

# Summer's gone

"He will win who knows when to fight and when not to fight."

Sun-tzu, the Art of War.

So President Obama's favoured choice to take over as Federal Reserve Chairman, Larry Summers didn't fancy the fight then? To be fair, it's been a difficult month for President Obama, encumbered as he is with the curse of all recent Presidents - a foreign war. Perhaps Summers worked out that his retreat from the race to become the next head of the Federal Reserve was the right thing to do strategically in the face of opposition from those within Obama's own camp. And who could blame him for feeling slightly aggrieved that him taking one for the team in full view of global markets merely makes him the villain of the piece in letting down his Presidential backer?

No matter. Equities and bonds are up because waiting in the wings is the rather more dovish, and therefore entirely more agreeable for markets hooked on cheap money, Janet Yellen. Indeed, Yellen was one of the architects of the Federal Reserve bond buying programme of quantitative easing. Perhaps her preference for the nuts and bolts of central bank action is what spared her the ugliness of the left-wing campaign that eventually did for Larry Summers.

With a few weeks of the faux-decision making process left to run, there are a handful of alternative candidates to Janet Yellen left to consider, among them, of course, Ben Bernanke who could quite conceivably stick around for two more years if President Obama asked him nicely, as one Democrat to a Republican. In the meantime, the markets have voted with their feet. Bond yields are down and equities are flirting around the record highs. It's hard to say where equities will go in the fourth quarter. The valuation debate rages on but, even if it could be definitively stated that equities are cheap (which it won't) there is plenty to worry about in geopolitics land now that the politicians are back from summer holidays, that will keep any irrational exuberance corralled into the perceived safe haven of bonds or, increasingly, cash.

And this brings us to the bond market. If the various asset classes were a national defence force, the bond market would be the navy. The senior service to which one takes ones lead because it is a function of growth expectations and, indirectly, inflation. Both of these debates have endured since the Market came to terms with the Lehman crisis five years ago and the green shoots of recovery in the spring of 2009. But whether one is mildly right or wrong about either tends not to be the bigger call these days. If one really wants to trade bonds effectively in the short term, it is necessary to understand the artificial influences imposed by central banks which undeniably knock on to liquidity, international trade flows and, the most sentimental one of them all, money looking for he perceived safe haven of Treasuries and Gilts. The UK bond market now thinks that the 2016 Bank of England target is far too pessimistic a gauge of the strength of the UK economy. Perhaps Middle East tensions will push the market back towards lowering rates, albeit for a different reason. For now, the TAM investment team has moved closer to bond benchmarks while we await third quarter corporate earnings figures from the USA and the forecasts into Christmas and the New Year. Christmas already? But, of course, summer's gone...

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