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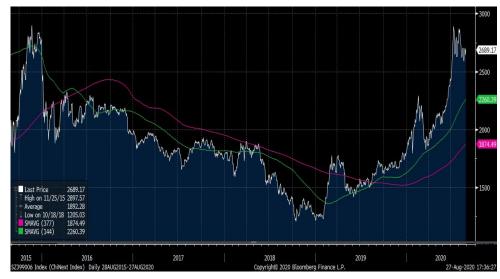
## Investors hope for good policy adjustments out of Jackson Hole

- ♦ The S&P500 closed 1% higher last night at yet another all-time high (at 3,478.73)
- ♦ The NASDAQ Composite Index rose a further 1.7% as tech stocks rallied
- ♦ 24 Chinese companies were sanctioned by the US over South China Sea expansion
- ♦ Chinese retail investors have been making huge speculative gains in ChiNext IPOs
- ♦ ChiNext is a high-risk venture capital exchange, and officially encouraged
- ♦ The FAB AAC is for the time being remaining slightly underweight in global equities, and overweight in IG bonds and gold

The S&P500 yesterday led the MSCI All Countries World Index (ACWI) to a new all-time closing high of 584.03, for a gain of 3.32% for the year-to-date - and a rally of 52.0% from the low of March 23. For those who maintained a reasonable exposure to equities since March 23 - and ignored the temptation to sell everything - it has so far paid off.

According to Bloomberg, the prospective P/E ratio for 2021 for the ACWI stands at 18.4x, based on earnings recovery of 29.0% next year. The current consensus for 2022 earnings growth is for 16.1%, resulting in a P/E of 15.8x for that year. Of course these numbers are a moveable feast. The high growth pencilled-in for next year is flattered by the comparison with this year,





while the continuation of higher-thanhistoric forward P/Es depends on various factors - although mainly the level of interest rates and economic activity, and politics.

The Fed had recently led market participants to expect official rates to stay close to zero for at least the next few years. What equity investors need to hear tonight from Mr. Powell at Jackson Hole is a continuing dovish message of monetary accommodation.

Yet he and his colleagues have to prevent inflation from turning disruptive, while at the same time ensuring a healthy labour market. A low level of inflation in an economy - what used to be called 'creeping inflation' - can be helpful in that it facilitates the growth of corporate profit margins. Demand-pull inflation (self-explanatory, and you will remember it from school economics lessons), and 'cost-push' inflation are more problematic, and can damage asset

values. The Fed knows which one it must generate.

If you think about all these things - and we have discussed them in recent Weeklies and Dailies - it sounds as though it might be hard for Mr. Powell and his colleagues to achieve all these aims, while managing expectations - although we are hopeful. Like others, we will be listening very careful, and thereafter dissecting every word of the transcript to attempt to analyse what it all means. After all that has happened in the world in recent months, investors very much need this policy update from the world's most important central bank.





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