



2nd October 2015

the technical analyst
AWARDS 2011
F I N A L I S T

Multi-Asset Update:

UPDATE
Technical
Fundamental

Bonds v Equities: which is the better bull market?

[Full performance of
our Key Trades
recommendations
2006-15 here](#)

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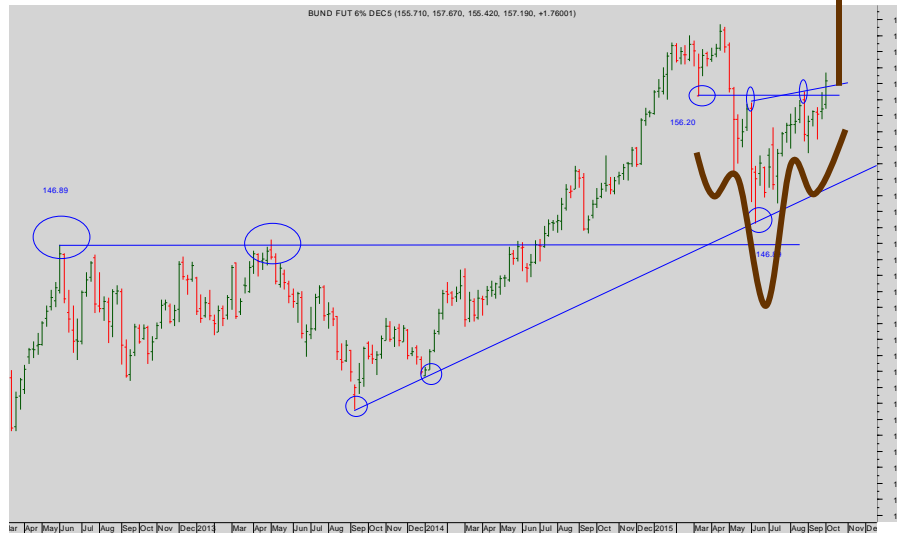
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Are bonds (Bunds) a better bull market than equities?



Bunds weekly chart

The pull-back in the German bond market looks to be over.

There was good support at the prior Highs (as will all good bull trends) at 147-148 and the market has bounced heartily.

Not too that the close at the end of this last week completed a Head and Shoulders Reversal.

The minimum target for that H&S pattern?

About 8 Big Figure above the Neckline – or 165!

The bulls are very much in charge.

DAX weekly chart

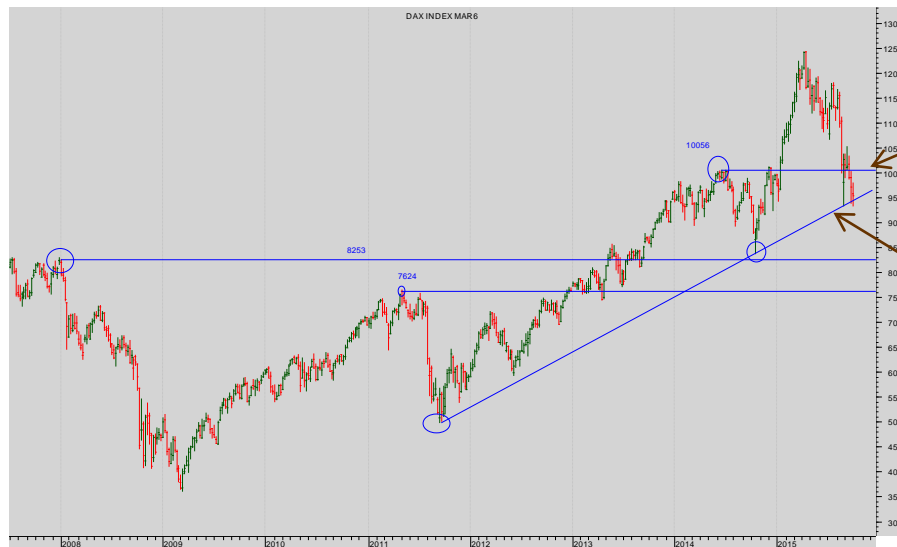
By comparison with the Bunds, the Dax cuts a miserable figure.

The Prior High support at 10000 has been no support at all.

There was a brief rally back above it but that fizzled out.

Note the current support is the usually weaker trendline diagonal support from 2011.

But there must be grave doubts as to whether that diagonal will hold....



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More



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FUNDAMENTALS:

At the beginning of this year the expectation was for something of a bear market in Bonds. Stocks were in a bull trend. And although US Q1 GDP disappointed, traders/investors were generally optimistic about the prospects for US growth throughout the rest of 2015. Add in Japan's Q1 GDP of around 3.9% and two of the world's biggest economies, together with the strongly-performing UK economy, seemed to be pointing to strengthening global growth.

In response, the US Federal Reserve and UK Bank of England began talking up the prospects for raising interest rates either later this year or in 2016. But events took over.

The Eurozone was thrown back into turmoil as Greece elected a new Prime minister with a mandate to ditch austerity and revive the Greek economy. In the event, Greece's creditors had other ideas and a protracted period of negotiation played its part in unnerving equities.

Add in the slowdown in China that sent global equity markets reeling during the late summer and stocks now look highly vulnerable to further selling.

As a result, the Fed passed on an opportunity to hike in September as a result of Chinese and equity market weakness, despite previously flagging their intention to move at that meeting.

But the Fed continues to send out strong signals that rates will rise this year, and the Bank of England governor continues to talk about hiking UK rates in 2016, so why aren't bonds now selling off?

The reverse is true. The UK Gilt looks a buy, the Bund looks set to re-establish its long run bull market and the JGB remains the perennial Bull market. Japan's growth has stalled leading to the prospect of yet another technical recession together with yet another dip into deflation.

Are bonds (Bunds) a better bull market than equities?

FUNDAMENTALS: CONTINUED

Let's look then at the main dynamics currently at work:

1. The Chinese, Japanese and Eurozone economies are all either at best performing at sub-optimal levels or on the brink of recession.
2. Global inflation is benign to non-existent,
3. commodity prices are weak, especially oil,
4. leading PMI/ISM Manufacturing surveys are weakening, pointing towards a possible recession in manufacturing.

But still the Fed wants to start raising rates.

This is why stocks are weak and bonds buoyant.

The Fed and to a lesser extent, the Bank of England have bloated balance sheets with interest rates set at rock bottom levels. The result is that if policy makers act too late and growth and inflation suddenly accelerated, the policy response required would cause a bigger shock to the economy than required.

So a gradual tightening is envisaged in order to return policy to a more neutral level, hopefully without causing economic trauma.

Ordinarily when Central Banks start a rate hiking cycle, growth is well set and equity traders shrug it off as they focus on corporate profits and Bond markets take the hit.

But this time equity traders are nervous. If the Fed is wrong the moderate US growth (as described by the Fed) could peter out. In bond markets the reverse is true: tepid global growth and weak inflation is usually no reason to raise rates and if the Fed goes ahead and starts to push short-term interest rates up, long term yields will, unless there is a growth spurt, probably fall.

So are bonds a better buy than stocks? Right now, yes!

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