
MV Capital Management Weekly Market Flash

Let the Dog Days Begin

June 13, 2014

Summer weather has returned in full. For those of us who call the Mid-Atlantic region home, that means lots of humidity and the intermittent torrential downpour showing up just in time for the evening commute. It's summertime in the markets as well. Average daily trading volume on the New York Stock Exchange for the month of June to date is about 17% lower than the average volume for the month of April. By the looks of things, not many people sold in May but they did go away, taking their algorithms and server platforms with them.

Light trading volumes are characteristic of many summers, though by no means all. Average NYSE trading volume in June 2011 was about 40% higher than the month-to-date figure for this year. Investors in 2011 were focused on the possible collapse of the Eurozone, and as the summer unfolded the debt ceiling debacle and S&P downgrade of U.S. Treasuries also conspired to keep money professionals from getting away to their favorite vacation destinations. In 2012 June was another busy month, but in early July that year ECB Chairman Mario Draghi uttered his famous "anything it takes" pronouncement to shore up support for still-beleaguered Europe. Average daily trading volume subsided from around 870 million shares in June to 740 million in July, and a listless 615 million in August (which is close to the 2014 June month-to-date figure of 605 million). Resort owners cheered Draghi.

While markets this summer are off to a calm start, there is no shortage of news stories with the potential to cause some near-term mayhem. The recurring 2014 theme of geopolitical flashpoints is back front and center today with Iraq seemingly on the verge of disintegration. The extremist Islamic State of Iraq and Syria is in the process of seizing control of large swaths of the country and converging on Baghdad, while in the north Kurdish forces have taken over the oil-rich city of Kirkuk. Oil prices predictably have shot up. Equities are down, though losses in most major markets are fairly contained. "X-factor" events like this have the potential to move index price returns well above or below 1% from the previous day's close. That watermark is not being breached today; in fact, the S&P 500 has not experienced a daily gain or loss of 1% or more since mid-April.

Even a worsening of the Iraq situation, though, or a re-intensifying of other geopolitical problem spots such as Ukraine or the Senkaku Islands, is unlikely to keep traders from their beach houses or fly fishing meccas. At this point it would appear that the only thing with the potential to really shake up the current state of complacency would be a fundamental re-think of the baseline economic story. This story rests on several pillars: moderate growth in the U.S., avoidance of deflation in Europe, positive signs of a rebalancing Chinese economy, and healthy price trends in Japan (where headline inflation is now actually higher than either the U.S. or Europe). All with central banks at the ready where and whenever additional stimulus is needed.

It's a strange calm, to be sure. Sometimes, looming clouds on a calm summer afternoon ominously portend a night of wild and devastating storms. But sometimes the clouds just sit there, and the calm continues.

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