BACK TO BUSINESS

THE VIEW
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Bulls keep momentum

Quarter-ends are often a psychological turning point, but this does not look like one of those times

As the greenest of inexperienced investors knows, "past performance is not an indicator of future outcomes". Yet studying the past is not without merit.

After all, the price of a stock, fund, bond or index contains a vast amount of carefully (usually) assimilated information that is valid up to the time of the printing of the price. We learn a lot in analysing charts of share prices that provide the historical context, the news, and the momentum that we think is contained within it.

So reviewing what happened in the first quarter of this year is a good learning experience. We started badly with the doommongers in full cry – the Greek euro exit, the collapse of oil signalling a weak global economy, and Putin cast as the pantomime baddy.

We closed on Wednesday with some respectable economic data from Europe, Britain and Japan.

The mainland Chinese economy looks chronically weak but is chipper over its huge diplomatic victory over the United States regarding the new Asian Infrastructure Investment Bank.

The big move came in the European stock markets, which jumped a bumper 17 per cent year to date, led by a German rise of nearly 22 per cent. Europe recorded many positive economic surprises with German unemployment now at a record low of 6.4 per cent and European unemployment at 11.4 per cent – not far from the magic single digit. The latest price index fell a very mild 0.3 per cent, hinting that deflation might ease.

Stocks may not look cheap on valuation terms but analysts cited the weak euro as a reason to be positive. If the European Central Bank seems intent on keeping liquidity loose through its bond buying programme, this cash will go straight into equities.

On the other hand, the S&P 500 index in New York had a torrid time, spending much of the quarter below water. It ended up a paltry 0.5 per cent but that took the US market to nine positive quarters in a row. The S&P is now lagging the pack after surging 50 per cent over the past three years.

> **The benefits of the oil price fall should add an extra dividend to the next quarter**

Europe saw some economic surprises in the first quarter. Photo: EPA

There is no doubt that the balance of negative shock news versus positive surprises has been firmly in the negative. Concerns hinge around the fall in company earnings due to the strength of the US dollar and the fall in the oil price, hitting employment and consumption.

The benefits of the oil price fall haven't yet come through and this should add an extra dividend to the next quarter. There are already signs that the US consumer has been a little more active and the US Case-Schiller house price index has begun to creep upwards.

Investors in the US did not go empty-handed. In addition to the currency appreciation, 10-year US Treasury yields fell 10 per cent, giving bonds yet another great quarter. How low can yields go?

In Asia, Shanghai stocks stood out with a rise of 16 per cent in the past three months.

Hong Kong massively lagged, rising by only 5.5 per cent. Over one year, the mainland leads the pack with a rise of 83 per cent, while over three years Japan has doubled, followed surprisingly by Germany (up 72 per cent).

Japanese stocks rose a respectable 10 per cent year to date – with no currency depreciation as the yen and the Swiss franc regained their safe-haven roles. The huge liquidity injections by the Bank of Japan may at last be bearing fruit with inflation at 2.3 per cent, retail sales up nearly 1 per cent and unemployment down to 3.5 per cent.

Currency movements were again dominated by a surging US dollar, only beaten by the Swiss franc appreciating 2.2 per cent as it unpegged from the euro. The yuan and yen were flat, while the euro slumped more than 11 per cent, mitigating that big stock market rally.

Commodities were hit by the rising dollar – food commodities like wheat/sugar/coffee dropped up to 20 per cent, providing cheaper breakfasts.

Oil remained volatile, falling 10 per cent in the US and 5 per cent for Brent crude. Gold had a flat quarter ending at US$1,183 per ounce – but impressive, as it is priced in US dollars.

It has been commonplace throughout my 30-year career to see a rotation of performance from the US, to Britain, to Europe as markets have cyclically recovered.

This bull market momentum continues unabated by the spectre of quite serious geopolitical difficulties and lurking debt.

But "bull markets climb a wall of worry" and even though quarter-ends are often a psychological turning point for markets, it does not look like this is one of those times.

The spotlight will be on markets that are still cheap or haven't performed – increasingly the riskiest.

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Illustration: Henry Wong