

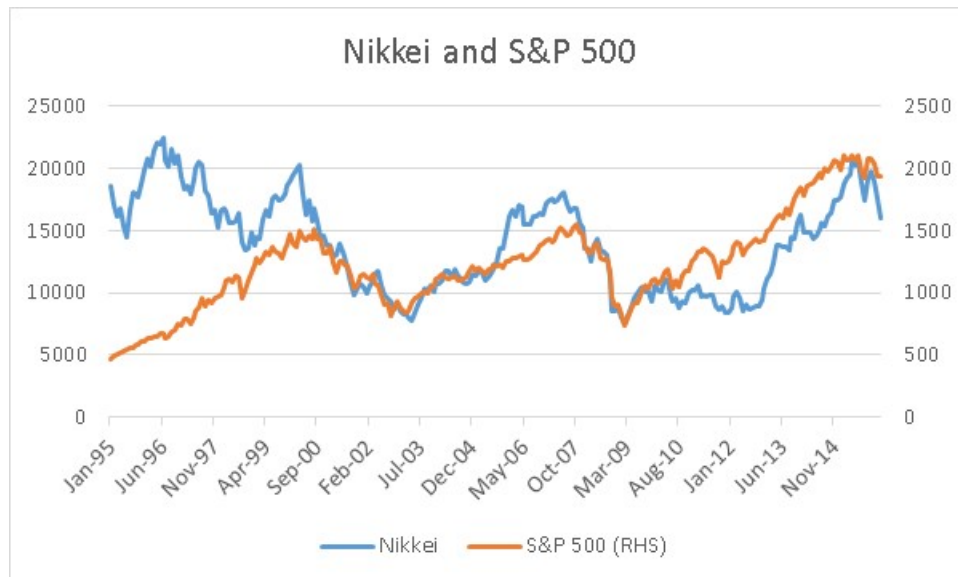
WHY DOES THE NIKKEI ALWAYS START FALLING BEFORE THE S&P 500?



Russell Clark's
Market Views

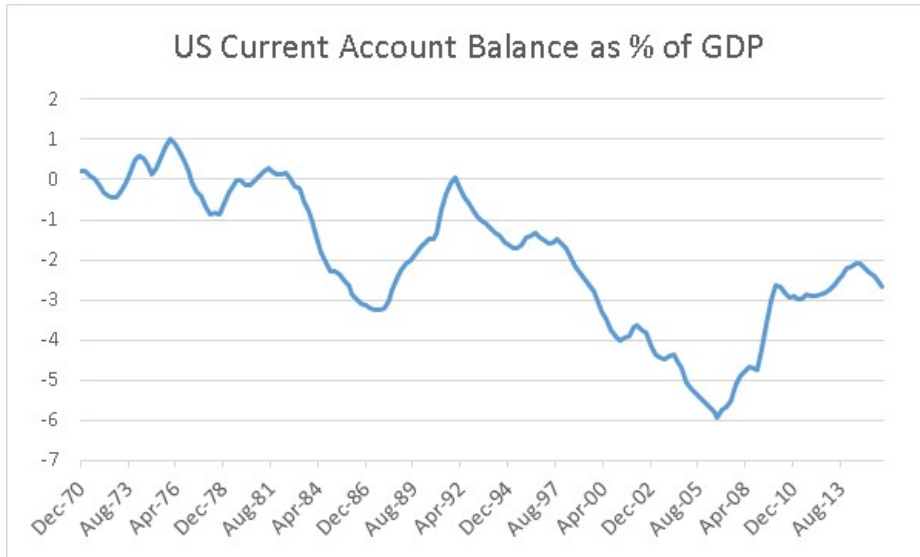
“One of the curious things over the last few years, is that despite the last two bubbles in markets being mainly US centred (dot com bubble and US housing) it has been the Japan based Nikkei that has peaked 3 to 6 months before the S&P 500.”

One of the curious things over the last few years, is that despite the last two bubbles in markets being mainly US centred (dot com bubble and US housing) it has been the Japan based Nikkei that has peaked 3 to 6 months before the S&P 500. The Nikkei peaked in March of 2000, while the S&P 500 rolled lower in August of that year. The Nikkei peaked in June of 2007, while the S&P 500 peaked in October of that year.

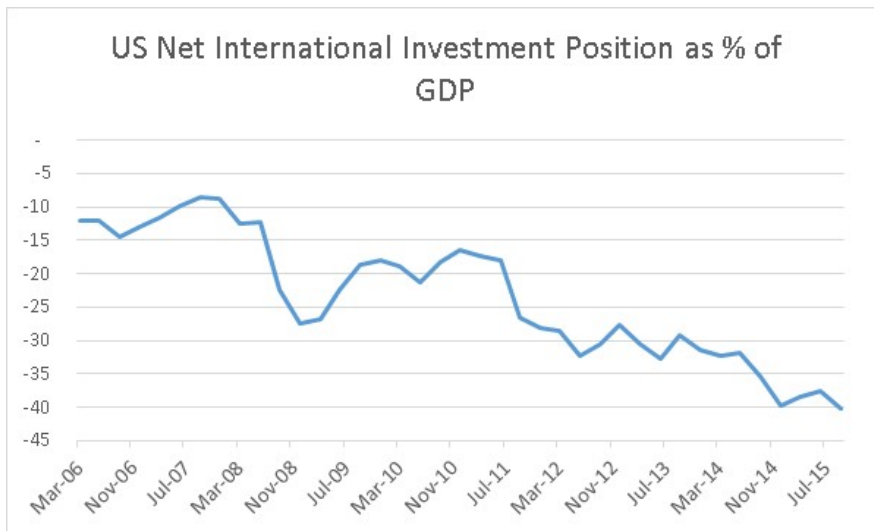


The question is why should this be the case? Most investors would argue that the US economy is larger than Japan, and its stock markets are larger and more liquid. Theoretically, the US market should lead the Japanese markets.

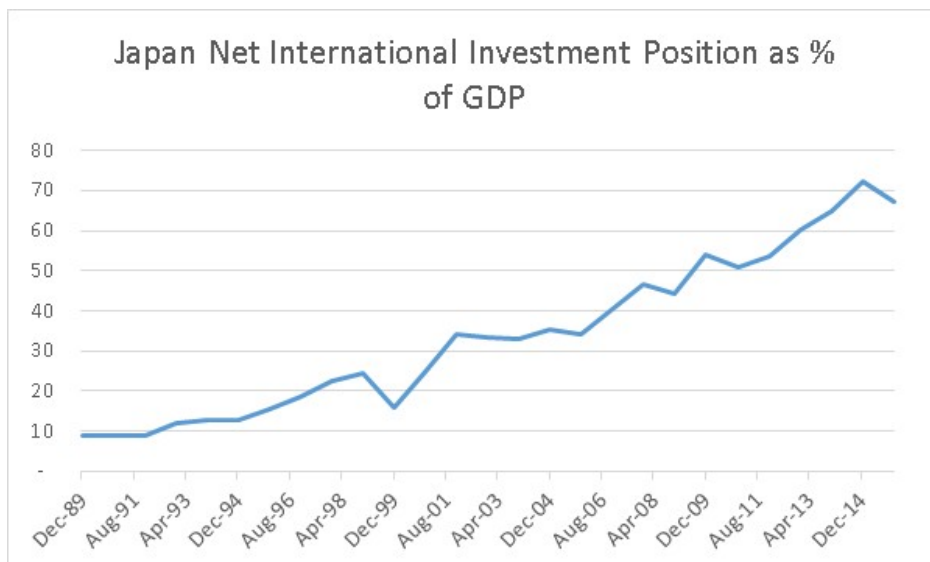
The reality is that the US does not fund itself. The US has been running a fairly consistent current account deficit since the 1980s.



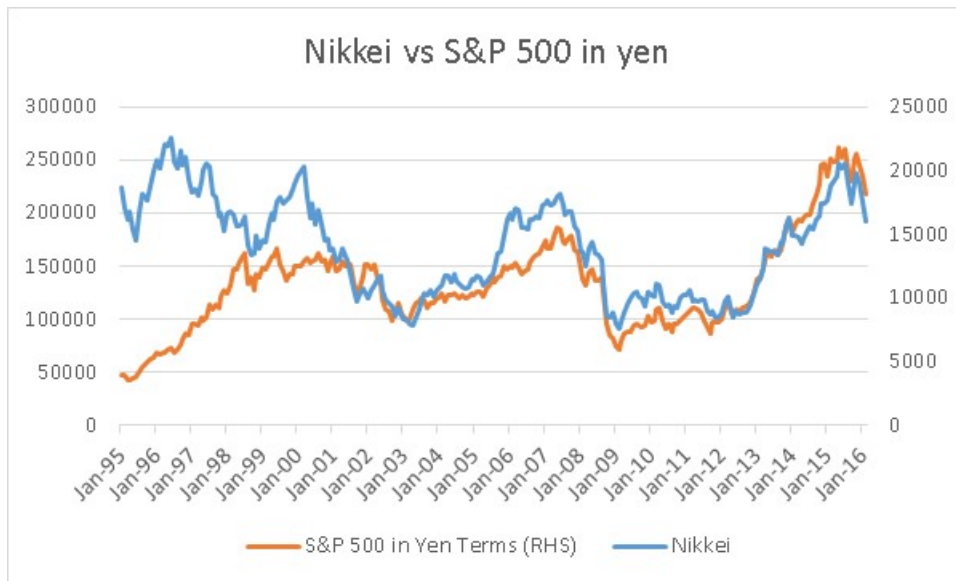
To fund this current account deficit the US has become the world's biggest debtor. The US net international investment position was extremely positive for most of the post war period, but over the last decade has deteriorated dramatically.



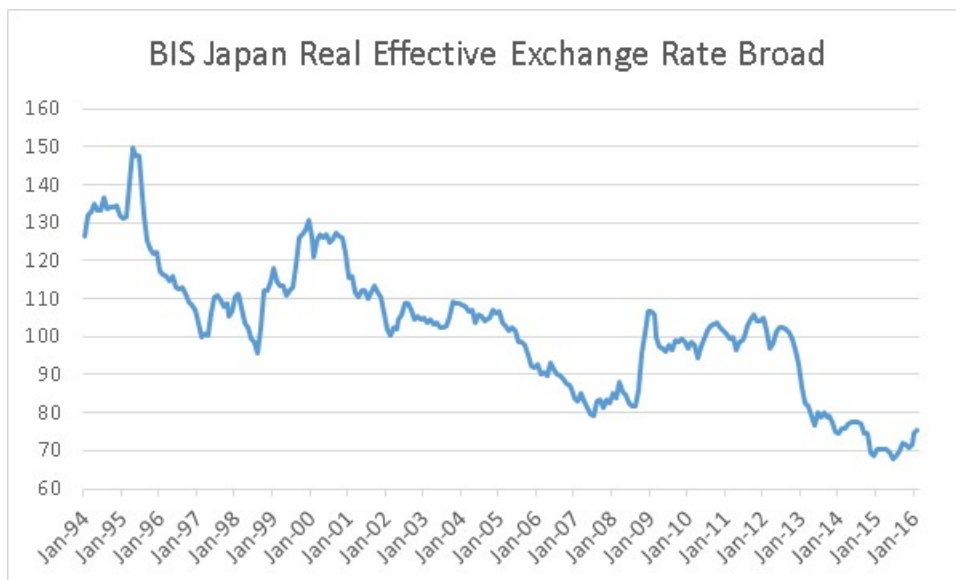
The biggest supplier for credit to the US, particular relative to GDP has been Japan which has seen its net international investment position swell tremendously over the last decade.



My view is that the Japanese are the world’s biggest net savers and investors, and it is the movement of Japanese investments that cause the biggest moves in currencies and equities. If we convert the S&P into yen, we can see that Nikkei and S&P 500 tend to fall at the same time. That is the Nikkei and the S&P move together.



This seems to point to yen weakness being a good indicator of equity strength, as Japanese investors sell yen and seek higher returns elsewhere. Conversely yen strength is a sign that Japanese investors are repatriating assets and global markets are likely to be weak, at least in yen terms. If this is true, the most troubling aspect of such a theory is that Bank of International Settlement (“BIS”) put the case that yen is trading still close to all-time lows on a real trade weighted basis.



This line of thinking provides a very simple model for the performance of the Nikkei and S&P based on the value of the yen. If we assume that yen can rally to 100, we see that the Nikkei traded around 14000 the last time yen traded at 100. This model would assume the S&P would then trade somewhere between 1400 and 1600. I am very interested to see if this theory continues to work.

INFORMATION

Issue Date: 23rd March 2016
Source: Bloomberg, unless otherwise stated
Investor Relations: Alain Zakeossian, Carol Brown
Email: info@russellclarkim.com
Telephone: +44 (0)20 7838 7580
Website: www.russellclarkim.com

Business and registered address: Russell Clark Investment Management Limited, 9 Chester Close, London SW1X 7BE, United Kingdom. Registered in England and Wales - Company number: 04034280

DISCLAIMER

This Market View has been prepared and issued by Russell Clark Investment Management Ltd (the "Firm") authorised and regulated by the Financial Conduct Authority. It has been approved as a financial promotion by the Firm and as such is intended **for professional clients and eligible counterparties only and is not intended for retail client use**. It is not intended for distribution to any country where such distribution or use would be contrary to local law or regulation.

This Market View is provided for information purposes only and should not be regarded as an offer to buy or sell any investments or related services that may be referenced herein. No guarantee is made as to the accuracy of the information provided which has been obtained from sources believed to be reliable. The view expressed in this Market View are the views of the portfolio manager at time of publication and may change over time. Nothing in this Market View constitutes investment, legal tax or other advice nor is it to be relied upon in making an investment decision. No recommendation is made positive or otherwise regarding individual securities mentioned herein. Past performance is not indicative of future performance. The price of investments can go up as well as down and can be affected by changes in the rates of exchange. The information contained in this document is strictly confidential and is intended only for the use of the person who has been provided the Market View by the Firm. No part of this Market View may be divulged to any person, distributed, resold and or reproduced without the prior written permission of the Firm.

Where "forward looking" information, including estimates, projections and subjective analysis and judgement are provided no representation as to the accuracy of such projections or estimates or that they may be realised. Certain assumptions used in formulating such "forward looking" information may differ materially from actual events or conditions.