Investment Insight

Friday, 10 April 2015

ARIA | CAPITAL

Slow down you move to FAST: *European stock markets rose for the third month in a row in March and most countries posted strong returns, with Denmark and Spain leading the way. After such a strong start to the year a market correction would not be unreasonable.*

With this in mind we thought it might be interesting to hear the thoughts of Fidelity's European Equity star performer, Anas Chakra, on how he is currently positioning his portfolio. Anas manages the FAST Europe Equity Fund and in this week's ***Inside Track*** *we share his views.*

Spread 'em! *It appears that investors have fallen out of love with emerging markets (again!) as is evident from the $1.7 billion that was withdrawn from the two largest emerging market ETFs during the first two months of the year.*

However, perhaps more so than in times past, "emerging markets" is not at all a homogenous universe – there's "good EM" and "bad EM". That said, at a high level a considerable spread has opened up between the PE ratios of developed and emerging markets. While this may suggest EM is (relatively) cheap, if you go back 20 years the spread was significantly larger. If you invest in the spread be prepared for a bumpy ride! In ***Pic of the Week*** *we take a closer look.*

The Inside Track

The Fidelity FAST Europe Fund outperformed its benchmark in March, returning 3.7% vs. MSCI Europe's 1.7%. The fund continued a strong run of absolute and relative performance and is now up 21% YTD, vs. 18% for the index. The following extracts from fund manager Anas Chakra's recent commentary (on the March outturn) are an interesting insight into current positioning of the fund and his expectations for European equity markets.

Commodities were weak, with both oil and mining stocks tracking commodity prices lower (Brent was down 13%). In the month that saw the start of ECB QE, the US$ was a big winner, rising by 4% against both the euro and sterling. Autos stocks and banks rose by c.5%, closely followed by the healthcare sector.

Healthcare remains our largest overweight. We like the relatively stable cash flows of these companies, their lack of business cycle sensitivity, and the business model diversification they provide. We continue to have large positions in Swiss pharma names Roche and Novartis and smaller positions in Sanofi and Novo Nordisk as well as a US health insurer and a US PBM (pharmacy benefit manager). Valuations remain attractive, and upside optionality is significant given exciting new drugs pipelines.

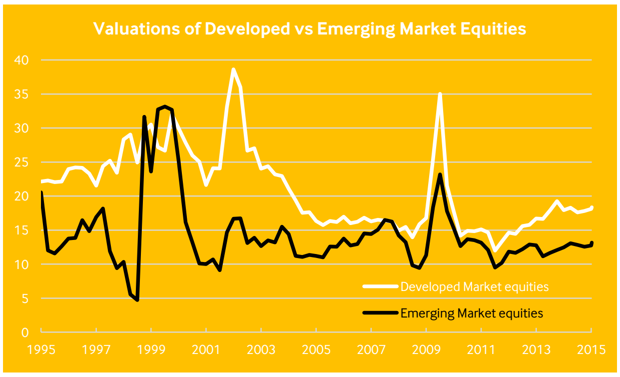
In Materials, we remain cautious on supply/demand dynamics in the iron ore space given significant new supply coming online over the next few years and slowing demand from China. We are more positive on metals such as zinc and copper where supply/demand dynamics are more favourable. We have short positions in iron ore producers that operate at the higher end of the cost curve and have significant company-specific challenges.

Positioning in Financials detracted. We remain cautious on Eurozone financials and feel the sector's positive performance since the QE announcement is unjustified – while low interest rates certainly reduce deposit costs, they also reduce returns on loans and securities portfolios. A reduction in sovereign spreads will also impact NIMs. Our focus remains on non-euro banks in the UK, Scandinavia and the US where risk/reward is far more attractive in our view.

In Consumer Discretionary, VW was the standout performer. The sector as a whole performed well on Chinese stimulus and perceived benefits from the weak euro. Despite strong recent performance we continue to see upside as the valuation remains reasonable and group profitability will be sustained ongoing strength in China and a reacceleration of profits from Audi. We have taken profits in WPP following a strong run and also in some of our luxury exposure.

Pic of the Week

The chart below illustrates the P/E spread between the MSCI World Equity Index and the MSCI Emerging Market Index. While the valuation gap may suggest considerable value in Emerging Markets versus developed, this spread has been wider in recent history. While this shows the "big picture", once we drill down a bit it becomes clear that an active rather than a passive approach to EM investing is essential, as not all Emerging Markets are equal.



Market View

	Last 7 days	YTD	5Y Ann.
Global equities	+1.8%	+6.6%	+8.3%
US equities	+1.5%	+1.6%	+11.9%
European equities	+2.8%	+19.2%	+8.3%
Emerging market equities	+3.5%	+7.6%	-0.3%
Irish equities	+3.6%	+19.4%	+13.4%
Commodities	-0.7%	-5.1%	-6.0%
Hedge funds	+0.8%	+2.8%	+1.1%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+0.7%	-0.6%	+4.1%
Germany	+0.2%	+0.3%	+1.4%
USA	+2.0%	0.0%	+2.4%
China	+3.7%	+1.4%	+7.3%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.07	-11.8%
EUR:GBP	0.73	-6.6%
EUR:CNY	6.63	-12.1%
GBP:USD	1.47	-5.5%
Bitcoin	241.58	-23.9%

Commodities	*Current*	*YTD Δ*
Gold	1,196.97	+1.0%
Copper	6,015.00	-5.5%
Oil	56.70	-5.8%
Wheat	518.00	-13.3%

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

Week ahead: Key events

13/04 Ireland Construction PMI
13/04 Japan Machine Orders
14/04 UK CPI & Retail Price Index
14/04 EU Industrial Production
15/04 China GDP & Industrial Production
15/04 US Industrial Production & Empire Manufacturing
16/04 US Housing Starts & Initial Jobless Claims
17/04 UK Employment & EU CPI
17/04 US CPI & Leading Index

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