

## Sanguine Markets

A clear message from investors as we head into the July 4<sup>th</sup> Holiday weekend in the United States is that equity markets are poised to continue their march higher. Of the US indices, both the Dow Jones and S&P 500 continue in record territory, and the NASDAQ is just shy of its all time record high reached at the heights of the tech bubble in March of 2000. And what continues to give equity markets their buoyancy are the economic reports that continue to depict a American economy set to equalize the negative first quarter of this year.

Every economic release or piece of data put out this week points to the North American economy, particularly stateside bouncing back from that dismal performance in Q1. Auto sales had their best month since 2006, China's economy continues to exhibit signs of picking up and in turn signalling strong demand for North American goods and services. As a result of this, Dr. Copper has bounced off its recent lows. But of course, the icing on the cake was the June job's report with American employers adding a healthy 288 thousand positions.

It was the job numbers though that continues to be the single most important economic indicator for the markets. The health of the US labour market is the de facto concern for policy makers, and thus will continue to be their focus. This will lead an ultimately more dovish Fed to keep their policy more lenient. And although asset prices are not a direct target of their policy, with the Fed in no rush to raise interest rates, the equity market looks like they will continue to find buyers at these levels.

As BMO Capital Markets Chief Economist Douglas Porter observes, two decades ago the unemployment rate was as well at 6.1 percent, average hourly earnings were growing at 2.5% versus 2.3% today, and the consumer price index was at an annualized rate of 2.3% versus 2.1% today. In 1994, the Fed Funds Rate (their policy tool) was 4 percentage points higher than it is today. Obviously, more goes into what determines the FOMC to raise interest rates; however, this exemplifies they are in no rush to act anytime soon.

And this is what is supporting precious metals, particularly silver which made a tremendous 11% move higher in June. The question becomes whether the resurfaced optimism in the equity space will see downward pressure on the metals. Or (as we saw in June), will a cautious investor continue to question the gains in equities and maintain the bid for gold.

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