CAERUS Market Commentary – October 2015

Market Overview

After two months of struggling stock markets, October saw solid gains across all major equity markets; the FTSE World Index was up 6.7%. The change in sentiment was driven by two factors. First, that interest rates in the United States will remain lower for longer, after the US Federal Reserve did not raise interest rates. Secondly, greater confidence that China will not lead the world into a recession. Markets even managed to shrug off a gloomy report from the IMF meeting in Lima which forecast that the world economy will only grow by 3.1% this year.

United Kingdom

Despite the large exposure of the FTSE 100 index to commodity stocks, which were lacklustre, the index did manage a rise of 5.2% for the month. Even though economic growth has fallen to 1.9% year on year, the UK has been one of the fastest growing economies of the developed world. This is being driven by real wage growth and hence the consumer is leading the recovery. Perhaps not the rebalancing that the government was hoping for, but it is growth nonetheless.

United States

US shares had a good month with a rise of 6.3% despite some mixed news. Although there was no September interest rate rise, there are now strong hints of a rise in December as the Federal Reserve raises rates to more "normal" levels. The stock market rose despite some weak economic data in the month; growth of the economy in the third quarter of 2015 fell to an annual rate of 1.5% from a figure of 3.9% for the second quarter, whilst wage rises remain benign and consumer spending actually slowed.

Europe

European equities had their most positive month since June 2009 with a rise of 5.10% in sterling terms.

The European Central Bank (ECB) hinted at further quantitative easing (QE) which is viewed positively for share prices. Plus, with the Eurozone moving out of deflation in October and unemployment at 10.8% in September – a four year low – it was a good news month for the region. Households are also beginning to borrow, suggesting the consumer at least is feeling more confident. With time, companies may also start to borrow, particularly those with a domestic bias as they see demand pick up. Overall, a cheaper euro (good for exports), lower oil and interest rates remaining low should provide a positive backdrop for European markets, going forward.

Japan

The stock market enjoyed its best monthly gain since June 2009. The Bank of Japan reiterated its continuation of its QE which it is hoped will increase inflation. Although inflation dipped slightly, (the government has a target of 2%) this was mainly due to lower energy costs via a lower oil price. However, consumers may be willing to spend more as their disposable incomes rise and as a major importer of oil, input costs will be lower for Japanese companies.

Emerging markets

Perhaps the ending of the one child policy in China is the most memorable event for the month. There has always been a concern that China "will be old before it is rich" as its population ages. Even though the gyrations of the Chinese stock market have caught great attention, there is some evidence form the major cities that property prices are stabilising, perhaps a sign that overcapacity is receding. However, the rise this month (+5.1%) was perhaps more to do with the US not raising interest rates.

Many emerging markets, e.g. Hungary and Mexico, have large dollar borrowings and when US rates go up, so will the value of the dollar as it becomes more attractive. That will make it more expensive for loans to be repaid. We may yet see another "taper tantrum" similar to 2013, when the hint of a rise in the US caused a wobble in emerging market stock markets.

CAERUS Sentiment Indicator

Cash | Government Bonds | Other Bonds | Property | UK | Developed Markets ex-UK | Emerging Markets