27th February 2014

the technical analyst AWARDS 2011 FINALIST

Market Update:

UPDATE
Technical
Fundamental

Why we still like the S&P

[Full performance of our Key Trades recommendations 2006-13 here]

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SEVEN DAYS AHEAD

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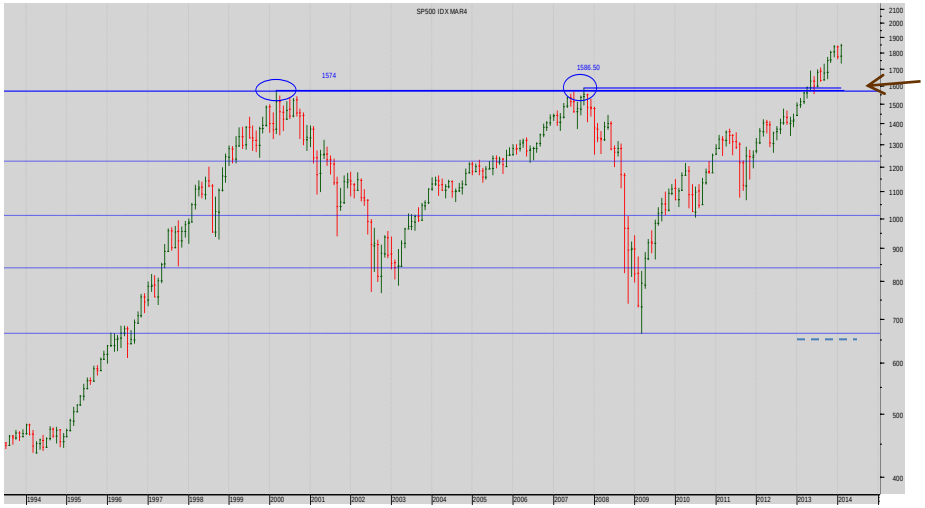
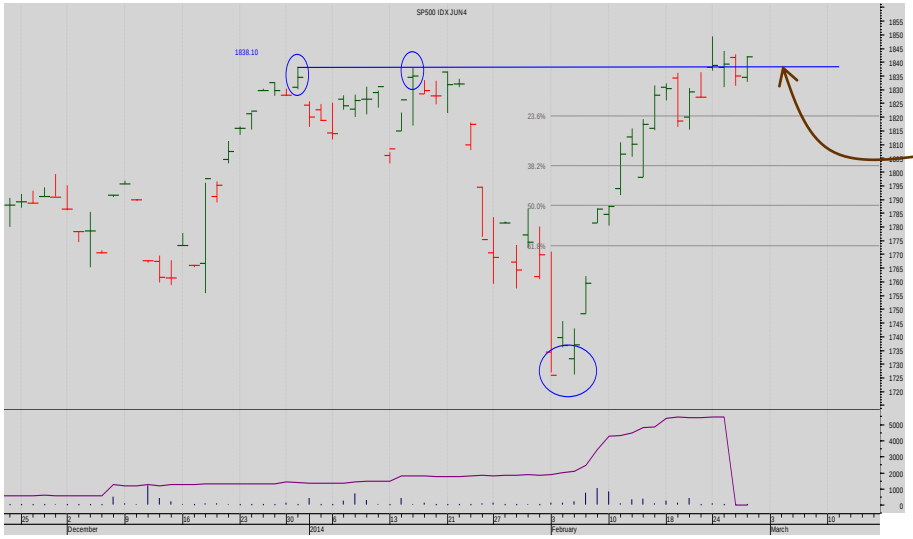


Monthly chart

The long-term chart tells the story of massive underpinning of the market.



Daily Gilt chart

The short-term price action suggests that the market is on the point of breaking out of a two month pause....

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Why we still like the S&P

FUNDAMENTALS:

Since the beginning of February, the S&P has made a strong recovery from the emerging markets sell off that dominated January. So much so, that it is again pushing up against previous all time highs.

The reasons for the recovery are;

- A quietening of the emerging markets crisis, and
- Continuity at the Fed, when new Fed Chairman Janet Yellen during recent testimony in Congress made it clear that policies pursued under Ben Bernanke would be left unaltered, meaning the Fed would carry on with its Taper policy.

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Add to this a fairly solid earnings season and an understanding that much of the US economy's current softness is due to extreme winter weather that has affected much of the US and although currently shows no sign of easing up, traders are looking beyond this natural phenomenon and anticipating a return to more solid growth when spring finally arrives.

However, just when it seemed the time was right for going long the S&P, another crisis has erupted; Ukraine.

The internal turmoil afflicting Ukraine has been running for several months, and was mainly a protest about whether that Country should embrace the bear hug of Russia or look west towards the EU.

The authorities were set on closer ties with Russia, but the people wanted the greater sense of freedom believed possible from a closer relationship with the EU..

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FUNDAMENTALS: CONTINUED

However, the game changed last week when the police began picking off protesters with sniper fire leading to a death toll of some 50-80 people. The Parliament decided enough and voted to remove the President and announced new elections and freed the ex-Prime minister from jail.

Clearly angered by his policies failure, Russian President Putin has upped the rhetoric, placed 150,000 combat troops on high alert together with fighter aircraft and promised to protect the rights of ethnic Russians.

All of this sounds like another attempt to grab back former Soviet territory, much like in Georgia several years ago.

If Russia rolls over the border, what can the west do?

From a military standpoint, nothing. No one in the west will want to go to war over Ukraine which Russia obviously regards as a wayward province. But there must be consequences for Russia if she resorts to an invasion of a neighbouring Sovereign state as a means of getting her own way.

Although much of Europe relies on Russian gas, Russia relies on the revenue from it and there must be an economic price to pay if she resorts to blatant aggression.

What impact is this having on stocks? Currently the tension has merely paused the rally, there has been no wholesale sell-off and we don't think there will be. Possibly there may be another risk aversion driven correction.

For us this makes the S&P look very bullish and it is only the minor uncertainty caused by Ukrainian events that restrains us from going long right now, but our intent is definitely bullish.

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