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MACRO AND MARKET REVIEW

May 2015

Macro and Market Review

MACRO REVIEW

In May, aside from the news flow from Greece, there seemed to be some positive momentum in the global market space, in part as a result of the decline of oil prices and surprising inflation outcomes.

- In the US, business surveys are improving, consumer confidence remained high with a **healthy non-farm payrolls and an unemployment rate edging down to 5.4%**. However, **Q1 US GDP was revised downward** to a negative figure, with much of the weakness attributed to seasonal factors and the West coast port strike but not to a downturn in growth. **In Europe, economic growth and inflation data were positive and better than expected**. In EM, Brazil and Russia remained in recession. China continued to slow down suggesting growth slipped below 7% year-on-year. GDP figures out of India were solid.

- **Central banks in Europe, Japan, China and EM remained focused on accommodative policies** to stimulate growth. **The exception was in the US**, after saying that equity market valuations are generally quite high, the Fed Chair Janet Yellen characterized the first quarter contraction in GDP as "transitory", which has now set the stage for the first rate hike in September. The BoJ reiterated that "the monetary base will increase at an annual pace of about 80 trillion yen" and for "as long as it is necessary" to break the back of deflation. The ECB remained on the same path. China continues to add liquidity to the system.

Elsewhere, **Greece remained an outlier** both politically and economically as the country is close to defaulting on the International Monetary Fund. **In the UK, the Conservative Party's election victory** ended recent political uncertainty, while in Spain and in Portugal, left-wing parties won some local elections in major cities. Overall M&A activity continued to pick-up.

MARKET REVIEW

May turned out to be a **choppy and trendless month**, aside from a sell-off in global rates and fixed income markets. Equities did generally better, while in currencies, the EUR weakened.

- In equities, **valuations have become moderately expensive in many regions** as share prices have continued to advance; yet stocks have a significant valuation cushion relative to bonds. Japan (+5.3%) and China (+1.9%) did well as mainland shares hit a new cyclical high before correcting sharply. The MSCI Europe (+0.8%) was up with Italy (+2.0%) the top performer, while Germany (-0.4%), France (-0.8%), and Spain (-1.47%) ended in negative territories. Elsewhere, the S&P 500 (+1.1%) did better than the MSCI World (+0.1%) and the MSCI EM (-4.2%). Sector wise, IT, Utilities, Financials and Consumer Staples did better than Energy. Volatility went slightly up, with the VDAX finishing at 22.8%, up from 20.7%.

- In fixed income, **global bond markets settled down** following the unwind of popular trend positions in late April. The 10-year US Treasury yield ended with a yield of 2.1%. In Europe, markets continued to be highly influenced by very volatile movements in German Bunds, with the yield on the 10-year Bund ending at 0.49%, a sharp contrast to April, when the yield hit an all-time low of 0.05%. In the US, unlike high yield which generated a modest positive return, more duration sensitive investments such as Treasuries and investment grade corporates declined. Of note, the US investment grade market experienced record new organic issuance. EM fixed income markets continued to outperform.

- In currencies, the **USD strengthened** against the EUR (-2.1%) to 1.0990 and the Japanese Yen (+4.0%) to 124.15, but weakened against the CHF (1.2%) to 1.0340.

- In commodities, gold (+0.6%) and crude oil prices for the WTI (+1.1%) and Brent (-1.9%) were relatively stable.

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