



Investment Insight

Friday, 14 April 2017

Re-cap: with Q1 now behind us, we thought it might be useful to briefly re-cap on what 2017 has given us so far and what potentially lies ahead. Needless to say, the world is an uncertain place; however, opportunities will present themselves.

This week's **Inside Track** shares the thoughts of Aviva's investment teams and provides some insight into the various themes investors' should be considering.

Diversification, diversification, diversification: and yet some people still don't get the message as this week's **Pic of the Week** illustrates.

Happy Easter!

Quoted...

"If you aim at nothing, you will hit it every time."
- Zig Ziglar

The Inside Track

Each quarter, Aviva Investors compiles a comprehensive analysis of the views and expectations of each of its investment teams. The following excerpts provide a good summary of the quarter just ended together with some suggestions as to what lies ahead.

Markets have remained very calm

What a difference a quarter can bring. As we entered 2017 investors fretted about the looming challenges and unknowns that faced the markets, and yet, somehow asset prices ground out new highs. Investors seemed to shake off their worries swiftly, volatility dropped and little seemed to bother the market for more than a brief moment. Elections in Holland restored investors' faith that the world order has not changed everywhere and that the apparent onward march of nationalistic politics might not be unstoppable. While investors seemed to have wholeheartedly embraced the new world, there are still some signs that all might not be well. Nine months after the referendum decision, the phoney war is over and Britain has delivered its letter to Brussels. Donald Trump has stumbled at his first attempt at legislative change and yet standard measures of risk tell us the world is a safe place.

European Equities are attractive

We take a somewhat different view in the Eurozone. We find equities still attractive in valuation terms (the weight of financial stocks certainly helps), while sovereign bonds and also credit markets are in our view offering poorer risk-reward profiles going forward. Indeed, given the ECB has probably reached maximum easing and is likely to be looking towards exit strategies later this year, as the underlying economy seems to be improving, we strongly prefer owning equities versus sovereign fixed income and credit in Europe. Indeed, depressed sentiment, international positioning, valuation, and potential for earnings re-rating mean we continue to strongly overweight European equities. We think European equities offer the best expected return on a one-year horizon, with risks on the volatility outlook. Our central view is that populist parties may increase their share of the vote, but will not win any major election in the Eurozone. Italy and France are the greatest risk to that outlook.

Investors are slowly pricing out deflation

Investors are climbing a wall of worry. A pretty high wall, but we think we are close to seeing the top of it. Fundamentals are improving, investors' mind-sets are slowly moving away from short-termism and political noise, and the focus is back on globally-improving economic news flow. While we still consider it a downside risk to the outlook, we do not expect the global economy to head down the path of long-term secular stagnation. Beginning in the second half of last year, we think the market has finally started to price in a more positive global outlook, with fixed income markets in particular starting to move away from the mind-set of deflation that has dominated in recent years.

Debt levels are high around the world

After almost a decade of exceptionally low policy interest rates around the world, provision of credit to the private sector has expanded sharply in some economies (e.g. Canada, Australia, China and other emerging markets) while others – mainly those who saw a sharp increase in credit prior to the financial crisis – have deleveraged. With global rates rising, albeit slowly so far, there is likely to be a renewed focus on which economies will be most vulnerable. Household balance sheets are particularly stretched in those which have experienced property booms, such as Canada and Australia. In the US, where overall the private sector has de-leveraged in the past decade, that reflects improving household balance sheets, with corporates taking on significantly more debt over that period. While rates remain low, the cost of servicing these debts will remain manageable. However, a surprise increase could uncover more serious problems.

Pic of the Week



"I think we both know what the problem is."

Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	-0.3%	+12.9%	+4.7%	+9.0%
US equities	-0.8%	+12.3%	+4.5%	+11.3%
European equities	+0.3%	+11.6%	+5.4%	+8.1%
EM equities	-0.5%	+13.5%	+11.1%	-1.4%
Irish equities	+0.2%	+6.5%	+2.7%	+16.0%
Commodities	+0.5%	+3.6%	-1.5%	-9.2%
Hedge funds	-0.1%	+6.5%	+1.6%	+1.5%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+0.9%	+0.7%	+7.2%
Germany	+0.2%	+1.6%	+1.7%
USA	+2.2%	+2.7%	+2.0%
China	+3.3%	+0.9%	+6.8%

Week ahead: Key events

17/04 UK House Prices
17/04 China GDP & Industrial Production
18/04 China Property Prices
18/04 US Housing Starts & Production Data
19/04 Eurozone CPI & US Mortgage Applications
20/04 Eurozone Construction Data
20/04 US Jobless Claims & Consumer Confidence
21/04 Japan & Eurozone Manufacturing PMI
21/04 UK Retail Sales
21/04 US Existing Home Sales & PMI Data

Currencies	<i>Current</i>	<i>YTD Δ</i>
EUR:USD	1.06	+1.0%
EUR:GBP	0.85	-0.6%
EUR:CNY	7.33	-0.2%
GBP:USD	1.25	+1.4%
Bitcoin	1,170.81	+23.0%

Commodities	<i>Current</i>	<i>YTD Δ</i>
Gold	1,287.00	+11.7%
Copper	5,601.25	+1.4%
Oil	55.66	-4.8%
Wheat	443.75	+2.2%

Central Bank rates	<i>Current</i>
Eurozone	0.00%
USA	1.00%
UK	0.25%

66 Fitzwilliam Square
Dublin 2
D02 AT27
Ireland

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

UNDIVIDED ATTENTION

Important Disclosure. Aria Capital Limited is regulated by the Central Bank of Ireland. Financial data provided by Bloomberg. All values are indicative only. This Investment Insight has been prepared for information purposes only. It does not constitute investment advice or an offer to buy or sell securities. No investment decisions should be made without seeking appropriate professional advice. This document may not be reproduced in whole or in part without Aria Capital's permission. © Aria Capital Limited 2017. All rights reserved.