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Summertime blues continue in the market – some cheer from Europe – All eyes on Jackson Hole – Need to also listen to others! Shall there be a global TARP for pension funds? EU shall continue – oil heading lower

European markets trending higher – Euro Zone continues to grow

European markets are trending higher this morning with investors cheered by Euro Zone composite PMI data indicating an overall continued expansion. Growth remains modest and uneven yet the single currency area is satisfying the basic requirement – to not fall into a recession. Germany remains the center-forward as high productivity and a real low FX rate continue to support exports.

Federal Reserve policy a movable feast – every data point counts

European investors are “keeping their eye on the ball” – namely the upcoming speech by the head of the US central bank on August 26th. In the absence of the Federal Reserve shifting its communications model to the “democratic centralism” of the communist regimes uncertainty shall remain both the rule and the strategy. We need to also bear in mind that in an economy which can easily go either way every data point can sway policy.

Foreign affairs - do they still count?

The road to Jackson Hole will also include some way stops for data from the US, the Euro Zone and the UK. This should allow us to better assess “The Pilgrim’s Progress” and the extent to which foreign affairs are a factor. Will the Federal Reserve shift its focus to also include conventional macro-cyclical drivers as opposed to the systemic - non systemic binary approach?

Other voices–other rooms?

It is necessary with regard to Jackson Hole to also see it as an excellent opportunity to hear and weigh” other voices – other rooms” as Truman Capote aptly put it. We shall need to distinguish between next move analysis and snapshots of the major economies. Longer term investors may gleam insights into relative over and undervaluation as opposed to noise generated by short term monetary policy.

Will we see a global TARP for pension funds?

We are delighted to see that our concerns as to the protracted negative impacts of low interest rates are now getting their due. The problem is now seen as acute across a broad spectrum of savings vehicles – both public and private. Will we see a new TARP for pension funds as persistent low interest rates continue to inflate the deficits?

Are we near the tipping point on pension fund payments?

As asset valuations get pushed into unrealistic territory, the potential for improving returns via alternative investments is getting squeezed. The problem is compounded by asset allocation rules defined in a context of substantially higher real returns on risk free assets. Are we at the tipping point where an accounting deficit mutates into an inability to pay promised benefits?

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New version of tripartite alliance takes shape

With regard to the EU – UK conundrum the talks to among other issues – define a “Popular front” strategy on the part of the EU countries continues apace. The new “tripartite alliance” of France, Germany and Italy has solemnly declared that the EU shall continue! Be grateful for small mercies. The heat is on both sides of the divide to start negotiations and move on.

UK exit ideologues need to seize the moment!

We see the pressure as greatest in the UK where the ideologues wish to avoid any risk of backsliding into the EU heresy. Some early economic data indicating that the UK economy is still extant has reinforced their hand. For them time is of the essence before foreign direct and domestic capital investment start to slump.

Oil shall fall further!

We are - as we forecast- once again seeing marked weakness in the oil price. Investors are using reason and not simply day- dreaming. Supplies are plentiful all along the value chain and there is more on the way! The "dash for cash" is still the guiding policy.

We continue to see the markets influenced by oil. The key issue remains whether we have emerged from the systemic phase regarding energy.

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Research Highlights

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