TRUMP TWITTER TANTRUMS ARE MARKET RISK

By Daryl Guppy

The market rally is uniquely susceptible to a Trump Twitter Tantrum, as shown with the market reaction to Trumps travel ban. There are large rewards for selecting stocks that benefit from Trumps Twitter support, and extreme risks for stocks that are smashed in a twitter tantrum. Trading in this environment is difficult and this is reflected in the way capital is allocated in the market.

Until 2008 it was said that big money didn't get big by being stupid. 2008 seemed to disprove that, but the resurgence of big money – including names discredited by 2008 – is proof that aphorism still holds true. So where is the big money going in the market now? The answer to this question helps traders focus on the right area and the right strategies. These observations from Convergex.com provide a good summary.

We review YTD ETF money flows and find that, despite all the uncertainty around the new Trump administration, inflows are strong across both equity and fixed income asset classes. January flows through Friday total $35.7 billion, with $22.2 billion into equities and just over half into US stocks. $12.5 billion went into fixed income ETFs.

In the world of US listed Exchange Traded Funds, the flow of money narrative is crystal clear. At the macro level, investors have shifting assets to ETFs since the Financial Crisis in search of transparent and liquid access to global capital markets. These products, largely passive in nature, are also generally less costly than actively managed mutual funds. As a result, US listed ETFs now have $2.7 trillion in assets under management, with almost a trillion dollars ($945 billion, to be exact) of positive flows in just the last 5 years.

Year to date money flows into ETFs through Friday are positive to the tune of $35.7 billion. The month to date flows are larger than the average of the last year, which sits at $26.6 billion.

- Of the $35.7 billion of total inflows YTD, $22.2 billion (62%) has gone into equity products. A total of $11.9 billion (54% of equity flows, 33% of total) has ended up in US equity products. Emerging markets are also seeing equity inflows, to the tune of $2.9 billion YTD.
- Within US equity funds, dedicated large cap ETFs have seen the largest flows, at $4.7 billion. Mid cap funds come next, at $3.7 billion, and small caps last at $3.3 billion.
- Industrial sector-focused US equity ETFs are the big winner YTD, with $2.2 billion of inflows. Tech stock funds are also popular, with $1.6 billion of fresh money. Health care is less popular, with $371 million of outflows YTD, but Utility sector is the big loser thus far in 2017, with $774 million in outflows.

ETFs provide a passive way to trade the market. Only a few offer leverage into the market. What you see in the index is generally what you get. A 5% index increase gives you a 5% increase in the price of the ETF. However there are alternative methods for maximising returns from ETF trading. We will look at these next week.