



Do recent long-term interest rate rises mean the end of the global bull market? No, says *Forbes Magazine's* Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher. Normal volatility explains the rate increases and how it is still possible to beat the market

# The end is not nigh

Investors are making too much of recent long-term interest rate rises, particularly in America. The rises are not big enough to matter and are not particularly different than those of the last few years, most of which later reversed.

Readers of the last 18 months will know I view the global bull market as sustainable as long as earnings do not fall apart and long-term rates do not skyrocket. (I last detailed my logic on this in the April issue.) So the recent rise gives us pause to ask if this is the beginning of that skyrocket and thus of the end. I don't think so. I think it is just normal volatility.

Take America. The 10-year Treasury started 2006 yielding 4.4% and now hovers just over 5%. That's a 13.6% increase in the base rate. Since May 2003 there have been four bigger moves, which later mostly or completely reversed themselves. For example, between March and July 2004 rates rose 30% from 3.7% to 4.8% before falling back down to 4.0%. Between December 2004 and March 2005 rates rose 16% before more than fully reversing. The same is true in Britain. The 10-year gilt is up 14% from its lowest level in early January, but had a run of 9% in mid-2005, 14% in 2004 and 33% in 2003 when America was up 30% – and each and every one of those rises fully reversed later.

It is really the global long-term rate that matters, as I have preached here previously. By my calculation, the global 10-year rate would need to see a boost of fully three-and-a-half percentage points from the current level of 3.7% – a near doubling – to choke off the global bull market in stocks. That will not happen any time soon. Meanwhile, global companies borrow in countries where it is cheap to do so and use the proceeds to take over companies in other countries where it is cheap to do so, making the acquirer's earnings per share – and by extension the global stockmarket – rise.

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**Australia and New Zealand Banking** (ANZ) is just what it sounds like. As such it fits into a patchwork quilt of acquisitions by a bigger wannabe-global bank. And this is the way banking is going: global and community banks with ever less in between. With no controlling shareholders to stop a hostile takeover, ANZ's price/earnings ratio of 15 times 2006 earnings means an acquirer's earnings per share would get boosted immediately for doing a run here. Meanwhile, pocket a fat 4% dividend yield.

A parallel situation in Britain, in the trend of utilities acquiring cross-border networks, is **National Grid**. It is very strong in electricity and gas transmission in Britain and north-east America. Again there are no controlling shareholders, it trades on a P/E of 14 and there is a 2.7% dividend yield. National Grid may be the one to get its stock up by buying others, but if not, it becomes the prey.

America's **Conagra Foods** is an old corporate name that is meaningless to all but its employees, and they will be the only ones upset when it is taken over. Behind it are dozens of leading American consumer food brands. With only a £6bn market capitalisation there are too many bigger food and brand-ed consumer products firms for this one not to get gobbled up. Its 2006 P/E of 16 makes a takeover profitable, and it sells at only 80% of annual turnover. It has to get its stock up or its senior executives will lose their jobs soon. Meanwhile,

my predatory friends, salve your conscience with its 5% dividend yield.

Germany's **Fresenius Medical Care** (FMS) is up 50% since I recommended it in February last year. But it is still attractive. Most of the gain came from improving fundamentals. It sold at a P/E of 20 then and 22 now. I would not be surprised if it had a P/E of 24 a year from now having posted a double-digit gain. Behind it is the force of being a global leader in all the parts of kidney dialysis – treatment, equipment and supplies – where there is tremendous fundamental demand growth everywhere. Baby boomer ageing will drive this field for decades. If Fresenius does not run up too much it is one of those you could hold, maybe, for 10 or 20 years.

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