The US has got itself into a frenzy over the prospect of imminent recession, says *Forbes Magazine*'s Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher, who argues that global fundamentals in fact bode well for the markets

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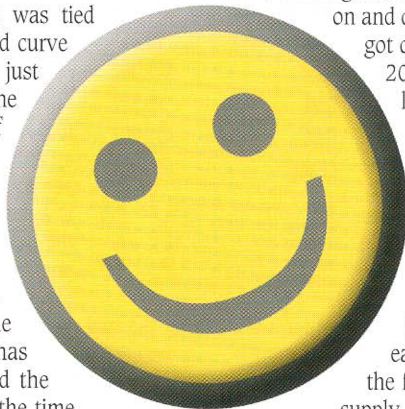
Time to put on a happy face

The British know the US is wrong and can prove it better than most folks from most countries. Back in late-December, the US trembled terribly about a recession lying ahead, which was tied to the country's yield curve becoming arguably just slightly inverted. The media was full of it, recounting how often inversion had led to recession. Markets swooned.



But you know that's silly and wrong because the British yield curve has been flat to inverted the last three years, all the time, and Britain's economy has been strong and its equity markets certainly not down.

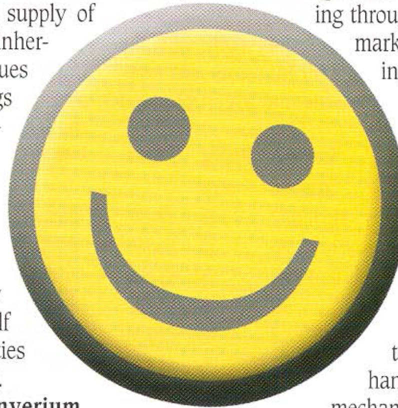
As I detailed in December, folks think their individual country's interest rates and yield curve matter – and 40 years ago they did. But today they largely don't. Nowadays it's the global yield curve that matters and it maintains a full 1% upward slope.

When in the past the US's inverted curve led to recession it was also true that the global curve was inverted at the same time. Not so now. The US and UK, the two great Uniteds, can be united in flat yield curves and still prosper as long as the global curve remains adequately steep. Money simply ports between global banks and traders across all major national boundaries. Globally, outside the US, there seems little sense of upward pressure on short-term rates and long-term rates are quite stable everywhere. This bodes well for markets.

I've been too bullish for two years but that has beaten being bearish. I don't know why global equities didn't do better than they did last year. Folks are just gloomy, gloomy, gloomy. The big surprises from the beginning of the year were positive but people responded pessimistically. They continue that way. They expect a weak economy, lousy politicians (OK, I'll grant you that one), long-term rates to rise, earnings momentum to weaken and on and on. Hopefully, they have got over their idiotic January 2005 fear that the dollar would implode taking the western world down with it.

Globally, however, the economy progresses, earnings improve, long-term rates won't rise much (if at all), banks remain eager to lend and we have the fastest destruction of the supply of securities that I can measure in history (combining stock buy-backs and net cash takeovers less new equity issuance).

We are currently destroying the global supply of equity at approximately a 7% annual rate. As also detailed in December, this reduction in the supply of equity securities, inherently bullish, continues until either earnings fall apart, global long-term rates rise a lot or the market rises a lot – or some combination of the three. So, in facing the New Year put on a happy face and force yourself maximally into equities such as the following.



Swiss-based **Converium Holdings** is a troubled but too cheap broad-based, multi-national insurer. Following bad management, accounting irregularities, massive losses, write-downs and, still to come, a well-publicised restatement of past financials, the stock lost two thirds of its value.

By the end of 2005, operations had stabilised and in the new year with a new, vital and energetic yet experienced chief executive in Inga Beale, this should be Converium's year. If not, I'd bet the firm is taken over in 2007.

Selling at 40% of revenue and 90% of book value, someone will want its £2.3bn of turnover – maybe Lloyds TSB Group, within whose Scottish Widows subsidiary

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Converium would fit nicely. Incidentally, the UK banking group is itself a bargain at 12 times 2006 earnings and with a dividend that may exceed 5% this year.

Dutch-based **Mittal Steel** is the world's largest steel maker, spanning 14 countries and making 60 million tons a year – not to mention good profits where few do by controlling costs. It will continue growing through acquisition, boosting market share and modernising acquired facilities. At 80% of turnover, four times cashflow and six times 2006 earnings with a 1% dividend yield, it is an obvious buy.

Parker-Hannifin in the US makes motion control systems, including ones handling fluids, electromechanics, factory floor motion and hydraulics. Sounds dull – yet it combines respectable growth with low valuations. At one times turnover and 13 times 2006 earnings, this £4.6bn market capitalisation stock will buy back a lot of shares soon, increasing earnings per share further – or someone will try to take it over.

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