BLUE HORIZON
Wealth Partner AG

European equities boosted by ECB

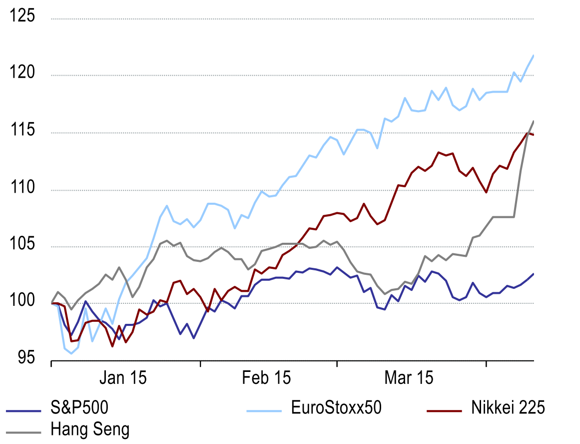
- **Global equity markets cooled in March after a strong February rally. The MSCI index for developed markets lost 1.5% and the MSCI index for emerging markets lost 1.4%. However, European equity markets escaped the global trend and rallied strongly, boosted by ECB's quantitative easing package and better growth data. The German DAX rose by a striking 5% in March, followed by the EuroSToxx50 index, which gained almost 3%. The Swiss equity market also continued its recovery and climbed 1.3% after the strong sell-off in January following the SNB's decision to abandon the EUR-CHF floor.**
- **Interest rates by and large continued to fall. The German 10-year government bond yield fell by 14 basis points to a mere 0.18%, while US 10-year treasuries fell by 7 basis points to 1.94%. Global commodity prices continued to fall. The Dow Jones UBS commodity index declined 5.1%, oil and gold prices fell 2.4% and 4.3% respectively. Meanwhile, the USD remained on the strong side, though weakened somewhat in the second half of March.**
- **Greece managed to stay in the headlines by playing a dangerous game. Mr. Tsipras tried to win President Putin as an ally while at the same time demanding reparations of EUR 160 bn from Germany, Greece's biggest creditor country.**
- **Overall, our outlook remains positive for equity markets, especially since the ECB and the Bank of Japan continue to provide ample liquidity, and European growth data have improved. Falling energy costs, low interest rates, a weaker Euro and still relatively attractive valuations suggest that European equities are likely to continue their outperformance.**
- **Despite a temporary weakening we continue to see the USD remaining on the strong side. Growth-sensitive commodities, especially industrial metals, should recover somewhat in the coming months. Oil prices may stay under pressure for some time due to continued strong supply.**

Macroeconomics and financial markets

Overall economic growth data in Q1 were disappointing, especially in the US, Japan, China, and Brazil. For the US it looks like a deja-vu, given that last year's Q1 growth also disappointed significantly, though it's worth adding that growth accelerated healthily thereafter. While leading business activity indicators like the PMI dropped in Q1, US labor market data improved, with the unemployment rate, for example, falling to 5.5% in March. The stronger USD may have had a negative impact on business activities. Based on the global picture and the slightly improving growth trend, we assume that US growth will pick up in the coming quarters. On the back of weaker data, Fed rate-hike expectations have been pushed further into the future and US treasuries have been in high demand, with yields remaining firmly anchored clearly below 2%. Based on our assessment, we believe that Fed rate-hike expectations will move forward and US treasury yields are likely to move up.

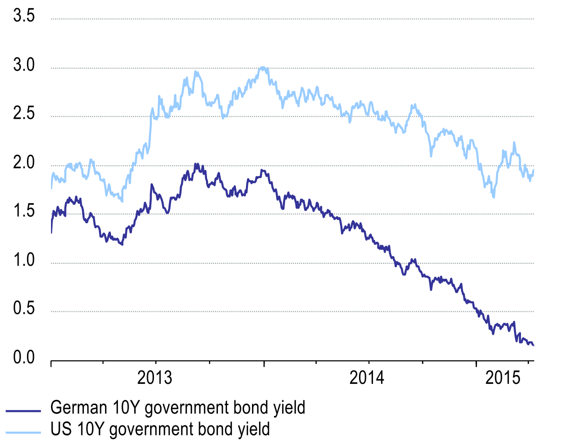
In contrast to the US, European data tended to be stronger in Q1. For example, the Eurozone Markit Composite PMI index rose to 54.0 from 53.3 in February and 51.4 in December. While disparities in Europe remain large and Germany is one of the major beneficiaries of the weak Euro, improvements are widespread among European countries.

Fig. 1: Major equity indices in 2015



Source: Thomson Reuters Datastream / Blue Horizon Wealth Partner AG

Fig 2: 10Y bond yields



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Outlook

Overall, our outlook remains positive for equity markets, especially since the ECB and the Bank of Japan continue to provide ample liquidity and European growth data have improved. Falling energy costs, low interest rates, a weaker Euro and still relatively attractive valuations suggest that European equities are likely to continue their outperformance. Despite a temporary weakening we continue to see the USD remaining on the strong side. Growth-sensitive commodities, especially industrial metals, should recover somewhat in the coming months. Oil prices may stay under pressure for some time due to continued strong supply.

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