

Flash Note: 15/11/2019

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Reusing the same talk we had at the end of 2018?.

In late 2018 and early 2019, during my traditional Roadshow to explain our perspectives for the year, I used these two slides (see below) to talk about the 4 key prices that determine the price of all assets (and global risk appetite). The conclusions were summarized in the second slide.

I have the impression that these four prices will remain low or stable during the first quarter of the year (and probably beyond). If I'm not wrong, we can simply apply today the same conclusions we were saying in January 2019.

2019: The four prices that matter

Four prices matter more than others because together they determine the level of investor's risk appetite.



1. The US dollar



3. Price of Oil



2. The UST yield



4. Corporate Bond Spreads

Putting together the dynamics of these 4 key prices...

1. A USD that is **no longer rising** (vs a broad basket of currencies)
2. A Fed that is **done tightening** => Controlled 10Y UST Yield
3. Corporate **Spreads** that remain (for now) **fairly tight**
4. **Lower oil prices** (range bound in the US\$50-US\$70)

Conclusions:

1. These factors together usually help to trigger massive **"quadruple merit" for risk appetite globally.**
2. This should be reflected in **PE multiples that should remain stable** or even expand a bit.
3. An environment that seems to be the **wining combination for equities and interest bearing assets in EM.**

The risks:

1. US Corporate Spreads getting out of control due to a disruption of liquidity (Fed mistake, PBoC too prudent, etc ...)