Notz Stucki Macro and Market Review

April 2013

Macro and Market Review

MACRO REVIEW

- Despite weakness in global economic activity, April turned out to be a decent month as investors turned their attention to potential action by policy makers. The main themes were:
  - Greater monetary stimulus around the globe, especially in Japan. The assertiveness of the tone of the BoJ's new governor Kuroda took the market by surprise. The BoJ pledged to triple the monthly purchases of government bonds to 7 trillion yen, to double the maturity of purchases and to double the monetary base to 270 trillion yen by the end of 2014. The BoJ also adopted a formal 2% inflation target over the next two years.
  - The generally positive outlook in the US was supported by strong corporate earnings results and lower inflation concerns following April's FOMC minutes which showed a possible early end to QE. The US economy grew at a disappointing annualized rate of 2.5% in the first quarter of 2013 as a result of cuts in federal spending.
  - In China, the economy slowed, growing at an annualized 7.7% in the first quarter of 2013. China's foreign exchange reserves jumped USD 130 billion to USD 3'440 billion, roughly the size of the German economy, helping to fuel a surge in credit growth. Chinese inflation slowed sharply in March.
  - In Europe, at last Italy formed a "grand coalition" government headed by Enrico Letta, from the centre-left Democratic Party, which included Silvio Berlusconi's PDL and other smaller parties, not to mention technocrats in key positions. Cyprus announced that it will have to sell gold reserves in response to its debt crisis.

MARKET REVIEW

- April saw divergences across pro-cyclical assets, with equities and credit posting gains while commodities declined:
  - Equity markets initially declined only to rally toward the end of the month. In terms of sectors, utilities and financials were the outperformers. The MSCI World (+2.90%) and the MSCI Europe (+0.94%) did well unlike the MSCI EM (+0.44%), which was marginally positive. In the US, the S&P 500 (+1.81%) reached a new all-time high at 1'597.57. Japan was the best performer with the Nikkei 225 (+11.80%) up over 33% for the year, unlike China, which ended in negative territory for the month (-1.91%). Peripheral Eurozone equities did well as Spain (+7.2%) and Italy (+9.6%) gained sharply, helped by strong sovereign bond market performance.
  - Volatility on stock market was mixed. While the VDAX remained broadly unchanged at 16.04%, the VIX (+6.46%) went up to 13.52%.
  - Credit spreads tightened.
  - In fixed income, aside from Japan's JGBs, government bonds did well, especially in Europe where speculation of an ECB rate cut pushed German yields down towards their lowest ever levels at 1.22%. Italian bond yields fell to pre-crisis levels.
  - In currencies, the Yen (-3.43%) weakened against the USD, while the Euro strengthened, gaining +2.72% against the US Dollar and over 6.0% against the Yen.
  - Volatile commodity markets struggled following record inventories in oil and cross-commodity liquidation by investors, not to mention the collapse of precious metals in the middle of the month. Gold prices (-7.63%) experienced their largest two-day drop (-15%) in 30-years, only to recover half of that by month-end, as fears emerged that Cyprus and other crisis-hit countries may be forced to sell their gold reserves. In crude oil, both the WTI (-3.88%) and the Brent (-6.95%) declined, while agriculturals were mixed.

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