the technical analyst AWARDS 2011 FINALIST

29th August 2013

Market Update:

Why the weakness in stocks is transitory

UPDATE
Technical
Fundamental

Disclaimer

Authorised and regulated by the FSA

UPDATE
Technical
Fundamental

FUNDAMENTALS:

Since mid November 2012 equity markets have enjoyed a long rally with the first serious set back not occurring until May/June 2013 as a result of the Fed surprising markets with their proposal to begin tapering at some as yet to be agreed date, but before the year is out.

Traders overcame this shock. The Fed gave certain conditions it saw as necessary before tapering could begin. Moreover the US economy and indeed those of the UK, Euro zone and Japan have all embarked on various levels of economic recovery, which re-assured traders and sent the markets, especially the S&P 500 to new highs.

But as uncertainty over tapering crept back into the markets, caused once again by a lack of clarity from the Fed over both the timing and extent of their proposed tapering exercise; even the most recent FOMC minutes failed to offer clarity, traders again began to display signs of risk aversion.

The resulting correction, while still not as deep as the May/June event, has been exacerbated by recent events in the Middle East.

First Egypt throws out its elected president and unleashes her armed forces on its own citizens protesting about the army coup that removed the country's first elected president, and then the two and a half year civil war in Syria takes a new and serious turn.

The US President and other leading world politicians have made it known that if the Syrian Regime used chemical weapons a red line would have been crossed, requiring a military response.

UPDATE
Technical
Fundamental

FUNDAMENTALS: CONTINUED

Well it appears that line is crossed. Reports are rife of a government chemical attack on civilians in Damascus and UN inspectors have been on site to verify. The US, UK and France seek authority from the UN Security Council to launch a surgical military strike on Syrian government military assets in retaliation for the breach of international law.

The response in equity markets, in the face of what was billed as imminent military action, was a sell off, albeit relatively limited. But predictably Russia and China look like vetoing any attempt to gain UN authority and in the US and UK war weary legislators and public opinion, want hard evidence before sanctioning their military involvement on any level.

This has led to a scaling down of expectations regarding a strike on Syria in the immediate future, and as a result stocks have staged a small but welcome recovery.

We judge equity markets are nervous on uncertainty. When those uncertainties are removed, equity markets will resume the rally.

The first uncertainty is the Fed. As soon as the Fed decides when tapering will actually begin and decides by how much, markets will know what they are dealing with and will discount it as an obstacle to making further upside progress.

Similarly once the west has fired off its missiles and stepped back, markets will breath a sigh of relief. Russia while obstructive will do nothing after the event. Iran for all her warnings can do little but resort to limited terrorist activity; yet again and Syria is in no position to do anything.

In conclusion we judge the current market impediments will resolve and the bulls reassert. The 4th quarter could see the Bulls back in control.

UPDATE
Technical
Fundamental

SEVEN DAYS AHEAD
Authorised and Regulated by the FSA
124 REGENTS PARK ROAD LONDON NW18XL
TEL +44 (0) 7849 922573 E-MAIL msturdy@sevendaysahead.com,
jlewis@sevendaysahead.com pallwright@sevendaysahead.com
WEB SITE SEVENDAYSAHEAD.COM