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Setbacks present buying opportunities

- 2015 does not end on a conciliatory note for financial markets
- Mature markets hold up well against emerging economies
- Risk appetite indicator: When should we expect the turning point?

December 2015 also failed to live up to its reputation as a calm month characterised by "price stabilisation", finishing off the year with a gentle uptick in share prices. The tumbling oil price reawakened concerns about economic growth, prompting many market players to offload their riskier investments. In sympathy with falling share prices, the spreads also widened between bonds with good and poor credit ratings. The almost palpable nervousness of investors triggered hefty falls in share prices. Switzerland's main index, the SMI, escaped fairly lightly with a decline of 1.95%, as did America's S&P 500 index, with a drop of 1.75%. Worst affected was the EuroStoxx, with a fall of 5.61%, along with Japan. The Swiss franc appreciated by more than 2.5% against the US dollar, while staying virtually unchanged against the Euro.

Annual returns of the major stock markets in 2015

	in local currency	**in CHF**
MSCI World	-2.74%	-2.02%
SMI	-1.84%	-1.84%
DOW JONES EURO STOXX	7.97%	-2.35%
NIKKEI	9.07%	9.51%
S&P 500	-0.73%	0.01%
MSCI Emerging Markets	-16.96%	-16.34%

A brief look at the annual returns achieved by the most important share indices confirms that 2015 was not a good year for stock markets, especially for investors whose reference currency is the Swiss franc. For investors in the US stock market, it was even the worst year since 2008. Looking back at the past year, we can highlight a number of stumbling blocks tripping up investors in 2015. Within each quarter, for example, there was a series of sudden price corrections, which markets did at least manage to swiftly recover from in most cases. The price volatility was frequently quite extreme, both at the level of the overall market and individual stocks. Such sudden changes of direction make life very difficult particularly for stop-loss or momentum strategies. The main stock market winners over the past year are therefore likely to be those investors with a high-quality portfolio of bonds with medium maturities, or with a balanced mix of equities and bonds.

Maximum quarterly price corrections in 2015

	Q1 2015	**Q2 2015**	**Q3 2015**	**Q4 2015**
Swiss Performance Index (SPI)	-14.65%	-6.52%	-12.47%	-6.67%
Dow Jones Euro Stoxx	-3.72%	-9.60%	-16.76%	-9.46%
S&P 500	-3.64%	-3.43%	-12.25%	-4.94%

Mature markets hold up well against emerging economies

Investors have become much more nervous in recent months. One of the main reasons is the concern about a further slowdown in global economic growth – the oil price is generally taken as an indicator of an imminent fall in demand, and this has been in a downward spiral for quite some time. On top of that, recent economic data have for the most part been worse than expected. Based on our systematic analyses, we think concerns about a renewed recession – and the consequences for financial markets – are overdone. Our research actually shows that the past development of the real economy has in most cases had less of an effect on the performance of equities than generally assumed and is often talked up in the media. In addition, our calculations for Europe and the USA continue to show a subdued pace of economic growth, supported by robust consumption in the USA. The industrial downtrend in the US economy is also starting to slow down. It is only in emerging markets that the pace of economic growth still seems to be faltering. The important subcomponent "Monetary Environment" is doing particularly well in developed countries, especially Europe. The ultra-loose monetary policy still being pursued by the European Central Bank continues to provide vital support for equity markets, while here too the emerging markets are having a negative impact on the subcomponent, partly as a result of their significantly higher level of interest rates. The fourth and last subcomponent, "Valuation", is the only one that places emerging markets in a favourable light. The valuations of most emerging market equities are much lower than those of mature markets, especially when compared with the US stock market. As long as there is no unexpected deterioration in the data coming out of Europe and the USA, this equity-friendly scenario should help stock markets to stage another rally. According to our calculations, the fundamental environment is better than market players currently perceive it to be.

Risk appetite indicator: When should we expect the turning point?

While all five factor groups in the risk appetite indicator used by us showed an improvement in November 2015, they all fell back again in December 2015. The mood was particularly soured by the factor group "Surprise Effects", which has been declining for more than three months and now stands at its lowest point since mid-2012. Especially the data released for emerging markets failed to meet expectations. Investors' nerves are on edge, despite – or perhaps because of – the interest-rate hike by the US Fed. On the whole, our research shows that the current level of risk aversion is basically so high that equities should in theory be avoided were it not for the fact that many negative factors have already been priced in over the short term. In mid-December our "overbought" signals sounded once again, overriding the result of the five factor groups. The prospects for equities are consequently better than suggested by the current prevailing mood. We therefore expect a move in the opposite direction in the coming weeks. At the moment it is impossible to predict whether – and when – the anticyclical buy signal triggered by our risk appetite indicator in response to the overbought situation will be replaced by a buy signal based on improved risk appetite. However, the past year has repeatedly shown quite clearly just how quickly the stock market situation – and with it the mood of large investors – can change. It could be that we will be asking ourselves as early as next month why we did not top up investments (even more), when the market was in such good shape.

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