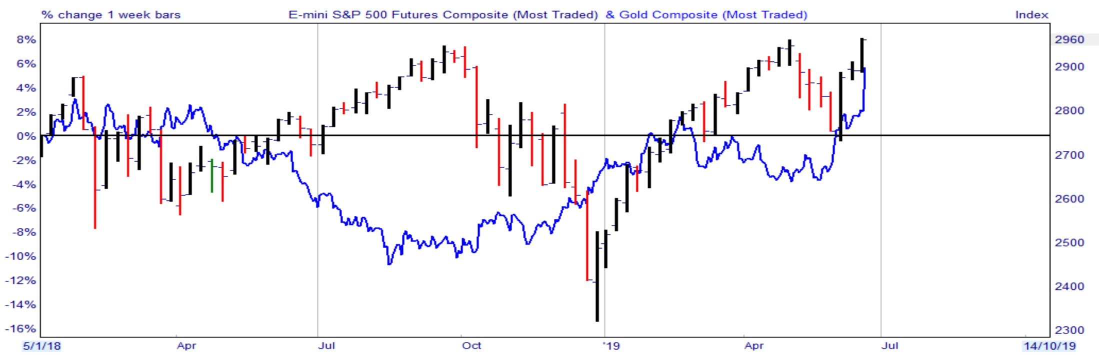
Investment Markets Overview for the Week Ending 21st June 2019

"***Correlation***" is defined as a mutual relationship or connection between two or more things, an example being height and weight as taller people tend to be heavier, whilst a negative correlation is a relationship between two variables in which an increase in one variable is associated with a decrease in the other. An investment analyst should always be interested in correlations and be mindful if and when they break-down, just as they would be interested in a breakout by a security after an extended sideways period. Two key markets, the S&P 500 stock-index and the $Gold price, saw break-outs this week following the post January 2018 highs, a period that has included two failed attempts by the former:



The ***negative*** correlation between the two has also broken down, as can be seen above, a situation that is unlikely to last for long. There is more on this and other correlation observations within this overview.

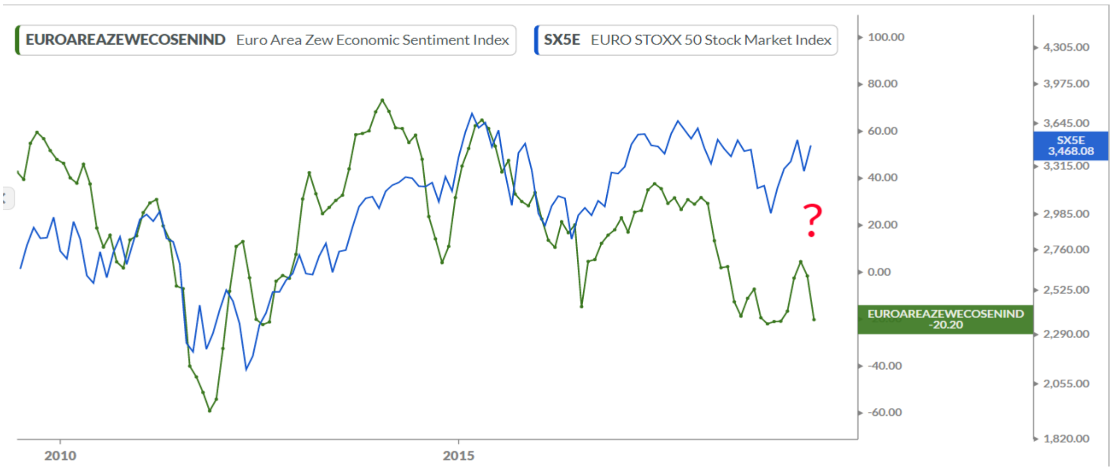
Major stock indices were higher, bonds were mixed with the precious metals, oil, plus the crypto-currencies witnessing a very good week. Read on for coverage of the week's main market events with interesting supporting charts:

No.	Table of Indiices	Close	**Price% 1 week ago**	Price% 1 month ago	Price% between 31/12/18 and 1 day ago
1	I - Hang Seng (Hong Kong)	28,473.75	5.00	2.95	10.5
2	I - FTSE All-World Index - Asia Pacific ex Japan	540.63	3.60	4.14	10.1
3	I - NASDAQ Composite	8,031.71	3.01	3.16	21.3
4	I - CAC 40 (Paris)	5,528.33	2.99	2.65	17.0
5	I - FTSE All-World Index - Europe ex UK	262.63	2.79	3.66	14.0
6	I - Dow Jones Industrial Average	26,719.25	2.41	3.25	14.7
7	I - S&P 500	2,950.46	2.20	3.01	17.8
8	I - DAX Xetra (Germany)	12,339.9	2.01	1.62	17.0
9	I - FTSE 100	7,407.5	0.84	1.07	10.3
10	I - Nikkei 225	21,258.75	0.67	-0.06	7.2

US PMIs were below forecasts for June and below the readings for May, with manufacturing at 50.1 and services at 50.7. Housing data was mixed as May housing starts fell by -0.9% whilst existing home sales rose by 2.5% following the unchanged April. Meanwhile, the June NAHB Housing Market Index, a monthly sentiment survey of house-builders, missed the forecast 67, at 64 versus the 66 recorded for May. The Fed left its "*fed funds*" rate at 2.75% despite a continued year-to-date easing of Treasury bond yields. Talking of bond yields, the inverse correlation against the $Gold price continues to hold, as can be seen below, as they do against the S&P 500 (not shown):

The Dow rose by 2.4%, whilst the SPX and the NASDAQ gained a respective 2.2% and 3%.

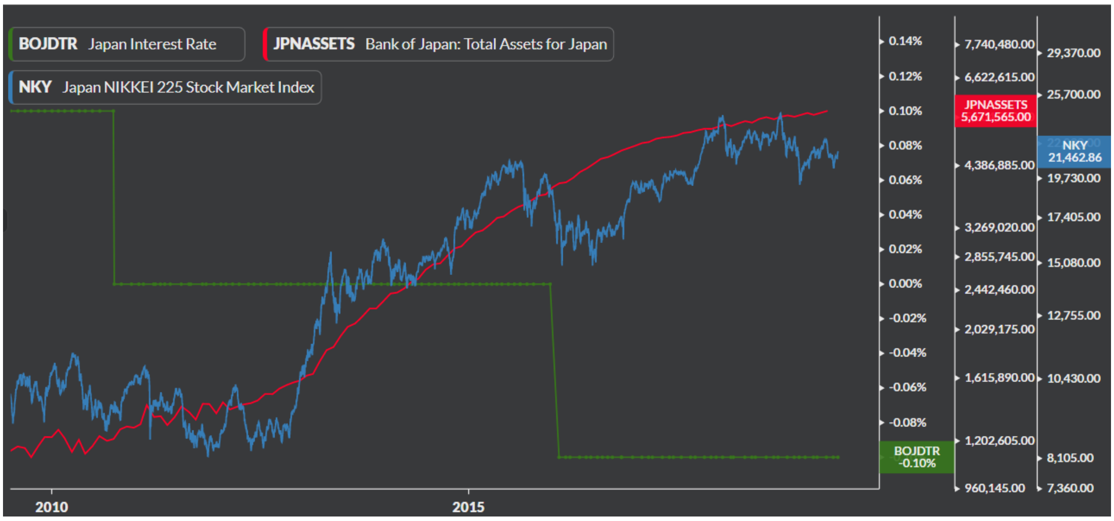
Euro-Zone CPI eased to 0.1% & 1.2% annualised in May versus the 0.7% and 1.7% reported for April, whilst June consumer confidence was stated at -7.2 against May's -6.5. Meanwhile, the ZEW Economic Sentiment Index, a monthly survey of 350 financial analysts measuring the level of optimism they have about the expected economic developments over the next 6 months, slumped to -20.2 in June versus the -3.6 expected. For context, the index has averaged 23.1 over the past 20-years, reaching an all time high of 89.9 in January 2000 and a record low of -63.7 in July 2008. Normally the stock-market leads economic data, but as this is a forward looking survey, the judge is still out. Either way, the correlation of the past decade has broken down, leaving a question mark over what is next for stocks:



UK CPI came in as forecast for May, at 0.3% & 2% year-on-year, following April's 0.6% and 2.1%, whilst retail sales for the same month were reported at -0.5% and 2.3% annualised versus the prior -0.1% and 5.1%. The Bank of England MPC left rates on hold at 0.75% and QE @ £475BN, whilst the public sector borrowing requirement (PSBR) for May posted a deficit of -£4.46BN, better than the -£5.1BN consensus.

The FTSE rose by 0.8%, whilst the French CAC and the German Dax gained a respective 3% and 2%.

Out East, Japan's trade deficit widened to -¥967BN in May as exports declined for a sixth straight month, while imports also edged lower amid weakening global demand and the US-China trade dispute. The Bank of Japan left rates on hold at a negative -0.1%, as CPI for May declined to 0% & 0.7% annualised following the 0.1% and 0.9% recorded for April. It's of interest to note the negative correlation between the B of J key short term interest rate and the bank's ballooning balance sheet as it continues to borrow to gorge on JGBs, stock ETFs and real-estate investment trusts:



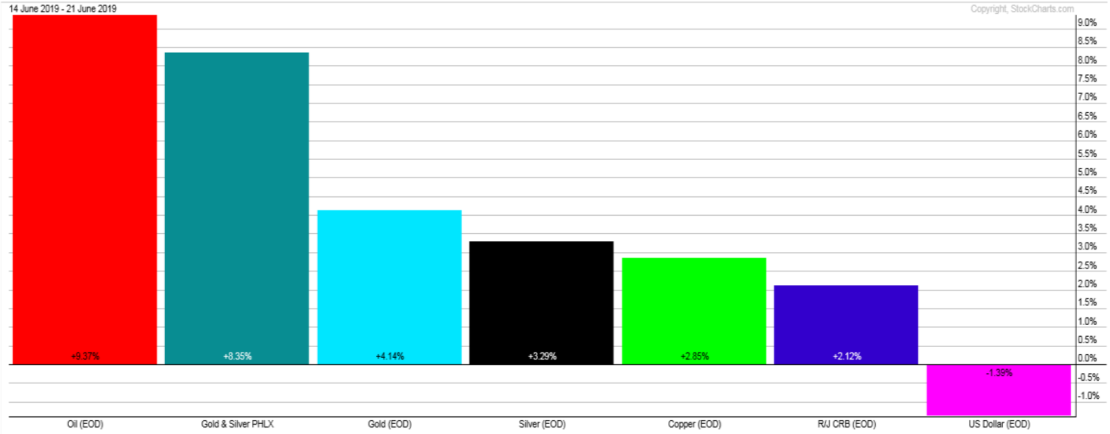
No financial market manipulation here then?

Elsewhere, the OZ Q119 house-price index fell by -3% and -7.4% annualised, following the -2.4% & -5.1% recorded for Q418, whilst the May house-price index for China was unchanged at 10.7% annualised

The Nikkei rose by 0.7% as the Hang Seng jumped by 5%.

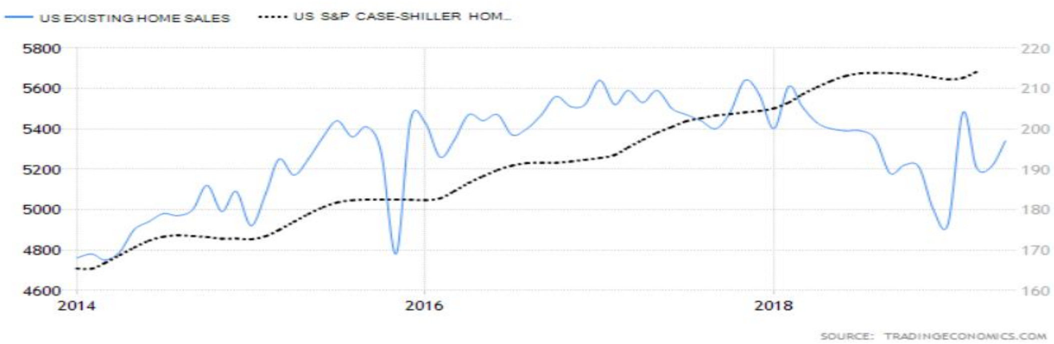
The $US index fell by -1.4% to 95.7, with other losers including the Mexican Peso and the Indian Rupee, lower by -0.2% and -0.4%, whilst risers included the South African Rand and the Swiss Franc, higher by a respective 3.3% and 2.4%. Sovereign bond yields were in the main lower as Japan's JGB 10- year yield eased to -0.16%, the UK 10 year yield added 1bps to 0.85%, whilst the German yield fell to -0.29%. Spain's 10-year yield gave up 6bps at 0.44%, Italy fell by 17bps to 2.17%, with the OZ 10-year yield lower by 7bps at 1.30%. Portugal's 10-year yield eased by 3bps at 0.59%, with the Greek yield lower by 15bps at 2.59%. The US 5 and 10-year yield fell, with the five lower by 2.1% at 1.8% and the 10 down by 1.2 at 2.07%.

Commodities covered were higher, with the $Oil price soaring by 9.4% to $57.4 a barrel, the CRB rose by 2.1% with Copper higher by 2.9%. The precious metals saw $Gold ahead by 4.1% to $1400oz, $Silver higher by 3.3% at $15.3oz and within the paper market, the XAU gold-mining-index jumped by 8.4%:



Economic data for next week includes confidence readings for all four regions plus more on housing for the US and for the land of OZ. Japan updates on retail sales and unemployment whilst the Euro-Zone provides the latest on CPI. The US also releases the latest on trade, personal incomes and spending, leaving the main focus of the week on US & UK GDP and Japan's Q219 Tankan, plus consumer credit numbers for the UK and OZ.

So there we have it, correlation break-downs and some not, plus market ~~manipulation~~, support, a growing trend by ***all*** of the major central banks. As three major central banks leave interest rates on hold, the FOMC dropped a promise to be "*patient*" in adjusting rates and said that will act as appropriate to sustain the economic expansion, which the market read as bullish for stocks ***and*** bonds. Logic would actually suggest that they have become extremely concerned about the stalling economic data and their balance sheet debt levels, now at record multiples versus assets. I'll finish with a chart of those US existing home sales against the Case-Shiller 20-city house-price index. Note the correlation break-down since early 2018, another metric that is unlikely to last:



We will find out next week as the 20-city index for April is released.

" ***Correlations Work Until They End, The Trick Being To Notice*** "

No.	Name	Close	**Price% between 31/12/18 and 0 trading days ago**	Price% between 1 year and 0 days ago	Price% between 3 years and 0 trading days ago	Price% between 5 years and 0 trading days ago	Price% between 3/1/00 and 0 trading days ago
1	I - NASDAQ Composite	8,031.71	21.0	4.1	65.8	83.9	94.4
2	I - S&P 500	2,950.46	17.7	7.3	41.2	50.3	98.6
3	I - DAX Xetra (Germany)	12,339.9	16.9	-1.4	23.2	23.6	76.5
4	I - CAC 40 (Paris)	5,528.33	16.9	4.0	26.6	21.7	-6.6
5	I - IMA Sector Europe Excluding UK	1,394.49	16.3	2.7	43.3	47.8	175.4
6	I - IMA Sector China/Greater China	628.99	15.8	-5.1	72.4	88.8	711.3
7	I - Dow Jones Industrial Average	26,719.25	14.5	9.2	49.9	57.7	131.7
8	I - FTSE 350 Lower Yield	4,210.55	13.5	-0.3	24.0	26.6	15.1
9	I - IMA Sector Asia Pacific Excluding Japan	1,984.89	12.8	2.2	57.5	67.1	333.3
10	I - IMA Sector Global Emerging Markets	1,888.2	12.5	4.7	54.2	50.0	322.8
11	I - Hang Seng (Hong Kong)	28,473.75	10.2	-2.8	37.8	22.8	63.9
12	I - FTSE 100	7,407.5	10.1	-2.0	19.0	8.5	6.9
13	I - FTSE 350 Higher Yield	3,638.97	7.3	-4.8	13.3	-2.2	23.0
14	I - Nikkei 225	21,258.75	6.2	-6.3	31.5	38.5	12.3
15	I - IMA Sector Standard Money Market	256.09	0.3	0.6	1.1	1.6	37.2

NB: The IMA indices are £GBP adjusted whilst the 3/1/2000 date has been selected as it coincides with the date that many stock-indices peaked in "real terms."