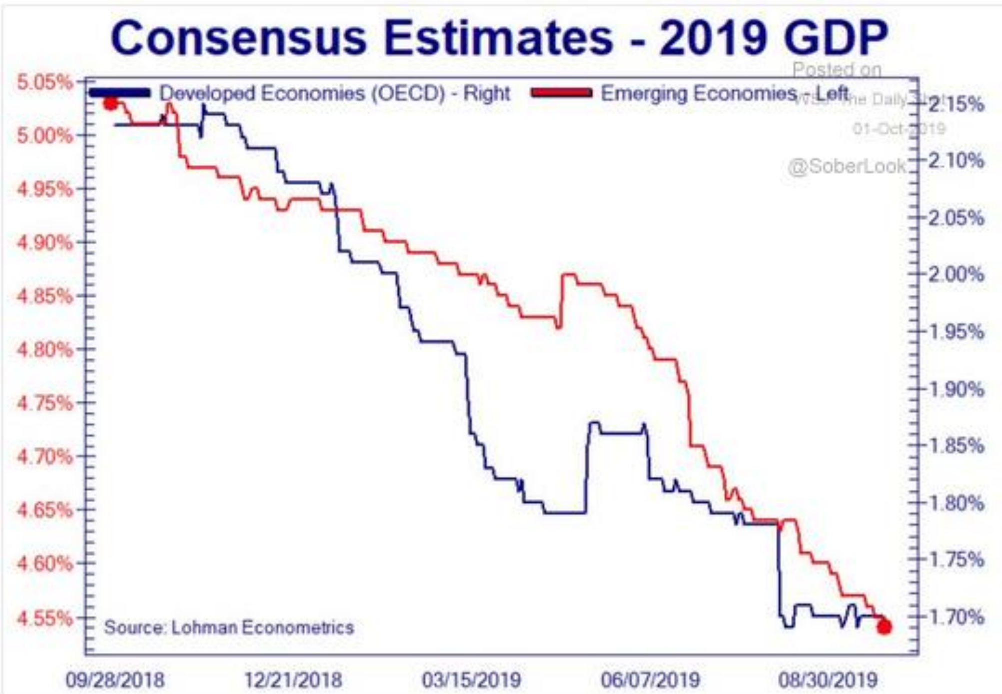
Monthly Commentary 3rd October 2019

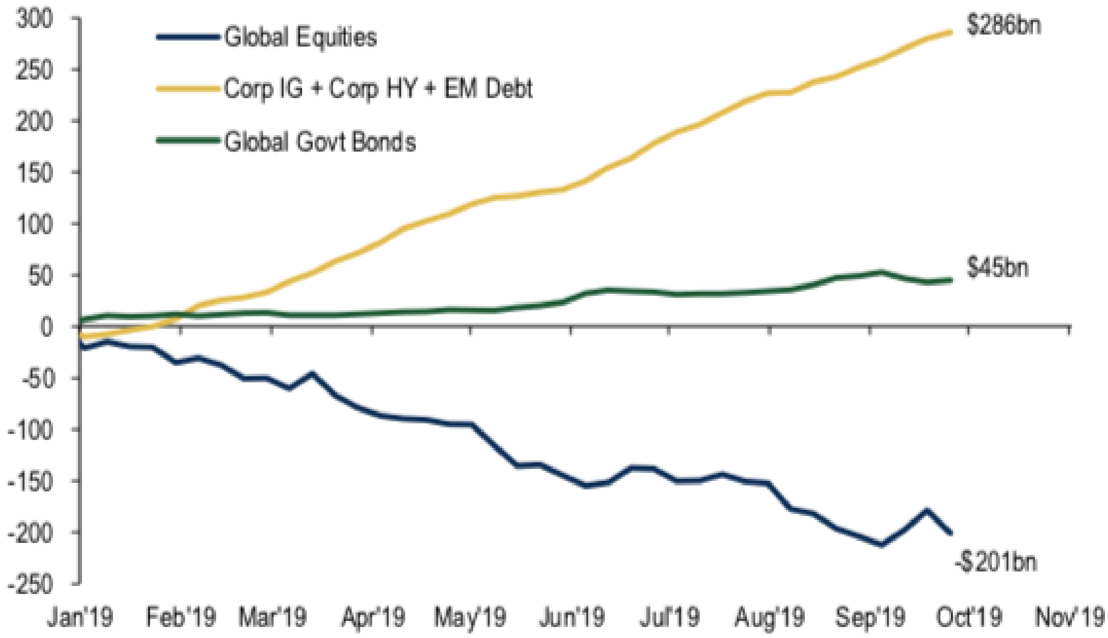
September was a good month for global equities, as they rose strongly particularly in Europe and Japan. Bonds fell modestly after a very strong year to date. In commodities, the standout loser was gold, which fell more than 3% as the USD strengthened.

Bad news never ends

Continuing from last month's "bad news" stories, not a day goes by without more bad news hitting the wires. World economic growth seems to be dropping like a rock, as the graphic below indicates.



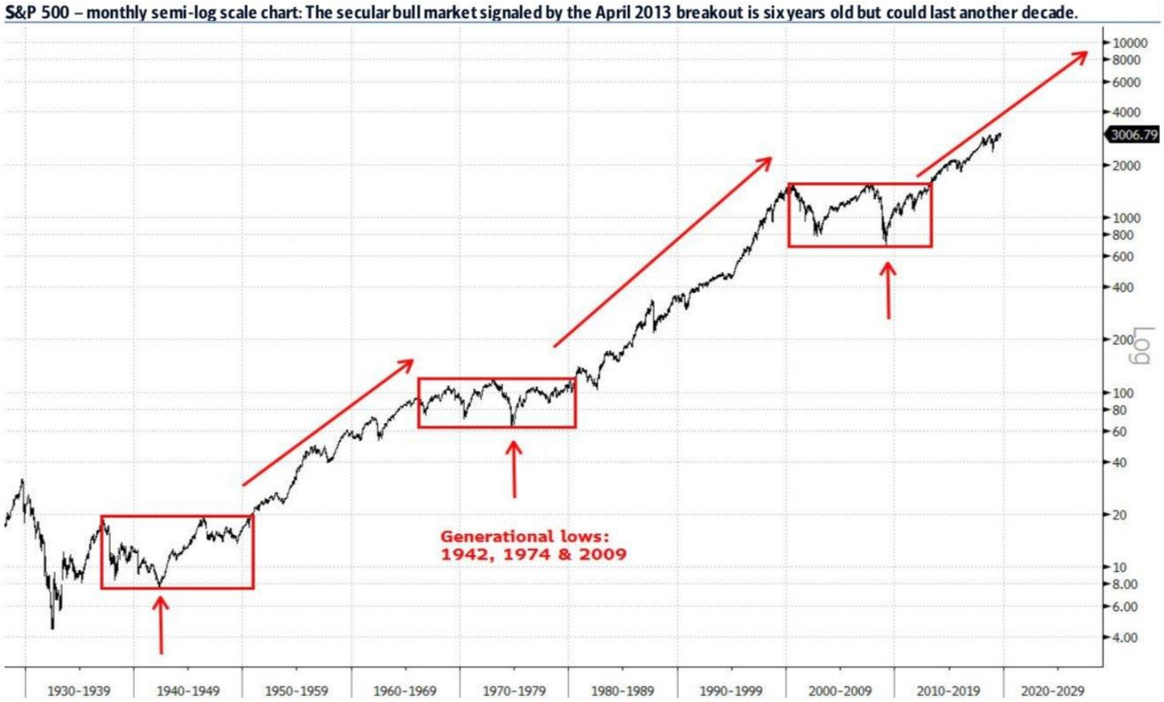
Not surprisingly there are more and more expectations of recessions around the corner. Yet, the equity markets do not seem too alarmed. Do they know something we don't? For sure, investors have been very cautious this year, as the graph on the next page shows, they have collectively been pulling money out of equities (to the tune of $200 billion) and into the safe havens of bonds.



Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global.

Of course, the above may also be a contrarian indicator in the sense that the more fearful investors get (by selling equities), the larger the likelihood of the markets climbing the proverbial wall of worry. Merrill Lynch still contends that we are in a long-term (secular) bull market in US equities that started in 2013 and could last another 10 years! The graph below is from Merrill:

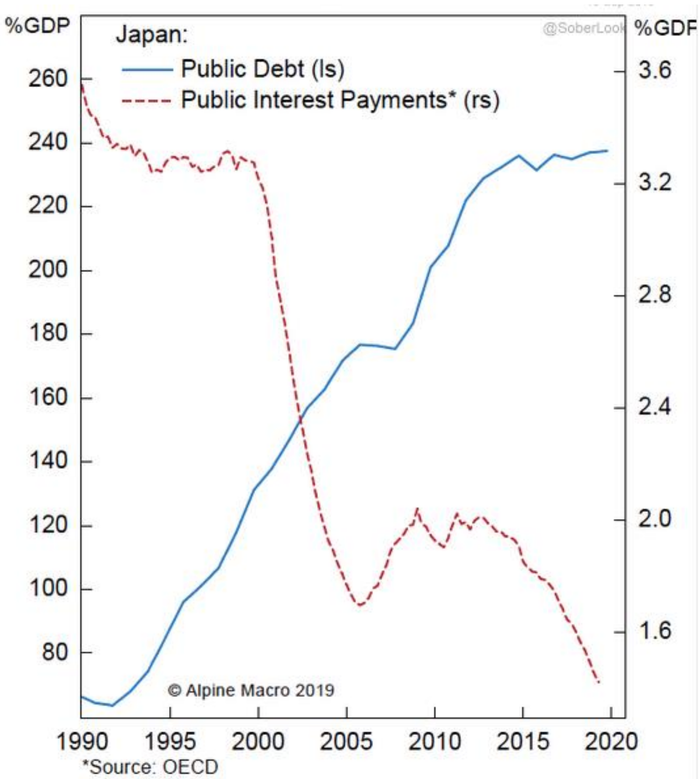
S&P 500 – monthly semi-log scale chart: The secular bull market signaled by the April 2013 breakout is six years old but could last another decade.



Source: BofA Merrill Lynch Global Research, Bloomberg

Japan and debt

We rarely mention Japan in our monthly commentary because we are largely agnostic of the Japanese markets, and as such we do not invest in them. It is quite common to read that the Japanese economy is a debt-laden "basket case" and that it has had several "lost decades" since the Japanese market topped at the end of December 1989. We decided to look at the statistics to see if they also tell the same story. To our surprise, since 1990, GDP per capita has risen from below $25K to $40K. Not great, but not bad. Additionally, the unemployment rate is at a rock bottom 2.2%, and there are many more job vacancies than applicants. Importantly, as the below graphic reveals, their debt servicing as a percentage of GDP has fallen dramatically since 1990. Perhaps it is less of a basket case after all.



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