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Sentiment badly shaken: reduce risks

- Markets struggle to recover from low levels
- Fundamental conditions give no indication of a crisis
- Risk appetite indicator: reduce portfolio risks

Global stock markets were once again hit by a hefty wave of turbulence during the first half of February. The effect of recently released fundamental data is only likely to have played a secondary role here. On the whole these are not exactly euphoric, but at least satisfactory. The main reason for falling share prices was the anxious mood of investors, who took the view that a number of potential crises posed an even greater threat of uncertainty than a few weeks previously. In particular, concerns were raised about the health of the European banking system. Many market commentators expressed the view that the falling oil price could also trigger significant credit defaults in sectors closely linked to the oil industry. Concerns focused especially on Deutsche Bank, whose credit default swaps had already been trading at a level indicating the imminent threat of a collapse. Investor sentiment fell so sharply that ENISO's risk appetite indicator generated an anticyclical buy signal for equities. Eventually financial markets started to recover again from mid-February onwards, with the DAX, for instance, posting a gain of 8.5% by the end of the month.
As always, when the prevailing mood on financial markets is one of great uncertainty, this is not exactly conducive for a sustainable rally in share prices. Despite a recovery towards the end of the month driven by a wave of purchases to cover positions, most global equity markets reported losses during February. The Swiss Market Index and the Eurozone's leading index, the EuroStoxx, fell by 5.72% and 3.06% respectively. The S&P500 did slightly better in the USA, slipping back just 0.41%. On the other hand, government bonds issued by core EU countries, as well as the gold price, were eventual beneficiaries. In addition, the Swiss franc gained significant ground against the Euro, the US dollar and pound sterling thanks to its perceived status as a safe haven.

Fundamental conditions give no indication of a crisis

Fears of recession are omnipresent, and are mainly being fuelled by the negative news flow from the industrial sector. This sector's contribution to gross domestic product (GDP) is known to be more erratic, while the consumer sector – the second biggest component of GDP – usually tends to be much more stable. ENISO's fundamental asset allocation model, which amongst other things determines the attractiveness of equity markets, confirms the fragile state of the industrial sector and makes equities look unattractive when viewed in isolation. By contrast, the consumer component continues to display a pattern of solid growth. In short, the real economic components are actually better than the current crisis mood would appear to suggest. On top of that, equities no longer have an expensive valuation following their price correction at the start of the year, and the continuing expansive monetary policy pursued by central banks worldwide is still a major support for stock markets. As far as fundamentals are concerned, equities are therefore still worth buying.

Monetary environment: Weak inflationary pressure combined with slower growth momentum in the industrial sector allows central banks in Europe and the USA to maintain an accommodative monetary policy. Given the significant weakening of the manufacturing sector, the Fed is unlikely to raise interest rates for the time being, while the ECB will probably loosen its monetary policy even further.

Industry: Last month European industry was still set on a growth path. In the meantime, the leading indicators suggest that a slowdown is likely in this sector as well. As a result, all global regions are currently experiencing a slower pace of growth or even recession. This component therefore provides a sell signal for equities.

Consumption: The USA continues to enjoy solid growth, as reflected mainly in the current level of consumer spending and disposable incomes. However, the outlook is no longer as rosy as it was a month ago. As the mood of consumers worsens, they may cut back their effective spending in the mid-term. To the moment, however, this component is still very favourable for equities.

Valuation: Only a month ago, US shares especially were looking rather expensive. Now the picture has changed, thanks to relatively solid earnings reports and falling share prices. In addition to shares in Europe and Japan, US equities are also attractive again.

Risk appetite indicator: Reduce portfolio risks

Eniso Partners' risk appetite indicator has clearly shown that investor sentiment has been far from ideal for some weeks now. But since the wave of panic selling hit stock markets very hard and very suddenly, we did not receive the usual sell signal, but in many cases an anticyclical buy signal. The covering purchases made over the past two weeks have helped share prices to rebound significantly. At the same time, the anticyclical buy signal also disappeared, and the five components of the risk appetite indicator are once again the main focus for managing the equities quota. Even though two of the five components have improved slightly within the space of a month, financial markets are still dogged by a mood of uncertainty. The tiniest negative news item is enough to put pressure on share prices. The fundamental environment – which is still positive – is subsequently being pushed into the background. Experience shows that such a scenario can continue for months before investors turn their attention back to the solid fundamental conditions. According to our risk appetite indicator, caution should now be the order of the day. We already reduced the portfolio risks at the end of February and on 1 March, by reducing the equities quotas in the mandates and funds, and stocking up again on instruments to hedge against volatility. It is likely to take several weeks before the current uncertainties subside and investor sentiment improves. Our prediction is therefore at best a sideways movement within a fairly wide corridor. In the worst case, we are likely to have to deal with another wave of selling on global stock markets.

Risk appetite indicator: Negative sentiment triggers sell signal

	Anzahl Indikatoren	Aktuelle Signale	1 Woche	1 Monat	3 Monate
Money Flow	31	Sell	↗	↘	↘
Surprise Effect	17	Sell	↗	↗	↘
Market Breadth	24	Sell	↗	↘	↘
Hedging Demand	7	Buy	↗	↗	↘
Market Risk	37	Sell	↘	↘	↘
Overbought / Oversold		Neutral			
RISK APPETITE INDICATOR	**116**	**SELL**	↗	↘	↘

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