4.5 per cent

The MSCI World index is currently only 4.5 percentage points below its all-time high, thanks to the recovery achieved since the beginning of 2019

The rally

Stock exchanges near maximums, but managers stay on guard

Andrea Franceschi - *on page 5*

Stock exchanges close to maximums, but managers unimpressed

Abnormal rally. Positive market despite 79 billion euro outflows from equity funds:
central banks and buybacks in the United States have played in favour of prices

Andrea Franceschi

Just 4.5 percentage points separate the MSCI World global stock market index from its all-time high in January last year. Positive figures that clash, however, with the context of uncertainty for the prospects of the global economy and a market little inclined to gamble on equity. Since the beginning of the year, according to EPFR Global, equity funds have recorded as much as $79.3 billion in redemptions worldwide. Large caps seem uninclined to appreciate shares as much of bonds (86.4 billion subscriptions since the beginning of the year for bond funds), highly popular since the expansion of central banks. But this portfolio switch has not penalised the stock market that much, which has recovered 18.7% since the lows before Christmas 2018.

Reasons for the rally

The fact that the market has fared so well despite capital outflows is quite abnormal. It is, however, also a fact that the stock exchanges lost a lot in the last quarter of 2018 (Wall Street recorded losses of almost 20% from highs to lows) and that a recovery was bound to happen. The Fed's decision to "freeze" the planned rate increase for this year has also greatly reduced price volatility and favoured risk appetite.

In short, several factors have contributed to the price recovery. Among these there is also the fact that a large number of companies took advantage of the correction at the end of 2018 to stock up on treasury shares at discount prices (global buyback transactions are estimated at $286 billion since the beginning of the year). Looking to the future, however, there is a lack of optimism among those in the business. Just 3% of institutional investors who took part in the last BofA survey

declared a desire to increase their share exposure. This is the worst figure since 2016.

The risks

For those investing in shares, on the one hand, there is the awareness that the monetary policy context favours a continuation of the rally of the beginning of the year. This is because when the cost of money is low, stock market multiples (i.e. the ratio of share price to indicators such as earnings or equity) tend to be above average. On the other hand, a number of uncertainties remain, related to the slowdown in the global economic situation. Analysts have lowered their estimates of earnings per share growth on Wall Street. Up to a few months ago, consensus estimates by S&P Market Intelligence forecast a 10% increase in earnings per share in 2019 by S&P 500 companies. Today, the expected growth is 2.67%. In the face of less exciting profits than expected, companies also have to reckon with increasing pressure from investors to invest more and reduce debt. “Two-thirds of the new debt accumulated in recent years by American companies”, explains Erik Nielsen, chief economist of UniCredit, “has been used for acquisitions and buyback operations. Only a third was earmarked for investment”. The abundant use of buybacks (estimated at over 4600 billion in 10 years on Wall Street) has been a key factor behind the American stock exchange race, but among investors, who have benefited greatly from all this generosity in recent years, those who would prefer a different allocation of corporate resources are beginning to prevail. The results of the latest Bank of America Merrill Lynch survey eloquently demonstrate this: 46% of managers interviewed expressed the need for listed companies to do more to restore their balance sheets; 29% called for greater investment, while only 18% advocated higher shareholder remuneration in the form of buybacks and dividends.

While, until a few months ago, it was expected that the world economy would continue on its growth path and that inflation would start to rise again, today, the picture has changed dramatically. The question of so-called "secular stagnation" (a term used to refer to an economy characterised by low growth, low inflation and low cost of money)

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has returned to the fore. With secular stagnation, monetary policies remain accommodating, volatility is reduced, and since the low cost of money results in low returns for “zero-risk assets” (such as German or American government bonds), the risk threshold is lowered for all other investment classes. In the first quarter of 2019, this has favoured, in particular, some categories of high-yield bonds, such as emerging market bonds or low-rating (high yield) corporate bonds, which were out and out the most popular in terms of investment flows in the fund industry.

The Chinese case

In terms of performance, on the other hand, the commodity market and the Chinese Stock Exchange stood out. China's net return on equity in the first quarter was 15.7%. As David Krige, advisor for the Banor Sicav Greater China Equity fund explains, “The trick is to be linked to the mix of monetary and fiscal stimuli launched by the Chinese authorities to boost the economy". According to the operator, the Chinese market, although extremely volatile, could be a good medium- to long-term bet, especially if the process of opening up China to foreign capital which started in recent years continues in the future.

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X-ray of the markets

WINNERS AND LOSERS

The investment classes with the best and worst returns in the first quarter. Total returns

Percentage figures

BEST		WORST	
Crude oil	31.0	Natural gas	-7.7
Chinese stock market	15.7	Swedish krona	-4.6
British Government Bonds	7.5	Brazilian real	-2.8
High Yield Bonds	7.5	Japanese Government Bonds	0.6
Russian ruble	6.9	US dollar	0.6

LIQUIDITY ALLOCATIONS

Net investment flows from the beginning of the year by investment class. *Figures in billions of $*

BEST		WORST	
Invest. Grade Bonds	34.8	Europe Shares	-39.3
Emerging Bonds	21.5	USA Shares	-37.6
High Yield Bonds	15.0	Financial Sector Shares	-9.0

Source: BofA Merrill Lynch

SALONE DEL RISPARMIO
Il Sole at the Salone del Risparmio

10.45 a.m.
Round table "Is the sustainability bubble about to burst?"
Room Yellow 3

2.00 p.m.
Round table “How sustainable is sustainability?”

4.5%
THE RECORD DISTANCE
The MSCI World Index is currently only 4.5 percentage points below its all-time high, thanks to the recovery achieved since the beginning of 2019

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