TrendMacrolytics

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Perspective

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Markets have been a lot more resilient than embedded Wall Street pundits appreciate.

Much as on-the-ground reality in **Iraq** belies the incessant nattering of the chattering classes eager to find the handiest of rationales with which to cast doubt on the facility of **US-led coalition** military operations, markets are showing more resiliency than they are widely being given credit for in this supercharged environment.

Yes, equities have given up part of the surge that came on initial signs that the most optimistic scenarios for the war might be realized. But in contrast to the days leading up to the **Bush administration's** decision to break the diplomatic logjam and choose the military option, the paralyzing uncertainty that drove portfolios to abandon any but the least risky asset classes has been largely absent. This suggests to us that for all its volatility, the market is poised to continue capturing the risk premium in valuations as the recent pessimism comes to be seen as no less overdone than the earlier optimism.

The Wall Street media and punditocracy has its story and is sticking to it: the markets want this war over post haste, and any hint that coalition forces are meeting unexpected resistance is a menacing jolt to jittery markets. For sure, a swift and decisive outcome of the military action would be the ideal outcome, and the war will be a source of uncertainty until its successful conclusion is in sight. But over the past week in which Wall Street was reportedly a cauldron of angst over the possibility of an unexpectedly prolonged campaign, affecting everything from stocks to the dollar, oil and gold, we have seen encouraging signs of the markets' buoyancy.

Last Monday, the Dow Industrials fell more than 300 points, 3.6%, in its worst day of the year as the previous Friday's "shock and awe" bombing assault was seen as less decisive than early reports suggested. Over the rest of the week, however, even as the drumbeat of negativism remained unrelenting, the Dow gave up less than 1% on net, and managed to finish the week some 8.3% above its March 11 lows. Today, after falling 216 points at the open, stocks stabilized and had made back more than a third of the loss by mid-afternoon trading.

One reason we are as yet less-than alarmed by the market's pullback has been the performance of various safe-haven vehicles. Were this another episode of blinding risk aversion, for example, it's unlikely that gold trading would have remained as subdued as it has been over the past week. Gold fell by more than $10 to below $326 in the first days of military action, but hugged either side of the $330 plateau throughout last week. Even after today's pop to around $336, the price of gold is in the same range it held when the flight-to-safety trade unwound at the time the White House first indicated it was abandoning fruitless diplomatic efforts to pursue the military option. At this level, then, the gold price appears to be carrying little -- if any -- of the uncertainty premium that corresponded with the earlier equity market rout. TM

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