

WESTMINSTER

ASSET MANAGEMENT

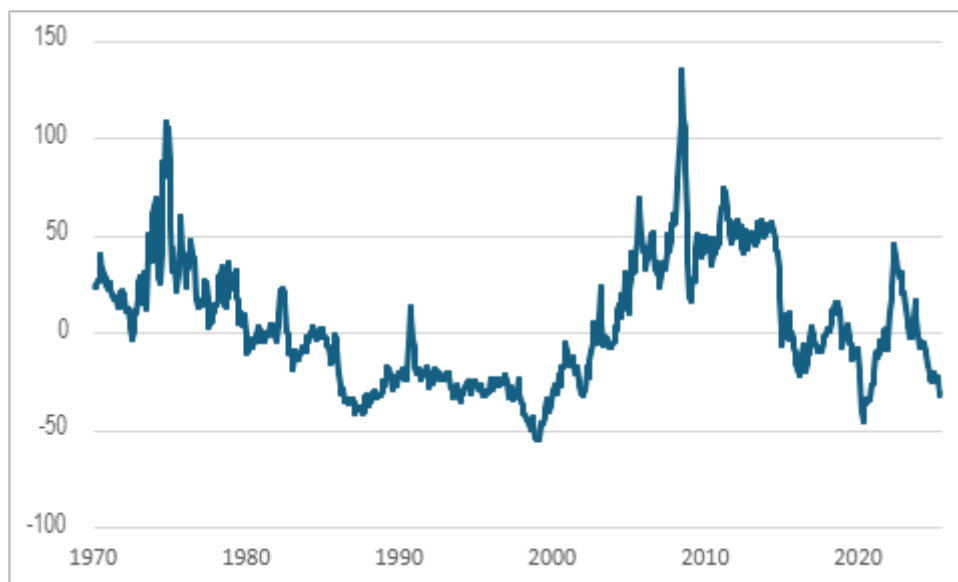
“The not-so easy money”: Westminster Asset Management Investment Strategist Peter Lucas reviews some recent calls against the backdrop of a volatile period for markets. While he believes the equity rally is feeling somewhat long in the tooth, he has higher conviction on commodities and the US Dollar.



Regular readers will know that I can be brutally honest about wrong calls. Equally, I am happy to celebrate successes, and the last few months have been kind. In February (“No pain, no gain”) I questioned whether US ‘exceptionalism’ was dead, and Wall Street’s relative performance has steadied in the face of overwhelming negativity and despite a persistently weak dollar. In April (“The most beautiful word in the dictionary”) I made the case for a decent stock market rally, and most markets have subsequently gone on to post new highs for the year. In May (“Taking stock”) I reiterated my expectation that high inflation would return to haunt the markets, and although it is too soon to call on that, my observation that platinum was perking up was on the button, with the former rallying 30% in just two months.

It is also too early to judge the veracity of my June call for a fully-fledged commodity bull market (“The next inflation wave”) but precious metals do have a habit of moving 3-6 months ahead of the rest of the pack, and the last major low in platinum and palladium was on April 8th.

Commodities vs Gold/S&P500, detrended



Source: Bloomberg, Westminster Asset Management

Most stock markets are now 15-30% above their April low. Meanwhile, investor sentiment has gone from cataclysmic to relaxed, if not ebullient. The July Bank of America fund manager survey showed institutions to be low in cash and optimistic about the economic outlook. They are also negative on the US dollar (record underweight) and positive on European equities (biggest overweight in four years). In short, positioning is starting to trigger the contrarian in me. On the other hand, our contrarian indicator has yet to reach sell territory, and the growth indicator has risen to just below neutral. Inflation is low but accelerating. In summary, it is probably premature to call an end to this equity rally, but the easy money has almost certainly been made.

WESTMINSTER

ASSET MANAGEMENT

I am, however, more comfortable in calling a bottom in the US dollar. Not only is sentiment very negative, but also, we have the makings of a break of trend and a higher low on the charts. Furthermore, a stronger dollar fits neatly with my view that the United States will be the 'least dirty shirt' again when the debt crisis begins in earnest.

One of the key charts to watch for signs that the debt story is moving into the next phase is the US bond market. Bonds have derived very little benefit from the significant drop in inflation of the past two years. Indeed, when you consider the magnitude of the preceding fall in the bond market, its inability to recover is both disappointing and perhaps a portent of what is to come. My expectation is the US 10-year yield will eventually break 5%, thereby heralding another significant fall in government bond prices.

Low inflation and economic growth are manna from heaven for growth stocks, which have now retraced much of their underperformance of 2022. But this is another trend that is on borrowed time. Investors are still heavily overweight, plus inflation and economic growth look set to rise in the months ahead. Something to watch closely in the weeks ahead.

The bottom line is that we are drawing closer to the next phase of the debt crisis, in which bond yields will rise and leadership within the equity markets will pass from growth to value. Although all those rotations should prove to be meaningful, the real fireworks will be in the commodity markets where valuations are decent or fair, and investors can find proper refuge from accelerating inflation.

Peter Lucas – July 2025