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Stable equity markets, but confusing industry trends

- Geopolitical tensions have had a minimal impact
- Equities still attractive, despite weaker US figures
- Investors remain unflustered

Equity markets were so stable at the start of September that some market players warned of too much complacency and a sharp rise in volatility before long. However, despite all the gloomy predictions not even the increased sabre-rattling between the USA and North Korea and the destructive start of the hurricane season were enough to disturb the calm for long. International equity markets posted gains across the board. Investors' nerves seem to be made of steel at the moment. Both political and meteorological misfortunes have met with a calm, almost stoical mentality. The performance of the real economy added to the upbeat investor sentiment. All three of the world's major developed regions – the USA, Japan and Europe – are reporting a positive growth dynamic. Eurozone equities benefited in particular from the markets' favourable psychological and fundamental state. The EuroStoxx posted an impressive gain of 4.50%, while Switzerland's leading index, the SMI, advanced 2.60%. For once, it was the US equity market that brought up the rear, with a monthly return of 1.93%. Bond holders did not do so well due to growing expectations of quickening inflation, leading to higher yields. In such a bullish market climate, the "crisis metal" gold has given back almost half the gains it had made since mid-July.

Equities still attractive, despite weaker US figures

The extremely cyclical character of the manufacturing industry is nothing new. One aspect that is surprising, however, is the volatility of US industrial performance in the recent past, measured by the data series that feeds into the ENISO Partners sub-indicator "Industry". Only a month ago, we were able to report a marked global upturn in the sector, but now an analysis of the latest data shows another deterioration in America's manufacturing industry. The sub-indicator "Consumption", on the other hand, looks much more stable: it remains at a high level and continues to make a significant contribution to the attractiveness of equities from a fundamental perspective. But it is the valuation that continues to be the biggest factor dragging down the prospects of equity markets. Equities still look expensive historically speaking, although the overvaluation, as measured by Eniso's sub-indicator "Valuation", has consistently fallen in recent months on a global level. The final ingredient that counts towards the overall indicator showing the fundamental appeal of equities is the "monetary environment". This is currently rated as neutral. In summary, dividend-bearing securities are still our favourite asset class.

Monetary policy environment: After a temporary period of calm, US inflation has started to pick up again, with both consumer and producer prices moving higher. Core inflation is thus gathering momentum not only in Europe, but now in the USA as well. Plans by the US Fed to shrink its balance sheet are therefore bound to go ahead. Both these trends weigh on the sub-indicator, which no longer provides a tailwind for equities.

Industry: Europe's industrial sector has maintained its strong rate of growth. In the USA, meanwhile, several leading indicators once again point to a significant slowdown in the manufacturing industry. The only ray of sunshine in the USA continues to be IT spending, which is still rising.

Consumption: Consumption in the USA, the world's biggest consumer, is exceptionally robust. Effective spending has continued to rise. Demand has eased off slightly in the housing market, but household surveys of consumer sentiment are still positive in both the USA and Europe.

Valuation: Equity markets continue to be too expensive compared with historical levels. Above all, the current price-to-book and price/equity ratios are all trading much higher than historical averages. A recovery could be around the corner, however, as earnings revisions are pointing significantly higher in the USA, Japan and Europe.

Investors remain unflustered

Not only did the S&P 500 stock index in the USA climb to record highs at the end of September: stock indices across the globe finished the quarter close to multi-year highs. Seldom before has negative sentiment on equity markets been so scarce among US private investors. It is hardly surprising, therefore, that voices warning of a substantial correction have grown louder. Despite this, there has been no major shift of mood. Although three of the five sub-indicators in the overall risk appetite indicator declined on a

Risk appetite indicator: All sub-indicators picking up

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

monthly basis, the trend reversed again towards the end of the month. Investors seem to be unflustered by the verbal sparring between the USA and North Korea. On the contrary, some better-than-expected company news flow took investors by surprise and boosted their bullish mood. This robust sentiment is also reflected in the fact that most sectors and companies are once again participating in the price rally. The renewed shift in capital flows is equally important. Riskier asset classes are being favoured over defensive investments. The precious metal gold, for example, has come under significant pressure since mid-September and has lost some of its shine. On top of that, more purchases are being made in sectors sensitive to economic cycles. According to ENISO's risk appetite indicator, the psychological environment is still favourable for equities. There are currently no signs of excessive price volatility. Coupled with persistently good fundamentals, we therefore see no reason to reduce the high equities quota.

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