Some nerves creeping into markets

More stories are appearing to question the resilience of markets - I don't blame them, but then this can go on a long time before anything happens

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I've only gone and done it!

Earlier in the week I mulled openly about my tricky decision to top up some pensions savings, noting that waiting for markets to drop hasn't always worked for me. I can announce today (I'm sounding a bit like the UK chancellor in today's note) that I have transferred a small sum to said account, The deed is done. So frankly, there's no point in me worrying any more.

Still, judging from the growing number of articles and news items indicating anxiety over the market's ongoing gains, I have not been alone in struggling with this. The latest twist on the story takes the very narrow gains in US markets, with considerably less than half of all stocks rising, and gains heavily concentrated on tech stocks. This is wrapped around a strange narrative of Fed "hawkishness" - some were disappointed that the Fed was not far more supportive in their most recent minutes - taken these days as being "hawkish", and a minor wobble in the initial claims data overnight (it went up a bit, but the equally important continued claims figures are still steadily falling).

There are certainly plenty of things to be anxious about these days. And a quick tally of the top news stories today doesn't leave you feeling calm ahead of the weekend: The US is demanding the UN re-impose sanctions on Iran (Europe and other allies are saying "No"). An alleged poisoning in Russia of a key opponent to Putin plus the ongoing tensions in Belarus don't help. Nor does pessimism over Brexit talks (not surprising though, and I wouldn't take this too seriously until much closer to the October 2 deadline). Throw in rising Covid-19 figures in some big European countries and elsewhere. And there may even be some nervousness ahead of Joe Biden's Democratic nomination acceptance speech tonight - will he say anything market negative to appeal to the more progressive wing of his party? Who knows.

But it's not all bad. On the trade side, it sounds as if the phase-1 US-China deal is still being scrutinised, but if Larry Kudlow's remarks that China is "buying a ton of goods" can be interpreted at all, it sounds positive. And Beijing is reaching out to the US for more talks, so that is broadly encouraging too. One might also argue that markets should take encouragement at the depth of opposition to President Trump's nomination of Judy Shelton for the Fed, given her penchant for the gold standard (really, not a helpful idea unless you want interest rates to rocket and markets to collapse), and the ECB minutes overnight also seem to be setting up the market for a September dovish pivot - also supportive.

As a long term equity sceptic, I don't feel that the background music is sounding particularly scary, at least not yet. There are some scary undertones for sure. But for those with a more open or positive viewpoint, the general refrain will still be sounding fairly up-tempo. It could be some time before the market is ready to consider ending this trend. And oddly, this may come when the macro picture is looking much more assured, and we can no longer count on "free money forever" - but that is a while off.

Asia data today

It's going to be a quiet day, but we've already had some data releases in Asia-Pacific - the most eye-catching of which is the Australian PMI numbers. PMIs will be released across the globe today, and Australia, as usual, is kickstarting that process. There is little to remark about the 53.9 reading on manufacturing in August - insignificantly different from the 54.0 registered in July. But the 48.1 figure for services is a big drop from 58.2 number the previous month and takes services back into contraction. My guess is that this is a function of the Victoria lockdown and heightened concern and restrictions in other states, such as neighbouring NSW. Which all goes to show how Covid-19 is still driving the macro story. With PMIs out of Germany, France, and Spain later today, we may see rising Covid-19 numbers having a similarly unsettling effect, though the response to the rising Covid-19 numbers in Europe seems to be more moderate and focussed than that in Australia, which could soften any services PMI blow they experience.

There's nothing of interest in Japan's national July CPI released today. Headline CPI inflation has risen a little to 0.3%YoY, but was totally in line with expectations, and core inflation remained unchanged at 0.4%YoY. Also expected.

South Korea's 20-day preliminary trade figures are looking a bit better though, especially on the export-side, where the year-on-year decline has narrowed to only 7%, though imports remained quite soft at -12.8% (no consensus available).

And Iris Pang in HK reports on inflation there: "Hong Kong experienced negative 2.3%YoY CPI inflation in July from +0.7%YoY in June. The sharp swing into negative inflation implies that the tightened social distancing measures imposed in July have strongly affected retail businesses.

There are talks about relaxing these measures once free Covid-19 testing is available. But the government has not decided to do this yet, probably because this wave of Covid was a result of it relaxing such measures back in June".

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