

# ► On Target

Martin Spring's private newsletter on global strategy

August 27, 2016 No.205

## Is This Bull Market Sustainable?

Most investors are making money. Shares are going up, bonds continue to rise in value, gold is doing well again. Yet there's an uncanny, artificial feeling about the markets.

Wall Street is looking great. The major indexes – the S&P 500, the Nasdaq Composite, the Dow Jones Industrial Average – have broken out on the upside to all-time highs, which has got the chartists excited.

Although European markets look the dodgiest, they've stopped falling. London has been rocketing since its Brexit low. Emerging markets are having a great year – up by a third so far. The biggest Asian bourses, Japan and China, have been building bases as if they're getting wound up for take-off.

It's not only equity investments that are delivering gains.

The bull market in US Treasury bonds maintains its momentum, adding to the pain of all those forecasters who got it wrong, while the 20-year bull market in German Bunds is doing even better. Corporate bonds are recovering, even those in the "junk" sector.

Gold bugs are excited – big rises in values this year suggest the four-year bear market is over. Industrial commodities have bounced back. Even oil, recently the biggest investment problem, is now rising strongly once again and well above its new year lows.

Property is buoyant almost everywhere as long-term investment funds continue to shift into an asset that attractively combines relatively good yields with capital gains. (Don't be misled by the current crisis in the London commercial market – it's largely a short-term problem caused by Brexit panic).

So what is there to worry about?

► Technically, the charts are not yet convincing that we have a bull market. The upside breakouts have not produced the explosive follow-throughs one would expect (they could be bull traps, a mirror image of the February fake-out that proved to be a bear trap). There have been no "confirming" all-time highs in any of the world's other major stock-markets. Nor in the important (to chartists) Dow Jones Transport index.

There is no weakness – in fact the opposite – in the bond markets, in the past always an early signal of coming equity-favouring inflation. In real terms longdated Treasury bonds have far outperformed shares since the turn of the century, and

**In this issue:** Markets: what next?  European break-up  Gold  Global elites  UK fracking  Bonds v equities  Geopolitical risks  MVA,EVA

continue to do so.

In the US corporate earnings momentum has been falling for eight successive quarters, yet investors are into shares “because there’s nowhere else to go,” as one analyst puts it. However, comments another – price momentum moves driven by lack of alternatives “can be strong – but they also end badly.”

► Everyone knows that this is an artificial boom in asset values fuelled by a flood of cheap credit. It’s on a scale never seen before, with a third of the world’s bond market trading on negative interest rates – investors are paying the strongest borrowers such as Switzerland to safeguard their capital for years to come, instead of being paid by them for the use of their capital.

Central bankers are implementing policies that until very recently they condemned as outrageous, and are now considering even more extreme ones such as “helicopter drop.”

In the short term, this is likely to give investment markets an extra boost. But clearly central bankers really don’t know what they’re doing, as neither traditional policies nor these unconventional ones seem to be working in lifting economic growth to acceptable sustainable levels.

Is this panicky behaviour telling us something we don’t want to hear – that the bankers are aware of and fear potentially catastrophic problems in the global financial system?

### **Nasty consequences of easy-money policies**

► The world’s most important central bank, the US Federal Reserve, continues to delay the process of normalizing interest rates, with its policy marked by extreme timidity – a quarter-point at a time, maybe, sometime, and perhaps not at all.

This, despite ultra-low rates having many negative consequences such as punishing all savers and devastating pension funds.

► There’s a drumbeat of disappointments about global economic growth. The US is experiencing a long period of expansion, but its intensity has been the weakest in any recovery in living memory. The powerful growth effects brought by globalization are fading, and with no obvious big driver as the Internet revolution matures, it’s difficult to see what is going to be the next game changer.

The world’s sluggish economic growth challenges the logic of believing that it’s sound investment practice to pay high and increasing prices for assets whose value, ultimately, must require economic vigour.

► Confidence is poor. The latest survey of the world’s biggest investment managers by Bank of America Merrill Lynch showed that their proportion of assets held in cash is at its highest level since 2001... and is continuing to rise.

Ian Heslop, head of global equities at Old Mutual, says: “Market environment indicators show sentiment on a global scale – in North America, Europe, Japan and the Asia-Pacific region – remains firmly in pessimistic territory.”

► The surprising Brexit decision highlights the emergence of a new category of risk for investors -- major political uncertainty. The US could elect a maverick who wants to build walls and transform foreign policy. European unity is disintegrating

under the pressures of uncontrolled immigration, failing banks and savage austerity policies that focus suffering on the poorest nations and the lower orders. Radical Islam is spreading terrorism across the world.

So yes, there are some big reasons to fear that the current boom in investment markets fails to reflect the dangers out there.

Yet... for a while, those markets are likely to continue to rise. Mainly because central banks won't have the courage, beyond token gestures, to turn off the tap of easy money and take the risk, in an environment of low confidence, of triggering a financial shock that could have extremely serious economic consequences.

Strategists at the giant Swiss bank UBS argue that the new highs in the S&P 500 index confirm that the lows seen in February were the start of a new leg – perhaps the final one – in the bull market in American shares which began in March 2009.

Almost 7½ years into the second longest bull market on record, Wall Street "may still have room to run as high as 2400 in the medium term." (The S&P index has recently been edging up towards 2200). It's being driven by better growth in the economy, given strength in housing, employment and consumer confidence, as well as by the cautious pace at which the Fed is raising interest rates.

But... rotation within the market into traditional late-stage sectors such as tech stocks has begun. In the final six months of three bull markets since 1990, they outperformed all-share averages by two to three times.

The technology sector, say the UBS strategists, now trading at a discount to the price/earnings multiple for the market as a whole, "leveraged to an improving market, and with 20 per cent of its market cap in cash, appears ideally suited to medium-term outperformance."

Wall Street could now suffer some turbulence in the run-up to the November presidential election, which is turning out to be most unusual. But historical precedent suggests that once the votes have been counted and the uncertainty resolved, the market starts to rise, with further gains in the following year,

"If stock markets break higher because of monetary expansion and negative yields rather than margin expansion and corporate profits, we can expect valuations to move from slightly expensive to very overvalued," says Eoin Treacy of *FullerTreacyMoney*. That would be the third stage of the bull market – "mania or euphoria."

## Why Europe Is Breaking Apart

The next exit from the European Union – "Italy looks like being the prime candidate" – is going to be far more momentous than Britain's, with major investment implications, argues Charles Gave, chairman of the highly-regarded Hong Kong-based global research consultancy Gavekal.

He reminds us that the former governor of the Bank of England, Mervyn King, no less, says that European elites pushed for the adoption of the euro as a single currency "knowing that it would create an economic disaster in Southern Europe."

The idea was that "a huge decline in living standards" would force governments to accept "reforms" imposed by Brussels.

The International Monetary Fund magnified the impact of this policy by favouring “solutions” imposed on Greece hurting the most vulnerable sections of its society. The IMF’s own watchdog has now publicly castigated its staff for willfully ignoring fatal flaws in the euro project.

The so-called “experts” have been shown to be advancing “their own particular tribal interests rather than the common good,” Gave says.

Such revelations “must accelerate a collapse in the legitimacy” in Europe of both technocrats and transnational institutions such as the IMF, the European Commission and the European Central Bank, which “have all seen their credibility decimated.”

These “demonstrably incompetent institutions” have broken “pretty much every agreed rule of national economic management” – for example it now seems quaint that when the ECB was established it was supposed never to buy government bonds – yet they continue seeking to extend their power without proper authority.

“Historically, when an unelected mafia has seized control of the public domain, the two remedial options available to the citizenry have been elections, and failing that, a revolution.”

As usual, the British moved first, voting to break free of a European Union system “rigged to stop the genius elites from being fired democratically.”

The next source of stress within the EU, Gave suggests, will probably be a flood of savings from troubled member-nations to Frankfurt in expectation that we’re going to see Germany return to the Deutchemark. That will produce a “banking crisis in the weak countries, with banks being bled dry of their deposits.”

If the pound and the US dollar start to rise against the euro, that will probably mean German money supply is rocketing. At that point investors should “adopt the brace position.”

## **Investors Now Driving the Gold Market**

Investment bank GMP Securities says its current favourable view of a brighter future for gold and other precious metals is based on the following factors:

- ▶ “Challenging” global economic growth.
- ▶ Low to negative interest rates and easy-money policies.
- ▶ Lingering uncertainty in the Eurozone since the vote for Brexit.
- ▶ Risks associated with China’s debt that could force its central bank to sell more US Treasury bonds to support the yuan and reduce capital outflows.
- ▶ Risks associated with the US dollar such as potential instability following the November presidential election.

These conditions “have driven investors back into gold as an alternative safe haven with no opportunity holding costs compared to almost one third of global sovereign bonds trading at negative yields.”

Diego Parrilla, a precious metals specialist, argues that three closely interrelated dynamics have created “a perfect storm for gold”:

► Extreme and aggressive easy-money policies have incentivized or even forced investors and savers to restructure their portfolios in ways that expose them to greater risk.

► The bubble in government bonds has driven lending “to weaker and weaker credits, often ignoring or underplaying the risk of capital losses, liquidity and volatility.

“The current path of monetary and credit expansion is unsustainable and will eventually burst, leaving investors to struggle for the return of their capital, instead of return on their capital – an extremely bullish scenario for gold and other real assets.”

► There aren’t any monetary bullets left to fire. The limits of currency creation are being tested. Interest rates are already at record lows, asset purchases face diminishing returns, “competitive currency devaluations only increase underlying problems and global imbalances.”

Gold and the dollar “are best placed to play the role of ‘good’ money.” The dollar could appreciate strongly against ‘bad- money’ currencies. But “the inability or unwillingness of the US to normalize its monetary policy leaves the door wide open for gold to retake its reserve currency status.”

The rally in gold this year has been driven by explosive demand from investors. Purchases by exchange-traded funds reached 579 tonnes in the first half of this year compared to a trifling three tonnes in the first half of 2015. Those who traditionally are the big buyers, the Chinese and Indians, have been buying less.

Interestingly, the UK financial authorities have for the first time allowed investors who want to hold gold in their tax-privileged retirement savings accounts to do so in the form of gold bars held in the vaults of the Royal Mint.

The reason for having a lot of gold in a long-term investment portfolio isn’t fundamental demand for the metal, says well-known commentator Christopher Wood, “but because of the loss of credibility which is about to engulf G7 central bankers, the most overrated, over-quoted species on Planet Earth.”

GMP Securities says any pullback in prices of the metal should be used “to accumulate gold equity exposure.” The “preferred names” on GMP’s buy-rated list include Agnico Eagle Mines, Kinross, Tahoe Resources, B2Gold, New Gold, Argonaut and Klondex Mines.

## **Global Elites: Losing Control?**

In government, as in life generally, the best intentions can produce the worst decisions.

When the stream of migrants into Germany from the Mideast and Africa swelled into a torrent last year, chancellor Angela Merkel, the child of a nation that faced and conquered the post-war challenge of integrating millions of refugees, was moved to show compassion – and in this was initially supported by most Germans.

Her idealism was driven, it is reported, by the prospect of being able “to provide a kind of counter-statement, in the 21<sup>st</sup> century, to Germany’s great sin of the 20<sup>th</sup>... the historic stain of Nazism.”

Moving unilaterally, without securing the approval of partner-nations in the European Union, without clearly differentiating between refugees and economic migrants, and without any proper planning to handle the consequences, she announced that Germany would offer sanctuary to 800,000. This was taken as an invitation, and more than a million came.

Germany is now handling what Merkel herself delicately describes as “the flip side, the shadow side... of globalization.” This was her way, says journalist Chris Caldwell, of acknowledging “that various newcomers to the national household had begun to attack and kill her voters at an alarming rate” – hundreds of sexual assaults, spectacular murders.

There is a broader issue. The decision taken to open the doors to a flood of people alien not only in language, educational background, values and traditional behaviour, but also in deeply-held beliefs -- for example that women should always be veiled in public -- was taken and lauded by an elite in government, academia and the media not affected by it and never likely to be.

As Peggy Noonan, the American columnist, has said: Merkel put the entire burden of a huge cultural change – coping with and integrating an overwhelming number of newcomers – not on herself and those like her, but on ordinary people “who live closer to the edge, who do not have the resources to meet the burden, who have no particular protection or money or connections... They are left to struggle, not gradually and over the years but suddenly, and in an air of ongoing crisis that shows no signs of ending.

“The powerful show no particular sign of worrying about any of this.” When the ordinary folk react with shocked indignation, “people on top” call them xenophobic, narrowminded, racist, while the detached who make the decisions yet bear none of the costs are called humanist, compassionate, and “hero of human rights.”

### **Resettling refugees far from the wealthy suburbs**

The gap between good intentions and willingness to pay the price of delivering on them is not unique to Germany. It’s increasingly prevalent throughout the West.

In the US, Peter Hasson recently reported State Department data shows that almost all the Syrian refugees recently resettled in Virginia “have been placed in towns with lower incomes and higher poverty rates, hours away from the wealthy suburbs of Washington DC.

“Of 121 refugees, 112 were placed in communities at least 100 miles from the nation’s capital. The suburban counties of Fairfax, Loudoun and Arlington – among the wealthiest in the nation, and home to high concentrations of those who create and populate government and the media – have received only nine refugees.”

Noonan says in an excellent article in the *WSJ* that the global elites are detaching themselves from the lives of their countrymen. They marry each other, send their children to the same schools, and “do not often identify with or see a connection to or an obligation towards the rough, struggling people who live at the bottom of their countries.

“Our elites have abandoned or are abandoning the idea that they belong to a country, that they have ties that bring responsibilities, that they should feel loyalty to our people... or at the very least a grounded respect.”

Is this why Western societies seem to be disintegrating, bringing political instability and new uncertainties for investors?

## **Plan to Overcome Hostility to Fracking**

Britain’s new prime minister, Theresa May, has come up with a clever plan to unblock development of the nation’s immense shale gas deposits.

They are among the world’s largest -- estimated by the British Geological Survey at 1,300 trillion cubic feet of gas, equivalent to a 500-year supply at current gas consumption levels.

However, none of it is yet being tapped because of fierce resistance from local communities, based largely on greatly exaggerated fears of environmental risks of fracking, the technology used so widely in the US that it has transformed its energy supply situation.

In the UK, exploratory drilling in Sussex for gas-rich shale was abandoned in the face of protests. An application for permission to start large-scale test drilling in Lancashire was refused by the local council.

The British premier now proposes that future royalties on gas recovered from shale deposits, 10 per cent of which are earmarked for distribution to local councils and trusts, should instead be paid directly to individual households in the areas where fracking takes place.

Estimates for how much each household could receive range from £5,000 to as much as £65,000, depending on the profitability of the wells drilled.

The clear intention is to counter Nimbyism, the practice of groups seeking to block any developments, not matter how much they would be in the wider public interest, that will or is perceived to change, even marginally, their lifestyle. It is a huge problem in Britain, where understandable concerns about environmental change are allied to a prevailing public service culture of saying No to any request.

Offered the prospect of direct financial benefit, households are much more likely to apply pressure on their local authorities to say Yes to fracking.

This move by the British premier may be part of a broader plan she has to shift the emphasis in UK energy policy away from very high cost nuclear and renewables towards abundant, relatively low-cost, natural gas.

## **Bonds v. Equities**

Bonds have been a much better investment than shares for a long time. Since 2000, the *FT*’s John Authers reports, the S&P 500 equities index has underperformed US Treasuries by 50 per cent. “Buying stocks in 2000 would have made you money, but you would have made twice as much from bonds, with a much less bumpy ride.”

Trouble is, a third of the world's outstanding sovereign and corporate bonds are now trading on negative yields, most of the rest on ultra-low positive ones. Bonds are the most expensive in thousands of years of financial history.

Does it make sense to buy or even hold on to them now? You know my view: As I said in June: "The safest bonds will remain a sound investment until the charts clearly signal otherwise."

But when bonds do start to weaken, what will that mean for equities?

Eoin Treacy of *FullerTreacyMoney* says it will depend what is the catalyst for rising bond yields:

- If it is because inflation is spiking higher, potentially in response to helicopter money, that should be good for equities as a potent hedge.
- If on the other hand yields are spiking because of a widespread lack of faith in the currency in which they're denominated, that is likely to affect equities in absolute but not nominal terms.
- But if bond yields are recovering in a benign scenario, because economic growth picks up, equities could have a mixed performance as higher debt servicing costs are counterbalanced by better medium-term growth prospects.

## Guarding Against Geopolitical Dangers

Drawing on the experience of Brexit, the *FT*'s erudite Gillian Tett offers six lessons about political shocks:

- A political elite can be blind in a socially and economically polarized world. More surprising than that the majority voted Leave, was that the UK's elite was surprised by it. In the US "the Democratic camp could easily repeat that mistake."
- After a decade when "most of the rules of finance and economics were turned upside down," it's no surprise that voters are losing their fear of leaping into the unknown, of taking political risks.
- "Revolution cannot be crushed by statistics or scare stories." British prime minister David Cameron tried to defeat Brexit by citing economic data showing how dangerous it might be. "But voters were too angry to listen... and too distrustful of the elite. The vote was decided on the basis of emotion."
- If the Democrats want to win the presidential election, they cannot rely on fear. "They need to find a slogan as memorable as Trump's 'Make America Great Again.'"
- "Geeky details" of the electoral process can be important. One reason that in the Brexit referendum there was a low turnout among young people – who were generally opposed to leaving the European Union -- was a change in the law that scrapped automatic voter registration of teenagers by their parents. In the US, strategists on both sides are skilled at using all the loopholes to get their supporters out to vote or suppress their opponents'. But any failure on that front could torpedo poll forecasts.
- Democracy is unpredictable. If you give the people a voice, "there will always be a risk that this voice will either howl in rage... or not speak at all."

## Using MVA and EVA to Rate Companies

Until a few years ago the principal measure used to rate the strength of a company and therefore its potential for growth was earnings per share (EPS). Today that is less well regarded.

One reason, as a British fund manager put it to me, is that “an earnings figure can be manipulated by any finance director worth his salt. Don’t look at price/earnings ratios but at EBITDA (earnings before interest, tax, depreciation, amortization). Earnings-per-share figures may reflect gearing or tax strategy rather than the operating capability of the business. Look at operating profit relative to the capital base”.

There’s a similarly negative view on a version of EPS that became more popular – earnings-per-share GROWTH.

It’s said that as most companies retain a portion of their previous year’s earnings, so boosting their capital employed each year, there is nothing exceptional about increasing earnings in successive years at the same rate. Focus on return on capital in preference to earnings per share growth.

Today there is more emphasis on long-term value creation or, as it’s increasingly known, “shareholder value”. Among the ways of measuring that, are market value added (MVA) and economic value added (EVA), concepts developed by the American consulting firm Stern Stewart.

MVA strips out most of the anomalies produced by accounting standards and practices to show whether a company, over a period of years, has created or destroyed value for its shareholders. A financial journalist has explained as follows how MVA is reached...

First, “take the total amount of money entrusted to a management... by adding up money raised through share issues, borrowings and retained earnings. That gives a simple measure of how much money investors have poured into a company”. Then take “the current value of the company’s shares and debts, as a measure of how much money the investors could take out of the business.

“The difference between the two is MVA, which measures how the executives running a company have fared with the capital under their control since the company was founded. If it has a positive MVA, that means that value is being created for shareholders. But if the MVA is negative, that means shareholders’ money has been destroyed”.

Change in a company’s MVA, relative to its previous performance and to the MVAs of comparable businesses, tells you where it’s going.

The other measure popularized by Stern Stewart, EVA, compares the after-tax operating profit of a company with its cost of capital. The latter includes the cost of equity – what shareholders have a reasonable expectation of receiving through capital gains and dividends – as well as the cost of its bank loans and other borrowings.

However, for each company the cost of capital varies, sometimes widely, for two main reasons:

- Some industries are naturally more risky than others. Investors will accept lower returns from a big food producer, for example, than from a young high-technology group, because it is more likely the big food producer will generate stable returns, whereas the high-tech group is more likely to stumble.
- Secondly, different companies have different capital structures. Some have lots of equity, which is expensive, while others have a lot more debt, which is cheaper.

EVA figures represent the difference between profit and the cost of capital. The theory is that it is not good enough for a company just to make a profit from its business. It also has to make sufficient profits to justify the cost of its capital, including equity. If it is not covering the cost of its capital, plus a reasonable margin on top, then the logical conclusion is that it would have been better if investors' money had been placed elsewhere.

Most earlier measures of business success, particularly EPS measurements, ignore the cost of the capital tied up in the business.

Critics of MVA/EVA say although they're improvements as measures of business performance over ratios such as earnings-per-share, which can be manipulated too easily by smart finance directors, they're still based on profits as calculated in the accounts.

They argue that companies should rather be judged on figures less open to manipulation, such as free cash flow. You should only consider investing in companies that are "great businesses". It's better to pay a fair price for a great business than a great price for a fair business. It will rarely, if ever, pay you to buy a bad business at any price.

Long term, there is a 100 per cent correlation between a company's economic success and its share price.

Where growth stocks are concerned, the company's sales potential is among the most important factors. You should assess whether the business can expect strongly growing and profitable demand for its products in future.

Avoid companies whose primary growth is achieved through acquisitions, which can create a mirage of growth rather than actuality, as well as diffusing management's focus. Truly great growth companies grow organically. You should also avoid companies that make use of excessive debt. Adding a couple of extra points to returns by increasing the debt:equity ratio is usually not worth the extra financial risk.

## **OK When Sun Shines, Winds Blow**

Renewables' major defect relative to traditional means of generating electricity is not relative cost, but intermittency. Their supply is unreliable.

Bill Gates, a billionaire who backs the development of renewables with huge amounts of his own wealth, nevertheless attacked "misleadingly meaningless statements" in their favour, in a recent article in *The Atlantic* magazine.

Typically, there are claims such as "the cost of solar photovoltaic is the same as hydrocarbon's... What they mean is that at noon in Arizona, the cost of that kilowatt-hour is the same as a hydrocarbon kilowatt-hour. But it doesn't come at

night, it doesn't come after the sun hasn't shone, so the fact that in that one moment you reach parity... so what?"

Gates said that the focus on solving the challenges of intermittency in a world that needs power 24 hours a day, not just when the sun shines or winds blow, is on developing storage, for example in batteries, or a few others such as compressed air, hot metals. But it's not clear that we will get grid-scale economic storage. The economics of that need to be ten times better than they currently are.

Gates didn't say so, but ironically another problem with intermittency is that for the limited periods when renewables flood grids with energy, their minimal marginal costs significantly damage the finances of their hydrocarbon competitors whose stable supplies are essential to meeting round-the-clock demand.

## Tailpieces

**Showering us with cash:** Quantitative easing has clearly failed to deliver the pick-up in economic growth that was intended, while negative interest rates are seen as being even worse. So... what next? Quite probably, a policy that doesn't depend on the main agents of economic growth – businesses and individuals – being willing to borrow more and increase their debts. Their lack of willingness to do so is the key to the failure of easy-money policies.

"Helicopter money is the most high-profile item on the extraordinary monetary policy menu that has yet to be used," argues one analyst. "Central banks [would] flood the market with cash, bypassing the banking sector, which until now has been hoarding it."

"With additional cash in their pockets, consumers will be expected to spend – which might kick-start the credit multiplier" [convert the abundant fuel – liquidity and easy-credit – into economic activity].

**Commodities:** Industrial metals have bounced back strongly from their mid-January lows. At the start of this month, zinc was up 41 per cent for the year to date, iron ore 36 per cent, tin 23 per cent, nickel 21 per cent.

The price rises seem to be attributed to improving demand, especially from China, for manufacture of stainless and galvanized steel.

Longer-term, some analysts suggest, there is going to be strong demand for materials going into infrastructure as politicians favour splurges on it to stimulate economic growth. In the US it's a spending priority favoured by both presidential candidates.

One expert reckons we're in the early stages of a recovery showing many of the characteristics of previous bull markets in industrial commodities. This cyclical rebound "could extend well into 2017."

**Climate change:** Acidification of the oceans from the greenhouse gas CO<sub>2</sub>, supposedly a dire threat to coral reefs and marine life depending on them, has little basis in fact and "has been hyped up beyond all measure for political, ideological and financial reasons," reports James Delingpole.

The original Feely/Sabine study warning about acidification omitted key historical information – over a century, it hadn't happened. A more recent study shows that

even if acidification does now occur at levels greater than those considered plausible, its overall impact will not be damaging, but beneficial. The latest review, in the *ICES Journal of Marine Science*, concludes that the evidence on the subject is conflicting; that there is an “inherent bias” in scientific journals predisposing them to publish “doom and gloom stories” on the subject.

**Tech stocks:** A great example of the extreme level of risk aversion in equity markets can be seen when comparing the valuations of an historically “certain” sector like Utilities to an historically “uncertain” one like Technology, argues Doug Sandler of RiverFront.

“Today investors are paying more for the future earnings of the average utility company (17.7x) than they are willing to pay for the future earnings of the average technology company (17.6x), despite the fact that the average tech company has grown its earnings nearly four times faster (11 per cent) than the average utility (3 per cent) over the past ten years.”

**Banks:** In the European Union as a whole, a category that still includes the UK, their non-performing loans were more than 9 per cent of GDP at the end of 2014, according to the Centre for Economic Policy Research. That’s equivalent to €1.2 trillion – and more than double the level of 2009.

Sarah Gordon says in the *FT*: “Bad loans are the iceberg above the water. Under the surface lurks a bigger problem – a persistent lack of economic growth.” Without that, how can all the debt ever be repaid?

**The Fed:** How will the US central bank deal with its interest rates dilemma? Will it raise them in line with America’s improving economy, or hold off because the global economy is weak and the Fed doesn’t want the dollar to strengthen?

The fall-off in stock-market volatility suggests investors have become more confident, so presumably they’re not expecting higher interest rates any time soon.

**Italy:** An interesting comment from David Fuller: “There are plenty of successful, hard working Italians in London... I have yet to meet one who wants Italy to remain in the EU.”

**UD Wise words:** *The central principle of investment is to go contrary to the general opinion. If everyone agreed about its merit, the investment is invariably too dear and therefore unattractive.* John Maynard Keynes.

*Martin*

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