Weekly Market Summary

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When Irrational Exuberance Reaches New Heights!!

Fadi Nasser - Deputy Chief Investment & Treasury Officer

Latest update on Coronavirus: Confirmed cases at 31,477 (versus 9,900 last Friday), 638 deaths (versus 213). 61 people on a Japanese cruise ship off Yokohama have now caught the virus. 4 Toyota plants in China to stay closed until 17th February. The Wuhan coronavirus whistle blower doctor has died overnight! ☹

One of the worst myths out there is that financial markets are always rational and makes sense; That is surely not true! The other one is that many investors pretend to fully understand market moves: If that is the case and you have a really good theory about why stocks have rallied this week, then line up next to everyone else who has a really good theory! On any given day, the market can make seemingly random moves for reasons that do not make sense: Sometimes stocks go up when they should have gone down, and sometimes entire sectors move in one direction or the other for ridiculous reasons! "*Never assume that just because something happened, it has to make sense because the market is always supposed to make sense. That's nonsense*," Jim Cramer – host of CNBC's "*Mad Money*" once said. The key is to understand the catalysts that make stocks (and other asset classes) move: If a move has nothing to do with the underlying prospects of the company, then take advantage of that irrationality, not buying into it by chasing the stock higher or panicking out of it at depressed levels (a la Warren Buffet's mantra: "*Be fearful when others are greedy and greedy when others are fearful*!"). Additionally, here is a dirty secret about the stock market: Much of the time, nobody has any earthly idea why stocks rise or fall on any given hour or day. The trouble is that many strategists/consultants are paid to explain such phenomena, and so they often resort to that mysterious analytical technique known as "*guessing*." Take Tesla shares' staggering 38% rally on Monday/Tuesday (reaching an intra-day high of $969, a 132% jump from December-end closing levels), one of the best on record. What happened there? Everybody seems to have answers that are seemingly obvious now: Immense global demand for the car (especially in Asia)! Introduction of the model Y! Ambitious expansion into additional industries and multiple geographies! *But if these were so obvious, then why did few only see this sharp move-up in prices coming?*

Moreover, it is often said that hope is not an investing strategy to live by! Yet most - if not all - of this week's stock market gains and run to new highs have been built on hopes that new effective drugs to treat coronavirus patients have been found (the WHO has played down such media reports and confirmed that it is too early to declare a peak in the spread of the coronavirus), optimism that both China and the US will follow through on their recently signed trade agreement promises (China's latest announcement that it will halve tariffs on some $ 75 billion of imports from the US starting February 14th has shadowed earlier reports that Chinese officials will seek US flexibility on trade-target pledges under the phase-one trade deal, or that Chinese companies have started walking away from delivery contracts – declaring "*force majeure*" because of the coronavirus constraining impact) and a strong belief that the US Federal Reserve – as well as many other central banks – is backed into a position where the only way it can move for the rest of this year is toward even easier conditions!

As a result, the Dow Jones Industrial Average (DJIA) has rallied more than 1,100 points over the past four trading sessions, or roughly 4.0%, to a fresh record high (similarly for S&P 500 and NASAQ Composite index!) whilst bond yields have remained confined in a depressed range, a clear sign that both equity and bond traders are now feeling quite comfortable buying market dips - relentlessly pushing trading ranges higher (I fear it ends in one total mess, either later this year or next! ☹) Equity markets are now just focused on positives (steady stream of earning beats as well as easier financial conditions), with investors ignoring potential downside risks related to the coronavirus less market-friendly news, as well as widespread rising geopolitical and political concerns which could soon lead to heightened market volatility.

"*Pretty much every client we talk to wants to buy the dip, and that is not comforting*," wrote Tobias Levkovich, chief U.S. equity strategist at Citigroup Inc., in a note on Wednesday. "*While there may be some good news on a potential slowing of the outbreak's spread outside of the Hubei province, we are reticent to think that the impact is behind us now…We remind clients about euphoric mindsets, and how sentiment can drive valuation … With a 3,375 year-end projection for the S&P 500 and the index only about 1% away from that level, we just do not see a very good risk/reward set-up currently*." Additionally, a recent surge in the USD dollar against a basket of foreign currencies (DXY index up 2.3% YTD) is threatening to put further pressure on US economic growth throughout 2020, hurt profitability of U.S. multinationals and put increased pressure on emerging market's assets.

In other major news, US President Donald Trump delivered his State of the Union address, a day before he was acquitted by the Senate in his impeachment trial. Whilst the US Constitution requires that the president "*shall from time to time give to the Congress Information of the State of the Union*," Donald Trump - always more showman than statesman - put his own spin! What was once primarily a written speech became one in which the words were secondary, and the spectacle was foremost (Trump presented a school-voucher scholarship to a fourth grader from Philadelphia, he awarded the Presidential Medal of Freedom to Rush Limbaugh mid-speech, enlisting the first lady, Melania Trump, to bestow it in the gallery; And in an emotional peak, he praised an Army wife whose husband was deployed to Afghanistan—then announced, to her surprise and that of those watching in the chamber and at home, that her husband had actually returned home, making the family reunion a national TV event). At least two Democrat representatives, Tim Ryan of Ohio and Bill Pascrell of New Jersey, walked out of the speech; But Speaker Nancy Pelosi, Trump's most formidable opponent over the past three years, once again came closest to challenging his dramatic flair. As Trump basked in applause after his speech, she theatrically ripped a copy of it to pieces on the podium behind him ☺ (Trump had ignored her offer of a handshake as he entered the hall)

Next up for investors is this afternoon January U.S. jobs report*, which is forecast to show an acceleration in employment gains after a soft December. With traders betting that the next Federal Reserve move will be to lower interest rates, not raise them, the fixed-income market could be affected by the headline numbers as well as any signs of wage strength in today's release: Bloomberg consensus is for January payrolls to have risen by a healthy 165,000 (following a 145,000 jump in NFP for the month of December). It will also be worth keeping a close eye on the other important elements of the report, namely the unemployment rate (expected to remain unchanged at 3.5%), average hourly earnings (likely to rise by a decent +0.3% mom & +3.0% yoy), the participation rate (expected unchanged at 63.2%) and average weekly hours (expected unchanged at 34.3 hours).

**Markets were expecting a strong payroll print for January and the US labour market delivered it! The 225K jobs created last month were above the average pace of employment growth seen over the past six months and while the unemployment rate edged up to 3.6%, that reflected a healthy 0.2% rise in the participation rate. Wages continued to disappoint on the month, however, upwards revisions left the annual rate a tick higher than expected at 3.1%. The strength in hiring supports market forecasts for consumer spending to remain the main driver of growth in the US in the near term.*

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