

Tactical Derisking

The Dow Transports seem to have lost momentum. Judging by similar patterns in recent years, the potential for gain is minimal and the potential for loss is increased. We are not suggesting huge losses but a range of 7% – 15% seems reasonable across US and Europe. Japan will likely find support from a weak JPY. India continues to be a bullish theme given the demonetization / remonetization theme which will see increased liquidity. China is in consolidation and risk management mode which will see a neutral or hawkish policy stance which is usually bearish for equities.

On the fixed income side, with heightened inflation expectations and an almost guaranteed rate hike March 15, not my expectation, but the market has placed a 96% probability on it, duration is a significant risk.

At the same time credit spreads have compressed acutely and while fundamentals are solid, HY loan defaults are expected to fall further, below 1% possibly, markets just don't go in a straight line.

Therefore, it seems prudent to reduce equity risk exposure at least in the developed markets (that now includes China), and to reduce long maturity (not just duration), credit.

Even AT1s which spiked when Deutsche announced its rights issue will likely come under pressure.

De risk. Don't forget, cash is an asset.