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Coverage –

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Energy and gold are best-performing sectors following a large disaster

Even as the pain and suffering from an unprecedented series of calamities mounts in Japan, strategists predict market turmoil will soon subside based on investors' reaction to previous natural disasters.

From earthquakes to cyclones, major cataclysms tend to jolt markets but not derail them. Barring a hit on a major financial centre, these events tend to have a short-term impact.

If we look back to the eight major natural disasters over the past 22 years we find that the impact on the overall stock and commodities market has been minimal.

Energy stocks tend to do well after a natural disaster. Gold has proven a smart bet, with the average return registering 2 per cent in the first 21 days of a disaster. My analysis of previous large disasters indicates there is little overall market impact, and suggests energy and gold are often two of the best-performing sectors following a large disaster.

Gold prices rise as a result of concern about the resumption of Japan's nuclear crisis and lengthy debates in Libya. The condition is investors hunt for gold again, as it is considered more stable. The price of gold rise high several days after the earthquake and tsunami devastated the Japanese. Since then, investors are again chasing the precious metal to secure its investment.

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The latest disaster in Japan includes several unique elements. In addition to the crisis at a series of nuclear reactors, the country has been struggling for more than a decade with anaemic growth and deflation. Japan's Nikkei index, which dropped almost 11 per cent to 8,605 points, is still well above its low of 7,173 two years ago.

When buying in the U.S. occurs, in Japan it's just the opposite. The Page business daily, The Street, precisely recorded the occurrence of gold in the Japan country selling it. "They want to raise cash to restore their business," the report said. Therefore, in the middle of trading, gold prices had depressed to the level of U.S. $ 1,418.20 per ounce.

As far as Japan is concerned they have lots of reserve dollars, but all their investments are in Europe. In order to get the money back they sold equities. The immediate impact of the quake saw a fall in equities market which in turn also affected the commodities market. However this effect was short term. More over the news of nuclear radiation being under control also has a positive impact on the markets and we will soon see gold back on track.

While it could take somewhat longer to recover from the latest quake, the same general pattern should hold, with the near-term drag being offset by a lift to growth in the second half of 2011 and 2012, as repair and reconstruction efforts begin in earnest.