June 2017

Shares lifted by strong investor sentiment

- Markets climb despite investors' fear of heights
- Manufacturing industry improves
- One of the longest phases of stable risk appetite

During May, an increasing number of investors decided to take profits in equity markets. There appeared to be a universal fear of a major correction. One of the main reasons cited for a sharp reversal was the speed at which international stock markets had risen since the start of the year. The uncertainty was amplified by the political machinations in Washington and the threatening behaviour of North Korea. Another factor was the less euphoric macroeconomic data coming from the USA, which caused yields to fall again on bond markets. However, none of the selling arguments described was enough to permanently damage the overall exceptionally solid investor sentiment on equity markets. Confounding the expectations of those inclined to sell, dividend-bearing securities actually continued to gain ground during May, with an increase in both sector and regional differences. While the S&P 500 in the USA only gained 1.16%, the Swiss Performance Index jumped 2.73% and the Eurozone's equity market 1.6%. But since the US dollar weakened against both the Euro and the Swiss franc, the return on the US stock market in Swiss franc terms was only -1.68%.

Manufacturing industry improves

The data series published in May failed to trigger a further recovery in the fundamental indicator. For this reason, the situation can be best be described as a stabilisation. The model is also signalling that equities should be favoured over cash. Above all, there were shifts between the subindicators covering the real economy. ENISO's subindicator for consumption weakened – albeit from a very high level – while the subindicator for global industry growth managed a significant gain. There was virtually no change overall in the indicators "Monetary environment" and "Valuation". However, there was a shift in the drivers within each of the subindicators.

Monetary environment: Overall the subindicator signals a continually neutral environment for equity engagements. Why inflationary pressure eased off in the USA and helped to support the subindicator, core inflation in the Eurozone rose sharply. ECB President Draghi's policy of keeping interest rates artificially low should end sooner or later.

Industry: After the indicator bottomed out over the course of months and signalled a tentative recovery of the manufacturing sector, the data series published in May showed an acceleration not seen for a long time. Order intake was particularly impressive. This rose sharply in the Eurozone and Switzerland especially, while order growth also improved in the USA. A high level of production and capacity utilisation is therefore assured in future as well.

Consumption: President Trump's erratic policies seem to be making American consumers nervous. Both the spending on consumer durables and household spending grew less quickly than expected a month ago. In addition, wage growth also seems to be losing momentum.

Valuation: The subindicator was stuck at last month's level. A historical comparison shows that equities therefore continue to look expensive on a global basis. Despite still being outperformed by European equities, the US stock market is still the most heavily overvalued in a cross-comparison.

One of the longest phases of stable risk appetite

Seldom in the past has ENISO's risk appetite indicator shown such a strong investor risk appetite for so long. For the past 49 weeks, the buy signal has been confirmed every time. At the moment, all five subindicators with a total of 116 data series are giving a green light for equity investments. Recently the subindicator "Hedging demand", which had been weak for a period of months, moved into positive territory as well. In particular, the institutional investors now have a more optimistic stance on equity markets. They

Risk appetite indicator: All five subindicators giving a buy signal

	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**	↗	↘	↗

have slowly but surely reduced their hedging in recent weeks. In addition, the subindicator "Market Risk" has improved month on month, partly because the default risks in the banking sector were deemed to be less than they were just a short while ago. The other three subindicators tended to weaken slightly, albeit from a very high starting point. This correction should actually be welcomed, as it has helped to cushion the threat of an imminent overheating of stock markets.

The old stock market saying "Sell in May and go away" has no basis in 2017, both from a fundamental and market psychology perspective. We therefore maintain our current equities exposure.

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