SN VALUATION

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FI Weekly Brief

Euro crisis moderating. German yield is lifted from compressed state. Money market funds should have more leeway as they were suffering from low real returns. Spain, Italy are able to get financing in the credit market and the investors who were long on the PIIGS sovereign bonds reaped a tidy profit over the course of the past year.

This is really artificial market propping by the central authorities. We know the market should have crashed in 2007 and 2012, in the US and Europe, which would have dragged the whole world with it. However, emergency funds provided backstops for banks and governments. We know investors, funds are reverting back to their former ways and chasing after higher returns, even if it means paying lofty premiums i.e. high yield market. The system avoided a malfunction, but if this irrational investment practice continues, expect meltdown, expect the worst in the next decade.

BOJ wants to cheapen yen, so will buy USD, mainly going to Treasury, further lowering yields. Active monetary intervention by the government boosting investor sentiment in Japan. China expecting +8.5% growth, from lower trending 7.5%.

US earnings is strong early in the period, and fiscal cliff kicked down the road for a couple more months. Stronger than expected construction news bringing new optimism in the States, which was partially derived from Hurricane Sandy related construction. 10 yield Treasury yield moved to 1.88% from 1.82%. In other words, **no bad news so far to ruin recovery party**.