

WYSS & PARTNER

Is this the end of the bull market?

Last Friday stock markets started to tumble in the US and with the new week markets jitter spread around the globe. So far explanations given, conclusions drawn and recommendations offered are manifold or rather contradictory. The fact is that the announcement of labor market data in the US coincide with the correction in the stock market. Seemingly, the figures for average hourly earnings gave rise to hefty reaction. This wage indicator rose 0.3 percent in January from December and 2.9 percent year over year. In December, the respective figures were 0.4, respectively 2.7 percent. Fears of spiraling inflation were priced into bond markets and yields rose not only in US Dollar bonds.

Leaving aside the emotional part of explanation, nothing on the generally positive economic conditions has changed which would call for a reassessment of financial markets. Interest rates and inflation will tend upwards given the strong and synchronized momentum in global economic growth. However, the development will run more slowly and reach not the extent of past economic cycles.

Because neither economic nor political facts explain the market slump satisfactory, the simple explanation is technical correction. Indeed, over the last months equity markets headed only one direction and hardly ever paused. To some extent, the correction was overdue but surprising in its intensity. Computer based trading will most probably be responsible for the magnitude of market movements and therefore **for the “irrational” currently ongoing correction phase.**

Nervousness in financial markets could last for some time while investors will have to check their risk attitude. Basically, we are of the opinion that once the market correction is done equity markets should be in an attractive situation: In addition to the economic head wind valuation has come back to fair levels.

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Wyss & Partner
Asset Management and
Investment Counseling AG

Bahnhofstrasse 17
7323 Wangs, Switzerland
P +41 81 720 06 88
F +41 81 720 06 89
info@wysspartner.ch
www.wysspartner.ch