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World markets are somewhat vacant and drafty, a bit like central London without its commuters.

In a topsy-turvy world, bad news can be construed as good so the whiff of an IMF program for Spain produced a three week uplift in European equities. In the UK, the extravagance of the Olympics created a momentary counterpoint to prevailing austerity. Perhaps it will engender a new love of *les grands projets* - something that used to be our thing but we have lost faith in.

However, it would be folly to read too much into market prices in the month of August, especially this August when professionals are away entirely, or partially present but distracted.

This August also provides an odd view point to track backward and look at 12 month trailing returns. For equities, these look respectable, even if the common perception is that they have been poor and even if the root of this respectability has been their sharp falls in the early part of August last year.

The stand out asset class remains bonds – everybody's except those of Mediterranean Europe. Yield spreads for far-flung Emerging credits are now a tight as they have ever been in relation to those of the US and remember that the US rate lost its vaulted position as representative of the world's risk free rate some time ago. To invest in Emerging credits today is to take on two spectacular risks – the risk that US rates remain pancake flat (which requires both inflation to be abeyant and the long term fiscal threats to be quelled) and that this taste for foreign adventure remains vogue. Risks within Europe are, by themselves, quite enough to trigger a wave of liquidation and liquidation flows favour the US and the US dollar, even if there is no causal connection between European default and EM creditworthiness.

One of the lessons learned from observation of the euro crisis is that its plot is anything but Anglo Saxon. It does not satisfy the perquisites of the Atlantic viewpoint, formed between London and New York. Far from offering meaningful do-or-die deadlines or precipitous slides into dissolution, the compound of the crisis contains the elements wished for by its Eurocrats: elongation, opacity, secrecy. Just enough, for now, is being done to defray the risk of sovereign default. It appears that the leash on the ECB is being ever so gradually relaxed, raising tensions between Berlin and Frankfurt, as it does. However, political processes cannot be delayed for evermore. The euro 17 need to either ratify or reject the fiscal compact by March next year. A rejection, by any party, takes us into an unknown territory.

While the equity community has been interrogating itself to determine just how over-bid 'quality' equities are, this internal debate loses sight of just how unfashionable equities are in the context of global asset class weightings.

This fact gives rise to the conclusion that elements of the global equity market are indeed valued more highly than others – quality versus non-quality, Germany versus Spain, consumer nondiscretionary versus banks - but masks the fact that the preferred elements may not be expensive in absolute terms. Macro investors are eyeing the Spanish, French and Italian equity indices as potentially very rewarding trades on good macro outcomes for the euro crisis but they are hardly the draws that Hong Kong, Singapore, Korea and Indonesia were in 1998 – the nadir of that regional crisis. What would you actually want to own that is listed in Spain or Italy ? Where are the Apples, the Colgates, the Caterpillars, the Schlumbergers ?

Europe is a very significant economic bloc - its travails are recorded in China’s weak export numbers. But can the equities of its sunshine nations - substantially banks, oils and motor manufacturers - form the core of a multi-asset class portfolio ? This is the dilemma for those attracted to the vortex.

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