TAM INTERNATIONAL INVESTMENT NOTE

US equity markets; is this what they call an "up crash"?

With the global bull-market in equities entering its 10th year we have, since the financial meltdown of 2008, lived through an era of long term positive investment return. No matter what has been thrown at these markets over that time, they have (almost) serenely sailed on to new highs. Volatility has collapsed and investment return remarkably consistent for managed style portfolios. Great for clients and for all of us in the financial services industry if we simply stayed on piste.

The US market has been the lynchpin that's driving this global rally, not China, not oil and not Bitcoin. The long-term gains made over the last 10-year bull run have been outstanding, but the short-term rally in 2018 has taken many commentators by surprise. Even for the battle hardened, a 1,000-point rally in just nine trading days on the Dow Jones is heady stuff. The headline US index - the S&P 500 - has, so far this month, managed to put on 6.7%, leaving most US large cap active managers in the dust.

So, the $64,000 question is this - with the present surge in the US equity market (which interestingly is absent from both the UK and European markets) is it a forerunner of a very strong period of US growth, or the classic over exuberance pre-warning that an "end of cycle" correction is around the corner?

To answer that directly, we see many reasons why equities still offer the best medium-term investment play in the US. With three expected rate rises in the US this year, the Government is not, at this point, high on investors' watch list. What's grabbing investors' attention this year, are earnings fundamentals over that of macro, politically charged sentiment.

The facts of the US market are therefore; earnings are beating forecasts, Trump's tax cuts will boost capital expenditure and feed into bottom line profits, US consumption is only getting stronger, and almost everyone has a job. No surprise then, that GDP growth is strong relative to inflation, which in most economics books is termed a "Goldilocks Environment".

In April 2009 we, wrote Green Shoots of Recovery, and from that point to now, countless commentators have failed to fully believe in this equity rally, instead choosing to come up with premature forebodings of the end of the recovery, so many in fact, that we could create a library of them. Even as the outlooks for 2018 were delivered by investment houses, the US was not seen as driving on aggressively, as over valuation was highlighted and a more muted year for equity growth was considered. Wrong so far then, and Europe and EM were certainly higher up the agenda for many houses.

TAM's global exposure across its risk ranges and US positioning has not been cut back and we are now showing that US exposure is adding good value to portfolios. Following on from our more recent Nowhere to Hide piece last November, we expounded the view that equites were the only serious player for investment return and the fat lady was not singing yet. That remains the medium-term view but after such a strong rally, should it continue crashing through records, there will be a point that, much like an overheating pressure cooker, it will need to let off steam. The faster the US goes up, the more volatile the markets are likely to become, and of that we are mindful.

We do not portend the end of the bull market, simply because the fundamentals are just too strong to de-rail the rally. But a word to the wise (although just our opinion), an element of over valuation is warranted. Strength and depth of this rally "up crash" may make us review our US exposure, but then again, by the time you read this there may be shorter term sanity coming out of the market. For now, we are in the moment, so enjoy the "up crash"!

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