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Everything in its right place

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"Everything has beauty, but not everyone sees it' - Confucius

There is an old market expression that says 'As goes January, so goes the year'. The historic data rationale for holding this view is decidedly mixed but global equity market investing adherents will be entering February feeling very excited. Simply put, January was a decidedly positive month for global equity investors, and it is easier to say which markets went down rather than quote the long list who had their best start to the year for a number of years.

However, this was no simple bull market euphoric extension. Scrape below the surface and the world's financial markets are shifting much more than the 2017 vintage combination of higher global equity markets and a lower US dollar would suggest. For a start, all the headline equity market enthusiasm was counterbalanced by poorly performing fixed interest markets across the world. Given further indications during January that global quantitative easing stimulus will be materially clipped during the rest of the decade and that a little bit more of inflationary pressure is apparent around the world, this should come as little surprise.

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Rising bond yields cannot come as any big surprise but, as we detailed in our strategic themes for 2018 back in December, there are implications from this. The first is that within equity markets you will see sector rotation. Looking at some of the pan-European (including UK) data for January it was no great surprise for me to see the financial sector leading the performance charts, whilst the bond proxy consumer staples sector was the biggest laggard. The baby steps towards an equity market where being active rather than passive are being established. Investment differentiation will continue to rise during 2018.

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The other reason for this is the great opportunity for financial markets during this year - policymaker changes. This has many current titles and many forms, but it continues to be the key source of further equity market enthusiasm in the rest of 2018. However, it remains very much a work-in-progress.

In Europe for every new initiative announced in a dynamic speech by President Macron of France, you have the sight of Angela Merkel still scrabbling around to form a governing coalition in Germany. Similarly in Asia, continuing rigour in Chinese economic changes are matched by sluggish policy evolutions in Japan. Meanwhile, tax reforms in America are still awaited to be built on by a US government still

*An affiliate of Raymond James & Associates and Raymond James Financial Services struggling to get its own finances in order... and decide whether established regional trade treaties like NAFTA are worth persisting with in something akin to their current form. As for our own country, the strange juxtaposition of a (generally) rising Pound with ongoing rigorous domestic political debate about both the composition of the UK government and the Brexit debate, continues to intrigue.

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I cannot help but feel though that everything is progressing as we should have expected. More active equity markets, falling prices/ rising yields in the bond markets and a new focus on the fade in Central Bank quantitative easing stimulus and the rise of importance in government policymaker reform and change. Everything is in its right place.

As for where we go next, there will undoubtedly be bouts of volatility and the opportunity cost of cash on the sidelines is a lot lower than in prior years, but it is certainly not a completely vexing backdrop for investors.

The ongoing global corporate quarterly earnings frenzy will provide one bottom-up insight thinking about individual companies and sectors and policymaker reform progress will provide the most influential bigger picture view. In equities, pan-European and emerging markets still provide, from my perspective, the most opportunity to surprise in 2018 and this is where I would focus.