FEBRUARY 2018

TREND REVERSAL DUE TO INTEREST-RATE CONCERNS?

- Good start to the year hampered by higher rates
- Equities supported by solid economic growth
- Sentiment reveals no sign of trend reversal

The year could hardly have got off to a better start. It seemed that many investors were still underinvested and therefore wanted to buy shares. Surprisingly, the US stock market rose the most, even though its valuation is at a significant premium compared with other regions. One plausible reason for this superior performance is likely to be the recently passed US tax reform, which gave the markets an additional boost and further weakened the US dollar. The greenback is inexorably depreciating against all major currencies. It lost up to 4.6% against the Swiss franc in January. This clearly illustrates the current weakness of the dollar. Apart from the foreign currency markets, there has been minimal news flow that has had a decisive effect on share prices. The macroeconomic figures met the positive expectations and the first company results for the financial year 2017 were impressive. The WEF, which attracted even more political and economic VIP's than in previous years, was probably more relevant to the tabloid press than in any way to the financial markets. Quietly and covertly, however, yields on government bonds overseas and in Europe rose. In January alone, the yield on 10-year US Treasuries edged up by 0.30% and closed the month at the highest yield level for almost four years. The fear of a major reversal on the interest-rate front led to a significant increase in volatility and initial selling of speculative positions in the last few days of trading. Despite these minor setbacks, America's S&P 500 managed to gain 5.57% in local currency and 0.70% in Swiss francs. In the Eurozone, the EuroStoxx advanced 3.16%, not least because it still had to make up the losses suffered in December. The Swiss Performance Index was fairly flat, returning 0.65%.

EQUITIES SUPPORTED BY SOLID ECONOMIC GROWTH

Despite the solid earnings growth and the positive outlook for companies, their valuations are still very stretched and already factor in a continuation of strong and consistent earnings growth. This alone does not present a problem for equity markets as long as the drivers of earnings continue to perform well. In concrete terms, this means that global economic growth, driven by public and consumer spending as well as the manufacturing industry, must sustain its very dynamic momentum. Only in this way can the high expectations for corporate profits and their growth rates be maintained. There is currently sufficient evidence supporting this scenario. The two sub-components "Industry" and "Consumption" of our fundamental model for determining the attractiveness of equities are sending out very positive signals. While consumer spending continues to grow strongly, our data analysis also reveals a renewed increase in momentum in the manufacturing sector. As long as the real economic momentum does not slow down, the current overvaluation will continue to pose barely any threat to dividend-bearing securities for a long time. However, it's important to be aware that even a small number of disappointing statistics could trigger a correction phase.

Monetary policy environment: Concerns about inflation are being fuelled in particular by rising prices in the US manufacturing industry. If these concerns turn out to be warranted, interest rates could rise faster than expected and put more of a burden on equity markets. Accordingly, the subindicator deteriorated over the course of the month and even suggests a certain amount of caution regarding equity investments.

Industry: Almost on a monthly basis, we receive data from the US manufacturing industry initially suggesting an improvement but then suddenly a deterioration. For once we received strong signals. Production figures increased and even the underutilisation of production capacity has once again fallen sharply for the first time in a while. Overall this subindicator is giving us a much clearer buy signal for equities than in the previous month.

Consumption: The buying mood of private households in the US is somewhat less euphoric than in the recent past, but is still expected to make a very solid contribution to economic growth. In Europe, consumer sentiment continued to improve as labour markets in Spain, France and even Italy continued to strengthen. Of all four indicators, this one shows the clearest buy signal for equities.

Valuation: The valuation is currently at its highest level for the past 15 years. US stocks continue to be the most expensive.

Sentiment reveals no sign of trend reversal

The increased volatility on financial markets observed in the final days of January as well as the relatively heavy intraday loss on Wall Street just before the end of the month could be the precursor to the long-awaited correction. Even so, we are still a long way from a clear trend reversal in investor sentiment. The risk appetite indicator still looks quite strong and for the past three weeks has moved sideways at quite a healthy level. On a monthly view, a further modest improvement in risk appetite is even discernible. On top of that, all

Risk appetite indicator: All sub-indicators still give positive signals for equity markets

	Number of Indicators	***Current Signal***	*1 Week*	*1 Month*	*3 Months*
MONEY FLOW	*31*	Buy	↘	↗	↘
SURPRISE EFFECT	*17*	Buy	↗	↘	↗
MARKET BREADTH	*24*	Buy	↘	↗	↗
HEDGING DEMAND	*7*	Buy	↗	↗	↗
MARKET RISK	*37*	Buy	↘	↘	↘
OVERBOUGHT / OVERSOLD		Neutral			
RISK APPETITE INDICATOR	***116***	**BUY**	→	↗	→

five indicator groups contributing to the risk appetite indicator are giving a buy signal. Even the anti-cyclical signals, which detect exaggerations on international stock markets, show no signs of euphoria. After the clear share price hikes, it might well have been possible to assume that euphoria would be enough to trigger a correction. But where there are no altered signals, there is no need for action. We therefore continue to favour equities and maintain the highest possible equities quota in our mandate and funds.

YOUR CONTACT AT AMPLIA & CO. AG

Mikael Rosenius
Claridenstrasse 34
CH-8022 Zurich
Tel. +41 44 286 17 41
mikael.rosenius@amplia-co.com

Jennifer Erdin
Claridenstrasse 34
CH-8022 Zurich
Tel. +41 44 286 17 42
jenny.erdin@amplia-co.com