Insights in 140 words

Macro

Housing - So not even the IMF can resist complaining about property prices. Strange though to pick on one of the few asset classes to have fallen in real terms over the past decade. Global house prices, weighted by gross domestic product, are up a measly 10 per cent since 2004, easily trailing the 50 per cent increase in overall consumer prices. Over the same period the prices of gold and oil have tripled, global equities are 70 per cent higher and developed country sovereign bonds returned 60 per cent. The IMF also worries that house prices versus rents are high (or rental yields are low) relative to history. But a 2 per cent dividend yield on the S&P 500 is also below its post-war average of 3 per cent. Many bond yields are at record lows. Perhaps the IMF is renting?

Strategy

Volatility - Your Chinese enemies may want you to live in interesting times but so do the portfolio managers of your equity fund. Recent months of near-record low volatility has them howling with frustration that dull markets are impeding their ability to generate alpha. But is their complaining borne out by the facts? For example over the past 15 years the relative performance of actively managed mutual funds invested in large-cap US equities bears little correlation with implied volatility as measured by the VIX index. After fees these funds underperformed the S&P500 by 5-10 basis points on average during the quarters when the VIX was below 25 - and by a similar amount when the VIX averaged below 15. But when the VIX was higher than 25 over the quarter underperformance actually increased to 35bps. Fund managers should be relishing their current boredom.

Stocks

Nike versus Adidas - Forget about bragging rights during the World Cup (Nikes enclosed 70 per cent of those Brazilian and Croatian feet last night while a quarter wore Adidas boots) what matters to investors are returns. Here the big question is whether it is time to buy Adidas after years of underperformance versus Nike - although both share prices have more than quadrupled over the past decade. The German company is a third cheaper based on multiples of forward earnings. Partly that is due to forex headwinds and its struggling TaylorMade golf business (rounds played in America fell another 5 per cent in the first quarter). But what really matters is that Adidas's footwear sales in the US are 30 per cent down on last year with a 9 per cent market share falling fast. Stop that slide and a switch looks more compelling.

Finance

Bank capital ratios - For investors suspicious of the variation in risk weightings across European lenders' capital requirement calculations, research by Deutsche Bank actually suggests little gaming of the system. As a check consider the impact of regulators forcing all bank models to put a floor of 0.25 per cent on the probability of a loan defaulting irrespective of how safe it is. The increase in corporate and retail risk weightings would only be 4 and 3 percentage points respectively, which translates into a 0.3 percentage point lift in core tier one capital. A similarly modest capital impact would be felt if banks had to assume they lose an extra 5 per cent of their money when mortgages default. A bigger shock would come if discretionary models were jettisoned and standardized risk weightings introduced. Investors are best trying to second guess regulators than banks.

Digestif

US payrolls - So total employment in America has at last returned to the pre-crisis peak of 138.4m people. Everything back to normal then, all is forgiven! That may be true for a dozen or so professions. But out of the 300-odd sectors defined by the Bureau of Labor Statistics fourth-fifths still have fewer workers today than in 2008 - with a median decline of 15 per cent. Secular trends have wiped some jobs off the map. Video and book store employees for example have decreased by three-quarters and 40 per cent respectively. But most shrinkage is in cyclical industries that have simply not recovered. Architects, printers, cement and auto makers still have 25 per cent fewer employees. The reality is that unless Americans work in energy, or in medical labs, theme parks, bars or jails, they have fewer colleagues than they used to.