MONTHLY MARKET BLUEPRINT

Volatility, a guest star?

February 2020

MAZARS

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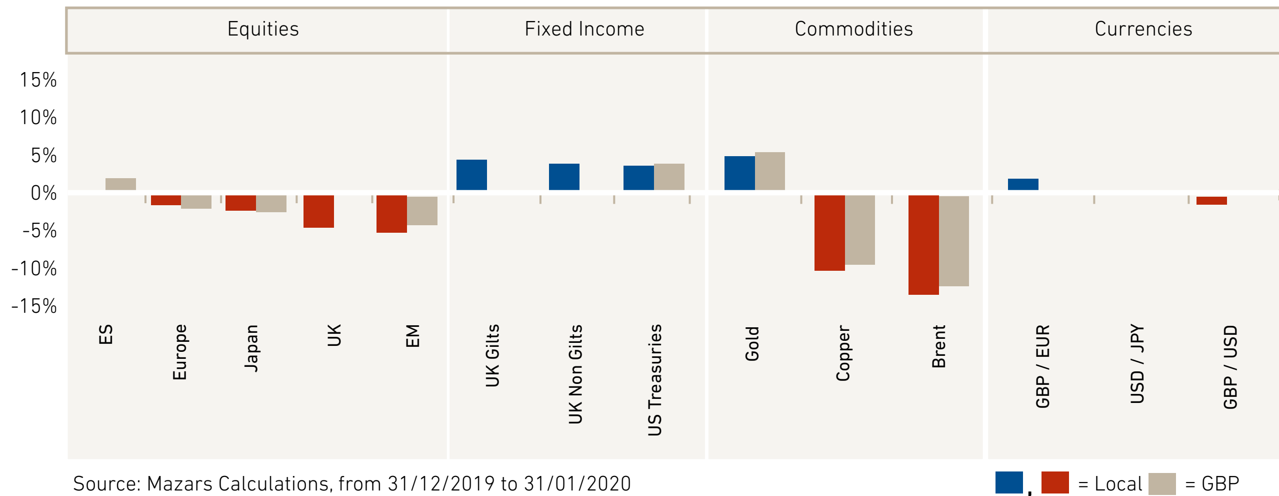
MARKET PERFORMANCE – IN A NUTSHELL



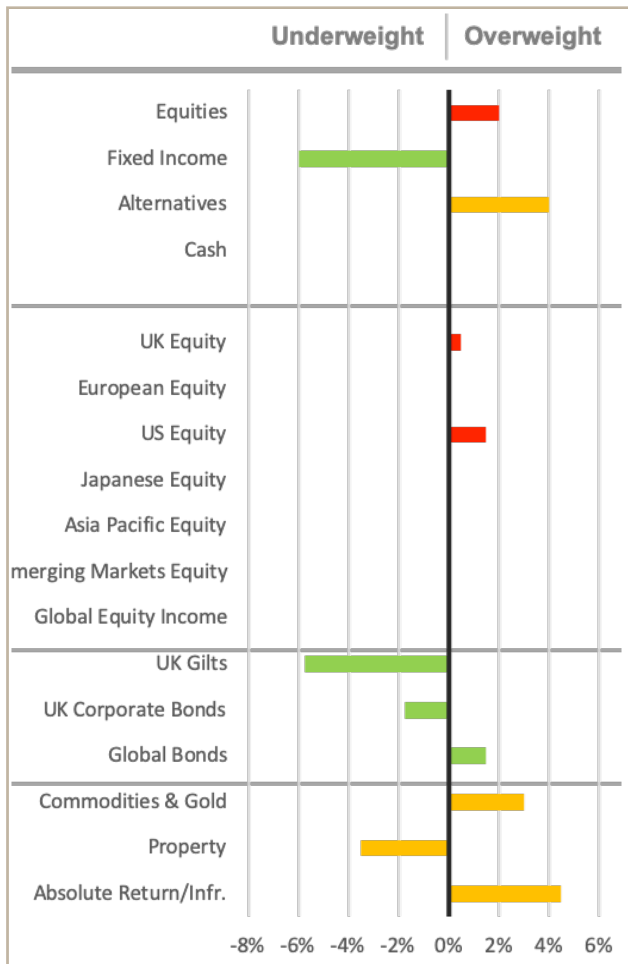
Source: Mazars Calculations, from 31/12/2019 to 31/01/2020

The month in review: Coronavirus fears weigh on equity markets

Despite a positive start to the year, January was a negative month for risk assets. Earnings marginally outperformed expectations in the US, with Amazon and Apple rallying on stronger than expected revenue growth and J.P. Morgan posting its highest ever revenues from trading in a single quarter, helping to push the S&P 500 index higher initially. However, fears stemming from the coronavirus outbreak sent growth expectations for China lower, with tourism and entertainment stocks selling-off as a result. Global stocks were down -0.1% in Sterling terms and -0.6% in local currency terms in January. Emerging Markets equities have been particularly hit, down -4.2% in Sterling terms. Capital fled to the fixed income markets, with ten-year gilt yields down 29.8bps, closing at a yield of 0.52%. US Treasuries yields also fell, with the ten-year treasury closing at a yield of 1.51%. Globally, utilities and IT stocks were the best performing sectors, while energy stocks failed to keep up with the wider market as crude oil prices fell.

31 January marked the day that the UK left the European Union. The next stage in the process will see trade deal negotiations across the world, with EU, US and Japan deals potentially on the horizon. Currency markets will likely see continued volatility as talks unfold, in particular GBP/EUR will be sensitive to rhetoric out of both Brussels and Westminster as we approach the 2020 deadline. Particularly thorny issues for the deal revolve around regulation standards and access to fishing waters. Meanwhile the first phase of the trade deal signed by both China and the US provides some clarity and stability for financial markets in the short term, however long term issues such intellectual property theft remain unresolved.

ASSET ALLOCATION



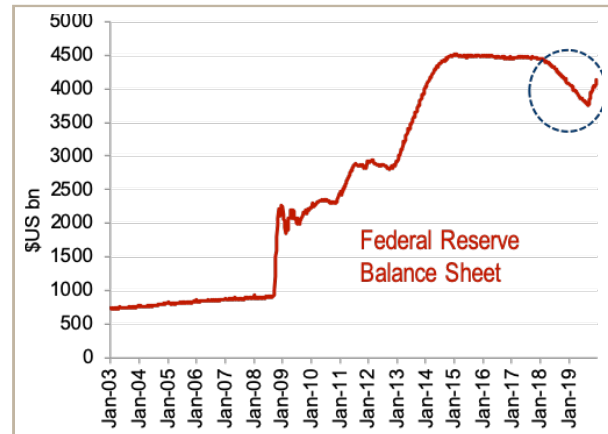
Asset Allocation based on the Mazars Balanced Portfolio, as of 3 February 2020.

Outlook and portfolios

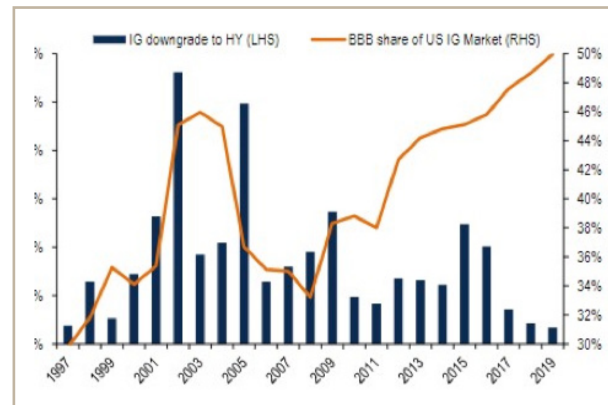
- Global economic data is still mixed. On the one hand, leading indicators and trade indices suggest that the global economic deceleration might be ending, and growth bottoming out, at least for this part of the cycle. Manufacturing indicators in the beginning of February suggested that the protracted slump in manufacturing might be closer to an end. On the other hand, the primary "culprit", the Chinese economic transition, could continue to cause ripple effects for its closest trading partners.
- Global inflation remains at bay and unemployment in developed markets is near all-time lows, however some employment pressures are manifesting at the tail end of the manufacturing contraction.
- Risks for growth are persistent: trade wars, Brexit uncertainty and the Chinese slowdown, the fact that the cycle is well into its tenth year, as well as the more temporary coronavirus, may unnerve investors. On the back of this feeling, central bank accommodation is increasing, along with investor willingness to buy dips, despite the Fed pausing rate cuts, as the world's de facto central bank has increased the pace of QE. This has helped risk assets break new highs, ignoring tepid fundamentals.
- Our latest investment committee in January 2020 felt that, although little more clarity has been achieved (mostly on the Brexit front), the sheer availability of cheap capital and scarcity of risk assets create favourable demand/supply dynamics for equities. Therefore, we decided to add 2% to our allocation in UK small caps, from cash. We also switched holdings in index-linked gilts to traditional gilts to mitigate risks around future inflation calculations that feed into the pricing of these instruments. We don't have strong geographical preferences at this point. We still believe that the cycle, for the time being, remains intact despite increasing signs of maturity.

RISKS AHEAD

- Global economic growth continues to be tepid, albeit bottoming out. Markets are mostly focused on risks stemming from protectionism, the European and Chinese economic slowdown and global debt levels. The coronavirus represents a more temporary risk and could further dent growth, albeit not significantly at this point.
- Global bond yields pose less of a risk, but we are still worried about deteriorating credit quality, as the share of BBB bonds has been increasing significantly.
- In the US the main risk is a further economic slowdown. Additionally, investors are now worried about the impact of a change in the presidency next year, the possibility of more divided government, as well as illiquidity in the short-term debt market.
- In the UK, the outcome of the election on 12 December 2019 helped investors gain more visibility on the Brexit path ahead. Risks now lie in achieving a trade deal in record time.
- In China the slowdown persists, but some evidence suggests a possible rebound going forward. The coronavirus could put additional pressure on the economy, which is particularly unfortunate since it appears to be at an inflection point.
- We feel that short-term systemic risks are mostly manageable as liquidity is still ample. While a recession is drawing nearer, a "crisis" is not in the horizon. We are closely monitoring the increasing number of headwinds, the confluence of which could upend the economic and financial cycle.



The Federal Reserve has resumed printing. But will it continue?

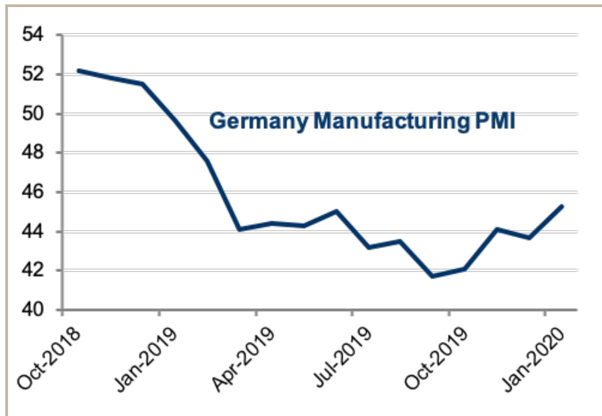


The share of BBB bonds in the US is now close to 50% of total issues outstanding.

Charts Source: Federal Reserve, Mazars Calculations

THE MACROECONOMIC AND MARKET BACKDROP

GLOBAL



German manufacturing PMI suggested a pickup in global activity.

Chinese leading indicators suggest a pickup in global economic output.

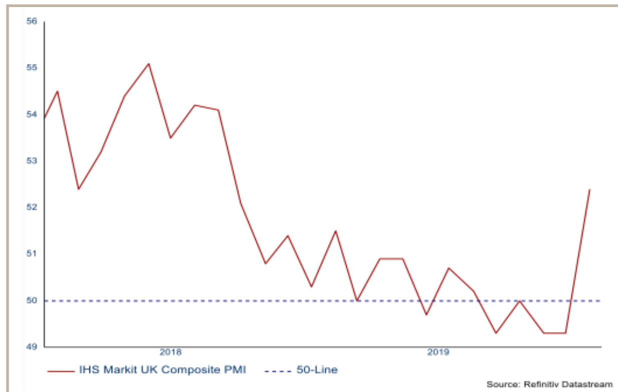
Global equities fell 0.1% in Sterling terms and 0.6% in local terms in January. Defensive sectors such as utilities and telecoms led the way globally, whereas materials and energy were the worst sectors. Global stocks are trading at 17.1x P/E, 12% above their 10-year average of 15.2x.

The global economy saw some signs of stabilisation in the last few months of the year. Manufacturing indicators (especially the forward-looking and highly influential Purchase Manufacturing Indices) have shown some signs of stabilisation. Trade data also appears to be bottoming out, which could be good news for ailing exporters, such as Germany and Japan. Inflation is still low, despite efforts by central banks to rekindle it as a way to deal with mounting debt and restore a sensible structure between short and long term interest rates. However deflation is not a major concern. Central banks remain accommodative, which is conducive for capital spending. The picture is lukewarm, that of a nascent recovery, although earnings have been surprising to the upside.

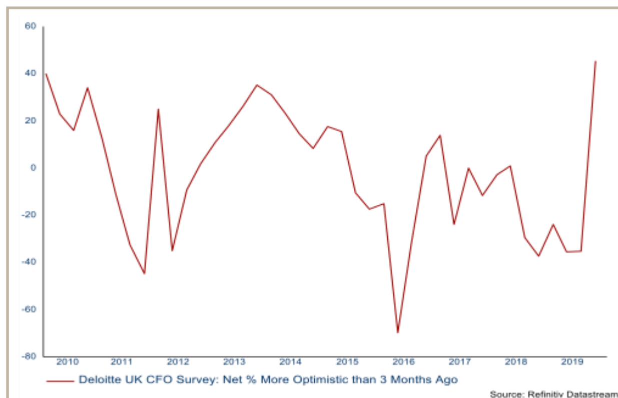
Outlook: The cyclical rebound for the global economy may still be on the cards, albeit 6-9 months later than expected. Global economic organizations, like the IMF and the OECD continue to downgrade global economic forecasts, especially for Europe. Having said that, risk assets overall are well supported by central banks. A potential trade deal between the US and China could, over the shorter term, improve the business climate further.

Charts Source: Mazars Calculations

UK



Flash PMI data showed a marked change in course in January with the sharpest increase in new work since 2018. This preliminary measure accounts for 85% of all data, so is clear evidence of a pick-up in UK business.



The Deloitte CFO survey reported the greatest ever increase in optimism since the survey began over a decade ago. On average CFOs now expect an increase in revenues over the next year, whilst 31% now believe it is a good time to take on greater risk, up from just 7% in Q3 2019.

UK equities fell -3.4% January as the prominence of energy and mining companies, particularly affected by falling commodity prices, were a drag on performance. Utilities and industrials were the best performing sectors while the more cyclical housebuilders and energy sectors were the worst performers. UK equities are currently trading at 13.2x P/E versus their long term average of 13.3x.

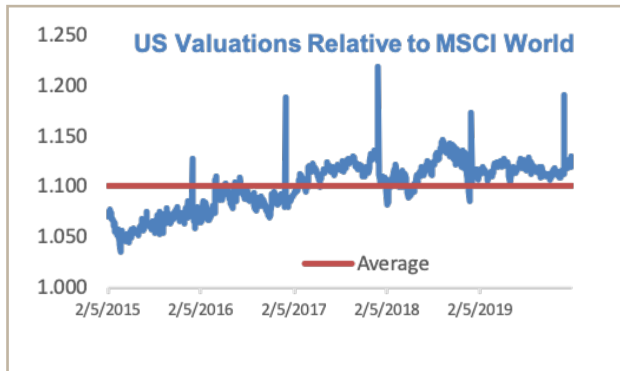
Early economic releases showed a negative surprise in November data, driven largely by activity having been brought forward in October ahead of the expected 31 October deadline for a deal with the EU, so UK GDP is expected to be flat across Q4 2019. Inflation data for December then disappointed, with an unexpected fall to 1.3%. After the inflation data and a contraction in retail sales, the market-implied probability of a rate cut rose to 72%. This proved to come at a turning point, mid-way through the month, and later economic data (which was more likely to include post-election sentiment and activity) began to show signs of improvement. Preliminary January data showed the first business activity expansion in nearly half a year, with output growing at the fastest pace in almost 18 months. Finally, European-level data supported these preliminary results with evidence of a pick-up in the UK services sector sentiment, although retail and industrials continue to lag services.

Outlook: At midnight (Central European Time) on 31 January the UK left the European Union. In practice nothing will change in February, as the UK has a transition period until the end of 2020. At Mark Carney's last meeting as Governor of the Bank of England, the BoE downgraded the UK growth outlook by 0.4% for both 2020, and 2021, with Brexit uncertainty an important factor. While the true nature of Brexit is still an unknown until there is greater clarity on what the regulatory and trading relationship will be, one thing forecasters agree on is that the UK economy will be weaker in any scenario than as compared to EU member. The chances of establishing a comprehensive new relationship in 2020 seem remote, with expectations now turning to a piecemeal approach (à la US-Chinese trade talks). Avoiding a no deal at the end of this year will be seen as a positive for business investment and thus will be key to driving UK productivity going forward.

Charts Source: Refinitive

US

The S&P 500 is near its recent highs following the Fed's decision to resume Quantitative Easing.



The US is trading just above its long-term average against the MSCI World.

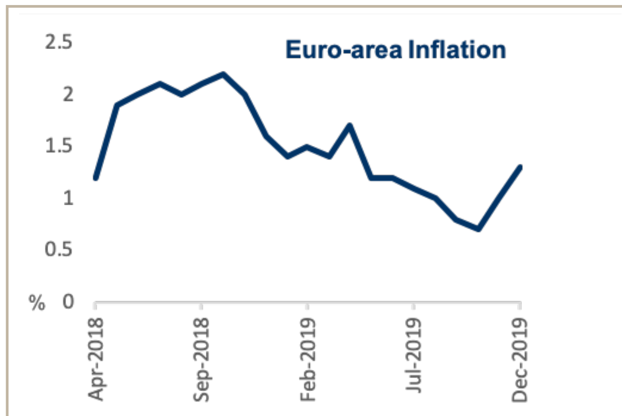
US equities rose 0.5% in Sterling terms but were flat in local terms, led by homebuilders and utilities, whereas materials and energy were the worst performing sectors. US equities are currently trading at 18.5x P/E, 15% above their 10-year moving average of 16.0x.

The US economy is slowing, along with the rest of the world, as the effects of Mr. Trump's 2018 pro-cyclical stimulus - and the period that preceded them - have petered out. Despite a good amount of US Dollar repatriation, output growth, which peaked in mid 2018 at 3.2%, now stands at 2.1%. Meanwhile S&P 500 earnings are projected to fall by 1.6% in Q4. Consumer sentiment is still high by historical standards, and consumption patterns are not too worrying, but overall consumers are worried about the effect of trade wars and have been reserved about their purchases. Manufacturing has slowed despite companies building inventories and eating into their backlogs. The services sector is faring somewhat better, with some data indicating a nascent rebound. Employment levels are high, with both unemployment and underemployment at multi-year lows. At its most recent meeting the Fed remained accommodative, pausing rate cuts but continuing to supply the market with ample liquidity.

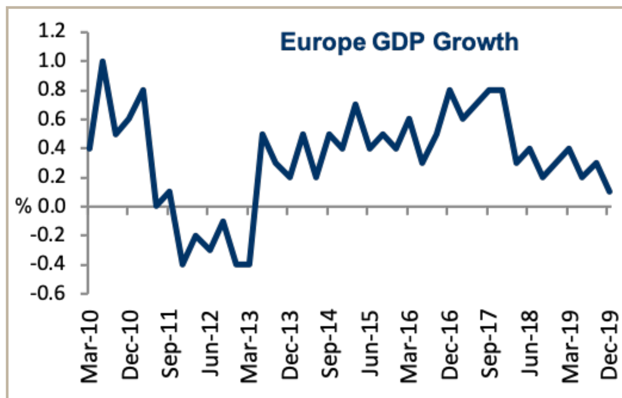
Outlook: The US economy is slowing at a rate commensurate to that of the rest of the world, as the benefits from last year's stimulus have failed to improve trend growth. However as the Fed remains dovish the outlook for US assets, which feature very high ROE (return on equity) companies, continues to remain upbeat relative to the rest of the world.

Charts Source: Mazars calculations

EUROPE



Euro-area inflation continues to remain below the ECB's target of 2% which could prompt a policy adjustment to one involving a symmetric targeting mandate.



The Eurozone economy has struggled to grow over the last year as trade war uncertainty has weighed on global trade volumes.

European equities were down -0.8% in local currency terms in December, which translated to a -1.6% loss in Sterling terms after the Pound gained +0.7% versus the Euro. Utilities and healthcare stocks were the best performing sectors, while autos lagged.

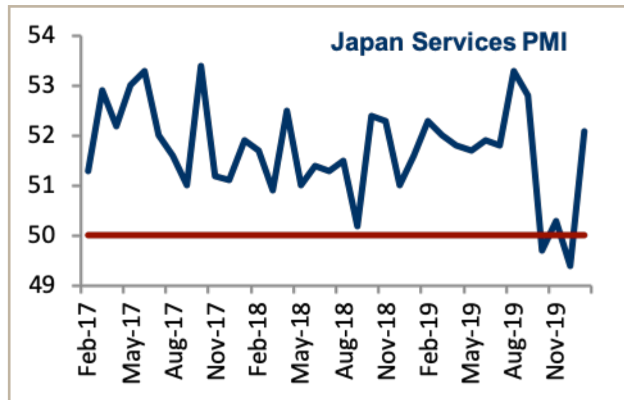
Growth conditions in the Eurozone still lag the rest of the developed world, with GDP figures and PMIs consistent with an economic slowdown. The Eurozone grew at a rate of just 0.1% last quarter, as both the French and Italian economies contracted. The IHS Markit Eurozone PMI remains below the 50 level, indicating ongoing weakness in the region. Output and new orders declined at an accelerating rate, presenting a lower probability for a cyclical rebound. Furthermore spare capacity has lead to further job losses, implying the weaker economic backdrop is starting to weigh on employment.

New ECB chief Christine Lagarde will be conducting a strategic review of monetary policy this year; the second review in the central bank's history. One key area investors will be watching is the price stability objective. Philip Lane, ECB Chief Economist, recently said the objective should be "symmetric", which could mean the bank allows inflation to remain above the 2% target for some time before hiking rates. Inflation in Europe remains below target, despite extremely loose monetary conditions, with the ECB deposit rate at -0.5% and QE at a pace of €20bn per month. Despite the weak economic backdrop the unemployment rate for the Euro Area remains near cycle lows at 7.5%.

Outlook: External uncertainties persist for the Eurozone. These includes geopolitical risks, such as EU-UK trade deal uncertainty and potential US auto tariffs. However nascent signs of a pick up in global activity could be particularly supportive to the export focused region, as long as the coronavirus doesn't have a major effect on global growth. Overall we remain neutral on EU risk assets.

Charts Source: Mazars calculations

JAPAN AND EMERGING MARKETS



The Japan services PMI was 52.1 in January 2020 as new orders expanded.

China's manufacturing PMI declined to 50, down from 50.2.

Japanese and Emerging Markets equities were down -2.3% and -4.2% in Sterling terms respectively respectively.

Manufacturing activity in Japan saw a marginal improvement in January as the Jibun Bank Japan Manufacturing PMI was 48.8, up from 48.4 in the previous month, although still in contractionary territory for the ninth consecutive month. The service sector rose to 52.1, the highest reading since September, as both new orders and employment expanded faster amid a softer decline in overseas sales. Exports from Japan continued to decline, while employment growth gathered pace and backlogs of work fell solidly. The unemployment rate in Japan remained unchanged at 2.2% in December 2019, slightly below market expectations. Consumer confidence in Japan stood at 39.1 in January, unchanged from its previous seven-month high.

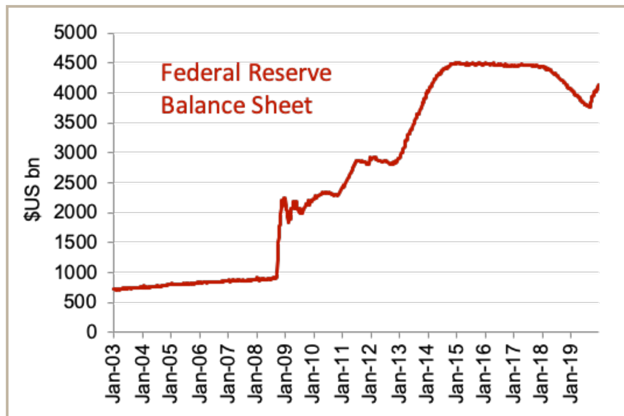
China's industrial output growth rose to 6.9% YoY, accelerating from a 6.2% increase and beating market expectations of 5.9%. According to the NBS survey, manufacturing activity in China fell to 50.0 in January, down from 50.2, the weakest reading since October, hitting the neutral mark that separates growth from contraction. However the survey was conducted before the coronavirus outbreak when the impact was not fully reflected. Conversely, the services sector posted a stronger expansion as PMIs rose to 54.1, up from 53.5 previously.

Outlook: The outbreak of the deadly coronavirus, first detected in the city of Wuhan in central China, has had a negative impact on the equity markets and the overall Chinese economy. While it is too early to assess the potential economic impact of the coronavirus on China and surrounding economies, the 2003 SARS episode could provide a useful benchmark, with GDP growth dropping more than 50% in the affected quarter.

Charts Source: Mazars Calculations

OUR THEMES

MACRO THEME 1: QE - INFINITY?



The Federal Reserve has resumed QE. Can it ever effectively reduce its balance sheet?

At the start of 2019 the Federal Reserve made a U-turn, reversing its policy of returning interest rates to "normal". The central bank stopped quantitative tightening, the process of rolling back excess money supply post-financial crisis, and funnelled over $200bn of short-term money into the markets, responding to financing pressures in the hedge fund market. It has provided no indication as to whether it is going to stop. So the question in everyone's mind is: will the Fed roll back that extra accommodation (and if so when and how) or will it retain the extra balance sheet. Even more importantly, can it ever shrink its balance sheet back to pre-2008 levels, or does it even need to, given that no inflation has arisen.

In 2009, Quantitative Easing stopped a downward market spiral which threatened capitalism itself. Its European version, in 2015, restarted frozen credit channels and unlocked some growth in the continent, at a time when the common currency had come under fire.

Its effects on containing crises or unfreezing credit have been well documented. Its effects on the long-term economy, less so, which is why Ben Bernanke, Janet Yellen and even Jay Powell have never communicated an intention to maintain an expanded balance sheet forever. This means they printed wealth, by design non-inflationary, directed at stocks and bonds with the express desire to suppress financial risks, not to substitute fiscal policy.

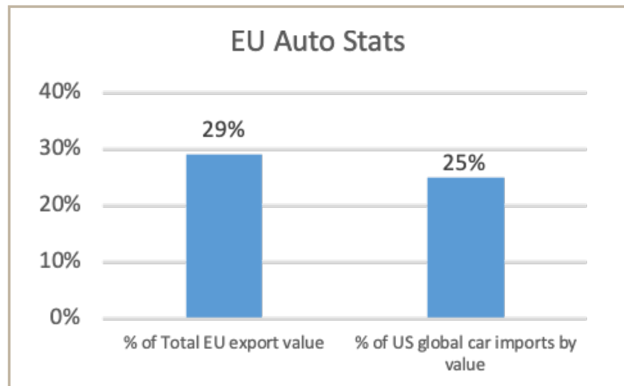
However, over the years, the habit of using QE to support bullishness in the market and repress risk has turned market participants into conditioned beings, for all intents and purposes the equivalent of Pavlov's dogs. More importantly, risk suppression has not been contained within financial assets. As political leaders figured out that their decisions were no longer causing market panics, they felt entitled to take on more risks, and debt, in the certainty that central banks will eventually bail them out.

We believe that it's proving very difficult for central banks to roll back accommodative policies because too many institutions (banks, governments, investors) have learned to rely on them. Until such time as the practice begins to actively and profoundly hurt capitalism and its ability to efficiently allocate capital, and QE becomes anathematised, it will persist in one form or another. For investors, that means shallower crises and a perpetual buyer for risk assets. For consumers it means capital allocation away from main street and the real economy and into Wall Street and the financial economy.

> **"It's proving very difficult for central banks to roll back accommodative policies"**
>
> George Lagarias
> Chief Economist

Charts Source: Federal Reserve

MACRO THEME 2: US-EU TRADE WAR?



Tariffs on EU-built cars could significantly reduce trade between the two regions.

The recent announcement that Huawei will take a "limited" role in the UK's 5G network has highlighted the growing tensions between different trading blocs, while the temporary truce between Macron and Trump on a digital tax, which Trump argues disproportionally affects US firms such as Google and Facebook, gives rise to the chance of renewed conflict in the near future. Tensions between Europe and the US have been increasing since Trump took office, and they don't appear to be moderating any time soon.

If America can continue to grow, and the population find work, Trump stands a good chance of securing re-election. Many US citizens approve of Trump's policies and buy into his dream to "Make America Great Again". If we ultimately see another Trump term, he may be minded to double-down on the China trade war and widen his sights geographically, with the EU an attractive target for tariffs; especially EU autos.

There is already an ongoing dispute between the two regions regarding Boeing and Airbus. The WTO ruled that the US government had failed to end illegal support of Boeing, and that the EU continued to subsidise Airbus, with both Brussels and Washington threatening tariffs on each other's goods as a result. The EU have expressed they do not want a "tit-for-tat" trade row, but they do demand that European companies be able to compete on fair and equal terms. Trump has in the past called the EU worse than China on matters including trade, suggesting he feels justified in escalating this spat further.

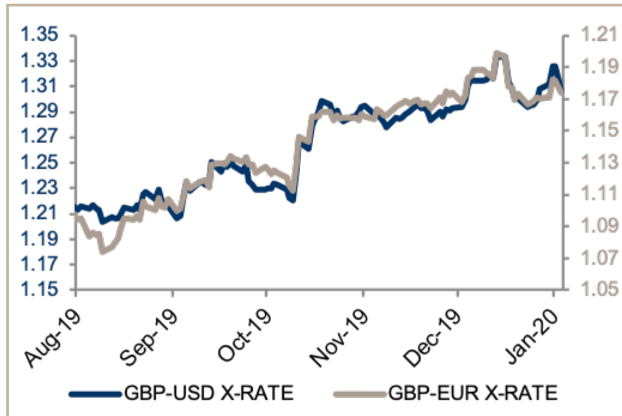
President Trump has also been vocal about the ECB's use of negative interest rates and extensive QE, arguing that this offers Europe an unfair advantage through depreciation of the Euro, which benefits European exporters.

In the near term it is unlikely the conflict will escalate, especially given continued US-Iran tensions and presidential election uncertainty. However if Trump secures a second term anything could happen, and asset allocators will have to assess the likely outcomes with regards to overall trade volumes and the prospects for earnings growth.

> **"The recent announcement that Huawei will take a "limited" role in the UK's 5G network has highlighted the growing tensions between different trading blocs."**
>
> Daniel Gorringe
> Investment Analyst

Charts Source: Mazars Calculations

MACRO THEME 3: THE BRITISH GOVERNMENT'S US PIVOT POST BREXIT



Sterling rallied versus the Euro and US Dollar on the general election result.

Fears that Brexit will see the UK squeezed between the US and the EU are real, but maybe ignore significant nuances. This is a multi-level chess game, touching politics, intelligence and trade, and a move in each field directly affects the other two.

Politics: First and foremost, what needs attention is the personality of the new PM himself, who appears adaptable. We have often made the case in the past three years that the post WWII multi-lateral global order was changing, as the US President opted for simpler bilateral and interpersonal relationships. Solutions for global problems were not to be found in global forums, but rather in intense New York-style negotiations. At the onset of his political rise, even before assuming the premiership, Mr. Johnson saw fit to build a personal relationship with the US leader. Hence, despite disagreements over Huawei, the White House has been mostly silent and has not attacked the British Government.

Intelligence: The intelligence community believes that the threat to Western intelligence by the British choice to grant Huawei access to parts of its 5G network is real, as it may leave sensitive information open to hacking. It would be good to remember that the US-UK intelligence sharing survived Kim Philby, the British Head of Soviet-Counterintelligence, who was exposed to be working for the KGB in the 1950s, as well as Donald McLean and Melitta Norwood who passed on the secrets of the Atomic and Hydrogen bombs to Moscow. It would be, therefore, simplistic to assume that critical information which has been seamlessly flowing between the US and the UK since WWII would suddenly stop, especially if the US President and UK Prime Minister want that to continue.

Trade: The UK is currently running an almost balanced trade relationship with the US, having a small $4bntrade deficit. The two economies are closely aligned, with similar growth trends and interest rate levels. Will the President's and the PM's personal relationship once again be enough to save the "special relationship"? The recent patterns of behavior on both sides suggest so.

> **A lot will depend on the PM's personal approach and adaptable nature.**
>
> David Baker
> Chief Investment Officer

Charts Source: Mazars calculations

FIXED INCOME SPOTLIGHT: INDEXED-LINKED GILTS

Index-linked gilts differ from conventional gilts in that both the coupon payment and the principal payment are adjusted in line with a measure of inflation, RPI. Over time, inflation may erode the purchasing power of wealth. The 'linking' of this asset to the rate of inflation provides protection, a hedge, against rising inflation and so can have a useful role in protecting the real value of your assets.

The Office for National Statistics released a report on the shortfalls of RPI as a measure of inflation. Of these, the most clear is the 'formula effect'. Use of a specific formula, the Carli formula, introduces an upward bias to the measure. If over successive periods the price level rises, but then falls back to the original level, RPI would actually register positive inflation despite no change in the actual price level.

As a result of these inadequacies the Chair of the UK Statistics Authority (yes this exists!) wrote a letter to the former Chancellor of the Exchequer outlining intentions to align RPI with a more statistically accurate measure of inflation from 2030, CPIH. In the letter it is asserted the UKSA has the power to do so independently of the Government.

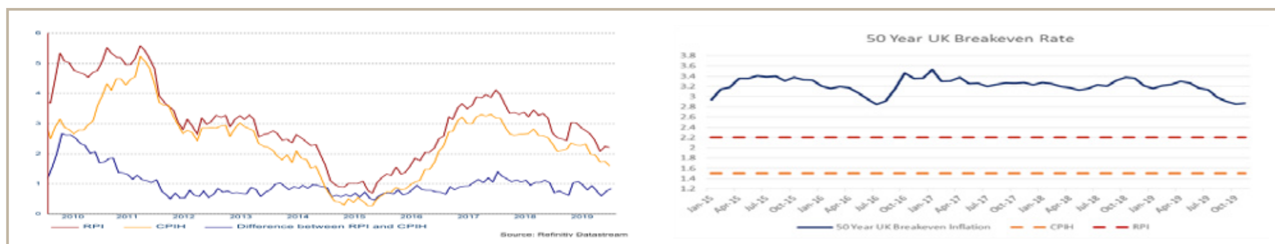
Full alignment of RPI with CPIH will have serious repercussions in the index-linked market. In September 2019 the Chancellor of the Exchequer, Sajid Javid, replied to the aforementioned letter and publicly released all relevant letters. In the 48 hours following the release, the 2068 index-linked gilt lost 14%. For an asset class used primarily as a means of downside and inflation protection, this is a significant concern. The fall was in fact only equivalent to about 18% of the full wedge between the measures, and much of that original loss was been recouped in the months since.

Insight Investment have forecasted total losses to holders at between £90-120bn depending on the implementation.

The sharp fall was driven by the relationship shown in the chart below. CPIH is currently 0.8% below RPI and has averaged 1% less since 2010. Coupon payments are based on the level of inflation, so the lower the inflation calculation, the lower the coupon payments, and the lower the value of the assets.

There is evidence to suggest the price of these longer-dated index-linked gilts is not yet fully pricing in this downward shift in yield. A few factors are likely at play. Firstly the government delayed its review, electing to begin a consultation with stakeholders from 11 March. Secondly, these stakeholders (chiefly pension funds) are lobbying for compensation to index-linked gilt holders. The third reason is driven by supply and demand: until there is greater clarity there will be less supply of index-linked gilts, yet pension fund rules often mean they have to keep buying. This puts upward pressure on the price.

The combination of a negative real yield to maturity and the potential for significant loss of capital means that, until the Government and UKSA respond to the consultation, we believe the risks on this asset class outweigh the benefits, and so have removed exposure in our portfolios to index-linked gilts.



Charts Source: Refinitive

MAZARS

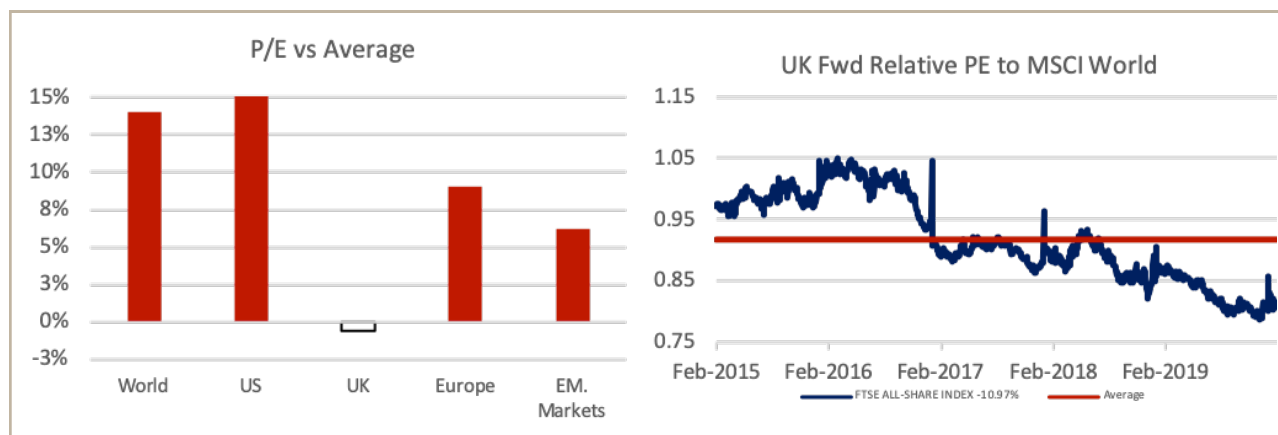
EQUITY SPOTLIGHT: UK EQUITIES DISCOUNT

Since the EU Referendum in 2016, investors' attitude to the UK has focused on Brexit risks. Generally, discussions surrounding UK risk assets have focussed on downside risks. A Bank of America Merrill Lynch fund manager survey shows that this trend is beginning to reverse, but there is still much scope for the recent strength in UK assets to continue. Allocation to UK equities is 13% underweight globally, with the average since the European referendum being 28%. This continued avoidance of UK equities means there is an opportunity to buy UK equities at discounted prices.

The UK appears cheap relative to other developed economy indices. On a Price to Earnings basis, the UK is cheaper than the US, Europe and the MSCI World. Even on a relative basis, all other developed indices trade at greater premiums to their historical average, with only Japan in a similar position to historical average. The aggregate P/E for the UK is pushed upward by a relatively expensive healthcare sector. Other major UK sectors, such as financials and energy, which account for some of the largest UK firms, are trading at discounts to 10-year averages.

Following the December election, the Conservative party now have a clear majority, removing some Brexit uncertainty. It has also seen the Conservatives pledge an extra £13.8bn of spending by 2021; austerity is definitively over. This fiscal stimulus looks set to provide a boost to domestically focussed UK equities. A poll by the Association of Investment Companies found a third of respondents viewed the UK as having the best prospects for 2020, even more impressive considering the poll was before the election.

With favourable valuations, a positive fiscal environment, and shifting sentiment from fund managers, the UK could provide strong returns in 2020. The key risk is of course potential failure of EU trade negotiations, but there appears no strong will from either side to see a trade deal to completely fall through and unless this changes we would expect this to be an attractive proposition in 2020.



Charts Source: Mazars Calculations

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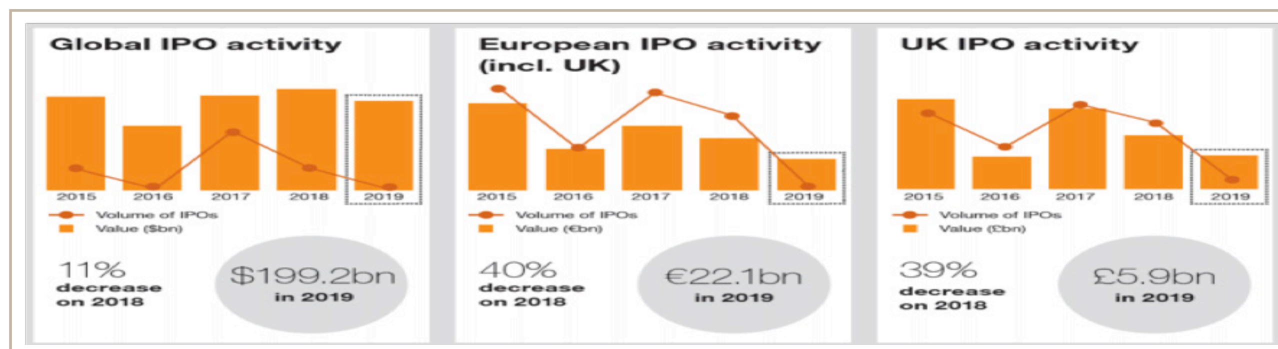
EQUITY SPOTLIGHT: COMPANIES NO LONGER GOING PUBLIC?

According to PwC, the value of UK listed IPO proceeds in 2019 were £5.9bn, down 39% compared with 2018. Furthermore the number of IPOs was 27, down 60%. Overall the European IPO market (which includes the UK) was €22.1bn in 2019, down by 40% compared to 2018. What is striking is that the levels in 2018 had fallen significantly from the 2017 number, raising the question of whether we are seeing a protracted downturn in companies choosing to become publically listed companies.

Looking at Europe over a three year period is perhaps over-simplistic, after all we can expect the value and amount of IPOs to be cyclical due to levels of investor confidence (there is little point in bringing a company to market if no one wants to buy anything) and valuation levels (why bring a company to market when valuations are low – those selling shares would likely be doing so at a discount to intrinsic value). However global equity returns were over 20% in 2019, which to a certain extent counters these two reasons. That said IPOs take time to come to market, and the significant sell-off in late 2018 may have delayed listings – in which case we should expect a rebound in 2020.

Yet as the economy grows we should expect to see the value of IPOs rise, which has not been the case since they hit a high in 2015. One reason seems to be that firms' ownership are finding the arguments in favour of listing (access to cheaper capital and the opportunity to realise investment gains) less compelling than the reasons not to list (greater reporting costs and regulatory requirements). There is a trend away from listing at valuations below £100mln. Instead firms are allowed to grow to greater market capitalisations before the need to list and deal with the extra scrutiny that brings. The vast amount of money going into private equity funds has made this possible where previously the only practical way to realise profits was to list a company.

These trends are a double edged sword for regular investors who generally do not have access to private equity funds. The downside appears to be that there will be fewer companies coming to market with excellent growth prospects, as a lot of the value gained from company growth can be enjoyed prior to listing. On the other had it should be supportive of equity prices due to simple supply and demand – the reduced supply of equities means there is less to go around, so that they are bid up on a scarcity basis. However a similar 'Wall of Money' argument, that the sheer amount of savings in Japan would support the ludicrously high equity valuations of the late 1980s, was proven incorrect.



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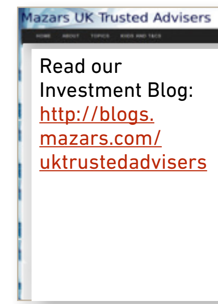

Investment blog

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