

THE WINTER'S TALE



“I, that please some, try all, both joy and terror Of good and bad, that makes and unfolds error; Now take upon me, in the name of Time, To use my wings. Impute it not a crime To me or my swift passage, that I slide O'er sixteen years and leave the growth untried Of that wide gap, since it is in my power To o'erthrow law and in one

self-born hour To plant and o'erwhelm custom».

POLIXENES - Sir, that's to-morrow. I am question'd by my fears, of what may chance Or breed upon our absence; that may blow No sneaping winds at home, to make us say 'This is put forth too truly:' besides, I have stay'd To tire your royalty.

LEONTES

We are tougher, brother, Than you can put us to 't.

POLIXENES

No longer stay.

From "The Winter's tale" by William Shakespeare.

Winter is coming, for the stock exchange too. The BCE at first and the Federal Reserve later, are perceiving the spiral of the first cold winds. No officialization, only cautious and well pondered declarations but to the expert eye the central banks' externalization couldn't be clearer. Last week Mario Draghi, guest at the Frankfurt European Banking Congress, declared that the "Uncertainties surrounding the medium-term outlook have increased" but we will need to wait until December BCE's meeting for an official declaration. In particular, Draghi reminded that the USA's GDP has grown a 10% more than the European since the crisis of 2008, whilst on the inflation's front the extreme fall of the

price of crude oil may change the BCE's expectations.

At the other side of the ocean the situation is quite similar. Fed's vicepresident Richard Clarida declared that the Central Bank aims at raising the interest rates to a neutral level. Until yesterday the declared goal was to raise the interest rates to a restrictive monetary policy, able to maintain growth and inflation under control.

Neutral is an entire distinct world and it entails very different expectations. The first signal came from the USA's constructor's confidence, collapsed as well as in 2014. The bricks-and-mortar entrepreneur's are positive that a raise in interests is going to stop the sector's growth. But if in 2008 the first weakness signal came from the real estate sector, today the situation is different. For now there are no ready to burst bubbles in sight, but only the simple and perpetual evolution of time in a cyclical and counter-cyclical function.

The rest is all market's movements, based on real or presumed suspects, as in "The winter's tale": it doesn't matter what is real or not, suspects change reality and kill Hermione, wife of jealous Leontes, too late informed by the Oracle of Delphi of her innocence.

For the markets the suspect that economy may be close to a change of pace is becoming reality, with the price of crude oil under 70 dollars a barrel and the Faang -Amazon, Apple, Netflix and Google (Alphabet)- sharply falling. In a little more than a month Apple fell of the 20,6% and Facebook of the 40%, just as crude oil (-25%). The only thing they have in common is the connection with the economic cycle's trend. Behind the suspects, the first confirmations. Last week we wrote about Lumentum's (Apple's supplier) collapse, after its declaration that one of its main clients was cutting the demand. The main client is Apple, that buys from the company the facial recognition processor.

Since October, as the Wall Street Journal revealed, Apple (-3,9 yesterday) slashed its production plan by up to a third of the approximately 70 million units it had asked some sup-

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pliers to produce between September and February. But this first and drastic intervention wasn't enough. Last week Apple decided other cuts in its production plan for the entry-level iPhone XR, apparently in response to the increasingly intense global competition, of Chinese brands in particular.

On the stock market the Faang came to staggering capitalizations by trading at high multiples, based on growth's expectations. When these expectations fail, even the valuation multiples of these companies collapse. Without growth, investors are no longer willing to pay a premium for purchasing these companies; on the contrary, they fear that the price paid now for those stocks is high.

On the background, still the tensions between the USA and China. Diplomats are working to prepare Trump and Xi Jinping's meeting at the G20, later this month, but many rumors say that the parties are still far away from reaching an agreement.

Unlike Shakespeare's comedy, the Oracle of Delphi isn't going to reveal our future. And yet, with a more cautious BCE and a careful Fed, we stay more focused on the counter-cyclical stock and bonds.



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