Investment Insight

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ARIA | CAPITAL

***Abe Maria**: Japan's Topix index surged more than 50% last year driven by the fiscal stimulus, monetary easing and economic reforms introduced by the Japanese prime minister Shinzo Abe and otherwise known as Abenomics. In light of last year's exceptionally strong stock market performance and this year's correction, does the recent weakness present a buying opportunity or are we likely to see a further sell off. In this week's **Inside Track** we share the current thoughts of a number of leading Japanese equity fund managers on this and related issues. The consensus view appears to be that the Japanese market will rally notwithstanding its weak start to the year.*

***Tech-tock:** The Nasdaq Composite index, the tech-heavy index where mean valuations are almost double the rest of the market, has experienced aggressive selling pressure in recent weeks and has sent anxiety among options traders to the highest levels since the flash crash four years ago. More than 1 million put options were written on an exchange-traded fund tracking the Nasdaq on just one day last week, the largest volume of bearish option contracts since the 2010 "flash crash" when US shares lost $862 billion in value in just a few minutes. In **Pic of the Week** we examine this trend in more detail and focus on a number of high profile US tech stocks, mostly on NASDAQ, that are leading the way in the recent sell-off in the sector.*

The Inside Track

In light of the recent weakness in the Japanese stock market and ongoing fiscal and monetary measures being implemented by Japan's prime minister Shinzo Abe, we share the current thoughts of some of the leading Japanese equity fund managers.

Legg Mason

Hideo Shiozumi of Legg Mason believes that Japan is only in the second year of a four-year bull market. Shiozumi estimated that Japanese equities would return at least 10%-15% this year and next. "If during the second half of this year the economy is not so adversely affected by the consumption tax increase and economic growth is higher than people are expecting, then of course the market could become much stronger than I am expecting." "In 2016, the fourth year of Abenomics, we should see clearer signs of [the measures] working successfully." As indicators of success, Shiozumi said he was looking for inflation to exceed 2% and a nominal GDP growth rate of more than 3%. "So I think we could see an even stronger market in 2016."

Martin Currie

According to John-Paul Temperley & Claire Marwick "We are now about to see the effect that the higher rate of sales tax will have on the Japanese economy – on both consumer spending and industrial production. Overall, we remain optimistic because of the strength of the economy going into this tax rise, the various government efforts to offset the tax rise's impact, the willingness of the Bank of Japan to undertake further monetary stimulus should it be required, and finally, the market's weakness so far this year. Our recent company contacts have thrown up interesting ideas, and on an aggregate basis, the market is cheap and can deliver good earnings growth we believe. We view the current market weakness as a buying opportunity."

Fidelity

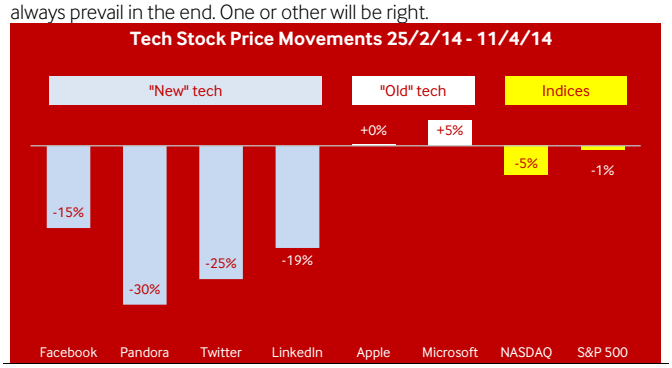
"As emerging markets have sold off and global risk appetite has diminished, the yen has strengthened, which has in turn exacerbated the extent of the fall in Japanese stocks. In terms of domestic factors, the impending consumption tax hike has increased uncertainty among investors. A certain amount of disappointment regarding the progress of Abe's third arrow – growth and reform policies – has also played a part. Despite the near-term volatility, I would stress that there has been no significant change to Japanese macroeconomic and micro fundamentals. Japan remains on the right track for long-term growth, and the recent market sell-off has created excellent stock selection opportunities."

JPMorgan

"[The "three arrows" of Abenomics] fiscal stimulus, monetary stimulus and economic reform are designed to target Japan's persistent deflation, as well as fiscal and structural issues to break the country's perpetual no-growth cycle and get the economy growing again. The first two arrows of Abenomics have had dramatic effects. The economy has returned to growth, the deflationary environment is receding, and a weaker Yen has boosted equity markets. To succeed in generating sustainable long term economic growth, further structural reforms are needed. But as the Japanese government continues to implement broad pro-growth policies this should help drive Japanese equities higher."

Pic of the Week

Things change fast in the tech space and despite their ongoing output of innovative products the likes of Microsoft, Apple, etc might be considered "old tech" compared to "new tech" such as Facebook, Twitter, Pandora, etc. A strong sell-off in recent weeks has been driven in particular by the latter category. This highlights the vulnerability of stocks priced on lofty multiples when implied growth expectations are not met, or when general risk aversion increases. To address this vulnerability traders have taken out elevated levels of put protection in recent weeks to protect against some of the "new tech" losses charted below. "New tech" bulls will see this as a decent buying opportunity, while bears will smile sagely and observe that fundamentals always prevail in the end. One or other will be right.



Week ahead: Key events

14/4 Ireland Construction PMI
14/4 EU Industrial Production
15/4 UK PPI & CPI Releases
15/4 Germany ZEW Confidence
16/4 UK Jobless Claims
16/4 US Housing Starts & Industrial Production
17/4 US Initial Jobless Claims

Market View

	Last 7 days	YTD	5Y Ann.
Global equities	-2.0%	-0.7%	+12.2%
US equities	-2.9%	-0.8%	+16.4%
European equities	-1.0%	+1.3%	+11.6%
Emerging market equities	+2.0%	+1.9%	+9.9%
Irish equities	-1.2%	+10.2%	+16.1%
Commodities	+1.5%	+8.8%	+3.9%
Hedge funds	-0.6%	+0.8%	+3.7%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+2.9%	+0.2%	-0.7%
Germany	+1.5%	+1.0%	+1.4%
USA	+2.6%	+1.1%	+2.6%
China	+4.4%	+2.4%	+7.7%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.39	+1.1%
EUR:GBP	0.83	-0.2%
EUR:CNY	8.63	+3.5%
GBP:USD	1.68	+1.3%

Commodities	*Current*	*YTD Δ*
Gold	1,321.52	+9.6%
Copper	6,659.50	-9.7%
Oil	107.22	-2.5%
Wheat	668.25	+8.4%

Central Bank rates	*Current*
Eurozone	0.25%
USA	0.25%
UK	0.50%

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