

Why Stocks Are Losing Out to Cash

By Randall W. Forsyth • June 30, 2018

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That's confirmed by the stampede into Treasury bills by the Thundering Herd, according to Bank of America Merrill Lynch's global investment strategy team led by Michael Hartnett, as the firm's clients ramp up their holdings of the safest, most liquid investment on the planet. As noted here last week, short-term T-bills provide nearly the same yield as dividends on the S&P 500, which may be why TINA seems a bit fey these days.

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At least all of those numbers had plus signs, something that China's stock market can't boast. The decline in the Shanghai Composite put it into bear market territory with a drop of more than 20%. Trade tensions appear to be weighing more heavily on the Chinese market, which also has had to cope with a slowing domestic economy.

What's got global market watchers worried is that China's stocks are sliding in tandem with its currency, the renminbi or yuan. Until recently, the yuan had been declining versus a rising dollar; relative to a basket of its trading partners' currencies, it actually was up 5% over the past year, according to JPMorgan global

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That suggests China is using the exchange rate as a weapon. "The most effective way for China to retaliate [against] rising U.S. tariffs is to weaken" the yuan, according to the July Bank Credit Analyst. That could roil financial markets, however.

The dual declines in China's equity market and currency are raising concerns of a repeat of 2015. Treasury strategists at NatWest Markets recall that the drop in the yuan that summer sparked severe equity market losses, including a 10.5% correction in the S&P 500. China's currency is also having an impact on emerging markets, especially those in Asia, which have already been under pressure from the