Investment Insight

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ARIA | CAPITAL

All good things: *February 2018 will do down in history as them month that the quaint old phenomenon that investors used experience but thought was gone for good, finally returned. Yes, volatility came back, and announced its return with a bang.*

Having averaged just over 11 from the start of 2017 until the end of January 2018, the VIX averaged 22 in February and briefly spiked over 50 on February 6th – a level it hasn't closed above since 2009. Events that preceded the spike in volatility, namely some better than expected inflation data and subsequently higher bond yields, also continued into February. The result was weak performances in many asset classes and many markets. In this week's ***Inside Track*** *Deutsche Bank's Jim Reid summarises how the month played out.*

Sell, Sell, Sell: *We might have used this week's* ***Pic of the Week*** *before, but in the week that's in it nothing else would do!*

Quoted...

"A great, great deal has been said about the weather, but very little has ever been done." – Mark Twain

The Inside Track

Well known amongst investors for his 6am daily updates which typically combine market research with domestic anecdotes, Deutsche Bank's Jim Reid is widely, ahem, read. The following is his useful synopsis of February 2018, the month an old sparring partner – volatility – returned.

Unsurprisingly it was equity markets which notably underperformed in February with 13 of the 15 equity bourses we track finishing in negative territory. The S&P 500, while actually outperforming most other DM equity markets, ended the month down -3.7% and finally snapped its run of 15 consecutive positive monthly total returns. Last month was the worst month for the S&P 500 since January 2016. The biggest declines for equity markets however were in Asia and Europe. The Shanghai Comp and Hang Seng declined -6.4% and -6.0% in local currency terms, respectively. In Europe the DAX (-5.7%) also suffered its worst month since January 2016. The IBEX (-5.8%), FTSE MIB (-3.8%), Greek Athex (-4.9%), Stoxx 600 (-3.8%) and FTSE 100 (-3.4%) also fell during the month. Despite being considered higher beta, the relative performance of the FTSE MIB versus the DAX perhaps reflected confidence ahead of the Italian election this month. Interestingly two of the strongest performers in February were also equity markets with Brazil's Bovespa (+0.5%) and MICEX (+0.3%) up modestly.

Meanwhile, after bond yields rose steeply through January, moves were a bit more sideways through February notwithstanding some notable daily swings. Returns as a result were fairly benign. Treasuries (-1.0%) were the biggest underperformer, while in Europe Bunds (+0.2%), BTPs (+0.3%) and Spanish Bonds (-0.1%) were little changed along with Gilts (+0.3%). For credit, however, wider spreads as a result of the volatility spike meant returns were for the most part negative. In the US returns were in the range of -0.9% (HY) to -1.6% (IG Non-Fin). In Europe higher beta HY and Fin Sub returned -0.7% and -0.8% respectively, while IG and Fin Sen ended flat. Finally commodity markets were largely a sideshow during the month. Interestingly there was little evidence of a safe haven bid for Gold, with the precious metal down -2.0%, while Silver declined -5.3%. WTI (-4.8%) and Brent (-5.6%) Oil also fell, while soft commodities including Wheat (+7.2%) and Corn (+3.6%) were the strongest performers during the month.

Quickly recapping YTD performance now. Following February's correction, performance across assets is a bit more balanced with 17 out of the 39 assets holding onto a positive total return in local currency terms, and 26 in USD terms. Wheat (+13.5%), the Bovespa (+11.7%) and MICEX (+8.9%) lead the way, followed by Corn (+6.8%) and Greek Athex (+4.2%). Notably the S&P 500 is still +1.8% YTD, however in Europe the big falls in February means the Stoxx 600 (-2.2%) and DAX (-3.7%) are now negative. Sovereign bond markets are in a +0.9% to -2.4% range with Europe outperforming Treasuries while credit markets are lower across the board, however with Europe also outperforming the US.

Pic of the Week

Week ahead: Key events

05/03 Eurozone, US & Japan PMI Data
05/03 Eurozone Retail Sales
06/03 US & UK Retail Sales
07/03 UK House Prices
08/03 ECB Interest Rate Announcement
08/03 US Initial Jobless Claims
09/03 Japan Monetary Policy Decision
09/03 UK GDP Estimates & US Employment

Market View

	Last 7 days (€)	Last 12 mths (€)	YTD (€)	5Y Ann. (€)
Global equities	-0.5%	+1.5%	-1.8%	+11.8%
US equities	+0.1%	+1.4%	-0.6%	+15.0%
European equities	-1.3%	+4.0%	-3.8%	+8.3%
EM equities	-1.2%	+13.0%	+1.2%	+5.7%
Irish equities	-1.6%	+2.1%	-5.0%	+12.2%
Commodities	+0.5%	-10.4%	-1.7%	-7.7%
Hedge funds	-0.8%	+1.0%	-0.8%	-0.8%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.2171	+1.4%
EUR:GBP	0.8860	-0.3%
EUR:CNY	7.7346	-0.9%
GBP:USD	1.3738	+1.7%
Bitcoin	10,525	-27.4%

Commodities	*Current*	*YTD Δ*
Gold	1,304.31	+0.1%
Copper	6,952.00	-2.9%
Oil	64.72	-5.0%
Wheat	481.75	+12.9%

Central Bank rates	*Current*
Eurozone	0.00%
USA	1.25%
UK	0.25%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+1.1%	+0.2%	+7.2%
Germany	+0.6%	+1.6%	+2.9%
USA	+2.9%	+2.1%	+2.2%
China	+2.0%	+1.5%	+6.8%

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