Macro and Market Review

March 2015

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MACRO REVIEW

In March, the market's attention was driven in Europe by the beginning of quantitative easing ("QE"), and in the US by mixed economic data and expectations of an increase in interest rates.

- **Economic divergences** – The US unemployment rate fell from 5.7% to 5.5%, the lowest since 2008 as the economy expanded by 295'000 jobs. However the steep fall in housing starts and the lack of wage inflation were evidences that the strong improvement enjoyed by the labour market was not being matched in other areas of the economy. In Europe, the gauge of German business optimism climbed more than expected after the Eurozone's economy rediscovered its vim. In China, Premier Li Keqiang warned of a "new normal" of slowing growth of about 7%. In fact, the Chinese industrial production regarded as a good proxy for broader economic growth expanded by just 6.8% from a year earlier.

- **Monetary policy divergences** – The US Federal Reserve is preparing to raise rates. The FOMC amended its language to exclude the word "patient" with regard to beginning its hiking cycle. However it also softened its language describing the US economic growth from "solid" in January to "moderated" in March. The ECB launched its QE with the first purchases of sovereign bonds to support the accelerating recovery in Europe. For 2015, the ECB raised its growth forecast to 1.5% and cut its forecast for inflation, which currently stands at -0.3% to zero from a projection of +0.7% in last December. In China and in India, interest rates were cut for the second time this year. In Japan, the BoJ kept its policy stance unchanged.

Elsewhere Greece needs to implement reforms in order to access EUR 7.2 billion in undisbursed bailout funds. The UK announced it would join the new China-led Asia Infrastructure Investment Bank that could rival the World Bank. M&A activity continued to rise.

MARKET REVIEW

In March, equity and fixed income markets were mixed, the USD strengthened while commodity prices declined. Volatility increased. The investment focus has in part shifted from US only to Europe.

- **Equity markets were mixed.** In the US, after reaching an all-time high of 2'117.39 the **S&P 500 (-1.74%)** weakened on concerns that earnings will be hurt by higher interest rates and a stronger USD. On the contrary, the **MSCI Europe (+1.29%)** did well, with the German **DAX index (+4.95%)** being the best performer as it broke through the 12'000 barrier for the first time ever before closing down to 11'966.17. With a dividend yield of 2.25%, the DAX compared favorably with a 10-year German Bund yield of 0.18%, which reached another record low. In Asia, the **Nikkei 225 (+2.18%)** reached intra-month another 15-year high of 19'437. The MSCI World (-1.81%) and the **MSCI EM (-1.59%)** did poorly and so did India (-4.78%) despite hitting another record high.

- **Fixed income markets were mixed.** US Treasuries and investment grade corporates outperformed high yield, which weakened as a result of poor technicals and risk-off sentiment. **In Europe, high quality government bonds did well** unlike high yield which suffered from heavy supply as companies seek to take advantage of exceptionally low interest rates. The 2-year German Bund traded at -0.25%. EM high yield did particularly well, especially in Russia.

- In currencies, the **USD strengthened**. The EUR fell below 1.05 against the USD, its lowest level since 2003, before closing at 1.0730 (-4.15%), down over 11.3% in 2015. Of note, Chinese companies ditched the remminbi and flocked to the EUR to raise offshore debt as funding costs tumbled.

- **Most commodities weakened**. As a result of rising stocks, volatile crude oil prices went down with the WTI (-11.94%) and the Brent (-4.34%) reaching USD 47.60 and USD 55.11 respectively. Gold (-2.43%) weakened to USD 1'183.

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