I suppose I shouldn't grumble (don't get me started though), after all, if I look at my pension valuations later on today, they should make encouraging reading. The S&P500 is at an all-time high again, as President Trump has reminded us. Even the FTSE-100 is looking robust, despite Brexit fears.

As a 50-something, I have over recent years been happy to run with a decent bond allocation in my savings, though still largely equity-based. But given my disquiet with all-things monetary, I have also dabbled with the occasional foray into physical gold. Coins mostly, and a few small bars, mainly as an insurance policy. They are fun to play with. I shall give most of them to the kids when they are 18.

My journey-to-work reading today was filled with stories about gold, which is understandable. But then, of course, it isn't the only thing going up right now. So too are stocks, so too are bonds. Indeed, it seems that the world is so awash with money, that it is creating financial asset price inflation wherever you look. For example, in DM space, there are now eight negatively yielding 10Y government bonds. Money is so plentiful you actually have to pay the government when you lend it to them.

And yet on the other side of the coin, recession fears stalk the pages of investment newswires. Huh?

Something is wrong here. Moreover, the likelihood that if and when this is realized, the positive correlation between all assets means that my portfolio diversification will all count for nothing, is rather disturbing. If you have access, look out on Bloomberg for Robert Burgess' "This is a market only Gordon Gekko could love". It is a much more detailed (and better) synopsis of the paragraph you have just read.

I shall take less comfort than usual from any valuation uptick if I bother to read it later.

Day ahead - G7 and Asia.

After all the central bank excitement this week (which in the end has resulted in a rather paltry haul of one RRR cut (BI) and a hike (Norges bank)), the week ends quietly.

Perhaps too quietly.

We ought, after all, to be hearing news of the next President of the EU Commission, though instead the meeting apparently became a slanging match about environmental targets and didn't make much progress. We aren't anticipating a conclusion to this today.

We do, however, get inundated with PMI data across the developed world. This may shed some light on the true state of the global economy, but PMIs are a little subjective at times, and instead, we may merely get reinforcement of the current market view.

The main Asian event will be the 20-day advance export data from Korea. One or two indices I have been following suggest that the Korean bad news story may be finding a base. These export numbers may throw some additional, and hopefully positive light on what has been a fairly dreadful picture over recent months. Asian FX soared yesterday on the Fed news, with the KRW in particular, gapping lower to just over 1160. Let me put this into the same basket as the other assets I noted in my opening paragraph. There is no fundamental justification for this. It could very easily flip back, but it does make it much easier for the BoK to ease at their next meeting. Governor Lee did comment on the Fed yesterday and reached a completely different conclusion to mine. That's fine, especially if it leads to easier policy in Korea.

Japanese CPI out already this morning was in line with expectations and confirmed that the recent increase in prices was not the start of a trend. Core prices (ex-food and energy, softened a little to 0.5%YoY).

(And a contribution from Prakash Sakpal on today's Thai trade balance): May trade data due today are expected to show steeper declines in both exports and imports, but a return of the trade balance to surplus from a one-off deficit in April which is pretty much seasonal for these months. Backed by a persistently large current account surplus, the Thai baht (THB) remains an emerging market outperformer this year. Nearly half of the 5.3% year-to-date appreciation against the USD has occurred in the current month despite high market uncertainty, prompting the central bank (BoT) to implement "close monitoring" of the market for speculative interest. Maybe a BoT rate cut next week, as justified by stressed real economic situation lately, helps to stem excessive currency appreciation.

(And from Iris Pang in Hong Kong) China's Premier Li met multinational CEOs in a conference held in Beijing on 20th June to confirm that China already protects intellectual property and innovation from foreign companies. He stated that China will open more markets to foreigners. China bringing up these topics before the G20 sideline meeting could mean that China believes it has already fulfilled its responsibility in these difficult topics, and the room for further negotiation could be small...

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