The Laird Report: U.S. Equity markets withstand emerging markets pressure

In his February edition *The Laird Report*, Jim Laird suggests that the U.S. and Canadian economies slowed down a bit in January 2014 and most analysts given the extremely cold weather. US monetary policy has affected commodities, which has had different effects on oil prices (Brent vs. West Texas Intermediate -WTI) reacting differently in accordance with different decisions. While several European economies are unable to grow and absorb extremely high unemployment rates – especially Italy, Spain and Greece – emerging markets also put pressure on the markets in January. The Germans are afraid that the EU and European bank will adopt more government intervention measures to help reverse the policy of austerity.

Capital flight has threatened prospects in the commodity markets (except gold) with fears that the problems of these countries could grow into a global crisis, driving investors from equities to safer assets such as gold or government bonds. The U.S. Federal Reserve (Fed), meanwhile, reduced its bond purchase program as part of an announced phased shift aimed at favoring the reallocation of capital from emerging markets toward the United States. The fed appears to have taken a defensive track to deal with any emerging market risk spilling over in the short term and this should benefit US equity markets. The Fed announced in Dec 2013 that it was starting the taper, a decision partly driven by seeing key targets of inflation around 2% and unemployment being less than 6.5%.

As for the weather, it has had a strong correlation to oil process and reserves. Stocks of middle distillates, which include heating oil and diesel fuel, have dropped considerably due to the cold wave in the USA and Canada. Oil prices have averaged (WTI) FROM USD$ 97.45 to Brent crude for March delivery at USD$ 107.77. As for the 'weather storm' in the financial markets, gold continues to be a safe haven for many US investors and it has been trading at about USD$ 1,258/ounce. However, while problems persist in Europe, Laird noted that US employment has been improving even if the total numbers were below expectations. Canada has been performing adequately, however, its manufacturing base has become smaller than the past and its commodity dominated exports, priced in US dollars has improved those companies' profits while driving up inflation because of the higher number of consumer goods being imported.

Laird cites the importance of the banking and finance industry as a key indicator of the US economy's war, adding liquidity to the economy in the form of credit. The collapse of that credit mechanism in 2008 and banks' credit averse policies have been one of the leading factors slowing down the economic recovery in the wake of the 2008 recession. Laird tracks several leading and one of the most relevant, measuring measured Indicators vs. Real GDP Growth, he plots correlations that according to his linear model point toward improvement in all major areas especially the all-important 25%-75% confidence intervals for real GDP change, which predict a more 'growth' rather than 'no growth' scenario.

In the chart showing stock market returns, Laird shows that while overall performance was down in January in all major markets from North America to Europe and Australia, the markets have performed better on a year to year basis, especially in the last three months of the year. As for sectors, Laird has shown that the best sectors in January – not surprisingly given the weather – was utilities, which saw a 4.1% increase; health care and information technologies were also growth sectors while industrials and materials dropped.

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