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Macro Market Insights

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Memories of a Euro Crisis

Gold prices gained for the sixth week in a row putting up the metals' best winning streak since August of 2011. Beyond the technical factors that have been supporting this rally that started below 1,250 US per ounce, investors once again are demanding gold for its safe haven characteristics. It was the news of an extension of Portugal's biggest bank missing an interest payment on their debt that saw investors sell equities and move into precious metals. And thus, the memory of the fears of a sovereign debt crisis in Europe (that investors had since moved passed), serves as a sobering reminder for the need of a hedge to equity exposure. This is amplified by the fact that we are in a rising interest rate environment when investors might want an alternative to bonds and other fixed income.

But it is interesting to think back to what the market reaction might have been two years ago if a similar event had happened to another one of Europe's major financial institutions, and perhaps allows suggesting that the markets today are not as sensitive as they were in 2012. The selloff in the markets we saw on Thursday might have been much more drastic. And for that matter, the selloff could have followed through into Friday's trading session as investors concern themselves over the condition of European banks' balance sheets. Instead, banking fears in Europe translated to a half percent selloff in the S&P500 and the markets finished positive on Friday.

As immune as the markets may have been this week to the events in Europe, they have illustrated one thing, and that is as we remain in this low to moderate growth environment, we will continue to uncover vulnerabilities in our financial and economic system. This is simply because we are not seeing the robust economic growth that would allow us to put the crisis of 2007 behind us and move on. Portugal's Banco Espirito Santo may not represent a major financial institution in comparison to perhaps the problems encountered by Spain's Santander in October of 2012, and their exposure to the debunked Spanish housing market. But it does caution that there could be many more skeletons in the closet uncovered by this lifeless recovery.

The same is true for North America. Weak economic growth holds us back from correcting the shortfalls that led to the events of 2007. Despite analysts' calls for a strong US economy in the second quarter of this year, it follows a near three percent contraction in the first three months. And it's a similar scene in Canada, which is evident through the performance of a labour market in an economy that continues to illustrate a pure inability to create jobs.

My point is certainly not to be overtly bearish on some unforeseen events or hiding from what's to come. Moreover, as the same structural problems are still prevalent in the global economy today, like stagnant employment growth, high government debt levels, and an ongoing societal debate surrounding social inequality, it's hard to see what will spur a sudden shift to a rapidly growing economy. And for that reason it seems we can expect a few more shocks along the way, and investor's continuing to turn to gold as the ultimate hedge.