All Investors Should Be on Their Toes This Month

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What a month we're in. It could shape up to be the turning point for markets for years to come.

September is a bad month for shares, historically. American indices fell in 60% of Septembers since World War 2. And they tend to lead everywhere else.

But this time around it's also decision-making time for an enormous list of policy-makers, raising the stakes. One slip up, surprise or misunderstanding and the speed of the chain reaction on all other decision-makers could generate a very turbulent month.

Yesterday the Reserve Bank of Australia (RBA) kept interest rates at 1.5%. Unlike everyone else, the RBA is considering cutting rates thanks to concern over a housing bubble and commodity slowdown in its western state. All other **central banks** are on the upcycle.

(My friend Akhil Patel at *Cycles, Trends and Forecasts* is predicting a boom in Australia and plans to put his own money where his mouth is, according to our email exchange. He's gearing up for an enormous slew of remarkable predictions that I find quite exciting. The draft of his report for subscribers is in, but I can't reveal even minor details until compliance has cast its eyes over it.)

The Bank of Canada meets today. It faces impressively high economic growth of 4.5% in the last quarter while **monetary policy** is still extraordinarily easy at 0.75%. That's a seriously out of whack combination, increasing the chances of another interest rate increase. But as you'll see, **central bankers are now having to watch each other** just as much as their own economy. And even if Canada is outperforming, its central bank doesn't want to be the tearaway.

The European Central Bank (ECB) is set to decide on how to wind up its **quantitative easing** (QE) on Thursday. The fundamentals are there to do so. Inflation and growth are steady. But the euro is painfully high for southern European states. A tightening would worsen the problem. Making monetary policy for so many nations at once is a nightmare job.

The variations on just what the ECB could decide are pretty much endless. How quickly it'll reduce the intervention and when it'll begin seems so nuanced it hardly matters. But the market's anticipation shows you just how addicted to QE investment prices still are.

On 13 September our **Bank of England** (BoE) meets. It faces the opposite problem to Europe's high currency. But the drop in the pound also gave us the decent economic performance that Remainers didn't expect.

Ironically, if Brexiters are right and Brexit is a success, the currency will make a comeback, reducing the benefits to exports. Given the leaks and news on Brexit, it looks to me like the pollies will manage to foul it all up. Reducing the number of immigrating workers in the UK is just dumb.

Two weeks after the BoE, the Federal Reserve follows suit. Instead of the currency, its major problem is that the market seems sceptical it'll actually begin selling government **bonds** to "normalise" the balance sheet.

US Treasuries have been soaring in price when they should be falling to reflect the increased selling to come from the Fed. The fear is a rerun of the Taper Tantrum of 2013, when the Fed surprised markets by announcing it would reduce QE. This time around, everyone keeps reminding markets what's to come, but they don't seem to care or believe it.

If **central bankers around the world begin to reverse** monetary policy this month, without causing enough of a ruckus that they immediately have to reverse their decision, that could be the beginning of an enormously disappointing investment trend. They could add trillions of dollars in financial assets to the supply of the market, while removing vast amounts of money, leaving investment prices lagging for years.

Then again, stocks could soar as people flood out of treasuries and into the stockmarket. But it's probably not that simple. Stocks are already overvalued. And central bankers didn't just buy government bonds.

The Fed has mortgage-backed securities to sell, the ECB has a lot of corporate bonds and the Swiss National Bank has vast equity holdings. Who sells what, when and how fast, could decide returns in each asset class for years.

Politicians on the move

It's not just central bankers messing about this month. Their friends the politicians are busy too.

Negotiations over the US's debt ceiling are beginning. Adding President Donald Trump to this piece of theatre makes it far more interesting. And the **potential for war with North Korea** adds in a dangerous level of spice as it's one way around the limit should things go against him.

But in the end the debt ceiling is a self-imposed limit that the same people can also lift. And it allows huge amounts of usually unimportant politicians to make outrageous claims on taxpayer cash in exchange for their vote, so it's probably just politics as usual.

On 24 September, Angela Merkel will probably be re-elected chancellor of Germany. Based on the discussions on German TV and radio, the whole election is a bit of a non-event.

The major parties are incredibly similar on policy, so you might as well go with the devil you know. Minor parties aren't making much of a fuss yet. Even the TV debates are a bit melodramatic. There's more discussion about the format of the debate and whether it adds any value to the political process than what the candidates actually say.

The only real issue is who Merkel will form a coalition with, given she will probably need to. The historical partner of her party, a moderately libertarian group, will probably remain too weak.

In New Zealand, the guard of the new Labour leader is attracting more global attention than the politicians seeking election at the end of the month thanks to his striking appearance.

In China, the leadership groups are jostling for their October party conference. The wheeling and dealing is done well in advance of the actual event, meaning now. The conference is the Communist Party's 19th and many expect the current president to extend his control and dominance. The only fly in his ointment is North Korea's belligerence.

Acrimonious **Brexit** and North American Free Trade Agreement talks continue this month and another enormous storm is set to hit the US.

If nothing goes wrong this September, I'll be suspicious. The question is whether it becomes a long-term turning point.

Until next time,

Nick Hubble
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