Synthesis

A composition that pulls together the primary themes, analysis and portfolio views from Portside Investment Advisors

July 31, 2018
Rolling Thunder

Financial markets this year have been a series of oscillations, each with its own sounds of discontent and euphoria. More or less, though, each emotional outlier has been put aside in favor of continued meandering.

At the broadest level in equity markets, the MSCI All Country World index, the picture is the most clear…or most muddy depending on perspective. This global index has returned about 2% year to date through July. That's about the partial year yield on a corporate bond - sounds kind of boring. To get there, though, the index has had six rallies of 5% or more and four drops of 5% or more.

This sort of gyration can lead some to think the markets are not rational at all. *We happen to think this is a very healthy event.* As part of this process, there is a separation being made (some of it slower than for others) in order to realign the price of risk in the markets. This comes on the heels of the last couple years where there was very little differentiation of risks.

Central bank attempts at global reflation have been a blunt instrument. Excess liquidity, in part, has fueled the appreciation of asset prices which in many cases had been indiscriminate and unsustainable. For example, the rise in US stocks had been almost lockstep with all the corners of the planet. Markets like Argentina, Poland and China were on the same trajectory along with the US until February of this year. Then, something happened, almost as if a switch got flipped. Suddenly differentiation started occurring. Some markets continued to rise, some stagnated and some declined significantly.

It appears an increased degree of risk has entered the system as global economic strength slowed a bit and the monetary policy winds started blowing a different direction. In the US, there has been continued strength in the economy as well as the tax cuts that have fueled solid earnings. Even with the strength within the US markets there has been gyration while markets try to figure out the appropriate price of assets at this point in the cycle. For example, the utilities sector (normally quite sanguine) dropped almost 20% early in the year only to rally back about 10%. That's a lot of movement for historically the most "boring" stocks.

One of the biggest drivers of these adjustments is the world's benchmark bond market, US Treasurys. Even though the longer maturity bonds have been range bound most of the year, the shorter term rates continue to make levels not seen since for a decade or more. Even though interest rates are still low by the standards of the last half century, the change is significant. A mortgage rate moving from 3% to 4% represents a whopping one third more interest cost all things being equal.

As always, changes in the market present opportunities. The best way to add value is to stay in tune with the oscillations and be ready and able to adjust exposure when the right value comes your way. Rest assured, our eyes and ears are wide open in this dynamic environment!

1009 W GLEN OAKS LN SUITE 103, MEQUON, WI 53092

PORTSIDEIA.COM
(262) 518-0347
INFO@PORTSIDEIA.COM
PORTSIDEINVESTMENT