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Macro and Market Review

April 2015

MACRO AND MARKET REVIEW

MACRO REVIEW

In April, the market's attention was mostly driven by weaker US economic data and improving economic numbers in Europe.

- **Divergent economies** – The US economy lost momentum despite a robust consumption. The combination of a cold winter, disruption at the country's biggest ports and a strong dollar, nearly grounded Q1 growth to a halt to 0.2%. Furthermore, the economy added only 126'000 jobs well below a consensus forecast of 245'000. On the contrary in Europe, inflation and macro-economic data were better than anticipated. In China, trade exports fell against a year earlier, and the economy grew at its slowest pace since the depth of the global financial crisis early 2009, highlighting the challenge of finding new growth drivers amid a slowdown in the key pillars of construction and manufacturing.

- **Divergent monetary policies** – In the US, the Federal Reserve suggested that a rate hike was possible at any future meeting, although the timetable appears to be slipping. At the same time, balance sheet expansion continued at the ECB and the BoJ, while China stepped up policy easing, adding policy rate cuts to changes in reserve requirements. Taken together, the balance of monetary policy remained very easy.

Elsewhere, Fitch downgraded Japan's credit rating, highlighting deterioration in public finances even as the BoJ continues its bond-buying program. In Europe, Standard & Poors cut Greece's rating further into junk to CCC+. **Alexis Tsipras** overhauled his bailout negotiating team and **sidelined his finance minister Varoufakis**, after months of fruitless talks with international creditors. Many blue chips companies are opting to return cash rather than invest into a lackluster global economy. Finally, **US and Iran negotiators came to an agreement** for Iran to limit its stockpile of uranium and its enrichment capacity for 10 years.

MARKET REVIEW

In April, there were two major market developments. The weakening of the USD and of fixed income markets, especially in German Bunds. Elsewhere, energy, base metal and soft prices experienced strong positive mean reversions.

- **Developed equity markets were largely range bound**, with the S&P 500 (+0.85%) slightly positive unlike the MSCI Europe (-0.47%) which was affected by the underperformance of **Germany (-4.3%)**. The MSCI World (+2.16%) and the **MSCI EM (+7.51%)** did well, with Chinese indices being the outperformers, while the Nikkei 225 (+1.63%) broke briefly the 20'000 mark for the first time in 15 years. Stock market volatility increased: the VDAX up +10.9% at 20.7%.

- Fixed income markets started well with more European bond yields into negative territory, benefiting from their safe-heaven status as much as from the shortage of the highest-quality European government debt, caused in part by the ECB's own buying program. However by month-end and **after reaching an all-time low of 0.05%**, the **yield on the 10-year German Bund rose sharply to 0.37%.** Switzerland became the first government in history to sell 10-year sovereign debt at a negative interest rate of -0.055%, effectively charging investors for lending to a government. In the **US** and in part as a result of higher oil prices, **high yield outperformed corporate credit and Treasuries**.

- In currencies, the **EUR/USD (+4.59%)** strengthened to 1.1220, after toying with a low of 1.0500. The upward train the USD has been on for the last nine month has stalled.

- In commodities, crude oil surged as expanding violence in Yemen stoked concern that supplies could be disrupted. The **WTI (+25.27%)** and the **Brent (+21.18%)** reached USD 59.63 and USD 66.78 respectively, which slumped to a five-year low near USD 45 in January. **Gold was flat**.

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