

The market needs a canary

We continue to stare at the famous canary in the coal mine, to see if it is about to faint or not. But it still looks lively. Assets at the far end of the risk curve such as SPAC, IPO index and microcap companies even test upwards.

The statistics also clearly show that the Fed continues to build up its balance sheet when it buys up bonds that the US government sells. So far, this looks to trump the otherwise weak stock market season. That the Fed continues with its support purchases is historically the best signal to stay long in equities, ever since 2008. But there are clear signals of stress in the system. The US banks are depositing an increasing amount of capital with the Fed. This indicates that the banks have nowhere else to invest their money.

We use different tools to measure risk appetite in the market, symbolized by the canary that should warn miners that the mine was about to run short on oxygen. We have long used the ETF HYG or JNK since they reflect the market for junk bonds, which work well in the short term. Other indicators that we use are Bitcoin, the IPO index, SPAC but also as of recently the ETF IWC, that reflects US microcap companies.

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