Market comment
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By Igor de Maack
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"All economic areas are converging towards more moderate growth, but still sustained by central banks concerned about the exchange rate situation"

Economies worldwide are slowing down to reach a more moderate growth pace. The decline in world trade as well as trends in commodities prices are the two most visible signs of this: exchange rates and oil have thus now become risk perception indicators. Unless corporate profits increase, it is difficult to foresee an acceleration in performances on the equity markets, in either the US or in Europe. Forthcoming electoral and political events are set to spark off peaks of volatility over the months ahead, creating a context that will not be particularly favorable to investment.

All economic areas are converging towards a slower pace of growth. China has been slowing for more than four years. Some statistics (electricity use, confidence indicators, real estate prices) point to much weaker economic growth than suggested by the ambitious 6.9% announced by the Chinese authorities. Meanwhile, growth in the US has stabilized at around 2-2.5%, dragged down by the negative effects of a persistently strong dollar. Lastly, Europe does seem to have embarked on a true recovery, but this rebound still remains fragile (1.5%) and growth figures could be revised down in the event of a fresh external shock. For the moment, the Eurozone is still enjoying the most positive context: abundant monetary liquidity, low interest rates, falling unemployment, cheap oil, current account surpluses.

Political risks have increased but international institutions are now well aware of them. Janet Yellen's speech took this on board as she delayed the future rate hike on the grounds of an unstable and complex world context. This clever handling allowed for a decline in the dollar, which will benefit US corporates and emerging markets. Meanwhile, a number of electoral and political events are coming up: presidential elections in the US, possible impeachment of Dilma Rousseff in Brazil, Brexit referendum, formation of a government in Spain, renegotiation of Greek debt. Investors are particularly sensitive to political risk in Europe following the crisis in 2011, especially since the rise of

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populist parties in France, Spain and Italy. However, governance in the zone, while not perfect, is still of higher quality than in some emerging countries.

Monetary policy remains accommodating but is not always a resounding success. Since 2008, all the main central banks worldwide have stepped in to support the underlying economies with broadly similar moves: cut back the cost of funding and promote bank financing. The results of these various policies are less even across the board: vast success in the US as the economy staged a recovery and unemployment decreased, compared with near-failure in Japan where growth and inflation are stagnating, and uncertainties in Europe, which is bogged down by its differences and internal rigidities. Even a similar monetary policy would not be implemented in the same way across economies with different structures. The economy targeted by the monetary policy must be flexible and efficient in terms of circulation, use and return on capital employed. This is certainly not the case for China or Japan. Europe has put in the work, but the pace of efforts is too slow. For the moment, monetary policy has had immediate effects on exchange rates.

The European equity markets offer a twofold advantage: they provide capital gains, while carrying stocks for a length of time offers generous dividend yield (3-3.5%). Given interest rates in the US and Europe, investors can no longer invest the majority of their assets in purely bond-based strategies alone in order to avoid disappointments and volatility. If the inflationary scenario gathers speed in the US, the pace of short-term rate hikes may accelerate, which is not what the markets currently expect. In the Eurozone, weak yields have a negative impact on private income. European equity valuation levels are deceptive, as they may look pricey to pessimists who foresee the end of the world, but see like good value for optimists who are hoping for earnings growth for companies across all sectors. The truth probably lies somewhere between the two, so it is vital to be careful when selecting equity investment themes, by favoring domestic sectors in Europe and sectors that carry discounts to their valuations. US equities already seem to have fulfilled a good deal of their upside potential, after a record series of positive years. After months of purgatory, emerging market equities, along with commodities, are beginning to find favor with investors once more. However, these countries will need more positive worldwide growth momentum.

Text completed on April 8, 2016 by Igor de Maack, spokesperson for DNCA Investments' fund management team.

About DNCA:

DNCA is a French asset management company set up in 2000 by wealth-management specialists acting on behalf of private and institutional investors. With a defensive slant, the company seeks to optimize the risk/return ratio on its portfolios. With a team of more than 92 staff, DNCA has developed expertise in European and international equities (long only and absolute return), diversified fund management, convertible bonds and Eurozone bonds. The quality of the company's investment management, which regularly wins awards from the financial press, has enabled the company to enjoy swift growth over the past fifteen years. AUM currently stand at €18.9bn (as at 12/31/2015).

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