Investment Insight

Friday, 9 January 2015

ARIA | CAPITAL

Surprise Surprise: *Already the year has begun to throw up more than a few shocks for investors, particularly those with high equity and oil exposures. Who knows what other shocks will be in store as the year progresses?*

In ***The Inside Track*** *we share the thoughts from Byron Wien the Vice Chairman of Blackstone Advisory Partners who provides his annual top 10 surprises for the year ahead.*

The swinging 40s: *The price of a barrel of oil moved into the $40s this week, falling to its lowest level since 2009. The fall has been accompanied by some of the biggest daily price swings in two years, as evidenced by the CBOE Crude Oil Volatility Index (measures oil price fluctuations using options of the US Oil Fund) which this week reached its highest level since October 2011.*

In ***Pic of the Week*** *we take a look how the price of oil behaved since just before the last major price drop and consider who the winners and losers might be.*

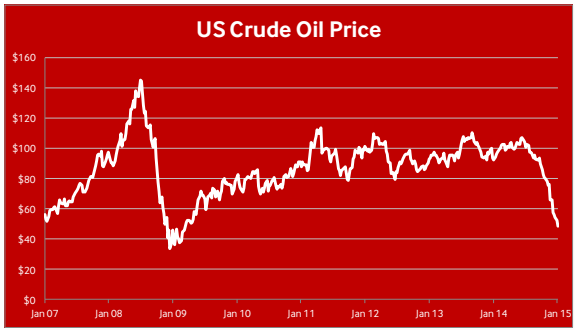
The Inside Track

This is the 30th year that Blackstone's Byron Wien has issued his list of surprises for the year ahead. He defines a "surprise" as an event that the average investor would only assign a one out of three chance of taking place but which he believes has a better than 50% likelihood of happening. While highly respected, Wien's prediction track record is far from perfect! The following are extracts from his 2015 predictions.

1) The Federal Reserve finally raises short-term interest rates, well before the middle of the year. The end of monetary accommodation and rising rates precipitate a correction in equities. Long-term Treasury rates stay where they started and the yield curve flattens.
2) Our luck runs out on cyber terrorism. Hackers invade the personal and corporate accounts of a major money centre bank and the Federal Reserve orders the institution to suspend transactions for five business days while the accuracy of its balances is verified.
3) The year-end 2014 rally in United States equities continues as the market rises for a strong performance in 2015.
4) Mario Draghi finally begins to expand the balance sheet of the European Central Bank aggressively by buying sovereign debt, mortgages and corporate bonds. In spite of this expansion, Europe falls back into a serious recession.
5) Shock and awe no longer works in Japan. The recession which began in the third quarter of 2014 continues throughout 2015 in spite of further fiscal and monetary stimulus and the suspension of the second planned sales tax increase. The Nikkei 225 is flat for the year in yen and down in dollars.
6) China reports that it is no longer growing at 7% and that more fiscal and monetary stimulus is needed to grow at even 5% and to prevent a hard landing.
7) The drop in the price of oil finally has an impact on Iran. The economic weakness resulting from the unexpected decline in oil finally forces a conciliatory attitude on the part of its nuclear negotiators.
8) Brent slips into the $40s. The low price of crude oil, which continues throughout the first part of the year, has a major impact on Russia. President Putin resigns by year-end. During the second half of the year, West Texas Intermediate and Brent crude are both above $70.
9) The year-end 2014 meltdown in the high yield market, as a result of the collapse in the price of oil, creates a huge buying opportunity.
10) The Republicans decide to position the party as the one that can get something done in Washington. They want desperately to hold the nation's highest office and they see Jeb Bush as a winner for them.

Pic of the Week

The price of oil has been in most economic headlines recently as it fell dramatically to levels not seen in five years. The economic and geo-political implications are potentially significant and it may prove to be one of the dominating features of markets in 2015. The chart below shows just how significant the fall is in the context of oil prices over the past 6 years. While the low price may be quite beneficial to manufacturers in oil importing countries, investors will be wary of the implications for US employment and GDP as increasing numbers of rigs are rendered unviable.



Week ahead: Key events

12/01 Japan Current Account Balance
13/01 UK CPI
14/01 EU Industrial Production & US MBA Mortgage Applications
14/01 US Retail Sales & Japan Machine Orders
15/01 EU Trade Balance
15/01 US Empire Manufacturing & Initial Jobless Claims
16/01 US CPI & Industrial Production
16/01 US University of Michigan Sentiment

Market View

	Last 7 days	YTD	5Y Ann.
Global equities	-0.1%	-0.1%	+7.6%
US equities	+0.2%	+0.2%	+12.5%
European equities	+0.3%	-0.1%	+5.3%
Emerging market equities	+0.5%	+0.3%	-1.2%
Irish equities	-1.6%	-1.6%	+10.8%
Commodities	-0.1%	-0.5%	-6.1%
Hedge funds	-0.6%	-0.6%	+0.7%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+1.4%	+0.1%	+3.5%
Germany	+0.5%	+0.2%	+1.2%
USA	+2.0%	+1.3%	+2.7%
China	+3.6%	+1.5%	+7.3%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.18	-2.5%
EUR:GBP	0.78	+0.7%
EUR:CNY	7.33	-2.9%
GBP:USD	1.51	-3.1%
Bitcoin	286.29	-9.8%

Commodities	*Current*	*YTD Δ*
Gold	1,212.48	+2.3%
Copper	6,175.75	-3.0%
Oil	51.05	-11.0%
Wheat	563.25	-4.5%

Central Bank rates	*Current*
Eurozone	0.05%
USA	0.25%
UK	0.50%

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

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

UNDIVIDED ATTENTION