

Notz Stucki Macro and Market Review

March 2012

Macro and Market Review

- March began on a slightly risk-off tone. Despite the positive outcome of the LTRO, the uncertainty grew over the success of the previously agreed Greek bond swap deal and the fact that Spain announced unilaterally that it would not meet its 2012 deficit target. In the US, the FOMC statement transmitted a more upbeat assessment of the economy and omitted any reference to the need for further monetary stimulus. However, market optimism was tempered by the FED chairman indicating that the predominantly cyclical nature of unemployment probably required the support of monetary policy to achieve further reductions. In addition data showed improvements in the US labour market which added 227'000 jobs last month. In China, inflation rose to +3.6% as a result of higher food and energy prices, while concerns increased on the deceleration of the economy, after the National People's Congress announced a new multi-year plan with more moderate targets for growth.
- Global markets continued to improve in March, but the rally in risk assets lost momentum.
 - In equities, aside from the dispersion in performance between sectors, the most notable feature was the rapidly falling correlation between stocks, as corporate fundamentals became again key drivers of stock prices. Aside from Japan, up +3.71%, the US performed best with the S&P 500 up +3.1%. The MSCI World was up +1.02%, unlike the MSCI Europe (-0.44%) and the MSCI EM (-3.52%). The overall low stock market volatility continued to decrease with the VDAX index moving to 18.8% from 21.0%.
 - Credit markets ended March tighter than they began but ended the month on a weak tone.
 - In fixed income, US Treasuries sold off from a low in yields of 1.94% to levels not seen since October last year reaching a high of 2.38%, before ending at 2.21%. In Europe, Spanish 10-year bonds moved above 5.5% again, a two-month high.
 - In currencies, the USD gained against almost all major currencies, especially the Yen which reached a level of 82.87, as the BoJ signaled a commitment to maintaining loose monetary policy.
 - In commodities, gold at USD 1669.30, down -2.45% for the month, went below its 200-day moving average. Precious metals have halved the gains recorded from January to the end of February.
 - Energy markets were mixed, with WTI crude falling (-3.78%) and Brent crude rising slightly (+0.18%), meanwhile natural gas (-18.73%) continued to fall hitting 10 year lows, down over -28% over the quarter.

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