Weekly Market Summary

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A Totally Misleading Market Herd Behavior!! How Long Can This Continue??

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Donald Trump's election win has sent a $2+ trillion shock wave through global markets over the past month, and there is nothing preventing this "*madness*" from continuing well into next year, not even a "No" vote at last Sunday's Italian constitutional referendum!

A day after Italians overwhelmingly (60% No, 40% Yes) rejected a constitutional overhaul on which he had staked his tenure, Italian Prime Minister Matteo Renzi made a somber visit on Monday to the Quirinal, once home to popes and now the President of the Italian Republic, to formally tender his resignation. Anti-populist parties across Europe celebrated Renzi's defeat as another blow to the crumbling European Union, with France's National Front leader Marine le Pen saying that "*The Italians have disavowed the EU and Renzi. We must listen to this thirst for freedom of nations*"

And yet - against economists/analysts' earlier suggestions that a "No" vote could spark an immediate financial crisis in Italy and a risk-off trading environment globally - markets were quick to shrug off most negative repercussions associated with the referendum setback, deciding instead to focus on positive US and European economic data releases as well as extremely bullish price action in equity markets - with Donald Trump's campaign promises to cut taxes, slash regulation and initiate major infrastructure projects further boosting risk appetite amongst investors. Additionally, it clearly appears that those same investors had learned from the Brexit vote and Donald Trump's surprise U.S. election victory, which saw markets underestimate the strength of anti-establishment sentiment in global politics, and were therefore correctly positioned for Italy's rejection of constitutional reform as flagged in opinion polls. "*After Brexit, it took three days for markets to shake it off, with Trump it took three hours, with Italy it took three minutes*," said Guillermo Hernandez Sampere, head of trading at MPPM EK in Germany. "*The outcome was not as much of a surprise as many expected it to be -- markets learned their lesson*."

Going back to the $ 2 trillion+ number posted earlier, that is how much equities global market's value has jumped since Trump won the US presidential election on November 8th and roughly the size of the loss in worth of the Bloomberg Barclays Global Aggregate Index of bonds (also mind you that this is the worst month for global bonds in dollar terms on record). Other assets that were roiled include the Japanese Yen - which has plunged the most in 21 years against the dollar - and Gold, which saw its value dropping by 10% over the same period (*The Great Reflationary Rotation Trade!* Reflation, mystical, magical….Take your pick, as long as it is a choice that keeps the investor community happy for now!).

Surely last Tuesday's pledge by Japanese mogul and outspoken founder of SoftBank, Masayoshi Son - after meeting President-Elect Trump - that $ 50 billion will be invested in the US (a move Son believes would create some 50,000 US jobs) would have sent added positive waves around equity indices, with Mr. Son telling reporters *"I just came to celebrate his new job*," and adding "*This is great. The U.S. will become great again!*".

However, as Tim Culpan – a technology columnist with Bloomberg Gadfly – rightly point out "*that $50 billion investment Masayoshi Son is supposedly pledging to create 50,000 jobs in the U.S.? It is not happening. When fabulous people meet, fabulous things are said*". Tim goes on to say that SoftBank does not have that kind of cash (a quick look at its balance sheet and shows the Japanese telco-cum-VC has $26.4 billion in cash, $35.3 billion in short-term borrowings, $137 billion in long-term liabilities and a junk credit rating from both S&P Global Ratings and Moody's Investors Service), even after taking into consideration the government of Saudi Arabia's pledge to contribute to Softbank's $ 100 billion Vision Fund!

Hence, the question investors now face is the following: With so much change and positive news already priced in a month after Trump's victory, how much more is there to come? And whilst endurance of this new bright and cheerful market dynamics pattern remains an open question, with more than a month to go before Trump takes office (the official inauguration is scheduled for January 20th 2017, though many still assume that this event could be delayed) and plenty of potential roadblocks to his fiscal and regulatory proposals in a fractious U.S. Congress, all eyes for now will turn toward next week's US Fed meeting (December 14th) to set the tone for the outlook as far as monetary policy goes (market and our own expectation is for a 25 bps hike in the o/n Fed funds rate). "*It is astounding how big the reflation move has been*," said James Audiss, Sydney-based senior wealth manager at Shaw and Partners Ltd., which oversees about $7.5 billion. "*It has been incredible. Now it all hinges on the Fed and the pace of those rate hikes, but for the time being the markets are happy to be risk-on.*"

Last, a quick update on the European Central Bank's (ECB) decision yesterday afternoon to keep euro rates unchanged and extend quantitative easing ("QE") measures till 2017-end: The ECB said on Thursday that it would buy large quantities of bonds and other assets for longer than planned but would cut the size of the purchases, a decision it insisted did not a signal that a much anticipated "tapering" of stimulus measures had begun. "*There is no question about tapering*," Mario Draghi, the president of the European Central Bank, said at a news conference. "*Tapering has not been discussed today*." The ensuing market volatility showed that not all investors found comfort in Mr. Draghi's assurances. Although the central bank extended the time frame for asset purchases to the end of 2017 from March, investors again chose to focus on plans to reduce the asset purchases beginning in April to 60 billion euros, or about $64 billion, from €80 billion. On the economy front, Mario Draghi warned that despite inflation rising, the Eurozone economy remains fragile. Draghi also listed some of the risks threatening global stability, including Britain's vote to exit the European Union and the election of Donald J. Trump in the United States (Draghi described the president-elect as having a "radical" new view of the world).

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