CAERUS Portfolio Management

CAERUS Market Commentary – April 2016

Market overview

After a roller coaster start to the year, markets seemed relatively tame in April with only Japan and Asia Pacific ex-Japan producing sterling returns for the month outside the range +1.5% to -1.5%*. The spread of returns, year to date, narrowed somewhat as those markets which performed more strongly in the first quarter of the year, Emerging Market Equities and Gilts, saw some profit taking, while the under performers, Japan and UK Equities, produced the best returns in the month.

First readings for economic growth over the first quarter of 2016 were 'soft', even taking into account the usual seasonal drop between Q4 and Q1. UK growth slowed to just 0.3% from 0.7% at the end of last year, while the pace of expansion in the US slackened to 0.5% from 1.4%. However, this deceleration was not as sharp as some of the worries swirling through markets in January had predicted, and so markets were not too perturbed.

Sterling Corporate Bonds were the best performers among the Fixed Interest sub asset classes, returning 0.69%. Global Bonds eked out a very small positive return while Gilts and Index Linked Gilts gave back some of their earlier performance. However, these four rank 2-5 in the list of best performing asset groups this year to date, just behind Emerging Market Equities.

United Kingdom

Commentary in the UK centred on the question of whether the electorate would vote to leave the European Union at the June 23rd referendum. The FT has been tracking the polls and produces a chart found at **https://ig.ft.com/sites/brexit-polling/** which shows a stronger vote by those to remain than the average. However regular updates of the polling figures does show the 'Leave' campaign closing the gap, albeit that bookmakers are actually pricing in a lower chance of an exit vote now than they were back in November 2015.

All this uncertainty has left corporate management teams understandably reluctant to commit to any long term investments – be it in capital assets or human resources. Perhaps, surprisingly, given this backdrop, the UK Equity market actually rose 1.5% and sterling strengthened against both the dollar and the euro.

United States

The North American market rose slightly in dollar terms over the month but the fall in value of the dollar relative to sterling meant UK investors actually received a return of -1.1%. The economic news was more or less in line with expectations, although towards the end of the month, data on employment, consumer confidence and manufacturing all looked somewhat weaker than the market had been hoping for. Nevertheless, several members of the US Federal Reserve went out of their way to warn that the market was under-pricing the chance of an interest rate hike at their June meeting. Their assessment must be that the US is more resilient than the most recent batch of data implies.

Europe

Europe has finally produced better growth figures than the UK or US, albeit at a time when growth has stumbled in the latter. Consumer confidence does seem to be improving – suggesting that Europeans either fear no ill-effects from a UK exit from the European Union or are simply unaware that it could possibly happen. For the ECB, trying to loosen monetary policy to stimulate growth, it must be rather frustrating to find the exchange rate rising and acting as a brake on export potential while encouraging the import of goods from elsewhere.

Japan

Japan was hit by the Kumamoto Earthquake in the middle of the month, leaving nearly 200,000 people displaced and sheltering in evacuation centres and causing a sharp slowdown in manufacturing in that region. Tokyo has been the worst performer this year, falling more than 13% in its own currency terms. However, the relative strength of the Yen has supported returns for UK investors, limiting year to date losses to just 1.6%, after profits in April of 2.7%, better than any other market. This was despite significant selling by international Investors over the month, judging by data on ETF flows, although there seems to be some offsetting support from the Bank of Japan. Businesses have responded to the radical move by the Bank of Japan to adopt a negative interest rate policy by reducing their forecasts for inflation, which hampers Abe's plans to bounce the economy out of its low growth, low inflation phase using monetary policy. The next step must be to improve corporate governance, something fund managers say appears, at long last, to be underway. Demographics are not helping Japan move forward, with 2015 being its 35th consecutive year for falling numbers of children.

Emerging Markets

Perhaps the biggest news of the month in Emerging Markets was the first bond issue by Argentina since their 2002 $100 billion default. This opens the way to major reforms now that the capital markets have re-opened. Improved sentiment towards Latin America generally (and a near 20% increase in the oil price, despite Saudi Arabia and Iran being unable to agree supply restrictions) boosted Brazil's monthly equity market return to over 8% despite the impeachment of its President.

Returns in Asia were the weakest of the lot, despite ongoing improvements in Chinese data which have caused those New Year worries about a sharp slowdown to recede rapidly.

*All performance data quoted in this article is derived from FE Analytics

CAERUS Sentiment Indicator