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SELL IN MAY AND GO AWAY

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The start of the year has been exceptional. Exceptional for European stock markets, for risk premiums, for almost any Western currency against the euro, for credit spreads, and even for some commodities. However, ironically, no one denies that the imbalances of recent years are still present and that the ECB's monetary stimulus is the only factor that pushes risky assets up, penalizing savers and creating inflation just in financial markets so far. To all this we should add the doubts arising in the US, where Yellen transmits an ambiguous message about interest rates, and a macroeconomic context that looks tarnished by the weak growth data reported concerning the first quarter, even though unemployment is already at pre-crisis levels. It is early to ascertain if the weather—as almost always—is responsible for the bad data, or the strong strikes suffered by the West Coast ports. The key point will be whether the Fed will finally show the courage needed to raise interest rates which, under normal conditions, should already be at 2 or 3%, in the knowledge that rising them will generate quite some nervousness in American stock markets.

The truth is that there are many reasons to justify what most analysts call a "correction" in the first days of May. Professionals call this a "pull back", i.e. a move backwards to go on rising, just because that's what the geometry of some graphs, its candles, and its indicators show. As if fundamentals did not matter. But it is of little use to apportion blame for the poor start in May when what is expected from our craft is to talk about the future. For example, it took some quarters after the burst of the subprime bubble to allow for the perspective needed to appreciate the huge imbalances that these mortgages had created in the US. Only a few managers anticipated it. The truth is that it looks like the markets are regaining some sanity and are beginning to value some assets more in line with their true nature.

With volatility indexes at their minimum after four consecutive months of stock markets gains, with little basis in the macro to support them, and with an unquestionable credit bubble, it is worth remembering the classic Sell in May and Go Away and take some respite. From time to time it is healthy to shake off the corset of benchmarks and to start thinking in absolute terms, especially in a context where almost no one can be dissatisfied with the performance achieved to date.