Weekly Market Summary

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It's Complicated!! Until You Receive & Go Through Your GIB's Weekly Market Summary!
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"*It's Complicated*" is a hilarious 2009 American romantic comedy starring Meryl Streep as a successful bakery owner and single mother of three who starts a secret affair with her former husband, played by Alec Baldwin, ten years after their divorce – only to find herself drawn to another man, namely her architect Adam (portrayed by Steve Martin). The film opened on Christmas Day, played well through the holidays into January 2010, and ultimately closed on April 1st 2010 with $112.7 million in the US and Canada alone. Worldwide, "*It's Complicated"* grossed $ 219.10 million and got nominated for two Golden Globe nominations, including Best Motion Picture – Musical or Comedy and Best Screenplay!

Off-screen, the world too has gotten far more complex & tricky in past days/week, as shown in my below updated weekly assessment:

- **First, the Syria Strike***: Last Friday, US president Trump ordered a precision strike on Syria, yes a precision strike because it happened at the precise moment former FBI Director James Comey launched his book tour (A higher Loyalty .. Truth, Lies and Leadership, in which Comey suggests that Trump is "morally unfit"). Now Trump gave the Syrians and Russians plenty of advance warning on Twitter (*Get ready, because they will be coming, nice and new and "smart!"*), which might be why the strike did not hit a single airplane, airfield or delivery system. The Syrians had plenty of time to move equipment and chemical stockpiles (*if any*), and the regime had evacuated all sensible targets. That is how precise the strike was! Any bomb can hit something, but only the smartest bombs can miss everything ☺ (**extracts from Stephen Colbert's late Show*).

- **Moving to the US Dollar Continuing Saga**: U.S. two and ten year Treasuries haven't yielded this much over their German counterparts for decades (2-year interest rate differential last roughly at 300 bps in favour of the US, versus a flat spread just few years back), yet it is providing little help for the US dollar (outside a mini-rally for the greenback late yesterday afternoon, with EUR/USD last at 1.2325). The logic for many market players (including us) is that the interest-rate premium is getting cancelled out by a Trump discount. After all, and as mentioned in a previous note, the US dollar's "*security premium*" accounts for a significant part of its attractiveness as a reserve currency. Losing it could mean a large reduction in the share of U.S. currency at nations' reserves. Isolationist" *America First*" policies certainly seem to be undermining the "*security premium*", to the point that any assurances the US makes today can no longer be taken at face value! Not to mention Stormy Daniels, Karen Mc Dougal and Summer Zervos' scandalous stories – related to the US President - all over the net!

- **And The IMF's Latest Volte-Face**: In December 2017, the International Monetary Fund (IMF) hailed the "*broadest synchronized global growth upsurge since 2010*". It said the world economy will likely grow by 3.9% this year and next (up from 3.3% in 2017), a 0.2% upward revision for both years (from a previous forecast) on the back of a better outlook in the US and the Eurozone. And whilst the fastest growing global region continues to be Asia (both China & India), the IMF did note that central banks around the world would need to stay vigilant as uncertainty remains over the impact of the normalization of monetary policies in advanced economies. Fast forward to this week, and the latest IMF message is now sounding quite disturbing! The world's $164 trillion debt pile is bigger than at the height of the financial crisis a decade ago, the IMF has warned, sounding the alarm on excessive global borrowing (great time to buy bonds ☺). The Fund also cautioned that whilst the world economy's strongest upswing since 2011 could continue for the next two years, the seeds of its demise may have already been planted - adding that the private and public sectors urgently needed to cut debt levels to improve the resilience of the global economy and provide greater firefighting capability if things went wrong. "*Fiscal stimulus to support demand is no longer the priority*," the IMF said on Wednesday in a report published at its spring meetings in Washington. Additionally, The Fund urged policymakers to stop providing "*unnecessary stimulus when economic activity is already pacing up*" and called on the US to "*recalibrate*" its fiscal policy and increase taxes to start cutting its debt.

- **Lastly, a Yield Curve Flattening Trade That Continues to Make Little Sense – Outside Short-Term Technical Glitches:** In November 2017, I released a weekly piece titled "*A Mysterious Curve Flattening Trade That Never Made Sense! Time for a Reality Check!!*" in which I strongly argued that the flattening curve trade did not make much sense (My views & timing were so wrong on that one! ☹), especially in the context of faster growth in the US and Europe, and surging commodity prices (worth noting that the well behaved Consumer Price Index, alias "CPI", is a true lagging indicator and possibly a very biased and inaccurate measure of the costs of essential US goods and services! Especially if your government's preference is for lower inflation numbers that would ease pressure on Social Security, food stamp, military and federal Civil Service payments, as well as other agencies' programs! Ouch, another conspiracy theory you might shout!). And whilst my conviction remains that long-term Treasuries are "*crazy priced wrong to the expensive side*" (meaning current long-term yields trade well below fair value because of central banks' consistent market interference via "QE", and manipulation via Central Bank dovish speeches & statements), other market players have suggested that the shape of the curve is a reliable recession indicator, noting that recent (and upcoming) rate hikes agreed by the US Federal Reserve will result in fast slowing of the US economy over the near term. Whether recent bonds' behaviour is a reflection of diverging views - relating to record Treasury debt issuance at the short end & growth concerns at the long end – remains a big mystery! However, one thing is sure: The newly appointed Federal Reserve bank of New York President – John Williams – doesn't seem to be losing much sleep over the latest depressed 47 bps reading for the 2s10s Treasury yield spread. Speaking in Madrid last Tuesday, the current president of the Fed's San Francisco branch downplayed risks that the recent flattening of the yield curve is a sign of an impending recession. "*The flattening of the yield curve that we've seen is so far a normal part of the tightening process, as the Fed is raising interest rates, long rates have gone up somewhat -- but it's totally normal that the yield curve gets flatter*," Williams said. He expects that long rates will move up over the next two years, partly as the term premium increases with the balance sheet unwinding

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