DECEMBER 2016

NEW YEAR HAS A DIFFERENT START TO 2016

- Year ends on a positive note, despite the Italian referendum
- Real economy and monetary policy lend a helping hand
- Growing investor confidence gives equities extra momentum

In November, the "Trump effect" gave a boost to US stock markets in particular. But the impact of Italy's referendum and the subsequent resignation of Prime Minister Matteo Renzi had an equally strong effect on financial markets in December. Italy's vote to reject constitutional reform triggered reactions in European stock markets that took many commentators by surprise: an unexpected rally on a broad front. Fears that Renzi's resignation would immediately lead to fresh elections and more political upheaval proved to be unfounded, and so the probability of Italy's imminent withdrawal from the Eurozone faded as well. Despite this, the euro did not benefit, weakening by more than 1% against the US dollar and the Swiss franc within the space of a month. To summarise, stock markets continued to be dominated primarily by political issues during the final month of 2016, rather than by monetary policy or data published on the real economy, most of which were quite encouraging and give grounds for hope. Europe's main index, the EuroStoxx 50, rose 7.06% in December to lead the performance rankings for the first time in a long while. The Swiss Performance Index also did very well, advancing 3.97%. Japan's NIKKEI 225 Index posted a similar gain. For once it was America's leading index, the S&P 500, which brought up the rear with an increase of just 1.82%.

2016 was not an easy year for investors. It was a year when the threat of terrorism spread on a global level and international geopolitical tensions increased further. It was a year when right-wing populist parties celebrated victories. And it was a year of fresh economic and political upheavals, many of which are likely to find their way into the history books. The Brexit decision and the US presidential election are just two examples. 2016 was also a year when news flow was often confusing and shifting at an incredible speed. This caused erratic and barely predictable price movements on financial markets. Despite all this, many things were not as bad as they were portrayed in the media, and some things definitely improved. For example, unemployment fell in both Europe and the USA. At the same time, real wages are rising and US monetary policy is steadily normalising. As a result, equity markets managed to firm slightly. The top performer was the USA, where the stock market gained 11.22% in Swiss franc terms. The Eurozone turned in a performance of 2.68%, while Switzerland's equities market finished the year in negative territory, with a loss of 1.41%.

REAL ECONOMY AND MONETARY POLICY LEND A HELPING HAND

Stock markets have been living off central banks' accommodative monetary policy for a long time. Rock-bottom interest rates caused an investment dilemma, which was partly eased by share purchases. Not without reason, the component "Monetary Environment" in our asset allocation model provided the major support for equity markets. The other important component, "Valuation", is increasingly creating a headwind for equities. In historical terms, the valuation of equities has not been cheap since March 2016. Stock markets have thus been almost entirely dependent on the generous supply of liquidity from major banks in the past months. Now there seems to be a shift in the balance of power. The manufacturing industry, which has been struggling for the past two years, is showing signs of increasing dynamism. According to the component "Industry" in our asset allocation model, there is a good chance that manufacturing will revert to a more sustainable growth path, which is also likely to boost company profits. In addition, the sub indicator

“Consumption” improved further over the past month, so that both real economy components of the asset allocation model are once again arguing in favour of equities for the first time in a long while.

Monetary Environment: monetary policy is still supporting equity markets. The indicator still sits clearly in equities-friendly territory. The slight weakening of this component is attributable to the significant rise in yields in the longer maturities segment.

Industry: While Europe has already been sending out positive signals for some time as an industrial location, the USA is now following suit as well. Encouraging news both in the areas of production and order intake has triggered a sharp rise in this component. The signs are good for cyclical stocks.

Consumption: The Trump effect seems to be having a particularly strong impact on consumers. Consumer sentiment and expectations regarding future consumer spending rocketed upwards after the Republican candidate’s surprise election victory.

Valuation: The recent price increases have made US stock markets even more expensive. Valuations are still constant in Europe, as higher share prices could be offset by more optimistic expectations for corporate earnings. Generally speaking, global equities still look expensive.

Investor confidence boosts appetite for equities

The Risk Appetite Indicator increased again in December. At the moment it stands at an exceptionally solid level and reflects investors’ healthy confidence regarding exposure to equities. There are still no signs of irrational distortions. The rally was supported by four of the five components. Only the sub indicator “Money

Risk Appetite Indicator: four components produce an even better climate for equities

	Anzahl Indikatoren	***Aktuelle Signale***	***1 Woche***	***1 Monat***	***3 Monate***
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**	↘	↗	↗

Flow” fell back slightly. Recently the money flow into small caps has dropped off a little. This can be interpreted as a sign of a rather more cautious stance on the part of investors. Apart from this, investor appetite seems to be very broadly supported. This means that any potential shock event should be absorbed by the market more easily than was the case is year ago, when concerns were growing about China’s economy. Given the fundamentally positive environment for equities and the upbeat consumer mood, the path should be clear for stock markets to get off to a good start in the new year.

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