The best year financial markets have ever

LONDON: For all the angst about trade wars, geopolitics and a sputtering and overly indebted global economy, 2019 might just be the best year investors have ever had.

The numbers are staggering. Global stocks have piled on more than $10 trillion, bonds have been on fire, oil has surged almost 25%, former crisis spots Greece and Ukraine have top-performed, and even gold has sparkled.

Wall Street .SPX and MSCI's near 50-country world index .MIWD00000PUS have both stormed to record highs after 30% and 24% leaps. Europe, Japan, China and Brazil are all up at least 20% in dollar terms too. Not exactly shoddy. A mirror image of 2018, when almost everything fell? Perhaps. But there have been a couple of important drivers.

One was China showing it was serious about stimulus for its $14 trillion economy. The other was the screeching change of direction by the world's top central banks, led by the Federal Reserve, which cut U.S. interest rates for the first time since the financial crisis more than a decade earlier. "Whereas a year ago the Fed was raising rates and earnings were rolling over, this year you have felt the Fed has been on your side," said James Clunie, who manages asset firm Jupiter's Absolute Return Fund.

"They are willing to do QE4 at a stock market (record) high, which is extraordinary," he added, referring to Fed efforts to bring down a spike in money market rates that some suggest could presage a fourth round of quantitative easing asset purchases. That Fed shift and the worldwide blizzard of rate cuts that have come since have fired bond markets up like a rocket.

US Treasuries, the world's benchmark government IOU, have made a whopping 9.4 percent after yields plunged as much as 120 basis points. That followed a near 40 basis point fall the last quarter of 2018, after five quarters in which they had consistently risen. German Bunds — Europe's safest asset — have had their best year in five years, making roughly 5.5% in euro terms as the European Central Bank has reversed course too. The yield on 10-year debt dropped below zero percent for the first time since 2016 in March and dived as deep as -0.74% in September. In commodities, oil has raced up almost 25% following its best first quarter since 2009. That, plus key dividend rule changes, has made Russia's stock market the best in the world with a 40% rise and also made the rouble a top three currency.

Metals have had a more mixed time. Copper is only 4% higher after buckling badly when trade tensions flared in the middle of the year, and aluminum is down 2%. But palladium, used in car and truck catalytic converters, has boomed 55%, while gold has had its best year since 2010 with a 15% jump. A statistic likely to make most jaws drop is that Greek banks — remember all that euro debt crisis and capital controls stuff a few years back? — have been some of the world's best-performing stocks this year. But even those gains look skimpy in comparison to Californian video streaming darling Roko (ROKU.O), whose shares have risen 440% this year.

FANGTASTIC: Tech has remained top more broadly. Apple (AAPL.O) may just have lost its crown as world's most valuable firm to Saudi Aramco but it can console itself with its 77% leap this year. Cryptoassets have been typically wild. Bitcoin was up over up 260% in June but it has been hauled back to around 85%.

Riskier high-yield debt, corporate bonds and local currency emerging market bonds and have all brought in between 11%-14% while Ukraine's dollar bonds and Greece's euro bonds have piled on over 30%. "It is just a great year for the asset class," said Pictet emerging market debt portfolio manager Guido Chamorro.

"It has been a relentless rally across the board over the last couple of months and it is possible that it continues into next year." Despite almost daily Brexit chaos, the loss of another prime minister and a snap election, UK gilts have returned 4.5% and a near 6% rise could land sterling its best quarter since 2009.

In contrast, the Fed's pirouette and easing of trade tensions means the dollar index .DXY is about to experience its worst quarter in 1-1/2 years. It is still clinging to a 1.5% gain for the year, though, meaning it will be the euro's EUR= fifth red year in six. As usual the big swings have been in emerging markets. Argentina's peso ARS= and Turkey's lira TRY=, 2018's punchbags, have taken another beating. Argentina's woes have worsened such that it is restructuring its debt again while Turkey's worries have not really gone away. At the other end of the spectrum, a new president and a new reform agenda have seen Ukraine's hryvnia UAH= rocket 19%. Russia's rouble is up 11% and Egypt's pound EGP= is sandwiched in between with a 11.7% gain. **—Reuters**

Wall Street week ahead: History suggests rally may slow for US stocks in 2020

NEW YORK: The outsized rally in the U.S. stock market this year may give way to a more muted performance in 2020 if history is any guide. The benchmark S&P 500 is up nearly 28% for the year, which if the market closed this week for the year, would mark the second-best annual performance for the index since 1997.

However, investors who are hoping the rally will continue charging ahead through next year may be disappointed. The S&P 500 has returned an average of 6.6% in the year following a rally of 20% or more since 1928, slightly below the 7.6% return in all years, according to research from Bespoke Investment Group. Fund managers and strategists say there are several reasons to believe that the stock market will not continue on a path of notching double-digit annual returns like it did during the late '90s tech bubble.

"We're up a lot this year, but we had a historically bad 4th quarter last year," said Ryan Detrick, senior market strategist for LPL Financial. "This isn't because of spectacular growth in the economy but the market realizing that we're not going to have a recession." The S&P 500 posted its biggest drop since the 2008 financial crisis last year as investors worried that the trade war between the United States and China would push the global economy into a recession. The Federal Reserve's decision to change course in early January from its path of raising interest rates helped fuel the rally in the stock market this year. The Fed also helped spark a bond rally that pushed 10-year Treasury yields near historic lows and boosted dividend-paying stocks, further pointing to concerns about the strength of the U.S. economy, said Liz Ann Sonders, chief investment strategist at Charles Schwab. "There are not a lot of investors in the bond markets losing their shirts because the economy is running ahead of expectations," she said.

The November presidential and congressional elections will likely weigh on politically sensitive sectors like healthcare as 2020 progresses, Sonders said, adding another market headwind that could prevent another string of outsized gains like the late 1990s. "You had a bunch of strong years back then because we were in the midst of a tech bubble and there was no cap on valuations. Now we have real legitimate companies but there's not the same sign of excess valuation," she said. Few on Wall Street expect a bear market in 2020. There are few signs of a recession looming in the year ahead, while the market has seemed unfazed by issues such as President Donald Trump's impeachment or ongoing trade tensions, said Jonathan Golub, chief U.S. equity strategist at Credit Suisse Securities. "Given historically low interest rates and risk premiums, we believe valuations have further to run," he said. He added that he expects the S&P 500 to end 2020 near 3,425, a roughly 7% gain from its Thursday trading price.

Investors may realize larger gains by investing in smaller companies next year, said Steven Chiavarone, a portfolio manager of the Federated Global Allocation fund. Large-cap stocks in the S&P 500 are over-valued compared with the smaller companies in the Russell 2000 index, he said.

At the same time, the Russell 2000 slightly underperformed the larger index this year by posting a 23.2% gain, leaving it primed for a "catch-up trade" given that smaller companies tend to benefit more from low interest rates, he said. "We think there's a chance that you will see upside surprises from earnings next year and that could draw investors back to an asset class they've been overlooking," said Chiavarone. **—Reuters**

Russia gas export pipeline in jeopardy as Trump signs sanctions bill

WASHINGTON: Swiss-Dutch company Allseas said it had suspended work on building a major Russia-to-Germany natural gas pipeline in order to avoid U.S. sanctions contained in legislation signed by President Donald Trump on Friday. The move throws into doubt the completion date of the US$11 billion project that Moscow had said would be ready in months, jeopardizing plans to quickly expand Russian sales of natural gas to Europe via pipeline. The participation of privately-held Allseas, a specialist in subsea construction and laying underwater pipeline, is integral to the completion of Nord Stream 2, led by Russia's state energy company Gazprom.

"In anticipation of the enactment of the National Defense Authorization Act (NDAA), Allseas has suspended its Nord Stream 2 pipelay activities," the company said in a statement dated Dec. 21, seen by Reuters shortly before Trump signed the bill. "Allseas will proceed, consistent with the legislation's wind down provision and expect guidance comprising of the necessary regulatory, technical and environmental clarifications from the relevant US authority."

The annual national defense policy bill contains legislation, first sponsored by Republican Senator Ted Cruz and Democratic Senator Jeanne Shaheen, imposing sanctions on companies laying pipe for the project that will double the pipeline's capacity to Germany.

The bill calls on the administration to identify companies working on the project within 60 days to trigger the sanctions. That report will likely be completed faster than that, however, meaning the sanctions could be triggered earlier than expected, two U.S. senior officials told Reuters.

Nord Stream 2 would allow Russia to bypass Ukraine and Poland to deliver gas under the Baltic Sea to Germany. Gazprom is taking on half of the project's planned costs and the rest is divided between five European energy companies: Austria's OMV, Germany's Uniper and Wintershall, Royal Dutch Shell and France's Engie. The Trump administration, like the Obama administration before it, opposes the project on the grounds it would strengthen Russian President Vladimir Putin's economic and political grip over Europe. Russia has cut deliveries of the fuel to Ukraine and parts of Europe in winter during pricing disputes. "We have a degree of consistency, over a decade of opposing this issue, across presidential administrations," one of the U.S. officials said. **—Reuters**

China's state fund to trim stakes in tech stocks

SHANGHAI: China's state-backed semiconductor fund announced plans to reduce holdings in some tech firms, even as foreign investors continued to add exposure to the country's tech sector. The National Integrated Circuitry Investment Fund, also known as the "Big Fund", planned to cut its stakes in Gigadevice Semiconductor, chipmaker Shenzhen Goodix Technology and Hunan Goke Microelectronics by about one percentage point each, according to those companies' statements. The state fund currently holds 9.7 per cent, 6.6 per cent and 15.6 per cent in the three companies respectively. It did not elaborate on why it wants to cut its holdings. The plan comes after stellar stock gains this year, with Gigadevice Semiconductor, Shenzhen Goodix and Goke up 213 per cent, 160 per cent and 93 per cent respectively. Foreigners have spent a record 190 billion yuan (US$27.1 billion) via the Stock Connect so far in 2019 purchasing shares listed on the tech-heavy Shenzhen Stock Exchange. Beijing set up the Big Fund to support its chip sector, and in October a new national semiconductor fund of 204.2 billion yuan was established as it further seeks tech self-sufficiency amid tighter US scrutiny of Chinese tech firms. China also launched the Nasdaq-style STAR Market in July. **—Reuters**

Argentine Senate gives final OK to progressive economic overhaul plan

BUENOS AIRES: Argentina's Senate gave final legislative approval on Saturday to an emergency economic reform package touted by new President Alberto Fernandez as the country's best chance at sparking growth, reducing poverty and taming inflation.

The "Social Solidarity and Production Reactivation" act was approved 41-23 with one abstention in the Senate after passing the lower House on Friday, all less than two weeks after moderate Peronist Fernandez took office. The new leader is faced with inflation of more than 50% and an economy expected to shrink for a third straight year in 2020. He is headed into restructuring talks on about $100 billion in debt owed to bondholders and the International Monetary Fund. The reforms are meant to show creditors that Argentina is on a path toward sustainable growth after years of malaise.

"This bill represents a new type of fiscal adjustment for Argentina, in that it is focused on taxing the rich," said analyst Julio Burdman, head of local consultancy Roger Data. "It combines sound economic policy with a progressive political approach," Burdman added. "In the past, we either had orthodox austerity without social sensitivity, or inflationary policies without macro-economic rationality." Fernandez is aiming for fiscal equilibrium in 2020 while ending the painful government subsidy cuts that killed growth under previous President Mauricio Macri and derailed his re-election bid. Fernandez, promising to bring relief to the poor, thumped Macri in the October election.

Utility prices are to be frozen until June 30 next year, under Fernandez's program. Subsidy cuts under Macri had jacked up electricity and heating gas bills during his four-year administration, stoking inflation and social anger. "The emergency law is not business friendly, especially not for the utility sector, but it delivers a sense of pragmatism," said Alberto Bernal, chief emerging markets strategist at XP Investments in New York. "Its approval implies the government will have the resources to deliver on its promises of increased social spending without re-

Alphabet grants Pichai largest ever stock award, again

NEW YORK: Alphabet Inc's newly instated Chief Executive Officer Sundar Pichai would receive a hefty US$240 million (£184.40 million) in performance-based stock awards over the next three years, the highest ever promised to any executive of the search giant.

Pichai would also take home US$2 million in annual salary starting 2020, according to a regulatory filing on Friday. That compares with a US$1 salary received by Larry Page in the same role last year.

"In terms of grants related to CEO appointments, it's behind Tim Cook's grant of US$376 million when he took over Apple," said Amit Batish, marketing manager at Equilar, a firm that tracks executive compensations. Google cofounders Page and Sergey Brin stepped down earlier this month as leaders of the internet behemoth they founded 21 years ago, giving Pichai charge of the parent company in addition to his role as the chief of Google.

Trusted lieutenant Pichai, who has spent 15 years at Google, is now the public face of a company that is facing criticism from U.S. lawmakers as well as its employees over a number of issues ranging from privacy to monopoly. When he took over as Google's chief in 2015, Pichai drew an annual salary of US$652,500. The following year his earnings skyrocketed, thanks to a massive US$199 million in stock awards, the highest ever for any Alphabet executive back then. Pichai is widely credited for making the Google chrome browser a success and was seen as a potential successor to Microsoft Corp CEO Steve Ballmer before Satya Nadella took over in February 2014. According to the most recent proxy statement from the company, Pichai earned nearly US$1.9 million in 2018, which mostly included the costs for his security and personal use of aircraft. His base salary that year was US$650,000. Median CEO base salary reached US$1.2 million among the largest U.S. companies by revenue in 2018, according to Equilar. **—Reuters**