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MARKETS

Easing Worries Push Investors Out of Havens, Drive Stocks to New Highs

Safer assets like gold, the Japanese yen and dividend-paying stocks have declined recently



Gold prices have fallen around \$85 a troy ounce from September's six-year high as some investor concerns about trade and global growth ebb PHOTO: ANDREY RUDAKOV/BLOOMBERG NEWS

By Ira Iosebashvili

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Investors are pulling back from positions in haven assets like gold, the Japanese yen and dividend-paying stocks, a sign of mounting optimism as recent developments ease long-held worries about trade and global growth.

Gold prices have fallen around \$85 a troy ounce from September's six-year high and the value of assets held by the SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, are down nearly 7% from their October highs. Prices for silver are off nearly 15% from their September peak.

Other popular destinations for nervous investors have also seen their prices stall or decline in recent weeks. The U.S. dollar and Japanese yen have drifted lower, and utility stocks are among the S&P 500's worst-performing sectors this quarter. Yields on the benchmark U.S. 10-year Treasury note, which rise as bond prices fall, have climbed from near-record lows to a Friday close around 1.82%.

Investors piled into haven assets earlier in the year, pushed by worries over a thicket of global issues, including fears of a sharp growth slowdown, a continuing U.S.-China trade war and uncertainty over the path of Brexit.

Plenty of that caution remains. Gold prices are still up 15% this year, and the yield on the 10-year note remains far from its January highs near 3%.

Yet developments over the past few weeks have gone a long way toward soothing many of the concerns that had buoyed haven assets throughout 2019.

Stocks shot to new highs Thursday after President Trump said the U.S. was nearing a trade deal with China, though the reaction was more muted when the deal was announced a day later. The S&P 500 is now up more than 26% this year. Some investors said they were disappointed after Chinese trade negotiators declined to disclose details on the scale of the tariff reduction or the country's purchases of U.S. farm products.

At the same time, two straight months of stronger-than-expected employment data have bolstered the view that the Federal Reserve's three interest-rate cuts are working their way through the economy and boosting growth. In a policy statement Wednesday, Fed officials continued to express an upbeat view of the economy and signaled they had no plans to increase rates soon.

Investors in the coming week will get a look at data for the U.S. manufacturing and service sectors, as well as earnings from General Mills Inc., Nike Inc. and Micron Technology Inc.

"Why do you need a safe haven now?" said Ira Epstein, a strategist with Linn & Associates. "The Fed has succeeded in driving investors to the stock market."

There have been positive signs from other regions. In China, the private Caixin manufacturing purchasing managers index notched its fourth straight month of growth in November, bolstering the case that factory activity in the world's second-largest economy has stabilized after a decline.

Meanwhile, the chances that the U.K. will exit the European Union without a deal fell dramatically after a resounding victory by Conservatives in last week's elections, raising expectations that Brexit won't be as chaotic or disruptive as previously feared. The British pound, which fell to multiyear lows in September, is now up 6% over the past year.

"The major theme in recent months is the extent to which downside risks have faded," analysts at Barclays said in a recent report. The bank expects the S&P 500 to finish next year at 3300. It closed Friday at 3168.80.

Some investors are bullish for the near term but less confident that the good news will continue into 2020.

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Is it time to bet on riskier stocks? Why or why not? Join the conversation below.

A measure of how expensive bearish options on the S&P 500 are relative to

bullish ones—known as the Cboe Skew index—rose to its highest level of the year last week. More-expensive bearish options mean elevated investor demand for protection from stock market declines.

Hugo Rogers, who oversees around \$5 billion as chief investment strategist at Deltec International Group, recently cut his fund's positions in high-yielding stock sectors such as utilities and put funds to work in riskier areas, like Chinese stocks.

At the same time, he has maintained options positions that would increase in value if U.S. stocks declined in the second quarter of next year, believing that markets will become volatile ahead of the U.S. election and could face fresh global growth worries during that time. He also is concerned that the latest wave of easing from global central banks has left them with less ammunition to deal with any problems that may creep up down the road.

“Central banks have started the music again, but this is a game of musical chairs,” Mr. Rogers said. “When the music stops, there will be fewer chairs available.”

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