Investment Insight

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ARIA | CAPITAL

Technical tealeaves: *Reaction by investors to the ECB's QE announcement, the Greek election, a weakening Euro and lower oil prices all points to a continuation of the raised volatility that markets experienced in the final months of 2014. This type of environment could prove a rich hunting ground for active managers of both long-only and long/short strategies. The backdrop for European equities is also stronger than it has been for some time.*

"Technical analysis" always provides a useful perspective to validate qualitative research, so, does the technical analysis support these expectations? In this week's ***Inside Track*** *we look at the highlights from Fidelity's Jeff Hochman's latest reading of the tealeaves.*

Fruitful expansion: *It was announced this week that Apple planned to sell $5 billion of bonds in what will be its 4th debt offering in the past two years.*

The company has issued the equivalent of $32.5 billion of bonds since April 2013, when it sold $17 billion in what at the time was the biggest corporate-bond offering ever.

Why would a company with such a significant cash pile ($158 billion and rising) resort to debt markets to raise cash? ***Pic of the Week*** *considers the reason.*

The Inside Track

Jeff Hochman is Director of Technical Analysis at Fidelity and a member of Fidelity's Asset Allocation Group. The following are some of the highlights from Jeff's latest technical analysis of investment markets.

The long-term US secular bull market will be tested this year
If market gains continue this year, it could become the second-longest US bull market in the last 85 years. Importantly, there is a decennial effect where US equities have displayed positive gains in every year ending in the number 5 since 1885, so why should the running streak end now? Also, the third year of the US presidential cycle can often be the best-performing out of a four-year term. That said, US market momentum has definitely slowed, so we should keep a close eye on consensus positions like being long the dollar and overweight US equities.

Europe challenging US outperformance
The ECB's confirmation that it will purchase more than €1 trillion worth of government and corporate bonds over the next 18 months is positive for risk assets in particular in the Eurozone, similar to what occurred in Japan and the US post their QE announcements. European ex-UK equities are favourably valued versus their US counterparts and the euro's comparative weakness against many major trading currencies is a boon to many of Europe's export focused quality brand names. Despite outflows from European equities in 2014, the tide may have turned and they may now be a good destination for the considerable cash waiting on the side-lines in Europe as well as in the US.

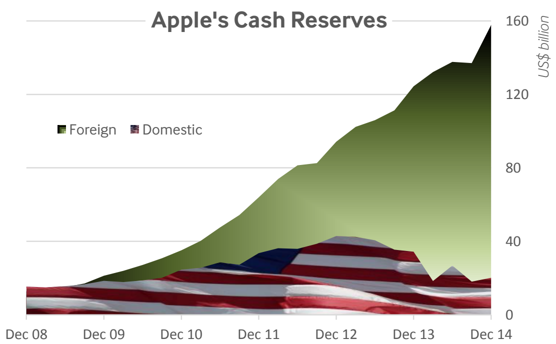
Risk asset flows – flight to quality and safety
There is a great weight of cash on the side-lines – global money market funds attracted $106 billion worth of inflows in 4Q of 2014 alone. Together with inflows into developed market equity and investment grade funds, these reflect today's somewhat defensive positioning. During Q1 2015, we expect to see more outflows from high yield bonds to investment grade bonds and we expect more inflows into developed market equity inflows compared to emerging market equity.

How low can bond yields go?
A rush for perceived safe havens has pushed the shorter end of many European countries' yield curves into negative territory, and we can expect to see even more of this going forward – in essence, you pay for the privilege of lending money to governments. This includes Austrian five-year, Finnish five-year, German five-year, and Swiss 10-year bonds. There are dwindling yields elsewhere too – this trend of declining yields has generally confounded analyst and strategist predictions. The 30-year US long bond is now at its lowest yield ever – at just under 2.4%.

Is the oil price likely to reverse?
As the price of oil continued its precipitous fall into 2015 we are now in contango, where the current or spot price of oil is higher than the future price. The market is about as oversold as it was in 2008/09 when after a near 75% decline, the price of a barrel of Brent crude oil hit a floor of $38. Although patterns usually do not repeat themselves exactly, we could see something very similar in Q1 as price action is becoming more erratic, so we could see a near-term bottom forming that could lead to at least a partial bounce in the next few months.

Pic of the Week

Apple's balance sheet shows clearly that it has more cash than it knows what to do with. About $178 billion in fact, or well over $500 for every man, woman and child in the USA. So why then is it issuing debt when it's so awash with cash? Well, as the chart shows, virtually all of Apple's recent cash growth took place outside the USA, accelerated by the enthusiasm of Chinese consumers for its products. If Apple repatriates the cash it will be liable for US taxes on it, so raising money in the bond markets is considerably more cost effective.



Market View

	Last 7 days	YTD	5Y Ann.
Global equities	+1.6%	+2.1%	+9.8%
US equities	+2.0%	+0.2%	+14.1%
European equities	+1.0%	+8.8%	+9.0%
Emerging market equities	+2.1%	+2.7%	+1.8%
Irish equities	+1.8%	+7.1%	+14.1%
Commodities	+2.3%	-1.1%	-4.0%
Hedge funds	+0.2%	+0.0%	+1.1%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+1.2%	-0.3%	+3.5%
Germany	+0.4%	-0.3%	+1.2%
USA	+1.8%	+0.8%	+2.5%
China	+3.4%	+1.5%	+7.3%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.15	-5.2%
EUR:GBP	0.75	-3.7%
EUR:CNY	7.15	-5.2%
GBP:USD	1.53	-1.6%
Bitcoin	220.13	-30.6%

Week ahead: Key events

09/02 Ireland Construction PMI
09/02 EU Sentix Investor Confidence
10/02 China CPI
10/02 UK Industrial & Manufacturing Production
11/02 US Mortgage Applications
12/02 EU Industrial Production
12/02 Ireland Bond Auction
12/02 US Retail Sales & Initial Jobless Claims
13/02 UK Construction Output & EU GDP
13/02 US University of Michigan Sentiment

Commodities	*Current*	*YTD Δ*
Gold	1,267.93	+7.0%
Copper	5,743.50	-9.8%
Oil	57.93	-0.5%
Wheat	528.00	-10.5%

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

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