FIMARGE
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THE GREAT DISJUNCTION

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As we closed February the enthusiasm of financial markets remained strong. The expected quantitative easing in Europe and the lack of inflation continue dragging interest rates down to new lows, depreciating the euro and appreciating European equities.

As you know, our portfolios have been decreasing their exposure to the stock market and maintaining an exposure to bonds in euros, dollars and pounds that allows us to get a good return and a potential gain in price. Although the portfolios have become more conservative they have continued to benefit from the market situation.

What is happening? The financial repression we are experiencing is creating a disjunction between the evolution of the real economy and financial markets. For those unfamiliar with the term *financial repression*, I am referring to the lack of performance offered by the safest assets, due to excessively loose monetary policies, that forces savers to invest in riskier assets. Financial repression is generating a flow of new money in equity markets that pushes asset prices up.

It remains to be seen whether financial repression, with the increase in prices of financial assets it entails, will result in higher inflation in the real economy or, in other words, if quantitative easing will be able to impact the economic cycle as it is impacting the financial one.

Financial markets are quite ripe and we must be prudent for the rest of the year.

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