JUSTIN'S COMMENTARY

SEVEN Investment Management

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.

THROUGH A GLASS DARKLY – THE FUTURE OF THE BULL MARKET

The phrase "Through A Glass Darkly" is often used to imply the lack of definition in seeing any specific object, thought or concept, either now or in the future. The phrase will be familiar to some from the Bible in 1st Corinthians 13:12, or for others as the name of the Rolling Stones second compilation album in 1969. I would say that it seems especially applicable today as we move into the summer months of investment markets that are showing distinct signs of turning - turning into what is difficult to say - but to confuse my metaphors, the sails are flapping and the wind appears to be swinging around the compass.

Three years ago, even though we were closer to the financial fiasco of 2008, there were greater assurances underlying market valuations than we see today. At least the Bull market in equities was somewhat younger, bellowing and fresher; whereas now it is a tired and puffed out old Bull market that has been extended by the financial stimulants that have pushed on or at least propped up certain valuations. Three years ago in the USA even if poor pieces of economic data appeared, there was always the opportunity to apply further stimulants from the Quantitative Easing (QE) programme. And if the news was good then the markets would enjoy the benefit of the headlines.

Three years on, and the world has changed. Now if the USA delivers up some poor data, then there is no corrective or supportive stimuli from QE as that programme has ended. Equally if the economic data is supportive and showing more positive signs then there is a greater chance that rises in interest rates may appear sooner rather than later. This fear has been haunting markets for some time. So moving on from a world of market supports, we are now seeing greater opportunities for markets to have a reason to fall back in some form of correction.

Now please don't read this as an excuse to say that the world is doomed to economic chaos, as that is certainly not the case, in fact the global economy is still growing at an average of over 3% per annum and that I am pleased to say is the long term average that I would expect to see. However we have recently seen some quite dramatic moves in the bond market, as especially highlighted by German Bund yields rising, and such rising yields will have a painful effect on the capital value of many bonds. As yet such tremors have not been transmitted and felt in the equity markets but this may well happen if there are further bond ructions.

So is this the time to run to the hills, and wail that "the end is nigh"? No, but it is though the sensible sign to take some prudent action around the defence of portfolios. From the near vertical rise of the Chinese equity markets, through to the record levels seen on many of the world's leading equity indices, it is fair to say that most of the good news is likely to have already been priced in. To that we can add the soap opera that is the Greek debt question and its continued membership of the Euro.

Through the glass darkly suggests that whilst we cannot see the precise reasons for or timing of possible tremors, it does at least allow us to judge that there is some increased likelihood for some summer volatility.

The End of Old King Coal?

Are we finally seeing a tangible impact of renewable energies over fossil fuels? Well certainly we are heading in the right direction or so it would appear from the International Energy Agency. It would seem that all the renewables should exceed coal usage in 15 years (2030) if, that is, all the pledges that countries are making are met - that's a big 'if', I grant you. Already half of all new power capacity built last year is coming from renewables. So far so good - but…

The share of world energy production from renewables including nuclear, has now reached a new high of 13.7% last year, and whilst that may seem encouraging it was already at 13.1% in 1995. China also has plans for significant and new coal plant usage, and to move away from this the country will need to focus on the less polluting gas power alternative - hence we can see the recent agreements with Russia over gas supplies being increasingly important to them.

We should also remember that global electricity generation from coal stands at 41%, but if the pledges are met then, in theory, the share of generation from renewables could rise to 32% by 2030. A lot of "ifs and buts" here!

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And finally... There is hope for some value even in the world's worst currency. Seemingly on eBay, a 100 trillion Zimbabwean dollar note is now a collector's item fetching up to US$35, a small fortune compared with the 40 U.S. cents on offer from the central bank.

The unloved Zimbabwean dollar, ravaged by hyper-inflation that peaked at 500 billion% in 2008, has ceased to be legal tender last Friday as the Southern African country switches fully to the U.S. dollar.

The central bank says citizens have until September to exchange their remaining quadrillions of local dollars for a few greenbacks. However economists say 90 percent of the economy has been based on the U.S. dollar since 2009, so few people are expected to make a beeline to banks to cash in old notes - especially as they could get a far better deal elsewhere.

"I think this is a waste of time. I would rather sell the money to tourists," said Shadreck Gutuza, a former currency trader who now buys and sells used cars from Japan. "Most people either burned that money or dumped it," he said. On eBay a seller was offering a hundred 50 trillion Zimbabwean dollar notes for $1,000.

Zimbabwe's hyper-inflation was considered by the International Monetary Fund as the worst for any country not at war, and the 100 trillion dollar Zimbabwean dollar note was the single largest known note to be printed by any central bank.

Bank accounts with balances of up to 175 quadrillion Zimbabwean dollars - that's 175,000,000,000,000,000 - will be paid $5. Those with higher balances will get a rate of $1 to 35 quadrillion Zimbabwean dollars. Makes a UK deposit account look quite generous.

Have a good week.

Justin Urquhart Stewart
Co-Founder
Seven Investment Management
www.7im.co.uk