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Money Market Directories

Market Focus

At A Crossroads?

Conquest: Expect 'Significant Pressure' On Global Equities

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The coming months will witness "significant pressure" on global equity markets, with fixed-income markets rallying due to interest rate cuts, anticipates New York hedge fund manager Conquest Capital Group. "I think basically risk aversion has been sold dramatically over the last few years [and] there is a tremendous amount of leverage in the system," said Managing Partner **Marc Malek**, who espoused these views in a letter to investors. "That is going to change starting this year."

The firm does not write monthly market commentaries, except when "a major crossroads in the markets" warrants it. "We believe we are at such a crossroads now," Malek wrote. With manufacturing heading into a recession and housing data "going from bad to worse," the consistent theme is a turning of the tide in the U.S. economic cycle--none of which has been fully priced into equity, credit or commodity markets. "Housing data is going to be the key," Malek said. U.S. consumer consumption, fueled by home equity leverage, is effectively responsible for having kept the world economy humming.

This will change as central banks' tightening efforts take hold. The U.S. Federal Reserve kicked off this cycle in June 2004 but "it takes some time to wake up from a drunken stupor. We are there now." The ensuing pressure on equity markets, along with a broader economic slowdown, will cause central banks to reverse course and lower interest rates, which will in turn boost fixed income and "cause a massive drop in the USO." As a result, "over the next few months there are three major trades: equities lower, fixed income higher, and eventually, a massive USO decline."

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