Insights in 140 words

Macro

Treasury yields - What’s behind the relentless rally in Treasuries this year? Ten year yields have fallen 60 basis points since January and are approaching 12 month lows. Half the spike following the taper tantrum has now been retraced. Explanations abound. Some focus on marginal demand, for example Chinese buying via Belgium (note the falling renminbi), short-covering or a rotation into bonds as equities reach new highs. Others make a relative value argument: widening spreads versus Bunds, a lower terminal Fed funds rate, weak US first quarter data. But few mention falling supply. A shrinking US deficit means less Treasury issuance. Indeed year-to-date net issuance is down 60 per cent from 2013. And at $490bn this year, the deficit is forecast to shrink by another $200bn, nearly matching the reduction in Fed buying. Investors just can’t get enough of US Treasuries - quite literally.

Strategy

Fund manager performance - Do active mutual fund managers add value? A recent National Bureau of Economic Research paper reaches a familiar conclusion but adds an interesting twist. Firstly the analysis shows that between 1979 and 2011 average gross monthly returns were just 5 basis points above benchmark. Subtract an average 10 basis points per month in fees and investors have lost out. But do not scream at your fund manager just yet. The paper primarily blames the growing industry for poor performance. In fact adjusting the data for the negative effect industry size has on returns fund managers today are actually adding 30-40bps to monthly performance on average. In other words they are counteracting an expanding market with increased skill but not by quite enough to outperform overall. The industry’s own success - not fund managers individually - is to blame for poor relative returns.

Stocks

Gazprom - “Ukraine won’t buy $500 gas, it doesn’t need it." So said the country’s new president prior to Thursday’s deadline for repaying Russian gas debts and with negotiations continuing today. While an admirable opening gambit the statement is hard to believe. For a start Mr Poroshenko says he can import reverse flow gas. But that means Ukraine’s neighbors would have to buy more from Gazprom to make up the difference. He also threatened consuming less. Good luck - gas imports have halved since 2008 and will rise if Ukraine’s economy recovers. Nor can shale gas or LNG imports save the day. The former remains unproven across Europe and the price of the latter is too high. Finally the president boasts of record-high storage levels. That is not a long term solution for Ukraine or much comfort to countries further along the pipe.

Finance

Deutsche Bank Global Financial Services Investor Conference - Ten nuggets from this week's flagship event in New York: (1) Everyone expects interest rates to remain low and regulation to remain high (2) The potential for European cross border M&A was mentioned twice (3) Second quarter investment banking revenues were talked down but there was no consensus whether cyclical or structural factors are to blame (4) Bancassurance is no longer a dirty word! (5) European lenders see no sign of a pick-up in loan demand (6) Cost cutting is the name of the game but aspirations are modest - 70 per cent efficiency ratio targets were common (7) Deposits are cool again (8) Retail bankers are also drooling about mobile because interactions with customers are “a hundred times" more frequent than via branches (9) Prepare for lots more bail-in capital (10) No one mentioned shadow banking in China but everyone talked about the rise of shadow banking in Europe and America.

Digestif

Technological unemployment - We learnt this week that a venture capital firm has appointed an algorithm to its board of directors. So the spread of jobs under threat from technology is widening beyond drones delivering pizza and driverless taxis. Indeed an Oxford University study last year concluded that half of all American jobs have a more than 70 per cent chance of being computerized. Occupations that are more than 90 per cent at risk averaged $34,000 in median wages compared with $68,000 for those with less than 10 per cent risk. Of the 700 jobs examined telemarketers and insurance underwriters are most susceptible to automation while recreational therapists and audiologists (who knew?) are among the most secure. Surprisingly clergy was only the forty-second safest calling, but at least it fared better than chief executives who ranked seventieth! No wonder boardrooms are under attack.