Investment Insight

Friday, 25 April 2014

ARIA | CAPITAL

Around the world in 80 seconds: *There has definitely been a bit of a shakeout this year. Markets are adapting to fundamentals to a much greater extent than in previous years when political pronouncements were more likely to cause a stock to rally than a strong set of results.*

In this week's ***Inside Track****, we do a whistle-stop survey of the thoughts of some institutional investors on themes and influences driving various market sectors so far this year.*

California Dreamin': *California's state public employee pension funds' total asset value is bigger than the GDP of Austria and is on course to exceed that of Argentina. The combined assets of the California Public Employees' Retirement System (Calpers) and the California State Teachers' Retirement System (Calstrs) is $467 billion.*

Calpers and Calstrs saw their market values rise 10% in their last fiscal year, but it's not all good news. In ***Pic of the Week*** *we take a closer look.*

The Inside Track

What are the factors that investors need to consider in this period of elevated volatility? The extracts below are indicative of the thoughts of many institutional market participants.

Gold

Jeffrey Currie and other analysts at Goldman Sachs said gold will resume a decline as US economic growth accelerates, reiterating a forecast for the metal to end the year at $1,050 an ounce. "It would require a significant sustained slowdown in US growth for us to revisit our expectation for lower gold prices over the next two years. While further escalation in tensions could support gold prices, we expect a sequential acceleration in both US and Chinese activity, and hence for gold prices to decline."

Europe

According to Argonaut's Barry Norris, as economic growth returns to the Europe they continue to be genuinely excited by the potential for a multi-year recovery in domestic European corporate profits, particularly in peripheral economies, from the current depressed levels. They are also genuinely impressed by the refreshing focus on shareholder value (cost cutting, allocation of capital) from the management in many of the companies that have survived the six year economic crisis in peripheral Europe. They will go on record as saying that they are closer to the beginning than the end of a bull market in on the bourses of the countries formally known as the "PIIGS".

The Dollar

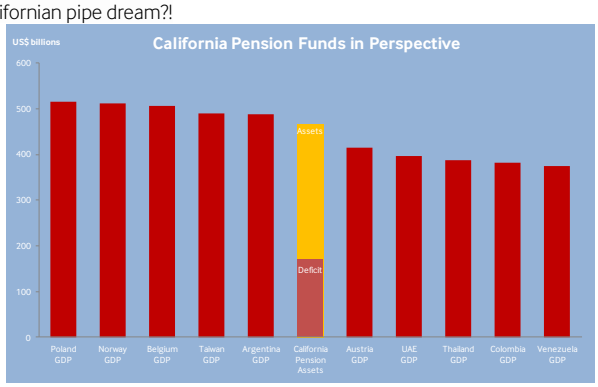
The US dollar may appreciate 20% against "pretty much everything else" by the end of next year as the world's biggest economy gathers steam, according to Hakan Kocayusufpasaoglu, CIO at Swiss hedge fund Archbridge Capital. "We'll see the dollar strengthening from the final quarter of 2014 onward, as short-term US interest rate increases approach" he said in a Bloomberg interview.

EMEA

"The EMEA opportunity remains intact" Fidelity's Nick Price said on a call this week. "Depressed valuations, triggered by poor sentiment and exacerbated by uncertainty have increased the attractiveness of certain markets. Risk assets are likely to remain volatile for the foreseeable future and certain economies will struggle to grow through 2014. In more uncertain environments, we prefer to focus on securities with lower risk of government intervention, where sustainability of their earnings is not in the hands of politicians or civil servants."

Pic of the Week

Within Calpers' and Calsters' $467 billion portfolios are about $253 billion in equities. This makes them influential players in the market. They lost more than a third of their value during the 2008/09 recession but they have recovered those losses since then. However, it's not an entirely rosy picture. Between them the funds' liabilities exceed their assets by $170 billion, meaning their equity values would need to increase by a further 67% (or the GDP of New Zealand!) without any change in liabilities just to reach solvency. A Californian pipe dream?!



Week ahead: Key events

28/04 Japan Retail Sales
28/04 US Pending Home Sales
29/04 UK GDP & EU, US Confidence Indicators
30/04 US GDP & FOMC Rate Decision
01/04 China & Ireland Manufacturing PMI
01/04 US Initial Jobless Claims
02/05 Eurozone Manufacturing PMI
02/05 US Nonfarm Payrolls

Market View

	Last 7 days	YTD	5Y Ann.
Global equities	+0.6%	+0.7%	+12.1%
US equities	+0.9%	+1.6%	+16.7%
European equities	+1.1%	+2.3%	+10.9%
Emerging market equities	-0.7%	+0.2%	+9.2%
Irish equities	-0.0%	+8.4%	+15.2%
Commodities	+0.4%	+9.9%	+4.5%
Hedge funds	+0.4%	+0.6%	+3.5%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+2.8%	+0.2%	-0.7%
Germany	+1.5%	+1.0%	+1.4%
USA	+2.7%	+1.5%	+2.6%
China	+4.3%	+2.4%	+7.4%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.38	+0.6%
EUR:GBP	0.82	-0.9%
EUR:CNY	8.65	+3.7%
GBP:USD	1.68	+1.5%

Commodities	*Current*	*YTD Δ*
Gold	1,291.40	+7.1%
Copper	6,772.25	-8.2%
Oil	110.29	+0.7%
Wheat	697.25	+13.1%

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

Suite 3, The Cubes 3
Beacon South Quarter
Sandyford
Dublin 18, Ireland

T: (+353 1) 685 4100
E: media@aria-capital.ie
W: www.aria-capital.ie

UNDIVIDED ATTENTION