MARCH 2015

MONETARY ENVIRONMENT CREATES A BULLISH MOOD

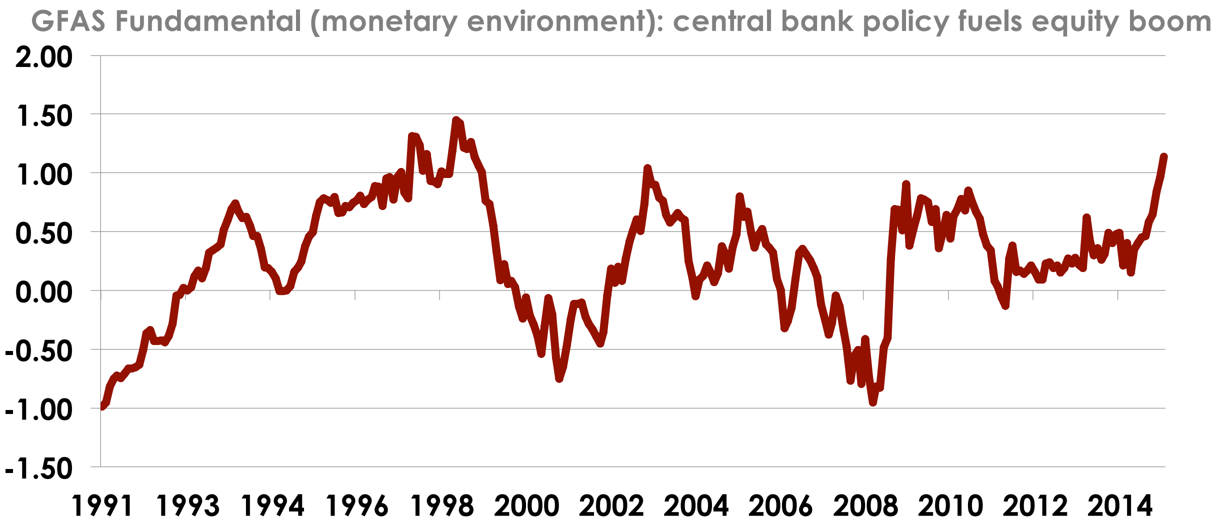
- Despite crises and the threat of “Grexit”, the bull market continues
- Low oil price supports central bank policies
- Surprisingly high risk appetite triggers buy signal

At the end of January, clouds were gathering over stock markets. The situation in eastern Ukraine threatened to escalate and many feared the worst. Negotiations took place on the world stage with Germany and France acting as mediators. Almost exactly a year after the annexation of Crimea by Russia, the long-awaited ceasefire now seems finally to be holding. Greece’s continued membership of the euro zone was again the subject of intense debate and negotiations. Uncertainty about the financial and economic consequences of “Grexit” kept the world’s financial markets in suspense. Although a temporary four-month extension of the debt package was eventually agreed, endless manoeuvring by the new Greek government makes it impossible to predict where things will go from here. These uncertainties also impacted the ENISO Partners risk appetite indicator, which gave a sell signal at the end of January for the first time since August 2014. Hence we were all the more surprised at how easily equity markets took political uncertainties in their stride during February, with indices skipping from one high to the next. Euro zone equities benefited the most from this sudden improvement in market sentiment. The EuroStoxx 50, converted into CHF, rose by an incredible 9.90%. After a fairly subdued start to the year, the US equity market regained its former strength, rising by 8.69% in CHF terms, closely followed by the Swiss Market Index, which grew by 7.51% within the space of a month.

LOW OIL PRICE SUPPORTS CENTRAL BANK POLICIES

While the only direction for equity market indices is up, economic growth forecasts for 2015 are continually being lowered. A year ago, growth forecasts stood at 3.2%. The consensus among analysts is now a modest 2.7%. This lower growth is already noticeable above all in the industrial sector, where there are growing signs of a slowdown in both order intake and manufacturing output. This negative trend is certainly due to more than the harsh winter or the dock strike on America’s West Coast. Whether US industry is really sliding into recession, as the latest Chicago Purchasing Manager Index would seem to suggest, cannot be determined until more data becomes available. The fact is, the sub-indicator of ENISO Partners’ model for the industrial sector slipped into negative territory for the first time since December 2012, which suggests at least significant cooling of the prevailing economic climate.

As well as adverse developments in the industrial sector, equity valuations also point to an increasing headwind – and have been doing so for some considerable time. It is noticeable that nearly all valuation criteria, particularly in the USA, indicate over-valuation of equity markets. Only on a direct comparison with bonds, which yield next to nothing, do equities still appear attractive. This demonstrates yet again how much the current equity boom depends on interest rates, and hence on the massive interventions by the world’s central banks – the latter being a key component of the "monetary environment" sub-indicator of ENISO Partners’ asset allocation model. Though already at a high level, the sub-indicator rose still further in February. The main drivers included low core inflation in the USA, falling producer prices and low global inflation forecasts owing to the fall in oil prices. This means there is little pressure on central banks, particularly the Fed, to hike interest rates before the middle of the year. Only an even sharper increase in employment or a substantial acceleration of consumer spending in the USA could prompt an earlier departure from the current “steady as she goes” policy. In view of robust consumer spending and still expansionary monetary policy, the



*** Indicator levels above zero are positive for equities from a fundamental perspective**

fundamental buy signal for equities remains valid. In fact this appears so strong that we do not expect any change or a sell signal any time soon.

Surprisingly high risk appetite triggers buy signal

Only a month ago, ENISO Partners' risk appetite indicator pointed to a low tolerance for risk among investors. On that basis, we reduced the equity allocation by half at the end of January and adopted a neutral equity weighting. Against the backdrop of an uncertain geopolitical situation, we considered it logical and sensible to reduce risks. As mentioned above, we were amazed at how quickly investors shrugged off their earlier risk aversion. After only four weeks – on 23 February to be precise – the traffic lights of our risk appetite indicator changed back to green and gave a buy signal for equities. During this period, four of the five indicator groups had improved substantially. Only the "positive surprises" group failed to impress. Expectations about economic performance proved over-optimistic, especially in the USA. Consequently, market participants were disappointed by the latest economic figures. On a brighter note, the upswing in the equity markets is broadly based. More and more shares are benefiting from the current bull market, including cyclical stocks that were struggling only a month ago. Even though the rally has been going on for several weeks, the market shows no signs of fatigue, and this is also reflected in our risk appetite indicator. Don't forget: if prices were to rise too fast or too much – coinciding with an underlying positive mood – the indicator could trigger a sell (overbought) signal. Prices have not yet reached those levels, which is why we are keeping the equity allocation as high as possible.

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