

Notz Stucki Macro and Market Review

January 2012

Macro and Market Review

- Attempts to resolve the Eurozone sovereign debt situation drove market sentiment for most of January. On the negative side, Greece remained an issue, Standard & Poor's downgraded France and Austria, as well as other European nations not in the top tier, while the underlying solvency problems faced by sovereigns and private sector banks have not been solved. However, on the positive side and after the success of the liquidity injections via the Long Term Refinancing Operation ("LTRO") program in December, the ECB announced another LTRO on the 29th of February. Germany remained open to boosting the firepower of the Eurozone's rescue funds to EUR 750 billion in exchange for strict budget rules for the Eurozone. The market sentiment was further boosted by successful bond auctions by Italy and Spain, better than expected earnings, and overall encouraging global economic data, especially in the US with a higher GDP (+ 2.8%) as consumers ramped up spending and business boosted production. The unemployment rate dropped to 8.5%, the lowest level since February 2009, although more discouraged people stopped looking for work. In Europe, unemployment reached a new record to 10.4%, with rises mostly in the debt-laden periphery of the Eurozone. In China, last quarter GDP grew by 8.9%, extending a slowdown, which started a year ago, while its overall trade surplus fell to its lowest level since 2005. Chinese inflation fell to 4.2% the lowest level in 15 months. Finally, the Federal Reserve in a sign of easing further its monetary policy, re-iterated its desire to hold interest rates at close to zero at least until the end of 2014.
- January was a strong month for most asset classes. Liquidity came back.
 - Equity markets enjoyed their best month of January since 1987. The MSCI EM (+11.2%) outperformed significantly, reversing a large part of last year's underperformance. The S&P and the MSCI World were up +4.4% and +4.9% respectively. The MSCI Europe was up +4.9%, but dispersion remained high with Germany up +9.3% and the UK up a moderate +1.9%. Volatility on stock markets continued to decrease with the VIX down 16.9% to 19.4, its lowest levels in six months.
 - Credit spreads tightened significantly with the the iTraxx Crossover index down to 621 bps from 754bps, a 17.6% move.
 - In fixed income, US T-bonds reversed their initial declines, while Euribor futures were particularly strong. Yields on European sovereigns came down.
 - In foreign exchange, the USD fell across the board and mostly against EM currencies.
 - In commodities, gold (+11.1%) and silver (+19.33%) experienced a sharp recovery as central banks took advantage of lower prices to build up their exposure. Base metals did well, while energy ended mostly flat as a result of bearish fundamental data, with natural gas (-16.3%) sharply down.

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