May 2017

Holding steady - for the moment

- Eurozone stock markets perform strongly in April
- Fundamentals looking brighter
- Anticipated election outcome fuels a hearty risk appetite

April always tends to be a very unpredictable month, and this year was no exception. Financial markets struggled to find a clear direction at the start of the month. After a strong first quarter and mounting geopolitical tensions, institutional investors in particular decided to take their profits and scale back their portfolio risks. First of all came the poisonous gas attack in Syria, which prompted military retaliation from the USA. This was followed by threatening behaviour from North Korea in the form of rocket tests, posing a major political challenge to the new Trump administration. Macro data released over the course of the month did little to soothe investors' nerves as the performance of the global economy cooled. In the USA, the figures published on the real economy came in below expectations. In contrast to the slight correction in equity markets, the Greenback managed to post gains against all the major trading currencies, while falling interest rates led to price gains on bond markets. Over in Europe, events in France were dominated by the first round of the French presidential elections, which put investors in a cautious mood. The vote was generally seen as a tipping point for the future of Europe and the fate of the single currency. The victory by Emmanuel Macron, a candidate not affiliated to any of the established parties during the first round relieved investors. Short positions had to be covered, which pushed up prices mainly in the out-of-favour European stocks and the Euro. After a rocky start, April eventually revealed its sunnier side. The Swiss Performance Index was particularly impressive, posting a solid gain of 4.0% in local currency terms, followed by Eurozone shares, which increased by 2.5%. After a bull run lasting several years, the leading US index found the going tough for a change and only advanced by 0.8%. In addition, the Euro also managed to make significant gains against the US dollar, as well as the Swiss franc. In Swiss franc terms, the Eurostoxx actually finished slightly better than the Swiss Performance Index.

Fundamentals looking brighter

Just a month ago, ENISO's fundamental model for the attractiveness of equities signalled a possible change in the buy signal that had persisted since 2011. Now we can give the all-clear for at least one more month. The composite indicator even managed to improve slightly. Three out of the four indicator groups have improved, mainly the component "Consumer sentiment", which is signalling the best consumer environment for two years. The two components "Monetary environment" and "Valuation", which are particularly important for the composite indicator, were able to halt their downward trend. Only the "Industry sentiment" component weakened slightly, reflecting a slower rate of growth in the manufacturing industry. As a result, the situation remained more or less steady and the threat of a sell signal for equities was avoided.

Monetary policy environment: After dipping into minus figures for the first time last month, this indicator recovered over the course of the month to finish close to a neutral level. The main drivers for the recovery were the less pronounced increases in core inflation rates in Europe and overseas. The Fed's plan to shrink its balance sheet is weighing on the indicator, however.

Industry: A strong reading for the IFO business climate index in Germany made sure that the decline in the Industry component was only marginal. America's industry in particular continues to trudge along. To our surprise, spending on software especially was much lower than expected.

Consumption: Consumer sentiment has improved yet again. ENISO's sub-indicator climbed to its highest level for two years. Surveys of end consumers in the USA indicate that actual spending is likely to remain robust over the coming months. This trend is being underpinned by a further improvement in disposable incomes. But positive signals are coming from Europe as well. In more and more countries, private households are more optimistic about their spending plans over the next few months.

Valuation: The valuations of equity markets – especially America's – certainly still look very expensive. However, earnings estimates continue to be revised upwards and the figures published for the first quarter are coming in higher than expected. Both these effects are helping to reduce some of the overvaluation.

Anticipated election outcome fuels a hearty risk appetite

Investors' growing concerns about political events in Syria and North Korea, as well as their more cautious positioning ahead of the French presidential elections, was also reflected in ENISO's Risk Appetite indicator. Four of the five market psychology indicators show a modest reduction in the voracious risk

Risk appetite indicator: no euphoria yet, despite latest price gains

	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*	Sell	↗	↘	↘
MARKET RISK	*37*	Buy	↗	↗	↗
OVERBOUGHT / OVERSOLD		Neutral			
RISK APPETITE INDICATOR	***116***	**BUY**	↗	↘	↗

appetite of market players. The slight decline can actually be interpreted as a positive development, as it allows some healthy consolidation and prevents the threat of overheating. The election victory in France therefore met with a hearty, but not disproportionate, appetite for risk. Four of the five sub-indicators ("Hedging Demand" excluded) currently show a buy signal. It should be noted that "Hedging Demand" is by far the most volatile component and can quickly switch into positive territory as well. There continues to be no sign of irrational exuberance in equity markets, which means we have a clear buy signal for equity investments from a market psychology perspective. Despite the latest price gains, the market still therefore seems to promise a little more upside potential.

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