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Will this ever end? Rush to government debt, shoot now ask questions later! Fixed income investors are operating in a martial law setting with negative yields ruling the roost – will we see massive losses – when panic subsides?

Oil falls again on IEA – no short term relief in sight. We expect Europe to continue to crater, with investors focused on export markets and little swayed by recovery in domestic demand.

Will this ever end? Still not enough pessimism!

Stock markets are once again moving down in Europe, with investors still nervous about the banking sector, oil and commodities and global growth. This is generating more “one way” market selling and frantic buying of top rated government debt. We see the rush for Treasury safety as significant – reflecting investors skipping the traditional move to cash.

The focus is not on keeping your “powder” dry to seize bargains but to avoid getting caught up in a potentially systemic situation.

Pressure on banks relentless

We are continuing to see pressure on the financial sector on both sides of the Atlantic. A statement from Deutsche Bank that it expects to have sufficient funds to make payments on its subordinated bonds and bonds that convert into equity in the event of resolution, however this has done little to assuage investor fears.

Yesterday, we saw drops of almost 10 per cent in the major German listed lenders, reminiscent of the darkest moments of the 2008 – 2009 crisis. The silence on the part of the German government is deafening – does this imply that a “market resolution” is the preferred outcome?

US banking linkages to Europe starting to emerge

The carnage in bank and financial stocks has continued in the US, with Citi and Bank of America again getting hammered. While the original catalyst might have been the struggle to make money in a zero rate environment – the focus is now turning to exposure towards the beleaguered European banks.

We are starting to see issues of interconnection coming once again to the fore. This is grim throwback to the 2008 financial crisis. The final blow would be the need for the UK to once again intervene in the banking system. Will they ever be rid of RBS in such a market?

Japan seeks to reassure

For those seeking a note of solace, we have reassurances from Japan – following a massive stock market rout driven by global growth concerns and buying of Yen – that more monetary support is at hand.

This is not about boosting growth - the objective now is to prevent a market implosion creating a negative wealth effect. The financial crisis has shown that the only effective support in these situations is coordinated sovereign support.

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A word to the oil bulls!

With regard to the oil price, we are confirmed in our distinctly “non-Pollyanna” view by none other than the International Energy Agency. This might as well have been titled “A word to the bulls”! We are informed that demand growth is slowing and that production is rising. Iran is signing up clients right, left and center – with leading trading houses chiming in. The world will not let qualms as to the rule of law stand in its way.

The skepticism regarding the ability of Iran to increase production reminds me of the contempt expressed by many with regard to the ability of the Chinese shipyards to deliver ships. They delivered and the shipping market collapsed!

Once again commodities in the news

Commodities are once again taking it on the snout, with the big mining companies posting sharp falls. Anglo-American CEO’s statements as to the dire predicament have shifted investor attention to long term prospects. We caution that cash may still be an issue up ahead – with companies engaged in a race to sell assets faster than they are burning through cash.

A weaker US Dollar is doing little to boost oil and commodities, this is an omen! We are delighted to hear less about the supply story and more about the “sea change” in demand.

Commotion as to continued drop in government bond yields – Are we on the “Eve of Destruction”?

There is some commotion as to the precipitous drop in bond yields – with sovereign bond rapidly becoming synonymous with negative returns. Central banks might have been driven by good intentions when they embarked on QE and zero interest rates. However, they have made it next to impossible for banks to recapitalize via retained earnings. The left hand giveth and the right hand taketh!

We are continuing to read reports as to the likelihood of a US recession. One might well argue that on the basis of weak US consumer spending, most Americans never emerged from the last one! The re-casting of the US economy has narrowed the purchasing base, delivering growth without development.

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Research Highlights

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