12:30 27 Sep 2019

How much is chaos the new normal?

Markets in the US dipped on the latest allegations against Donald Trump this week, but not by much.

Come the open on Friday, the Dow Jones Industrial Average was off by less than 50 points compared to where it was on Monday, with many commentators citing US rulings on doing business with Huawei as more influential in moving stocks than Nancy Pelosi's newly initiated impeachment proceedings.

True, the Bloomberg website did lead on Friday with an explanatory video on the impeachment process, but behind the technicalities one couldn't help getting the feeling that the real message was: it's not going to matter much.

Certainly, as far as equity markets are concerned, the idea that the Democrats are always going to try to take President Trump down for whatever they can get him on has become little more than background noise.

Share Information

Code:
Listing:
Sector:
Website:

action@proactiveinvestors.com

Sure, if impeachment does make it through the House and into the Senate those that run the news cycle will have a field day.

But is Mitch McConnell's Senate really likely to deliver a two-thirds majority in favour of impeachment on the basis that Mr Trump has asked a foreign leader for help against against a Democratic Presidential candidate?

It doesn't seem likely.

The currency markets were somewhat more jittery about the prospect, but then the currency markets have been prone to the jitters for some time now, especially since Mr Trump himself has demonstrated his ability to move the dollar purely with his Twitter account.

But there's more to it than that.

Because the world's central bankers have been devaluing their currencies at a rate of knots since the global financial crisis, and because interest rate hikes are becoming an endangered species - hunted down and trampled on by Mr Trump wherever he can find them - it's currencies that are better able to reflect the moods of the global investment community.

After all, if currencies are weak, equities appear strong whether the fundamentals support that strength or no. But if the currencies themselves are weak against other benchmarks, then the broader picture begins to darken.

One sure sign that this is what's happening is that the gold price has been strong all year, and according to some is set to get stronger.

Citigroup recently came out with a prediction that puts gold at US$2,000 an ounce within two years, and unlike in previous bull markets, when people left, right and centre touting the US$2,000 target were dismissed as crackpots, this time round the idea is being met without demur.

Why? - because like it or not we are in a new world now. Dialogue in US politics has become completely gridlocked, to an extent unknown even to previous partisan generations, and the US culture wars spill out into the global news agenda every day.

What's more, President Trump looks set on upsetting the global trading order in favour of narrower US interests, which he's perfectly entitled to do, but which markets aren't necessarily going to be happy about.

Many, though not all, analysts are now predicting a global recession within the next couple of years, which, not coincidentally is about the same timeframe that Citigroup gives the gold price to move past US$2,000.

The corollary of course is that the dollar would be correspondingly weaker.

So, while it's true to a significant degree that equity markets have now priced in or grown indifferent to the apparent political chaos that surrounds Donald Trump's regime, it's always worth keeping an eye on the gold price.

Today's dip back below US$1,500 suggests a slight easing off of concern in the market.

But don't expect it to last. If recession comes, stock prices will dip and so will the dollar. In that environment gold is only going one way - up.