CAERUS
Portfolio Management

CAERUS Market Commentary – November 2015

Market overview

After the drama of August and September and the rebound in early October, markets were somewhat more subdued in November. Volatility, as measured by the VIX index, has fallen steadily from its closing peak of over 40 in August to between 15 and 20, a level which Investors have become accustomed to over recent years.

The divergence between developed and emerging markets reasserted itself in November, with Asia Pacific ex Japan equity ending the month flat and Emerging Markets falling by 1.40%. The developed markets ranged from returns of 0.33% (UK) to 3.93% (Japan). After slight falls in the early days of the period, bond markets recovered with UK Gilts and Index-Linked Gilts ending the month up circa 1.00% and Investment Grade Corporate bonds returning 1.84%. High Yield bonds suffered minor losses of 0.58%.

United Kingdom

Despite oil and other commodity prices falling over the period, the UK stock market, which has a high exposure to these, returned 0.33%. Whilst far from spectacular, this is not bad given these external influences. Real wage growth continues to come through, which is helping support GDP growth so far. However, as we draw closer to the end of the year, attention is beginning to focus on the referendum on the UK's membership of the EU, which is pencilled in for June or September of 2016. Uncertainty is likely to defer Investment in the UK by Corporations, and this may have a significant impact on growth and financial markets in the short term.

United States

For all of those suffering from 'Fed fatigue', it now appears that the 'will they, won't they?' debate is drawing to a close, with a December 16th lift-off now seen as almost a certainty. The first estimate of economic growth for Q3 was revised sharply upwards from 1.50% to 2.10% during November. This stronger growth, combined with robust consumer spending, suggests that the economy has not been as affected by market events in China as feared and should give the Fed confidence to raise rates. Having said that, we have been here before.

Europe

Markets now widely expect an extension to the Quantitative Easing (QE) programme by the ECB, perhaps via an extension to the QE period or by relaxing the rules as to which securities may be purchased under the programme. The slow and gradual recovery in the Eurozone is expected to continue, with GDP growth estimated to be 1.50% this year and forecast to be 1.60% next year. The prospect for more QE, a steady recovery in GDP growth, improving credit growth and a weaker euro, all bode well for European equities. However, there is a real risk of Investor disappointment if Mr Draghi does not choose his words well.

Japan

Consumer prices in Japan rose by 0.30% year-on-year in October, after showing no growth in the previous month and beating market expectations. It was the highest figure in four months, as food costs rose further, while prices of fuel dropped at a slower pace. When excluding the effect of energy and fresh food cost, a new indicator published by the Bank of Japan showed consumer prices rose by 1.20% year-on-year in October. This is good news for 'Abenomics', although the need for further stimulus is questionable following this more positive data.

Emerging markets

'Emerging Markets' are a diverse and broad set of economies, each with their own tailwinds and headwinds. Some will benefit from the fall in the oil price, whilst others will suffer. Some Emerging Markets, i.e. those with large current account deficits and borrowing denominated in US Dollars, will be hit hard by an interest rate rise from the Fed and associated USD strength, although the dramatic weakening of their currencies since the 'taper tantrum' in 2013 means that they are in a better position than they were. Selectivity in the Emerging Markets is key and manager experience and skill is as important as ever.

CAERUS Sentiment Indicator