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Macro and Market Review

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MACRO AND MARKET REVIEW

MACRO REVIEW

In January, there were several key events which drove the markets' attention, such as the **continued slump in oil prices**, the Swiss National Bank's ("**SNB**") **shock decision to abandon its long held currency floor against the EUR** and the **ECB's announcement of a EUR 1.1 trillion monetary stimulus**.

- **Increasing diversity in economic performance**. Although the US economy slowed somewhat to +2.6% in the fourth quarter, the real personal consumption spending rose an annual +4.3%, while the unemployment rate beat forecasts by falling to 5.6%. In Europe, aggregate demand was weak and unemployment (11.5%) remained very high, however bank lending to non-financial corporations recorded the first month of positive flows since July 2012. Core inflation fell to -0.6%, a new historical low. In Asia, China's economy grew by +7.4% in 2014, its slowest since 1990, even as it overtook the US to become the world's largest in purchasing power terms.

- **Increasing monetary policy divergence**. The SNB stunned markets in one of the most dramatic currency interventions in decades as it abandoned its cap on the CHF's strength against the EUR. Its balance sheet had risen to about CHF 500 billion, or almost 80% of GNP. The ECB unleashed its long-awaited bid to revitalize the economy and counter deflation. In March, it will begin buying EUR 60 billion a month worth of private and public debt with the aim to bring inflation close to +2.0%. The ECB's balance sheet will be back to around EUR 3 trillion; the level at which it was in 2012. In the US, the **Federal Reserve remained on course to start raising interest rates around June this year**.

Elsewhere, there was some **wariness over the new Greek government's plan** to renegotiate the country's $240bn bailout with the Troika and a possible Greek exit from the EUR.

MARKET REVIEW

In January, financial asset prices were mostly driven by central banks actions. The ECB's decision outstripped market expectations and boosted global risk appetite, providing additional pressure on the EUR and on the Eurozone sovereign bond yields. European equities staged a powerful rally. Crude oil prices fell sharply.

- **European equity markets outperformed significantly** their developed market peers. After an initial decline, the MSCI Europe (+7.15%) did surprisingly well. Germany (+9.1%), Italy (+7.9%), and France (+7.8%) were the biggest beneficiaries, while Switzerland (-6.7%), Russia (-6.8%) and Greece (-12.5%) were the main decliners. In terms of sectors, Defensive outperformed Cyclicals. In the US, the S&P 500 (-3.1%) suffered from a generally poorly-received start to the fourth-quarter earnings season. The MSCI World (-1.9%) and the MSCI EM (+0.55%) delivered disappointing results. **Volatility went up** with the VIX (+9.22%) at 20.97.

- **Global fixed income markets rallied strongly**. The yield on the 10-year US Treasury bond declined to 1.787% from 2.172% in December, while the yield on the 30-year reached an all-time low at 2.223%. In Europe, the Swiss 10-year bond yield went negative for the first time, while the yield on the 10-year Bund ended at 0.300, another record low. high yield credit spread widened.

- In currencies, the **USD continued its rally**, especially versus the **EUR (-6.7%),** which slumped to 1.1290, its weakest in 12 years. The **CHF reached an all-time high against the EUR**, initially rising as much as +20% against the Euro, before ending the month up +14% at 1.0400.

- In crude oil, the **WTI (-9.44%)** and the **Brent (-7.57%)** reached new lows of USD 48.24 and USD 52.99 respectively, as a result of softer global demand and increased production. Copper prices fell to a five-year low on slowing Chinese demand, while precious metals, like **gold (+7.97%)** went up.

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