



CAERUS Market Commentary – March 2016

Market overview

March saw some welcome signs of stability in global financial markets, as the US Federal Reserve (Fed) held off from raising interest rates whilst maintaining a particularly dovish tone. The reiteration of a policy of 'lower for longer' interest rates mean that the US Dollar weakened considerably. This had a significant positive impact on the developing world. Some stability in the oil price also placated worried Investors.

The best performing equity markets were Emerging and Asia Pacific which returned 7.84% and 6.56% respectively. The developed markets all managed to deliver positive returns ranging from 0.86% in the UK to 1.91% in Europe.

Credit markets also performed well given the more 'risk on' environment. Sterling Corporate Bonds returned 3.16%. As one would expect, Gilts performed less strongly although ended the month virtually flat, highlighting the importance of a well-diversified portfolio.

Overall, the first quarter of 2016 has been rather challenging but has actually yielded decent returns for those Investors who have held their nerve.

United Kingdom

We have seen Sterling weaken as Investors begin to focus on the referendum on 23rd June, commonly referred to as Brexit. If Sterling weakness persists we could see a pickup in inflation which may bring forward market expectations of our first interest rate rise.

The high exposure to oil, gas and mining sectors in the UK stock market means that there are pockets of value for the brave Investor, although it would appear that global Investors are holding off committing capital to UK companies until the outcome of the June referendum is known.

United States

Any expectations of a rate rise in March were dashed as the Fed maintained its dovish tone. This has a marked impact on global markets but should also allow the US consumer to continue spending and keep the economy on track.

Whilst not spectacular, GDP growth in Q4 of 2015 has been revised up to 1.40% and job creation remains relatively strong. The non-farm payrolls increased by 215,000 in March, significantly higher than the estimated 205,000. This, and other data out of the US, continues to make us believe that the US will avoid a recession in the short term.

Europe

Mr Draghi fired off yet another 'big bazooka' in March in his attempt to stoke inflation in Europe. Not only was the ECB deposit rate cut to -0.40% (yes, minus 0.4%) but the quantitative easing (QE) programme was ramped up from €60bn to €80bn per month. However, the effects on financial markets appear to be diminishing which would seem to indicate that Investors may be beginning to lose their faith in Signor Draghi.

It is interesting to note that ECB focuses on headline inflation when assessing its 'near 2%' target which is a figure hugely distorted by the swings in energy costs. Should the oil price rally, then Draghi may be able to claim victory over the threat of deflation despite the mechanism for the increase in the inflation rate having had nothing to do with his extraordinary policies.

Japan

Japanese equities performed well over the month delivering 1.87%. Data suggests that there are tentative signs of nominal and real wage growth in Japan which would be a major coup for Shinzo Abe and his 'Abenomics'. If the trend becomes firmly established, then the hope is that the public will become consumers rather than savers and so help lift Japan out of its deflationary quagmire. However, the savings culture is deeply engrained in Japan and the central bank must tread carefully to ensure that its policy of negative deposit rates actually feeds through into accelerating credit growth rather than simply hobbling Japanese banks.

Emerging Markets

The headwinds facing the emerging markets, namely, a stronger dollar, lower oil prices and uncertainty from China all abated this month, resulting in strong gains from both the wider emerging and Asia Pacific markets.

Should the data coming out of China continue to improve and the Fed maintain its dovish tone, resulting in a continuing weaker Dollar, then better sentiment towards these regions may cement itself. Many areas in the emerging markets look attractively priced, both relative to the rest of the world and their own history, which means that long-term performance from here could be very attractive.



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