Nasdaq above 6000…

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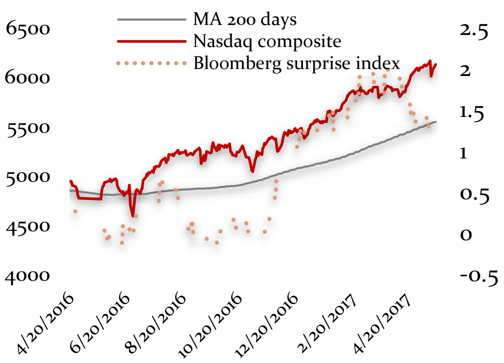
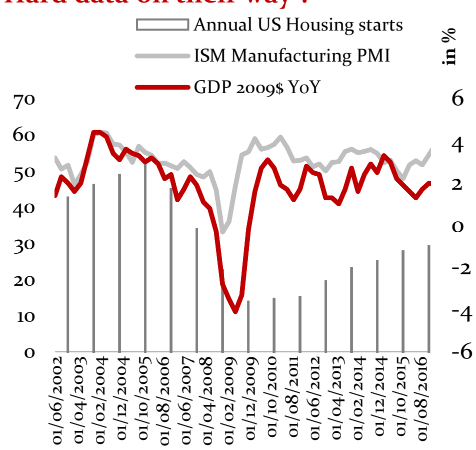


Hard data on their way ?



Finally, NASDAQ index has bounced over the 6000 points psychological threshold. Technically, it means that this past resistance has become a support, involving a defense of bullish forces. The questions that can now be asked are whether this movement is justified and whether this trend will continue?

Well, we can see from the graph below that technically the uptrend is now well supported by the 200 days moving average and that the bullish movements come with high volume. After the difficulties faced by Trump to implement his new accommodating policies, strong economic indicators have allowed the market to become optimistic again. Indeed, the well-known Bloomberg surprise index showing the degree to which economic analysts under- or over-estimate the trends in the business cycle have reached a five-year high. Even if it has recently decreased following overestimations, it is still in a positive territory. This index is important as the market tries to integrate all the future states of the economy with precision. Regarding these elements, and others, such as, the stabilization of the Brent's price above 50$ and the strong depreciation of the dollar against the euro reaching an 8 months high at 1.1237$, one can be confidently bullish.

Nevertheless, some analysts are still skeptical, as good economic surprises are linked mostly to what is called « soft » data and not « hard » data. Well, in my opinion this argument is not sufficient as some « soft » data matters more than « hard » data due to the simple fact that they are leading indicators compared to some « hard » data that are lagging indicators. To illustrate this difference, non-farm payroll is an important indicator of the state of the economy but is unfortunately a delayed indicator compared to the business sentiment, which will drive future consumption. Analogically to inflation which is mostly driven by expectations, consumption, is also mostly driven by confidence. This indicator matters even more in the US than in China where the consumption represents over 70% of the overall GDP. Confidence is at its highest level while the economy is still trying to find a new breath as shown by the 6.8% decrease in the housing starts last month and a 0.7% GDP growth (the slowest in three years). This divergence, if it continues, could be problematic for the sustainability of the equity markets.

An interesting short view published by Stephen Foley in the FT shows this balanced upbeat in the market. Indeed, he highlighted the fact that investors have an appetite for convertible bonds which are safer but could lead to an attractive return if converted into equity. He highlighted two interesting data of this first quarter 2017: « 34 US companies tapped the market, the most since 2014, raising 11.1bn » and « first-quarter returns of 5.3% on the Merrill Lynch US convertible index came close to the 6.1% returned by the S&P 500 ». This trend over convertible bonds could be a consequence of this perception of divergence and the uncertainty of a sustainable uptrend in the long-run.

Human mind could instinctively say that "indices are too high and it won't last" but statistically, 90% of the trend continues after hitting new highs in line with the famous quote "Cut your losses short and let your winners run."

Finally, to avoid an inflation bias, it is worth considering the last graph. One can clearly see the predictive nature of such indicators on the GDP, and the fact that they are positively oriented, could suggest that hard data might be on their way…

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