January 2018

Positive data and investor sentiment bode well for 2018

- Good performance in 2017, but no substantial year-end rally
- Manufacturing data paints a confused picture
- Upbeat mood at the start of 2018

2017 will go down as a successful year for stock markets, even if the traditional December rally was only very modest. Very few people thought it was possible, that America's S&P 500 index would be able to rise by another 19.42% in local currency terms on top of the strong bull run that it had in previous years. Many cautionary voices warning of the potential global hotspots which had taken a cautious stance and tended to favour a passive investment strategy, lost out. The fears of geopolitical challenges, which increased again last year and could have had a negative impact on the markets, seemed to have been overcome and played only a minor role in investment decisions. Rather, the focus was on the performance of the global economy, which continued to improve throughout the year. For the first time since the outbreak of the financial crisis, the three leading economic regions of America, Europe and Asia were able to boast rising economic output. What's more, this extremely positive development was not accompanied by any significant inflationary pressure. Medium-sized companies in Europe in particular benefited from this development, while the traditionally popular defensive index heavyweights found the going tough. Switzerland's top-30 mid-caps posted an impressive gain of 30.18%, for example, while the annual return of the leading index of Swiss heavyweights, the Swiss Market Index (SMI), was much more subdued at just 14.14%. The euro also benefited from the economic upturn, firming 9.16% against the Swiss franc, while appreciation pressures on the US dollar were even more pronounced. This inevitably had an impact on European equity markets, with the Dow Jones EuroStoxx posting a gain of 12.55%, a fairly modest performance compared with its international peers. Riskier investments were also favoured in other asset classes. High-yield bonds were clearly preferred to investment-grade bonds. Gold, traditionally a safe haven in a crisis, lost some of its shine.

Manufacturing data paints a confused picture

The data published for the US manufacturing industry seemed to paint a rosy picture, but soon after showed a renewed tendency to weakness. This constant ebb and flow is puzzling. Why do the survey values fluctuate constantly – and moreover to such an extent? It is clear that statistical surveys are always subject to a certain amount of ambiguity. However, this has always been the case and does not explain why companies view their prospects so differently from month to month. The data published by the Institute of Supply Management for January already point to a more positive assessment, while the December figures included in our indicator for the fundamental attractiveness of equities are still depressed. Undoubtedly a disappointing development, but this does not alter the fact that the fundamental assessment of equities remains positive overall. Consumption remains the strongest driving force, while valuation continues to represent a major drag on future share price performance.

Monetary policy environment: America's tax reform measures are bound to inflate the budget deficit, which must be financed by more borrowing. This could push up interest rates and put pressure on the stock market.

Industry: Order intake in the USA and Japan is once again showing signs of weakness. Europe continues to be the powerhouse of the manufacturing industry.

Consumption: Once again, US consumers have succeeded in stimulating demand. Both actual expenditure and surveys on future consumer behaviour indicate high growth rates.

Valuation: All regions of the world have become more expensive than last month. US equities are still the most overvalued.

Upbeat mood at the start of 2018

Even though the year-end rally failed to materialise, investor sentiment was probably not to blame. Presumably, investors wanted to lock in the price gains and closed their books early on. It would therefore be premature to speak of a deterioration in sentiment.
On balance, ENISO's risk appetite indicator therefore barely moved on a monthly view and merely confirmed investors' solid risk appetite. While three subindicators signalled a continuation of this trend, "Market Risk"

Risk appetite indicator: barely any change month on month

	Number of Indicators	***Current Signal***	*1 Week*	*1 Month*	*3 Months*
MONEY FLOW	*31*	Buy	↘	→	↘
SURPRISE EFFECT	*17*	Buy	↘	↗	↗
MARKET BREADTH	*24*	Sell	↘	↗	↗
HEDGING DEMAND	*7*	Buy	↘	↗	↗
MARKET RISK	*37*	Buy	↗	↘	↘
OVERBOUGHT / OVERSOLD		Neutral			
RISK APPETITE INDICATOR	***116***	**BUY**	↘	→	→

fell back, while "Money Flow" moved sideways. Here it is important to remember that the rewards for taking greater risks have been declining for some time. It is therefore hardly surprising that this subindicator tends to be somewhat weaker at times. Nevertheless, we interpret this indicator, along with the three others, as a buy signal for equities. As things stand, we therefore expect the rally to continue in January 2018.

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