Monthly Commentary 3rd June 2016

In what could normally be attributed to March, the saying "In like a lamb and out like a lion" could well describe May. Markets started on the back foot but finished the month almost universally higher. This is at odds with market sentiment, which has been anything but exuberant. There has certainly been no lack of volatility, which keeps whipsawing managers.

James Mackintosh of the Wall St Journal summed it up quite well in a recent article:

"Sell in May, they said. A strong dollar is bad for stocks and oil, they said. Everyone will get scared if China's renminbi weakens again, they said. Avoid dangerous growth stocks, they said. Stick with safe, quality defensive shares with a yield, they said. ***It didn't turn out that way. As so often, markets confounded conventional wisdom last month."***

And he ended up by wisely concluding:

"Most of all, we should be humble about our ability to forecast what will happen to markets, or why, because the patterns change so often."

So while we are humble about our forecasting powers, below we ask the question of where markets might go from here considering the multiple worries that abound.

Where are the markets going?

We cannot be sure. Now that we got the answer out of the way, let us look at what worries investors, and whether these worries are enough to cause a bleak outcome.

Let's start by saying that investors are indeed worried. Below are the headlines of two recent publications that indicate that both institutional and retail investors are not comfortable. The first is from Merrill Lynch and the second from the Financial Times.


Global Research Highlights

Summertime blues

Investment Strategy

Bank of America Merrill Lynch

20 May 2016


Equity Valuation

Equity fund outflows surpass $100bn in year to date

They both go on to expose current worries. Merrill lists the following:

1. The Fed tightening into a "profits recession"

2. Tightening standards in the capital markets

3. Seasonally weaker oil price in Q3

4. Political uncertainty in the US

5. Brexit referendum anxiety in the UK and Europe

6. Seasonally weak period for equities from May to October

And the FT goes on to say that there is so much worry and uncertainty that investors have pulled massive amounts from equity funds.

Then there are the multiple worries about China - growing non-performing debt, restructuring of state-owned enterprises, growth data, weakening capital account.

So why would anyone want to be long the markets?

Happily, there are good arguments against all of the above being the cause of an imminent large drop in the markets. Even more so, investor sentiment should always factor into any prediction. With such abundant pessimism, it is a rare market that drops precipitously, and as it did in May, it confounded most forecasts. But then again, that is what markets do - they frustrate the maximum number of participants…

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