Investment Insight

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ARIA | CAPITAL

Crunch. *As we approach the half-year turning point we begin to review the year so far and think about what lies ahead for the second half. There's no doubting the fact that messages are mixed. For every "market expert" who sees the market as over-valued, there's probably at least two-thirds of an expert who thinks it's cheap! Robeco's "Multi-asset markets outlook" crossed our desks this week and we felt that it portrayed the outlook quite well, characterising the current returns environment as "picking up pennies in front of a steamroller". In* ***The Inside Track*** *we explore their descriptive analogy in some more depth.*

You cannot be serious... *At Aria Capital, we continually strive to identify sources of investment return that justify their associated risk. With the Wimbledon championships just around the corner, we were inspired to look to the tennis world for guidance this week, as this week's* ***Pic of the Week*** *illustrates.*

Quoted...

"To the man who only has a hammer in the toolkit, every problem looks like a nail."- Abraham Maslow

The Inside Track

Robeco's recent "Multi-asset markets outlook" provides an insightful take on a range of asset classes. Below we share an extract some of their overall view of investment markets and the challenges investors face when allocating to equities in the current environment.

Confusion can be a good thing nowadays, it appears. Take the US economy: it is easy to claim that it is showing a horrible performance this year. Q1 growth was weak (1.2% annualized), the Citi Surprise Index has collapsed, and now the labor market seems to be cooling off as well. And did you see those car sales numbers? The US economy is on its knees... Not so, according to the other side. Q1 GDP numbers are notoriously unreliable and Q1 earnings were impressive, while the Atlanta Fed is pointing towards 3%+ growth in Q2. The US is steaming ahead, full force! Mind you, we are not talking about divergent opinions on what the US economy will do here; these are the conflicting stories that are currently doing the rounds on the US economy on basis of the data that is already available. Confused? Wait until we get started on the conflicting political signals that we have seen over recent months...

In the not too distant past, this kind of confusion would have been portrayed as 'reduced visibility', and would have been a source for increased volatility, if not downward pressures. Not so this time. The confusion seems to be embraced as a no-change sign, which means that markets continue to just drift along. Fake news for all. Equities drift higher, bonds drift sideways, but oil and the euro act as the exception to the rule. The current environment feels a lot like picking up pennies in front of a steamroller: a reasonable probability of modest gains, but a non-negligible probability of a big loss up ahead.

The question is, are we willing to enter the penny-picking business this late in the cycle? Much depends on the size of the steamroller (downside risk) and the amount of pennies (reward) we still think are lying there. To start with the second issue, US stocks look already expensive, and the EPS growth forecast for the year (+10.6%) looks optimistic, while the potential for margin improvement is limited. We are probably talking pennies here, not dollars. From a more constructive point of view, we do not expect the steamroller to be life-threatening either. We do not see a huge disequilibrium being built up in the US economy right now, while growth in Europe and Asia looks quite brisk so far. The most likely outcome would be a 'healthy' 10% correction in stocks.

Pic of the Week

You cannot be serious....

Week ahead: Key events

26/06 Japan Leading Index & US Durable Goods Orders
27/06 US Consumer Confidence
28/06 US Mortgage Applications & Pending Home Sales
28/06 Japan Retail Sales
29/06 Germany CPI & UK Mortgage Approvals
29/06 Eurozone Confidence Data
29/06 US GDP & Initial Jobless Claims
30/06 Japan Industrial Production & China PMI Data
30/06 UK GDP & Eurozone CPI

Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	+0.4%	+17.6%	+8.5%	+10.8%
US equities	+0.2%	+16.9%	+8.9%	+12.8%
European equities	+0.6%	+14.1%	+7.1%	+9.0%
EM equities	+0.3%	+21.4%	+16.7%	+1.9%
Irish equities	+1.7%	+12.7%	+8.8%	+18.4%
Commodities	-1.5%	-1.2%	-8.9%	-9.1%
Hedge funds	+0.3%	+6.1%	+2.6%	+1.9%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+0.6%	+0.2%	+7.2%
Germany	+0.2%	+1.5%	+1.7%
USA	+2.2%	+1.9%	+2.0%
China	+3.5%	+1.5%	+6.9%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.12	+6.0%
EUR:GBP	0.88	+3.1%
EUR:CNY	7.62	+3.9%
GBP:USD	1.27	+2.7%
Bitcoin	2,710.61	+184.7%

Commodities	*Current*	*YTD Δ*
Gold	1,250.63	+8.5%
Copper	5,717.50	+3.5%
Oil	45.54	-22.6%
Wheat	473.50	+5.8%

Central Bank rates	*Current*
Eurozone	0.00%
USA	1.25%
UK	0.25%

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