JULY 2015

"PLAN A" OR "PLAN B"? – ARE INVESTORS PARTICULARLY INTERESTED?

- "Greek drama" rattles the markets and investors
- Inflation picking up – but not global growth
- Risk appetite still strong, despite Greek turmoil

Everyone has long since grown tired of the "Greek drama", to the point where the situation has become almost laughable, were it not so serious. Once again, however, stock markets were dominated in June by the repeated breakdown and then resumption of negotiations over Greek debt. The situation in Greece was particularly critical from the perspective of European investors. By gearing their decisions towards this event that held the world's media in thrall, market participants once again displayed a typical pattern of behavioural economics. The discussion was dominated by voices warning of a chain reaction with the threat of global conflagration. Less emphasis was placed on hard facts, such as the potentially negligible impact on European growth of a Grexit, given Greece's minimal contribution to Eurozone GDP. As in previous months, the situation escalated towards the end of the month, with negative consequences for the performance of European equity markets in particular. The EuroStoxx retreated 4.10% in June, but the Swiss SMI, with a reputation as a defensive stock market, surprised many commentators with a decline of 4.95%. Only the stock markets in the USA and the Far East seemed to show a more relaxed response to developments in Europe – the S&P 500 only shed 2.10%, while the Mid Caps Index (Russell 2000) actually managed to gain 0.60%.

In contrast to their "usual" pattern of behaviour, fixed-income investments were unable to benefit from their status as a safe haven. Due to various liquidity bottlenecks in bond trading, yields on the capital market continued to rise – European corporate bonds with good credit ratings retreated 1.99% in June, and the Swiss Bond Index dipped 0.99%.

INFLATION PICKING UP - BUT NOT GLOBAL GROWTH

One positive development soothing investors' nerves was the realisation that the accommodative monetary policy adopted by the ECB seems to have averted deflation in Europe for the time being. Slightly higher energy prices and rising wage costs even resulted in modest price pressure in Europe. Prices ticked higher in the USA as well. Even so, the rates of inflation are still very low, and well short of the Fed's target values. An early interest-rate hike is therefore unlikely. In spite of this, our sub-indicator "Monetary Environment" was not entirely unaffected by the effects of mounting inflationary pressure. Despite the sharp drop within the space of a month, it is still well within a range that is positive for equities, and continues to function as the strongest support of our model as far as the attractiveness of equities is concerned.

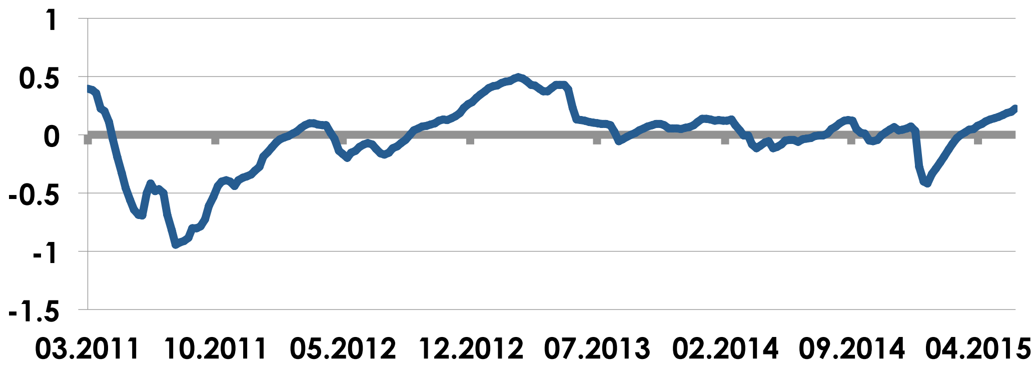
Unfortunately the mounting price pressure described is not attributable to stronger demand, and global growth is still rather flaccid. In fact, positive consumer sentiment finally seems to be fuelling an improvement in the effective sales figures: consumer spending by private households recorded the strongest rise since August 2009. While the sub-indicator "Consumer Sentiment" therefore held up at the prior month's high level, the "Industry Sentiment" component deteriorated in June. Both industrial production and industry prospects are still lagging behind expectations. The only glimmer of hope was the Eurozone, where the purchasing managers' index for industry climbed to its highest level for four years.

The situation is no different as far as the valuation of equity markets is concerned. According to the data we have collected, all the regions continue to be overvalued. Presumably the half-year results should eventually bring some movement back into our model. As far as fundamentals are concerned, equity markets continue to be attractive, irrespective of the outcome of the Greek tragedy.

Risk appetite still strong, despite Greek turmoil

Just a few weeks ago, a handful of self-appointed "gurus" were warning of a bubble forming in equity markets that is threatening to burst. If the Greek drama has any positive side at all, it is the fact that hardly anyone is now talking about overheating stock markets. Market commentators were more concerned about whether – and exactly how – the sideways trading that has prevailed for several weeks might impact on the mood of investors and cause them to lose patience and pull out of the market. So far, however, the risk appetite indicator is not showing any such symptoms of fatigue. In fact investors still seem to have quite a

GFAS risk appetite indicator (money flows): Riskier investments still popular



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

healthy risk appetite, as in the previous month. Here the component "Money Flows" is worth particular mention: in their hunt for returns, investors continue to favour more risky investments, rather than parking their money in the safe haven of gold. The components "Market Risk" and "Surprise Effects" are also showing a positive attitude to risk, while the components "Hedging Wish" and "Market Breadth" have retreated over the course of the month. Overall, investors' risk appetite remains healthy. It almost seems as if market players are not particularly bothered whether the eventual outcome in Greece is either "Plan A" or "Plan B".

Your Contact at Amplia & Co. AG

Mikael Rosenius
Claridenstrasse 34
CH-8022 Zürich
Tel. +41 44 286 17 41
mikael.rosenius@amplia-co.com

Jennifer Erdin
Claridenstrasse 34
CH-8022 Zürich
Tel. +41 44 286 17 42
jenny.erdin@amplia-co.com