DECEMBER 2015

# GROWING DEPENDENCY ON CENTRAL BANKS

- Equity markets rally
- Monetary environment still driving the rally
- Risk Appetite indicator: broadly supported positive sentiment

Stock market performance usually tends to be strong during the last two months of the year. This seasonal trend was confirmed in the past month of November, with global equity markets gaining more ground following their strong rebound in October. Events could easily have taken a different turn, however: the tense security situation in Europe, the conflict in Syria, the terrorist attacks in Paris and the shooting down of a Russian fighter plane by the Turkish air force all had the potential to unsettle or even panic investors, and consequently financial markets as well. The positive market forces seem to have prevailed. Above all, the polemical arguments made by the European Central Bank for an even more aggressive monetary policy have helped to boost risk appetite on financial markets and encourage investors to pay higher prices for equities. Supported by positive macroeconomic data, Eurozone bourses advanced almost 3%. Gains on the Swiss and US equity markets were less impressive, at +0.05% and +0.61% respectively. The Swiss market was once again undermined by the weak performance of its defensively oriented index heavyweights, while in the USA a number of multinational corporations are starting to feel the effects of the stronger US dollar.

Bond markets in Switzerland and Europe also benefited from the upbeat mood and speculation about interest rates. As interest rates continued to fall, bond prices moved higher across all maturity segments. The price gains were more subdued overseas, due to the likelihood of the first interest-rate hike by the Fed in December, which is in sharp contrast to the unfailingly loose monetary policy followed by the ECB and SNB. In addition, the stronger risk appetite shown by investors led to a further narrowing of the yield spreads between sovereign and corporate bonds.

## MONETARY ENVIRONMENT STILL DRIVING THE RALLY

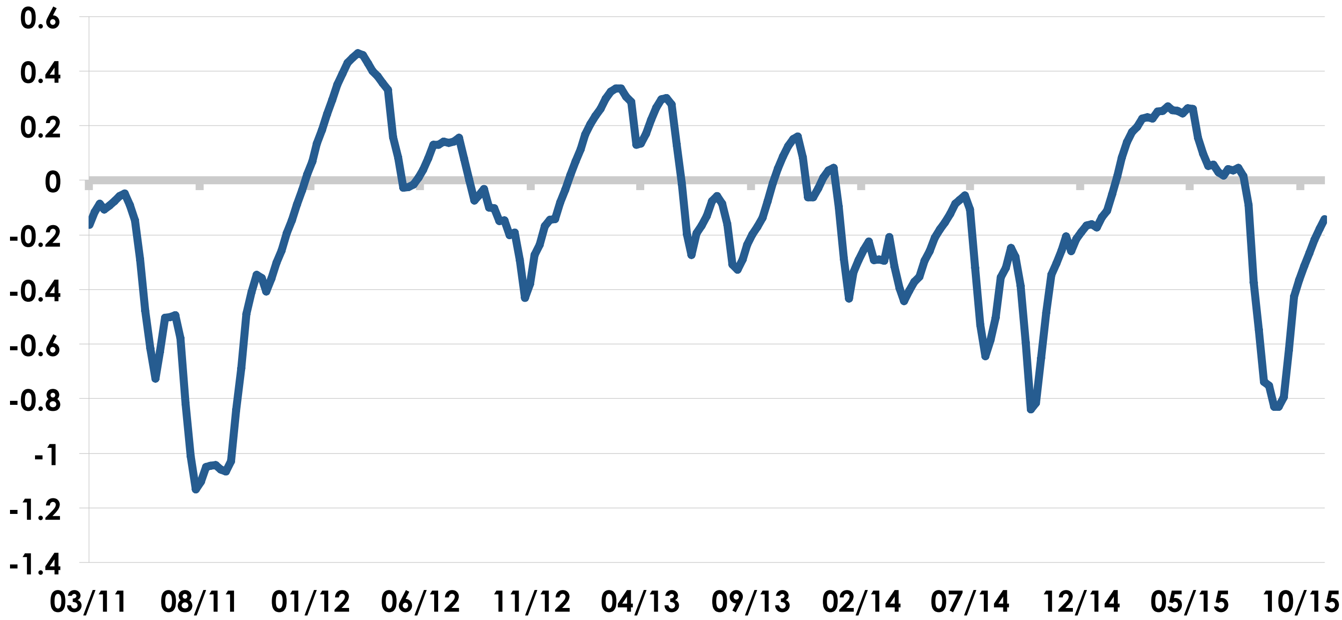
From a fundamental perspective, our asset allocation model, the “Global Factor Asset Selector”, is not signalling anything radically new. Equities remain the preferred asset class. Calculations of the four subcomponents “Monetary Environment”, “Consumer Sentiment”, “Industrial Development” and “Market Valuation” reveal significant shifts within the individual subcomponents. While three out of the four sub-indicators favoured equities months ago, now it is only two. The sub-indicator “Valuation” fell into negative territory after strong price gains in October, falling into line with “Industrial Development”, which has been arguing against equities purchases for quite some time. Although global consumption appears to be extremely robust, it was not enough to offset the negative trend observed in the components “Valuation” and “Industrial Development”. The subcomponent “Monetary Development" is therefore becoming even more important than in the past. The monetary environment thus remains the real driver for equity investments. The reasons for this are mainly to be found in the Eurozone. Despite the depreciation of the Euro and the better than expected economic data released recently, there is still no sign of inflationary pressure, while the money supply continues to grow. We therefore expect the European Central Bank to agree on further monetary measures at its next meeting. Mario Draghi has in fact already implied this might happen. The ECB is expected to cut the deposit rate and extend its bond-purchasing program up to the end of June 2017. This is likely to put even more pressure on the Swiss National Bank. In order to combat fresh pressure

for the Swiss franc to appreciate, the SNB could be forced to raise its negative bank deposit rate from -0.75% to -1.00%. This rate could also apply for private investors.
Even though the impending monetary policy decisions are likely to fuel volatility on financial markets, the overall picture for equities has not changed. In short, the monetary policy pursued by the major central banks is still expansive and for the time being therefore continues to be the main driver for global equity markets.

## Broadly supported positive sentiment

The Risk Appetite indicator used by Amplia comprises five factor groups which include 116 subsegments in total. The data for all five groups have improved since the last month. After investor sentiment was fairly subdued for most of the third quarter, it improved to a healthy level favouring equities. It is especially gratifying to note that the equity market rally was underpinned by many different sectors and individual stocks, and is therefore widely supported. Positive economic surprises from Europe and emerging markets

Risk appetite indicator (market risk): Stock market rally is broadly supported




* From a market psychology perspective, indicator readings above zero signal a positive climate for equities

continue to bolster investor confidence. The factor group “Market Risk”, which in part indicates the willingness of investors to pay for equities with higher valuations, is now sending out a buy signal once again. As a result, all the sub-indicators of our Market Psychology model finished November at a level that is positive for equities. In summary, the bullish mood is likely to continue and ensure that the traditional year-end rally stays on track.

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