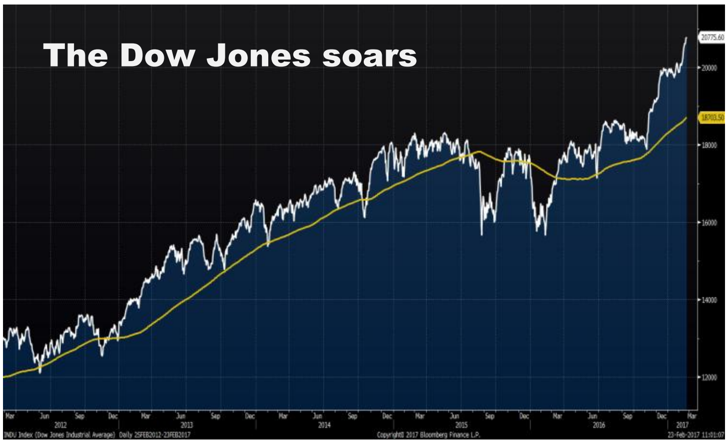
Market Musings

You Spin Me Right Round

Financial markets continue their meteoric march higher, particularly the US stock market. This week the Dow Jones notched up its best record breaking streak in thirty years (i.e. ten consecutive days of record highs). This achievement is all the more surprising in the face of growing concerns that Trump will not be able to achieve all of his many promises. Indeed, the US Treasury Secretary, Steven Mnuchin, stated not all policies nor economic growth targets would be reached until 2018. Still the allure of government spending, tax reform and deregulation is proving too strong for stock markets.

Recent market moves are bigger than just the Trump factor, because growth is improving in Europe, Asia is expanding again and the RBA forecast a return to 3% growth this year and next.

Admittedly, there are numerous limitations to the Dow Jones Index, but it is an international barometer. Analysts are voicing their concerns that US stocks are priced for perfection at current levels. Whereby, widely expected rate hikes this year by the Federal Reserve will hurt risk assets. The theory being, Fed rate hikes raise the cost of raising and rolling over debt, and many companies have been borrowing to buy back shares in order to achieve earnings per share (EPS) growth. To the Dow's defence, company earnings are growing again, but the fact remains the Dow at 20,810 is over two thousand points (2,000) above its two hundred day moving average of 18,719. You guessed it. That's a new record margin!



Source: Bloomberg

Investor exuberance extends beyond the confines of the stock markets, with debt markets and risk gauges looking a little frothy.

High yield debt markets (i.e. companies with below investment grade credit ratings) posted one of their best years in 2016. As at the 23rd February the S&P US High Yield Corporate Bond Index gained 22% over one year. This result is in large part due to the recovery in oil prices, as energy companies constitute a large proportion of the high yield market.

The venerable Volatility Index (VIX), commonly known as the fear index, reveals investors are anything but anxious. Although the VIX is a little off its lows, at 11.7 from a low of 10.6 in late January, it remains around historic lows.

Source: Bloomberg

Earlier this week, CNN Money's Fear & Greed Index struck 83 (on a scale of 0 to 100) which is depicted as extreme greed.

As a contrarian type of investor, which means often going against the herd in order to buy low and sell high, current conditions are worthy of further investigation.

At the risk of sounding like a broken record, a time of market highs are as good a time as any for investors to review their investment portfolios and perhaps lighten allocations to stocks. Noting, the ASX200 reveals a bearish double-top chart pattern.

"Prediction is very difficult, especially about the future."
~ Niels Bohr

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