



EQUITY MARKETS

The heartbeat of a country's economy

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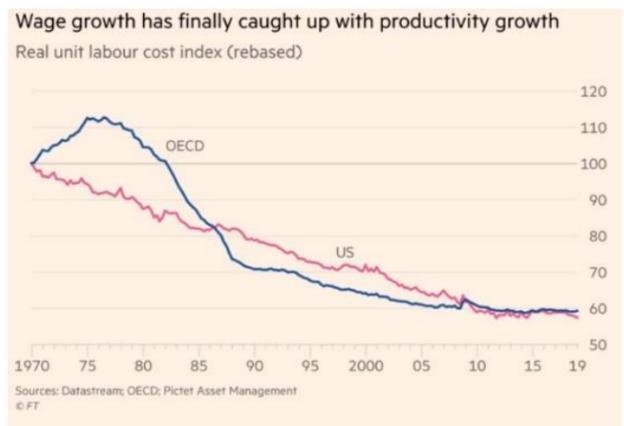
Equity markets are the heartbeat of a country's economy. In many ways, you need to look no further than levels of a nations, primary stock index to get a sense of how the country's economics are.

Nowadays, people have interest on the happenings in equity markets and factors driving it. Stock markets are very complex beings, they are no longer primarily affected by their domestic economic performance and domestic interest rate levels. Equity markets are truly affected by global factors

The connections are far more direct than the 'butterfly effect'. When a major equity market sneezes, global equity markets are instantly affected or as soon as they are open. Asset classes are intertwined; positive news in one can affect all instantly. Recent gains and growth stories cause a climb in stocks, oil prices to rally and treasuries to climb. Conversely, negative news caused the reverses impact.

The current most influential story is the trade relation and on/off trade war between China and US. The world has been looking for news on China's growth or weakness in their economy as it has become one of the dominant engine rooms of global economic performance. When the tensions ease, equities rise, not just in China but globally.

Also, when China takes measures such as adding economic stimuli to boost their economy, equity markets in Europe, Asia and South America rally following Chinese markets to some degree. Some countries such as Vietnam seem to gain from trade tensions as well. If trade wars are escalated, then China and US will search for new trade partners. Smaller nations or nations that previously didn't have the edge in trade will benefit as the previous trade victors are shut out.



Caption: The long-forgotten threat by equity markets: Labor Costs. Corporate profits were on a tear soaring higher and higher, but now, downtrodden workers are finally earning a fairer share of the corporate spoils, which will mean bad news for corporate profits. This should knock or curtail equity strength.

The US and European equity markets are without doubt, still the most influential global markets. Aside from identifying trends and regulatory issues, the structure of major equity markets, IPO procedures and equity market derivatives are the principal topics that one should understand.

As a trader, an advisor, risk manager or even salesperson; you may be left scratching your head, unable to explain or taking prudent action or even worse, licking your wounds and facing dire impact from a move that you should have predicted or protect yourself from the happening elsewhere in the world.

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Caption: The graph indicates the performance of the following indexes over the recent 18 months period. The indexes are - iShares MSCI Emerging Market ETF, HK Stock Exchange, Shanghai Comp Index, S&P and the Nasdaq. You can observe how they usually move together and are obviously influenced by news globally and by each other.