A tidal wave of liquidity: Navigating 'booming' markets

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Equities, bonds, gold, even Bitcoin, along with a range of other assets, have chalked up big gains since the US Federal Reserve made a sharp policy U-turn by cutting interest rates in response to slowing economy last autumn

That unleashed a tidal wave of liquidity which has buoyed asset values across a broad front. But the spread of coronavirus has dampened the party mood on fears the world economy may catch the bug.

With China accounting for 17% of the global economy, it is too soon to discount this risk.

Further out, a bigger threat is the possible return of inflation as a major investment theme. Rising wages in major economies ranging from the US to China have yet to translate into higher inflation due to lag effects.

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Meantime, debt levels continue to soar and productivity growth remains sluggish.

The absence of inflation has led to growing complacency that central banks will ignore any blip in inflation as they focus on preventing an outright recession.

Moreover, the Fed is also likely to become increasingly gun-shy in the run up to US Presidential Elections this November.

for bond markets.

Investors now crowded into negative-yield fixed interest securities as a haven from deflation would face huge capital losses as the yield curve steepens.

The fallout could spill over to some equity markets - i.e. the US. Indeed, the S&P 500 is valued 80% above its long-term norms, according to some measures.

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How should asset allocators mitigate these risks while continuing to ride booming markets? Despite a 11-year bull run, and the risk of a bond market induced rout, most equities remain far better value than bonds.

We are also bullish on gold and precious metals, including mining company shares, as well as property - all assets that tend to outperform in inflationary periods.

Within equities, we like the UK for its cheap value and potential to close the gap with other markets as we expect the 'Brexit' discount to other equity markets to gradually disappear.

UK and Asian equities offer much better long-term value, while the US is overvalued and mainland EU is just best avoided.

Ian Williams is chairman and chief investment officer of Charteris Treasury Portfolio Managers

Bull points

- Equity markets remain better value than bonds
- US economy is likely to avoid a recession before the election
- Interest rates to stay lower for longer and any higher inflation ignored

- Faster inflation would rattle current bull market
- US equities are pricey, increasing risk of a correction
- Bond yields are near record lows and offer poor returns

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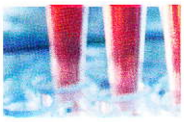

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