

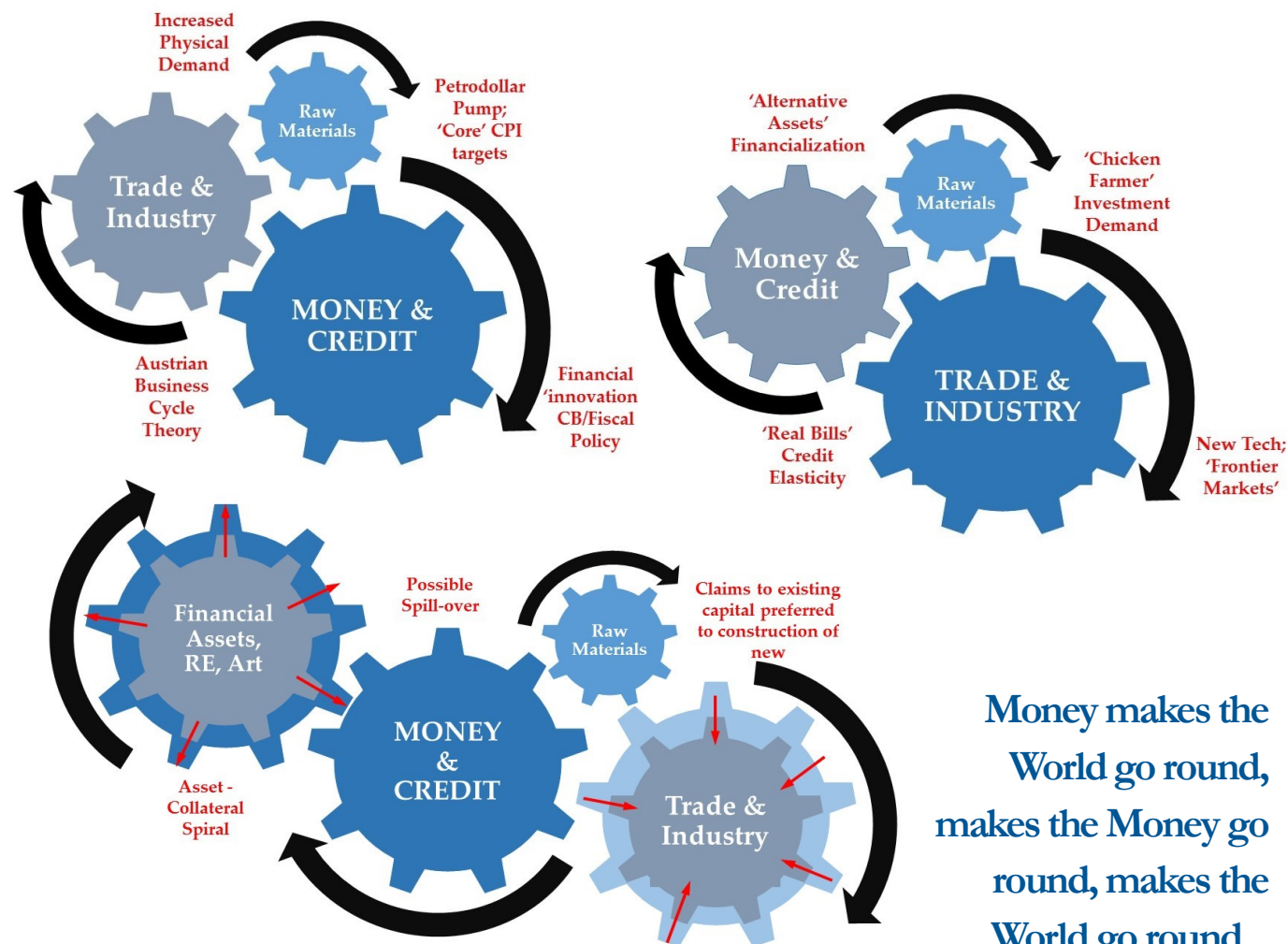
# Money, Macro & Markets Monitor



www.cantillon-consulting.ch

13th June 2017

## IN THIS ISSUE:-



Money makes the  
World go round,  
makes the Money go  
round, makes the  
World go round...

### EQUITIES:

Spot the overvaluation candidate

### EUROPE:

That mountain of mistrust keeps growing

### STERLING:

Flirting with the drop

### COMMODITIES:

Ex-energy looking for support

### US CURVE:

Flatter, tighter ...stronger??

Volume I, Issue 4



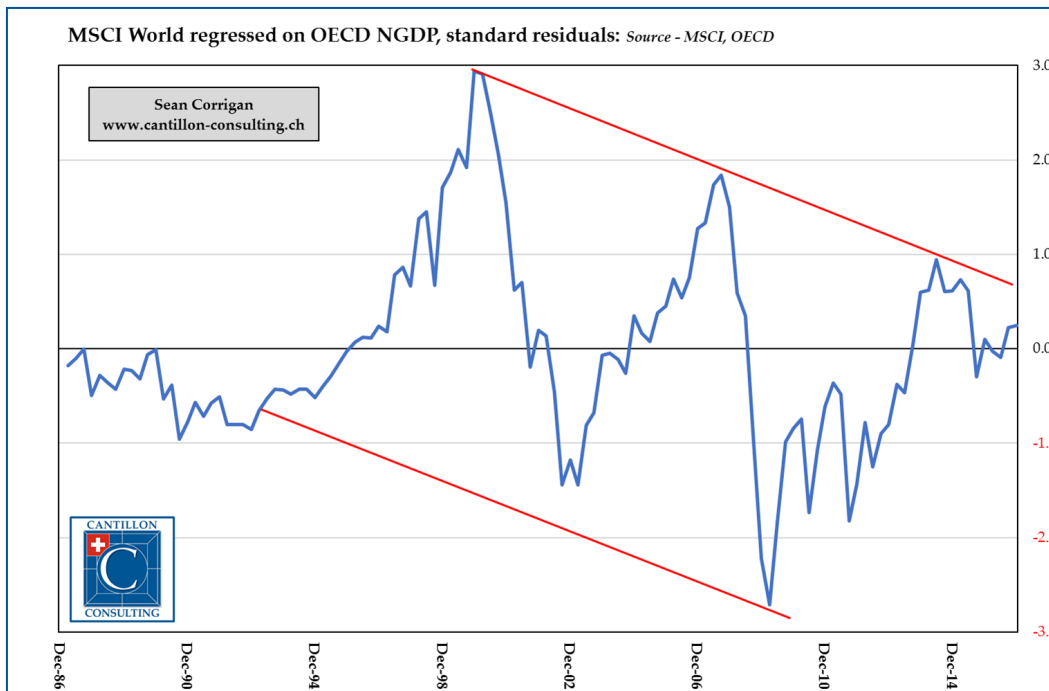
As debate heats up about just how overstretched are the world's stock markets, by one hoary old measure—the so-called 'Q-ratio' of stock market valuation to GDP—the somewhat surprising answer is perhaps, 'not very much at all'.

At least, that is the construction one might place on the graph (upper right) which shows that the normalized relation between the MSCI World index and the OECD's measure of total member NGDP is slap-bang in the middle of its range of the past three decades. However, this good news must be tempered with the realisation that, within this over-arching aggregate lies hidden the fact that the US market itself stands at the richest valuation with regard to its peers recorded in what is fast approaching half a century's worth of data, an acme which is the result of a post-Lehman doubling of its relative price.

It must indeed be galling, both to the Europeans and to the Japanese, when they reflect upon the fact that, despite pumping far more money into the system than even the Federal Reserve has done in the aftermath of a problem which principally originated under the latter's watch, they have not, until now, managed to help match either America's climb out of recession or that ascent's reflection in the asset markets at large. Bad banks and poor energy choices among the causes.

Perhaps the moment for their revenge is at last about to dawn, however. The obvious corollary to that high relative reading is that the US stands on the rich side of the Q-Ratio while the others are largely lined up on the inexpensive side (something which, in a slightly different context, we argued was decidedly the case for Japan, in our last edition). For an illustration, please see over.

There are, of course, two ways for a return to the mean to occur—though these are likely to influence one another if they do take place. Either stocks in the US fall in comparison with their equivalents abroad or the dollar in which they are denominated must decline against others' respective currencies. With both probing towards trendline support, we must needs keep a weather eye open for this.

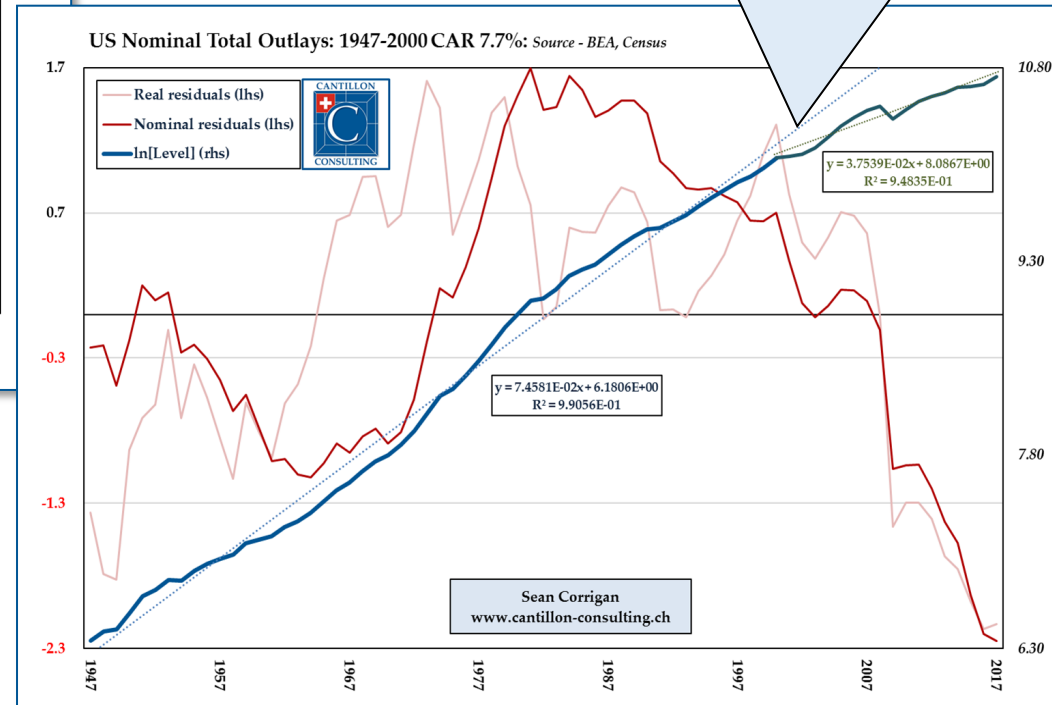
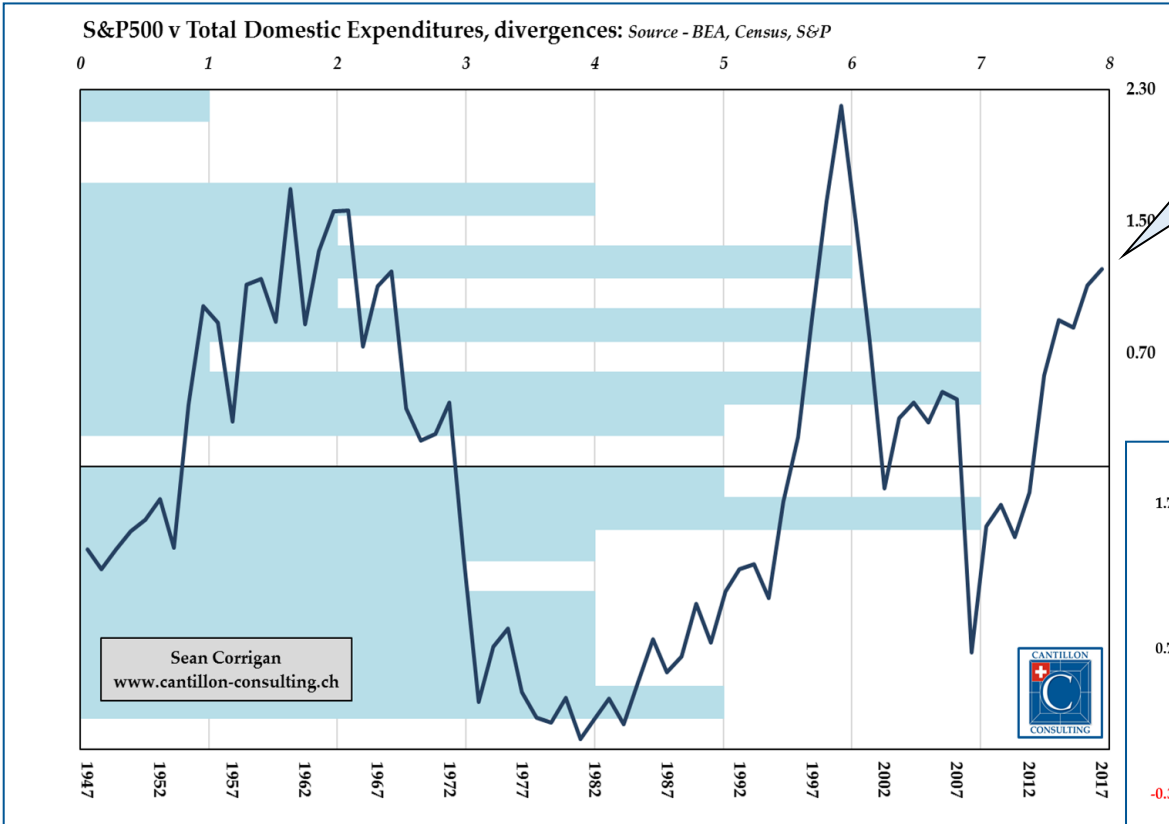




**Money, Macro & Markets Monitor**  
www.cantillon-consulting.ch

Measured versus total domestic expenditure (a close proxy for revenues) the market is now as richly valued as in the Go-Go years and is fast approaching the Tech Bubble's most extreme readings

As well as from the market side, this has much to do with that halving in trend expenditure growth which was the result of the past two Boom'n'Bust episodes (a decline possibly worsened by the concurrent suppression of interest rates). S&P500 returns, per se, are only now getting back to the postwar trend but real turnover is ~25% and nominal ~45% below their respective pre-millennial trajectories. Either way, rich is rich.





**Money, Macro &  
Markets Monitor**  
www.cantillon-consulting.ch

As the struggle continues to stave off the inevitable bail-in bank of security holders, in the manner they now belatedly practice in Spain, distrust and fear continue to mount in Mario Draghi's *molto bello paese*.

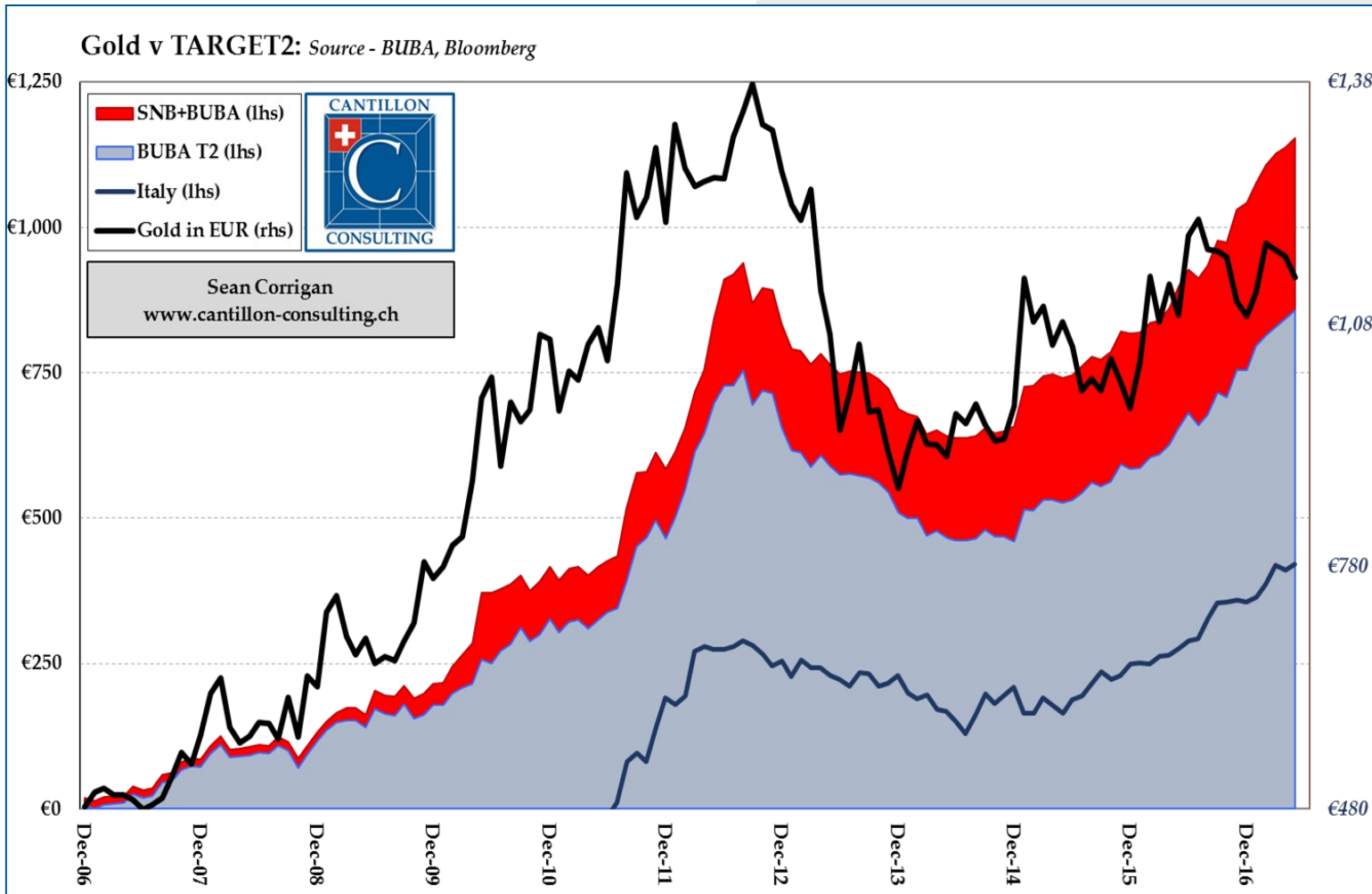
At the last count, Italy's TARGET2 obligations climbed another notch to a monstrous total of €422 billion. From its post-Crisis lows of exactly two years ago, the intervening rise of €258 billion comes in at just more than €10 billion a month (€180 per capita)—and this during a stretch when the country as a whole has actually been running a creditable current account *surplus* of some

€70 billion, cumulative.

Mirroring the rise in debit balances, the Swiss have piled up around CHF200 billion in credits in the same time, of which €80 billion has been kept in the form of Euro-denominated reserves (with some of the rest being used to feed the spiralling US tech-stock rally). For its part, the Bundesbank has amassed a further €330 billion (a nearly equal-and-opposite €170 per head per month) to leave each citizen notionally exposed—across what is, after all, supposed to be a *clearing* mechanism—to the tune of just over €10,500.

No wonder the powers-that-be are again mooted the idea of Eurobonds, joint fiscal (ir)responsibility, and all other manner of unwanted centralization.

*Flucht nach Vorne*, as they say.







**Money, Macro & Markets Monitor**  
www.cantillon-consulting.ch



Crude oil may currently be more of a balancing market (with a tantalising hint of top-heaviness to keep the bears' appetites whetted), but there are signs that the other three main classes of commodities are finding sufficient support here to merit a light punt with a tight stop below the respective trendlines

All courtesy of Bloomberg





## Money, Macro & Markets Monitor

[www.cantillon-consulting.ch](http://www.cantillon-consulting.ch)



The Value Line average stock index has traded in rough harmony with junk bond returns over much of the post-Crisis era. Indeed, it is intuitive enough to say that signs of better business conditions and the higher valuations attached to the ultimate back-stop for creditors should work out that way (though the cynic might wonder if the reverse is not true: that cheap leverage is unduly boosting stock returns!)

Courtesy of Bloomberg

Intriguingly, the VL is also trading in sync with the *front* end of the curve, itself something naturally subject to the direct influence of the Fed funds rate.

(Here the cynic would interject that those pusillanimous souls on the FOMC like to see strong markets before taking each of their successive baby-steps towards renormalization and are therefore lagging the term structure as much as leading it.)

Which ever way the causation runs, higher equity prices are keeping credit yields and spreads subdued even as they are clearing the way for short rates to rise.

Is the ongoing flattening REALLY such a worrying signal under the circumstances?





**Money, Macro & Markets Monitor**  
www.cantillon-consulting.ch

**BONUS CHART OF THE WEEK.**

Here we show something that attracted a good deal of interest when posted on LinkedIn. Now, as we go to press, the Nasdaq FANG leaders are having their teeth pulled, Uber looks as though it's about to rebrand itself as 'Unter', and Bitcoin is again proving its singular degree of unsuitability as a medium of exchange (i.e., a money) as opposed to some sort of Darknet, Geek gambler, Chinese flight capital conduit. Nasdaq volatility—having slipped briefly into single digits earlier in the year in a kind of reverse-Icarus act of hubris—has since soared to over 20, putting in a record-breaking, 6-sigma relative move to the dear old VIX. A healthy release of pressure? The SNB booking profits (!)? Or is Apple about to fall far, far from the tree?

I'm not sure we are allowed to judge the Magic Musk by earthly standards, but Tesla has almost completed a perfect chart formation v MSCI World Autos. Ironical, in view of his recent hissy fit, O'Elon has provided us with THE ultimate 'Trump Trade' as the Plug-in Pretender has seen his stock price double vis-a-vis everything else since Christmas and climb tenfold in four years. One day, it might even make money...







## Disclaimer

All content is intended to give general advice only. The investments and instruments mentioned therein are not necessarily suitable for every individual and you should use this information in conjunction with other advice and research to determine its suitability for your own circumstances and risk preferences. The value of all securities and investments, as well as the income derived from them, can fall as well as rise. Your investments may be subject to sudden, often substantial, declines in value which may not be recoverable; others may expire worthless after a specified period. You should not buy any of the securities or other investments mentioned with money you cannot afford to lose. In some cases there may be significant charges which may reduce the value of your investment. You run an extra risk of losing money when you buy shares in certain securities where there is a large difference or 'spread' between the buying price and the selling price, a circumstance which means that, should you sell them immediately, you may get back much less than you paid for them. In the case of investment trusts and certain other funds, these may use or propose to use the borrowing of money in order to increase the size of their exposures and/or invest in other securities with a similar strategy. As a result, movements in the price of the securities may be more volatile than the movements in the prices of those underlying investments. Some investments may involve a high degree of such borrowing (often referred to as 'gearing' or 'leverage') This means that a small movement in the price of the underlying asset may have a disproportionately large effect on that of your investment. Accordingly, a relatively small adverse movement in the price of the underlying asset can result in the loss of the entirety of your original investment. Changes in rates of exchange may have an adverse effect on the value or price of the investment and you should be aware that additional dealing, transaction, and custody charges for certain instruments may result when these are not traded in your home currency. Some investments may not be quoted on a recognised investment exchange and, as a result, you may find them to be 'illiquid'. You may not easily be able to trade your illiquid investments and, in certain circumstances, it may become difficult, if not impossible to sell the investment in a timely manner and/or at its indicative price. Investment in any of the assets mentioned may have tax consequences regarding which you should consult your tax adviser. All reasonable care has been taken to ensure that all statements of fact and opinion contained in the either written or spoken form are fair and accurate in all material respects. All data is from sources considered to be reliable but its accuracy cannot be guaranteed. Investors should seek appropriate professional advice if any points are unclear.

**Copyright ©2017 Cantillon Consulting Sàrl. Any disclosure, copy, reproduction by any means, distribution, or other action which relies on the contents of such materials, made without the prior written consent of Cantillon Consulting, is strictly prohibited and could lead to legal action.**