June 2017

Odds on a major correction remain at bay

- Currencies have a strong impact on equity markets
- Europe powers ahead
- Solid sentiment with occasional signs of euphoria

Although global stock indices were unable to sustain their mid-June historical highs right up to the end of the month, dividend-bearing securities finished the quarter with solid price gains. However, there is now a far greater degree of selectivity in equity markets. The shares of European exporters in particular came under mounting pressure during June. For once, this development was the result of good news, rather than bad. In June the chairman of the European Central Bank (ECB) surprised many market players with hints at a policy U-turn, by making increasingly positive comments on the Eurozone's economic performance. By contrast, the latest macroeconomic data coming out of the USA appeared to be weaker than expected on the whole. This prompted a narrowing of the yield gap between US Treasuries and their European counterparts. As yields rose, the euro gained almost 3% against the US dollar, making European goods more expensive in the process. The EuroStoxx posted a loss of 2.61% in local currency terms. As the dollar's weakness against the Swiss franc was not as pronounced, the drop in the Swiss Performance Index was only 1.18%. The main US stock index, the S&P 500, benefited from the weaker US dollar and finished the month with a modest gain of 0.48%.

Europe powers ahead

The data published in June showed a slight improvement in ENISO's fundamental indicator. As a result, equities have become a much more attractive investment once again. The slight easing of inflationary pressure both overseas and in Europe supported the recovery of the sub-indicator "Monetary Environment", which had recently been under pressure. From a "Valuation" perspective equities overvaluation softened. In short, both effects encouraged a rise in the fundamental overall indicator. The sub-indicators "Consumption" and "Industry" both fell back slightly. Above all, the latest developments in the USA hint at a slowdown in the real economy, while in Europe both the manufacturing industry and consumption seem to be steadily gathering momentum across a broader front.

Geopolitical environment: US inflation already showed signs of easing off in the previous month. This was clearly reflected in the ISM purchasing managers index, where the price component decreased from 68.0 to 60.0. The price level in industry is therefore continuing to rise, but far less quickly than it did a few months ago. There was even a slump in the equivalent indicator for the service sector. The price index dropped from 57.6 to 49.2, signalling a price decline at current levels. This development overshadows the mounting inflationary pressure in Europe and is helping the sub-indicator "Monetary Environment" to rise slightly over the space of a month. Based on the monetary component, equities have therefore become more attractive again.

Industry: The most recently published data series highlight the growing difference between the performance of the USA and Europe. While Europe's manufacturing industry is steadily gathering momentum, America's industrial sector is starting to falter. The weak performance of the USA is pushing the sub-indicator lower, but it remains supportive of equities.

Consumption: The current political turmoil in the USA seems to be souring the mood of US consumers. A number of data series signal a slowing pace of consumption. The surveys of consumer sentiment, which are a key indicator of future consumption, are also showing no signs of an imminent recovery. By contrast, Europeans seem to be much more willing to spend, resulting in a sharp increase in retail sales. In France, consumer sentiment in June climbed to its highest level since 2007. The slight drop in the sub-indicator in June is attributable to end-consumers in the USA, the main engine of the global economy. But it is still not providing a clear buy signal for equities.

Valuation: The overvaluation of equity markets eased slightly during June. Corporate earnings growth proved to be stronger than share price increases. Both the USA and Europe contributed to the improvement. Japanese equities look once more attractive from a valuation perspective. On the whole, equities remain in expensive territory by historical standards.

Solid sentiment with occasional signs of euphoria

Three of the five indicator groups that make up ENISO's Risk Appetite indicator deteriorated in June. The biggest drop was in the sub-indicator "Surprise Effect", which is generated a sell signal for equities for the first time since April 2016. News of positive surprises from the US economy have become scarcer in recent weeks, prompting analysts to be more cautious about their forecasts for future earnings growth at corporate level. The other components continue to move in share-friendly territory. The sub-indicator "Market Risk"

Risk appetite indicator: Positive outlook despite minor hiccups

	Number of Indicators	***Current Signal***	*1 Week*	*1 Month*	*3 Months*
MONEY FLOW	*31*	Buy	↗	↘	↘
SURPRISE EFFECT	*17*	Sell	↘	↘	↘
MARKET BREADTH	*24*	Buy	↘	↘	↘
HEDGING DEMAND	*7*	Buy	↘	↗	↗
MARKET RISK	*37*	Buy	↗	↗	↗
OVERBOUGHT / OVERSOLD		Neutral			
RISK APPETITE INDICATOR	***116***	**BUY**	↘	↘	↘

has moved, showing an increase on a weekly, one-month and three-month view. This strength is not only down to reduced volatility in the interest-rate and currency markets, but is especially due to the healthy expansion of the P/E ratio. Investors are increasingly prepared to pay for the higher valuations of equity markets, expressing greater optimism regarding companies' future earning power. The environment for equities is still solid as far as market psychology is concerned. The only note of caution is sounded by the slight distortions in individual market segments and a certain lack of direction in equity markets, which could lead to a change in the market psychology signal.

In summary: the environment remains positive for equities both from a market psychology and fundamental perspective, and a substantial correction currently seems an unlikely prospect.

Your Contact at Amplia & Co. AG

Mikael Rosenius
Claridenstrasse 34
CH-8022 Zurich
Tel. +41 44 286 17 41
mikael.rosenius@amplia-co.com

Jennifer Erdin
Claridenstrasse 34
CH-8022 Zurich
Tel. +41 44 286 17 42
jenny.erdin@amplia-co.com