

Dollar is the king, a chance for gold



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- Most asset classes under pressure
- Low PMIs are a burden for the markets
- Gold can gain

The dollar is the king of 2018 with its year-to-date rate of return at 9%. Other asset classes that have produced good yield this year are shares, but only of US companies. Since the beginning of the year, S&P has gained about 1% and technological Nasdaq about 6%. However, the majority of other asset classes are under pressure and have recorded negative YTD rates of return. Emerging market shares have yielded a 17% loss, US bonds with maturities between 7 and 10 years – ca. 3%, and emerging market bond indices in USD – ca. 6%.

The market is missing a positive economic factor on a global scale, which could give investors a pretext for bolder investments in a longer period. Such a positive stimulus could be, for example, the reversal of the trend related to PMIs. Currently, these indicators are still higher than 50 points, but they are in a downward trend. Historically, taking long positions on stock markets in such a configuration did not produce profits. In this phase of the business cycle, it is not uncommon that shares move from the position of one of preferred assets to the last place, so the volatility that has appeared recently on the markets may persist. In addition, projections presented by listed companies are not as strong as their still good current performance, which may also cause anxiety.

The oil market is interesting; it has been in a clear downward trend since October (in this period, the valuation dropped by one third). At the beginning of the year, prices of this commodity rose due to concerns about the supply side. However, after the decision of the US President, who granted exclusions to certain countries to import Iranian oil, these concerns softened. In addition, falling PMIs do not give rise to optimism on the market when it comes to the state of the real economy. The trend of moving away from oil can be enhanced by closing positions on the long oil-short natural gas arrangement that has been popular until recently. While the oil got cheaper, gas prices soared, gaining 60% last month.

In view of uncertainty on the market, investors may look more favourably at gold, which traditionally has served as a safe harbour in turbulent times on the market. If we are surprised in the USA by higher inflation, which will not be accompanied by an additional signal about higher rates from the Federal Reserve, the price of gold may go up.

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